



**Agenda**  
**Investment Advisory Council (IAC)**

**Tuesday, December 14, 2021, 1:00 P.M.\***

**Hermitage Room, First Floor**  
**1801 Hermitage Blvd., Tallahassee, FL 32308**

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|-------------------------|--------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1:00 – 1:05 P.M.</b> | <b>1. Welcome/Call to Order/Approval of Minutes</b><br><i>(See Attachments 1A – 1B)</i><br><br><b><i>(Action Required)</i></b> | <i>Peter Jones, Chair</i>                                                                                                                                                                                                            |
| <b>1:05 – 1:20 P.M.</b> | <b>2. Opening Remarks/Reports</b><br><i>(See Attachments 2A – 2E)</i>                                                          | <i>Lamar Taylor,<br/>Interim Executive Director &amp; CIO</i>                                                                                                                                                                        |
| <b>1:20 – 1:35 P.M.</b> | <b>3. DCIO Update</b>                                                                                                          | <i>Alison Romano,<br/>Deputy Chief Investment Officer</i>                                                                                                                                                                            |
| <b>1:35 – 2:35 P.M.</b> | <b>4. Strategic Investments Asset Class Review</b><br><i>(See Attachments 4A-4C)</i>                                           | <i>Trent Webster<br/>SIO, Strategic Investments</i><br><br><i>Samit Chhabra<br/>Richard Grimm<br/>Andre Mehta<br/>Cambridge</i><br><br><i>Richard Brown<br/>Seth Marcus<br/>Townsend</i>                                             |
| <b>2:35-3:35 P.M.</b>   | <b>5. Fixed Income Asset Class Review and Securities Lending</b><br><i>(See Attachments 5A-5B)</i>                             | <i>Katy Wojciechowski<br/>SIO, Fixed Income</i><br><i>Kevin Moose, Senior Portfolio Manager – Fixed Income External Management</i><br><i>Jon Yeatman, Senior Portfolio Manager</i><br><br><i>Jay Love<br/>Hugh Merkel<br/>Mercer</i> |

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**Investment Advisory Council – Agenda**  
**December 14, 2021**  
**Page 2**

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| <b>3:35 – 4:20 P.M.</b> | <b>6. Asset Class SIO Updates</b><br><i>(See Attachments 6A – 6E)</i>                                        | <i>Steve Spook, SIO</i><br><i>Real Estate</i><br><br><i>Tim Taylor, SIO</i><br><i>Global Equity</i><br><br><i>John Bradley, SIO</i><br><i>Private Equity</i><br><br><i>Dan Beard,</i><br><i>Chief Defined Contribution Programs</i><br><br><i>Mike McCauley, Senior Officer</i><br><i>Investment Programs &amp; Governance</i> |
| <b>4:20 – 4:50 P.M.</b> | <b>7. Major Mandate Performance Review</b><br><i>(See Attachment 7)</i>                                      | <i>Kristen Doyle</i><br><i>Katie Comstock</i><br><i>Aon</i>                                                                                                                                                                                                                                                                    |
| <b>4:50– 5:00 P.M.</b>  | <b>8. Audience Comments/Proposed 2022 Meeting Dates/Closing Remarks/Adjourn</b><br><i>(See Attachment 8)</i> | <i>Peter Jones, Chair</i>                                                                                                                                                                                                                                                                                                      |

**\*All agenda items and times are subject to change.**

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**MINUTES  
INVESTMENT ADVISORY COUNCIL  
SEPTEMBER 20, 2021**

A virtual meeting of the Investment Advisory Council (IAC) was held on Tuesday, September 20, 2021, via Microsoft Teams. The attached transcript of the September 20, 2021 meeting is hereby incorporated into these minutes by this reference.

**Members Present:** Vinny Olmstead  
Peter Jones  
Bobby Jones  
Gary Wendt  
John Goetz  
Pat Neal  
Peter Collins  
Tere Canida  
Robb Turner

**SBA Employees:** Ash Williams, Executive Director/CIO  
Lamar Taylor  
Alison Romano  
Michael Fogliano  
Mike McCauley  
Tim Taylor  
Katy Wojciechowski  
John Bradley  
Trent Webster  
Daniel Beard  
John Benton  
Meghan Brown  
Denise Hale

**Consultants:** Katie Comstock (Aon)  
Kristen Doyle (Aon)  
John Sullivan (Aon)  
Phil Kivarkis (Aon)  
Jay Love (Mercer)

**WELCOME/CALL TO ORDER/APPROVAL OF MINUTES**

Peter Jones called the meeting to order at 1:04 p.m. He gave a reminder about background noise and requested that those joining remotely mute their microphones when they

are not speaking; and a reminder for participants to announce their name when speaking so that the court reporter and audience can follow along.

Mr. Jones asked for a motion to approve the minutes from the June 29, 2021 IAC meeting. Tere Canada moved to approve the minutes. Bobby Jones seconded the motion. All in favor. The minutes were approved.

Mr. Jones highlighted some of the accomplishments of the State Board of Administration under the leadership of Ash Williams. From the time that Ash joined the SBA in October 2008, the total Fund value increased \$100 billion; the investment gain of approximately \$167 billion; net benefit payments of \$67 billion; and the Pension Plan return of 10.28%; and value add of 87 bps over his 13 years. Mr. Jones complimented Ash and his team on the level and quality of the governance of the SBA, and the work environment and culture; and congratulated Ash on a job well done.

## **OPENING REMARKS/REPORTS**

Ash Williams, Executive Director/CIO, thanked the Chair for his comments and attributed those successes to the team at the SBA. Mr. Williams provided his performance update as of close on Friday, September 17, for the calendar year to date relative to the fiscal year. The total FRS Trust Fund was up 13.7% for the year and 334 bps ahead of target. The Fund balance sits at \$203 billion, which is \$20 billion ahead of where the Fund stood at the beginning of the calendar year, net of roughly \$5 billion in benefit payouts.

Mr. Williams commented that there will be discussion regarding what expectations should be for capital market returns going forward and how those should inform the investment return assumption that the legislature uses on a go-forward basis. Mr. Williams reflected on the effects of the events that have occurred over the past year-plus, and how these events have led us to where we are today. Mr. Williams closed by saying how grateful he is for the opportunity to work with this group and all.

## **ASSET LIABILITY REVIEW**

Ms. Katie Comstock, Aon Hewitt, opened by introducing her colleagues who are on the investment policy services team and who have run the asset liability study. Ms. Hewitt stated that the study is an important tool when setting the asset allocation and determining the appropriate level of risk for the Fund's asset allocation. Ms. Hewitt gave an overview of how the study is conducted; the types of data that are gathered and analyzed; and summarized that the study aims to highlight the range of expected economic outcomes and evaluates how the asset allocation may perform out of a range of expected outcomes, so that the SBA can assess and reevaluate the asset allocation that is in place today.

John Sullivan, Aon Hewitt, stated that the 2021 study for the Florida Retirement System focuses on the current state of the Pension Plan while looking forward through the lens of future

capital market assumptions. For the Investment Analysis portion of the study, the current portfolio is well diversified with its 81% return-seeking allocation, and the equity risk premium is 3.92% for the 2021 Asset-Liability Study, which represents a steep decline from 5.15% last year due to the incorporation of the change in the global equity risk premium. The plan is within an expected asset return of 6.13%, which is under the actuarial return assumption of 7%. Regarding the Asset-Liability Analysis, the funded ratio is expected to decline initially before improving at the tail end of the period, driven by contributions initially going lower and subsequently increasing, and it is expected that the FRS will reach full funding toward the end of the projection period as part of this study. Mr. Sullivan discussed the Liquidity Analysis and presented the different economic scenarios that were studied and tested, and in all of the scenarios it was projected that the current portfolio will have sufficient liquidity in those stressed environments.

Peter Jones asked Mr. Sullivan if it would be prudent to write a letter to request lowering the actuarial assumption rate to under 7%. Following a discussion between Senator Neal, Bobby Jones, Peter Collins, Ash Williams, Peter Jones, and Tere Canida; Bobby Jones moved to have the Chairman draft a letter to the Trustees on behalf of the IAC – citing the Aon actuarial study – to encourage reducing the actuarial rate of return. Senator Neal seconded. All in favor. The motion carried.

Senator Neal requested that Mr. Williams send a copy of the letter from the previous year. Peter Jones will ask SBA staff to provide their input on the letter.

#### **GLOBAL EQUITY ASSET CLASS REVIEW**

Meghan Brown, Senior Portfolio Manager - Global Equity, briefly discussed the Global Equity team and their functions; the benchmark outlined in the Global Equity Investment Policy Statement; and Global Equity's current position relative to the benchmark; and performance.

Tim Taylor, Senior Investment Officer - Global Equity, provided an overview of the asset class objectives and how these objectives were met during the last fiscal year. Mr. Taylor discussed how Global Equity navigated the dynamic market environment and performance, and how asset class will continue to develop internal passive management resources by developing staff, and negotiate and renegotiate fees when appropriate. Looking forward to the future, it will be important to ensure that the asset class is sharing in scale efficiencies as the equity markets increase in value, and external managers are being engaged to discuss resetting economic relationships.

Denise Hale, Director of Reporting and Analytics - Global Equity, explained how the asset class fits within the entire Florida Retirement System fund, and provided an overview of the numbers and metrics that show how Global Equity has delivered on the strategic objectives and policies. Overall, the asset class has been able to provide alpha and beta by being actively managed, while maintaining a low level of active risk.

Jay Love, Mercer, provided general observations about the asset class and noted that managers go through intensive selection process; that staff have the appropriate delegations to run the portfolio effectively; and that the asset class is managed in a very prudent and risk-controlled fashion. Mr. Love provided insight on Global Equity's use of internal and external management relative to peers; asset allocation relative to peers; and discussed performance.

Mr. Taylor and Mr. Love answered questions from IAC members.

## **ASSET CLASS SIO UPDATES**

Alison Romano, Deputy Chief Investment Officer, provided an update on the Lawton Chiles Endowment Fund since its closure on July 1, 2021, and briefly discussed performance in the Pension Plan over the past year. Ms. Romano also discussed some of the key themes the asset classes have seen over the past year that describe the excellent performance of the Pension Plan.

Katy Wojciechowski, Senior Investment Officer - Fixed Income, discussed that the asset class has a small risk budget; that the asset class outperformed the benchmark over the time periods listed in the slides; a review of Fixed Income and outlook; and actions that the asset class will take moving forward. Ms. Wojciechowski answered questions from IAC members.

Michael Fogliano, Senior Portfolio Manager - Real Estate, stated that the asset class is at 8.8% of the total portfolio as of March 31, 2021, and is 120 bps under-allocated due to the strong performance of some of the other asset classes. Mr. Fogliano discussed leverage in the core and non-core portion of the portfolio; performance in the Real Estate and Principle Investment portfolios, and composition of the portfolios. Mr. Fogliano answered questions from Peter Collins.

Trent Webster, Senior Investment Officer - Strategic Investments, discussed portfolio composition; performance; funds in the pipeline; investment themes. Mr. Webster answered a question from Gary Wendt.

John Bradley, Senior Investment Officer - Private Equity, gave an overview of the private equities market and performance. Mr. Bradley stated that over longer time periods, the portfolio continues to show strong outperformance. Mr. Bradley, Mr. Benton, and Mr. Williams answered questions from IAC members.

Daniel Beard, Chief Officer - Defined Contributions, discussed assets under management and performance as of June 30, 2021; FRS Investment Plan membership growth in FY 20-21; and the increase in calls and virtual workshops. Mr. Beard answered a question from John Goetz.

Mike McCauley, Senior Officer – Investment Programs and Governance, discussed voting activities during the fiscal year ended June 30, 2021, and stated voting levels slightly declined in the total number of meetings and vote count. Mr. McCauley provided an overview of regulatory

actions taken in the U.S. and Japan, and U.S. proxy voting activities in 2021. Mr. McCauley answered a question from Peter Collins.

#### **REVIEW CHANGES TO FRS PENSION PLAN INVESTMENT POLICY STATEMENT**

Mr. Williams presented the recent issue with Ben and Jerry's and Unilever, and the actions taken by the State Board of Administration to advise Unilever of the consequences of violating the BDS provision under Florida law. Unilever has been unresponsive, so the SBA proposed modifying the investment policy statement to have a customized version of the MSCI All Country World Investable Market Index to reflect securities and other investments prohibited by Florida law. Senator Neal made a motion to approve the new investment policy statement. John Goetz seconded the motion. All in favor. Motion carried.

#### **MAJOR MANDATE REVIEW**

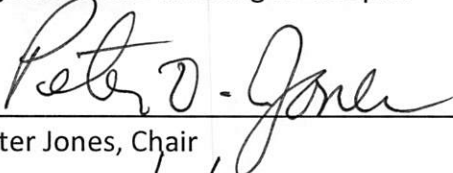
Katie Comstock, Aon Hewitt, provided an overview of the performance of the Pension Plan, the Investment Plan, the Florida Hurricane Catastrophe Fund, the Lawton Chiles Endowment Fund, and Florida PRIME.

#### **IAC COMPENSATION SUBCOMMITTEE**

Vinny Olmstead outlined the purpose of the IAC Compensation Subcommittee meetings and provided a brief summary of the most recent meeting. Mr. Olmstead discussed that Mr. Williams unfortunately will not receive his variable pay this year due to the timing of his retirement, and complimented Mr. Williams on doing a superb job.

#### **AUDIENCE COMMENTS/CLOSING REMARKS**

Bobby Jones commended Mr. Williams as Executive Director and CIO for his many years of service and dedication to the beneficiaries of the Florida Retirement System. Peter Jones echoed this sentiment. Peter Jones gave a reminder that the next IAC meeting will take place on December 14, 2021. There being no questions or further items for discussion, Peter Jones adjourned the meeting at 4:53pm.

  
\_\_\_\_\_  
Peter Jones, Chair

Dated: 12/3/21  
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Investment Advisory Council Meeting

September 20, 2021

**PHIPPS REPORTING**

*Raising the Bar!*

September 20, 2021

STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL MEETING

TUESDAY, SEPTEMBER 20, 2021  
1:03 P.M. - 4:53 P.M.

LOCATION:

HERMITAGE ROOM, FIRST FLOOR  
1801 HERMITAGE BOULEVARD  
TALLAHASSEE, FL 32308

AND

VIA WEB CONFERENCE

Stenographically Reported By:

JO LANGSTON, RPR

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APPEARANCES

Page 2

IAC MEMBERS:

PETER JONES  
VINNY OLMSTEAD  
BOBBY JONES  
JOHN GOETZ  
PETER COLLINS  
TERE CANIDA  
ROBB TURNER  
PAT NEAL  
GARY WENDT

SBA EMPLOYEES:

ASH WILLIAMS, EXECUTIVE DIRECTOR/CIO  
ALISON ROMANO  
TRENT WEBSTER  
KATY WOJCIECHOWSKI  
TIM TAYLOR  
MEGHAN BROWN  
DENISE HALE  
MICHAEL FOGLIANO  
JOHN BRADLEY  
DANIEL BEARD  
MIKE McCAULEY

CONSULTANTS:

KRISTEN DOYLE - (Aon)  
KATIE COMSTOCK - (Aon)  
JOHN SULLIVAN - (Aon)  
PHIL KIVARKIS - (Aon)  
JAY LOVE - (Mercer)

Page 3

1 INVESTMENT ADVISORY COUNCIL MEETING

2 \* \* \*

3 MR. PETER JONES: Okay. My name is Peter  
4 Jones. I want to welcome all of you to the  
5 September 20th, 2021, IAC meeting. This meeting  
6 is going to be in a hybrid format. There will be  
7 three of us from the IAC here in person, John  
8 Goetz, Peter Collins and myself. Peter Collins  
9 will be here shortly, I believe.

10 When you're speaking, please -- or when  
11 you're not speaking, please keep your microphone  
12 muted, announce your name when you are speaking  
13 to help the audience and the court reporter  
14 identify you.

15 And so at this point, I'd also like to ask  
16 the IAC members who are on Zoom or Microsoft Team  
17 Meetings, whatever the system we have, identify  
18 themselves so we know who's on.

19 MR. OLMSTEAD: Vinny Olmstead.

20 MR. BOBBY JONES: This is Bobby Jones on  
21 audio.

22 MR. PETER JONES: Okay. Thank you.

23 MS. CANIDA: Tere Canida.

24 MR. PETER JONES: All right.

25 MR. TURNER: Robb Turner.



September 20, 2021

Page 4

1 MR. PETER JONES: All right. Very good.  
2 Okay. Well, thank you and hello to you. We  
3 don't see you on our screen, but perhaps you're  
4 seeing us.

5 So at this point, let me call this meeting  
6 to order. The first item of business is to  
7 review and approve the minutes, which I'm sure  
8 you all have reviewed so far. If there are no  
9 changes, may I ask for a motion to approve?

10 MS. CANIDA: Move.

11 MR. BOBBY JONES: This is Bobby Jones.  
12 Second.

13 MR. PETER JONES: Second from Bobby Jones.  
14 All right. All in favor, aye.

15 (Ayes)

16 MR. PETER JONES: Opposed? Okay. Motion  
17 carried.

18 Before I -- this is kind of a  
19 bittersweet-type meeting here. This is Ash  
20 Williams' last meeting. And Ash has been a  
21 special person to a lot of us and of course to  
22 the SBA. And I just want to make a few comments  
23 before I turn it over to him, similar to what  
24 Vinny Olmstead did at the Compensation  
25 Subcommittee last week.

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September 20, 2021

Page 5

1 Some of you were not on that, but I'll just  
2 reiterate some of the accomplishments that have been  
3 under Ash's leadership. And of course, Ash  
4 always credits the broader team, but there is one  
5 leader, and that happens to be Ash Williams. So  
6 some of the statistics I'll cite. And this won't  
7 take a long time, but it's pretty remarkable.

8 From November 1, 2008, through June 30th,  
9 2021, the time that -- roughly the time Ash has  
10 been back with the SBA, when he joined back in  
11 late October of 2008, the total fund value as of  
12 November 1, 2008, was 99 billion. The total fund  
13 value as of June 30th, 2021, is 199 billion,  
14 obviously an increase of 100 billion, investment  
15 gain of approximately 167 billion, net benefit  
16 payments of 67 billion and the pension plan  
17 return of 10.28 percent over that time period,  
18 versus the benchmark return of 9.41 percent over  
19 that nearly 13 years. That's a value add of 87  
20 basis points.

21 Now, some people -- as Vinny Olmstead said,  
22 some people say 87 basis points, how big a deal  
23 is that? Well, it added about 14 billion in  
24 assets to the asset base, so quite remarkable.  
25 And I would also say, having joined the IAC in

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1 December of 2019, it's extremely comforting, as a  
2 member, with the level of governance, the quality  
3 of the governance of the SBA. And, of course,  
4 observing the work environment, the culture, the  
5 team-oriented approach, it's again very -- Ash,  
6 you and your team have set an extremely high bar  
7 in all respects, and it's very comforting as a  
8 member of the IAC.

9 So really our compliments to you and your  
10 team and congratulations on an amazing, well-done  
11 job. So at this point, I will turn it over to  
12 you for your comments.

13 MR. WILLIAMS: Thank you, Mr. Chair. And  
14 anybody who knows me and my talents will know  
15 that there is no more sincere comment in the  
16 history of the world than my attribution of that  
17 success to this team and not to me.

18 Did we do a motion and the approval of the  
19 minutes?

20 MR. PETER JONES: Yes.

21 MR. WILLIAMS: Okay. Great. Thank you. So  
22 let's just bring our performance up through the  
23 close on Friday and look at some calendar  
24 year-to-date numbers, given where we are on the  
25 calendar relative to the fiscal year.

1 Through Friday's close, the total fund,  
2 Florida Retirement System Trust Fund is up  
3 13.7 percent for the year. That's 334 basis  
4 points ahead of target. And the fund balance  
5 sits at \$203 billion, which is just below a  
6 record close that we posted not too long ago.

7 It's \$20 billion ahead of where we started  
8 the calendar year. And that is net of just about  
9 \$5 billion in benefit payout. So a nifty  
10 \$25 billion gross investment gain on the calendar  
11 year to date.

12 One of the things we're going to be talking  
13 about today that is certainly very, very relevant  
14 in light of these returns that are rich by any  
15 measure is what should our expectations be for  
16 capital market returns going forward, how should  
17 those inform the investment return assumption  
18 that the legislature uses on a go-forward basis.

19 Prudence obviously in the investment  
20 business is looking forward and not backward, but  
21 the view forward is certainly informed by what  
22 you see in the rearview mirror. So we'll have a  
23 fulsome discussion of that today. I think we  
24 could summarize where we are in ways that are  
25 somewhat similar but in other ways very

1 dissimilar to the way we've characterized it in  
2 the past four or five consecutive meetings.

3 So what is the way it has been represented  
4 over the past year-plus in context? I'd say the  
5 number one thing is nothing's cheap, and things  
6 have only gotten less cheap with the passage of  
7 time. Equities have made new highs all over the  
8 world. Rates have gone lower.

9 Bonds have become less and less loved.  
10 Every time we thought they couldn't be less  
11 loved, we find a way to love them less. Negative  
12 real rates have become more of a thing around the  
13 world. And venture has gone crazy. Private  
14 assets have gone crazy. Real estate has coming  
15 roaring back from what happened to it during the  
16 early stages of the pandemic. So there's a lot  
17 to wonder about on a go-forward basis.

18 What's changed? The changes are not good  
19 when it comes to the ramifications for value. If  
20 you go back a couple of years to -- well, go all  
21 the way back to the great financial crisis. You  
22 saw a tremendous amount of monetary stimulus.  
23 The fiscal stimulus, some, but not as  
24 overwhelming as a lot of people thought it could  
25 have been.

1 Then if you roll the clock forward to the  
2 first half of 2020 and the onset of the COVID  
3 pandemic, you again saw monetary stimulus that  
4 was extraordinarily powerful and you saw fiscal  
5 stimulus come through in spades at a rate of  
6 about 5X the aggregate fiscal stimulus of the  
7 great financial crisis.

8 The difference, of course, being that even  
9 though it was a vastly greater amount of fiscal  
10 stimulus, it was brought to bear in a period of  
11 weeks, not years. So a multiple in the time of  
12 delivery, much, much faster and much more  
13 financial force with that fiscal policy.

14 Now we're at a point where there's talk of  
15 tapering. There's talk of fiscal policy, given a  
16 couple or three big waves of direct COVID-related  
17 stimulus, and now you have a political debate  
18 going on on Capitol Hill over infrastructure, but  
19 the numbers that are being tossed around are  
20 going down, not up.

21 So arguably, some of the externalities in  
22 the form of fiscal policy and monetary policy may  
23 be at tipping points to go more in the direction  
24 of attenuation than acceleration.

25 And if you add to that the stresses around

1 the potential for inflation, the stresses of  
2 leverage, if you look at some of the news before  
3 this morning's open globally, you've got problems  
4 in a major public real estate outfit in China  
5 that's very, very heavily levered and looks to be  
6 on track to default on some very substantial debt  
7 obligations.

8 You have the tensions on a global level  
9 between China and other major powers only getting  
10 more attenuated. You're starting to see some  
11 other things that are strange, like natural gas  
12 shortages in the UK and Europe and on the horizon  
13 for the U.S. That has ramifications for costs  
14 for individuals who might use gas to heat their  
15 homes or consume products like plastics that are  
16 big consumers of natural gas. You're seeing  
17 aluminum prices and other things go up. John  
18 Goetz and I were talking earlier about potential  
19 structural shifts in labor costs.

20 All of those are factors that are potential  
21 headwinds for margins and raise questions about  
22 profitability going forward. And you just can't  
23 sustain valuations at these levels unless there's  
24 a reason to believe. And the first time people  
25 find a reason not to believe and that reason

1 takes hold, that can often be a very messy break  
2 in sentiment, with some very disruptive  
3 short-term consequences. So I think it's a great  
4 day to take a look around, and the agenda we're  
5 covering is right on track for those interest  
6 areas.

7 I think one of the other reflections of how  
8 attenuated things are is that when we look at our  
9 own asset allocation and where values have pushed  
10 things to, we've been at a point where private  
11 equity, because it's had absolutely searing  
12 performance, in part because of the smart  
13 exposure to venture that was put on a long time  
14 ago when it was out of favor, we've been bumping  
15 up near the top of our ceiling for private equity  
16 exposure. And we've got a couple of adjustments  
17 in the mix for that.

18 But also reflecting where we are is that  
19 John Bradley and his team have been working on  
20 doing another one of their secondary sales, of  
21 which, I guess, this is, what, the fourth or  
22 fifth, John?

23 MR. BRADLEY: I believe it's the fifth.

24 MR. WILLIAMS: So this is something -- why  
25 don't you just take a second and frame up for

1 people what we're doing here. Because the idea  
2 here is that when the ducks are quacking for  
3 food, give them what they're quacking for while  
4 they're quacking, because if they stop quacking,  
5 you can't sell it to them anymore.

6 And to the extent we've got some things that  
7 we think are good things to have but maybe at the  
8 margin, the return left on those assets between  
9 here and their natural wind-down is less good  
10 than we could get reinvesting that capital, well,  
11 let's do a private equity sale.

12 So John has been very innovative and been a  
13 real leader in the industry on that space. So  
14 tell them what you've got up your sleeve right  
15 now.

16 MR. BRADLEY: Yeah. I think you put it  
17 perfectly. I think it's a look at the portfolio  
18 and a combination of where our allocation is for  
19 the private equity asset class performance and is  
20 there an ability in this market to rebalance and  
21 maybe realize some of the gains that we've seen  
22 in the portfolio.

23 And so we've been fairly strategic with what  
24 assets we might sell, how we might sell them and  
25 who might be interested buyers. And so we're in

1 that process today and, knock on wood, hope to  
2 complete that sometime later this month.

3 MR. WILLIAMS: If that transaction goes off  
4 as we anticipate it will, it will produce a yield  
5 a little bit south of \$2 billion and will reduce  
6 our allocation to private equity by close to 90  
7 basis points. So it's a great way to correct a  
8 rebalancing need and do so at a profit without  
9 forgoing opportunities. Quite the opposite,  
10 getting better opportunities. And that is the  
11 kind of thinking that I think -- I would like to  
12 think characterizes the way we operate.

13 So with that, the last thing I will say is,  
14 again, how grateful I am for the opportunity to  
15 work with this group and with all of you. And  
16 the fact that we have the sort of rapport that we  
17 do and the constructive decision and governance  
18 processes we do is great. So thank you.

19 MR. PETER JONES: All right. Thank you,  
20 Ash. So moving on to the next agenda item, the  
21 asset-liability review, and I believe I'll be  
22 turning it over -- well, turning it over to Aon,  
23 Kristen Doyle, Katie Comstock and John Sullivan.  
24 So whoever with Aon will lead that, please.

25 MS. COMSTOCK: Great. Thank you. Good

September 20, 2021

Page 14

1 afternoon, everyone. This is Katie Comstock from  
2 Aon. Just a quick mike check. Can everybody  
3 hear me okay?

4 MR. PETER JONES: Yes.

5 MS. COMSTOCK: Great. Thank you. So I am  
6 joined on the phone today by Kristen Doyle as  
7 well as our colleagues John Sullivan and Phil  
8 Kivarkis, who are on our investment policy  
9 services team and who have run the  
10 asset-liability study. They've also worked with  
11 you all over a number of prior years and so are  
12 very familiar with your program.

13 I plan to turn it over to them in just a  
14 minute, but I did want to make a few initial  
15 comments to kick things off. And for those of  
16 you that are new to this study and those that are  
17 tenured with it, just a reminder that we run the  
18 study on an annual basis, and it is the most  
19 foundational tool and we would argue the most  
20 important tool when setting the asset allocation  
21 and determining the appropriate risk level for  
22 the fund's asset allocation.

23 And the reason for that, as the name  
24 implies, is that it marries the assets with the  
25 liabilities. And so we work with your actuary to

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September 20, 2021

Page 15

1 gather the liability information. We also  
2 collaborate with other consultants to create a  
3 custom capital market assumption by way of an  
4 equity risk premium, which John will go over in a  
5 bit.

6 And then we also look at liquidity and do a  
7 liquidity analysis, and we focus that on  
8 stressing the liquidity in the portfolio. And  
9 this -- really we saw a renewed interest in this.  
10 It's always important, but given everything that  
11 happened in March of 2020 and how assets dropped  
12 dramatically, that was a quick recovery, but what  
13 we look to do is to stress the portfolio and to  
14 see, if we don't see such a quick recovery, how  
15 that may impact the plan's ability to pay the  
16 promised benefits to the members.

17 And so that's just a little bit of the what  
18 and the why. And more specific to this year's  
19 study, as alluded to, we are in an interesting  
20 situation, where we've seen tremendous asset  
21 growth over the past year, which has put the  
22 funded status in a very healthy position.

23 But we need to balance that with looking  
24 forward and those expectations of lower returns,  
25 certainly than what we've experienced over the

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1 past ten years, and potentially higher  
2 volatility. And so what we hope this study does  
3 is highlight the range of expected outcomes,  
4 evaluate how the asset allocation may perform out  
5 of a range of expected economic outcomes and  
6 bring that to light for you all to assess and  
7 reevaluate the asset allocation that is in place  
8 today.

9 And not to steal too much of John and Phil's  
10 thunder, but when we do look at this outlook, the  
11 good news is is that we are projecting the plan  
12 to reach 100 percent funded within this  
13 projection period. And so, though a more  
14 cautious outlook for the plan in terms of return  
15 expectation, it is a healthy outlook.

16 And so I will pause -- I'll kick it over to  
17 John and Phil, but I'll pause just quickly to see  
18 if there are any other comments or questions  
19 before we dive into the analysis. Okay. Hearing  
20 none, John, I will turn it over to you.

21 MR. SULLIVAN: Great. Thanks, Katie. Just  
22 to do a similar mike check, can everyone hear me?

23 MR. PETER JONES: Yes, we do.

24 MR. SULLIVAN: Fantastic. Good afternoon,  
25 everyone. Happy to be here. As Katie and Ash

1 kind of laid the foundation for what we're going  
2 to go through, if I can turn to slide 7, or I'm  
3 sorry, slide 6. Apologies.

4 What we intend to do today is go through the  
5 annual asset-liability study that we do for the  
6 Florida Retirement System. We're going to, as  
7 Ash and Katie both said, focus on the current  
8 state of the pension plan but looking forward  
9 through the lens of future capital market  
10 assumptions.

11 And then we're going to look at the future  
12 layout of the plan within the lens of the  
13 actuarial liabilities, and then we'll see if any  
14 sort of decisions need to be made based on that  
15 forward-looking view.

16 So what we're going to do on slide 6 here is  
17 run through a quick executive summary. Then  
18 we're going to do a series of analyses that Katie  
19 had laid out. We're going to look at the current  
20 state of the asset-liability profile. We're  
21 going to talk about how SBA develops their  
22 capital market assumptions.

23 We're then going to see how those  
24 assumptions dovetail into some portfolio  
25 analysis. From those portfolios, we'll then look

1 at future projections. We'll test the liquidity  
2 of the plan, and then we'll wrap up with some  
3 peer analysis and peer comparisons of how the FRS  
4 plan compares to other plans in the public space.

5 What we're going to attempt to do today is  
6 kind of hit the highlights of a lot of these  
7 points, not necessarily cover every slide that's  
8 in this book, and we'll leave time at the end for  
9 questions. But that being said, as any questions  
10 come up as we're covering slides, feel free to  
11 interject, as any conversation is going to be  
12 good conversation as we're digging into the  
13 asset-liability study.

14 So with that, I'll move us to slide 8. So  
15 essentially where many public plans, as well as  
16 the FRS plan, find themselves is there are a  
17 number of challenges as well as some potential  
18 solutions that they face today.

19 In terms of challenges, the landscape of  
20 public pension plans has been challenging, with  
21 decreased expected return assumptions impeding  
22 the funded status growth of the plan. But those  
23 challenges have been improved by tremendous asset  
24 returns over the last decade, none more so than  
25 the last fiscal year that we've seen.

1 So the plan currently is underfunded as of  
2 6/30/2021, but the situation has been far  
3 improved from prior years. And as Katie had kind  
4 of alluded to, when we're making this forward  
5 look into the future as part of our  
6 asset-liability study, there is a lot of  
7 uncertainty ahead, and we're expecting more of a  
8 rocky road than a smooth projection into the  
9 future.

10 As to what plans can start looking at, what  
11 we focus on today is more about the portfolio  
12 construction, are we at the right return-seeking  
13 level within the plan and how do different  
14 portfolios respond in that rocky road that we're  
15 going to project out into the future, and let's  
16 evaluate what are going to be the financial  
17 impacts of either under the current policy as  
18 well as dialing both up and down that risk.

19 If I can move us to slide 10. So a quick  
20 snapshot of what we found as part of our  
21 asset-liability study. What we're going to do is  
22 kind of talk about some of the highlights and  
23 some of the themes, and then in the ensuing  
24 slides, we'll drill down into some of this  
25 analysis.



1 But starting off with the investment  
2 analysis, we believe the current portfolio is  
3 well-diversified with its 81 percent  
4 return-seeking allocation. As part of this  
5 analysis, as Katie mentioned, we look at an  
6 equity risk premium that's developed by not only  
7 us but as well as two other investment firms.

8 That equity risk premium is just under  
9 4 percent for the 2021 study, which represents a  
10 steep decline from the equity risk premium that  
11 we saw last year. This is driven by a  
12 combination of lower equity returns as well as  
13 higher fixed income returns year over year. And  
14 we'll see some slides to follow that will kind of  
15 highlight this.

16 Overall, where we find the plan is within an  
17 expected asset return of 6.13 percent. This  
18 return is going to be a bit south of the  
19 actuarial return assumption of 7 percent, and  
20 we're going to see how that implicates the  
21 financial trends that we see into the future.

22 In looking at that asset-liability analysis,  
23 what we find is, ultimately, longer time horizons  
24 are going to incentivize risk taking. Shorter  
25 time horizons are not. Because of the long time

1 horizon for this plan, we see that the funded  
2 ratio is expected to decline initially before  
3 improving at the tail end of the period and, as  
4 Katie mentioned, assuming that the plan is going  
5 to reach full funding over the 30 year time  
6 horizon.

7 For the number of years that we've been  
8 looking at this, this is by far the most  
9 favorable position that we find the plan, and in  
10 our central case, over this 30 year time horizon,  
11 other years we've essentially flatlined and  
12 fallen short of that full funding percentage, but  
13 we see ourselves hitting that 100 percent  
14 threshold as part of this study. And we'll kind  
15 of look at that in more detail later.

16 And then finally we'll wrap up with some  
17 liquidity analysis. From the current portfolio,  
18 we studied a series of different economic  
19 scenarios, ranging from our base case, a  
20 recession scenario, which is essentially a 95th  
21 percentile outcome, as well as a dark skies  
22 scenario, which is a 99th percentile outcome. In  
23 all of these scenarios, we see that the plan has  
24 sufficient liquidity with the current asset  
25 allocation, and we'll show some more details

1 about why in some later slides.

2 So from here, we're going to then dive into  
3 some of the analysis that supports a lot of these  
4 key themes, but what I'll do right now is I'll  
5 pause here to see if there's any questions or  
6 reactions from the group before I move ahead.

7 Okay. Not hearing any, again, as questions  
8 come up, feel free to interject. What I'll do is  
9 I'll move us to slide 13. So in order to look at  
10 the plan, what we want to do is we want to ground  
11 ourselves in the current asset-liability profile.  
12 And what I'll point everyone to is the upper  
13 left-hand corner of this page. Here we're  
14 looking at an asset-liability snapshot. And  
15 we're looking at it over two specific time  
16 periods, July 1st, 2020, as well as July 1st,  
17 2021.

18 The reason that we wanted to look at both of  
19 these time periods is, one, to show the most  
20 current, up-to-date information, but, two, also  
21 to highlight the dramatic improvement in the  
22 funded ratio as of 7/1/2021, given the asset  
23 performance over the last fiscal year. So we'll  
24 see that over that time period, on a market value  
25 of asset basis, the funded ratio of the plan

1 increased from just under 81 percent all the way  
2 up to 97 percent, driven by the returns that Ash  
3 had alluded to at the outset of this meeting.

4 So as of 7/1/2021, we find that the plan has  
5 just under \$200 billion in assets and about  
6 \$205 billion in liabilities, making for a  
7 97 percent funded ratio as of that time period.

8 Working around the page clockwise, in the  
9 bottom right-hand corner, we have our target  
10 asset allocation. Here we're laying out the  
11 81 percent return-seeking allocation, with  
12 19 percent in risk-reducing assets.

13 And then finally we, in the bottom -- I'm  
14 sorry. Was there a question? That might have  
15 just been an echo on my end. Apologies. In the  
16 bottom left-hand corner, we're looking at  
17 asset-liability growth metrics. The key here is  
18 that the circled number of 8.57 percent, that  
19 represents the rate of return on the overall  
20 assets needed to keep pace with the liability  
21 growth. So that will be a key number that we  
22 think about as we kind of move into the  
23 asset-liability projection analysis.

24 Essentially, your liability is going to grow  
25 one of two ways, one less year of discounting,

1 using your discount cost, and that's the  
 2 7 percent expected return on the liabilities, as  
 3 well as new benefit accruals or normal costs. So  
 4 we're expecting that over the coming year, the  
 5 liability is going to grow by \$17.1 billion,  
 6 reading across the third line of the table in the  
 7 bottom left. That represents an 8.32 increase in  
 8 the liability.

9 And because the plan is slightly underfunded  
 10 as of July 1st, that means that the assets would  
 11 need to work a bit harder and the assets would  
 12 need to grow by 8.57 percent in order to keep  
 13 pace with that liability growth.

14 So that essentially represents the starting  
 15 point of the analysis that we're going to go  
 16 into. And now what we want to do is kind of  
 17 build on top of that starting point and now look  
 18 at how the capital market assumptions are going  
 19 to be constructed as part of our analysis. So  
 20 with that, I'd like to --

21 MR. COLLINS: Can I ask a question?

22 MR. SULLIVAN: Absolutely.

23 MR. COLLINS: Hey. It's Peter Collins. I  
 24 don't know if you can see us or not. I got here  
 25 late, so I'm not sure how the Zoom is set up. So

1 if we're at 97 percent as of July 1st, is your  
 2 \$17 million number, or billion dollar number,  
 3 sorry, below in the total liability hurdle rate,  
 4 is that from 7/1/21 to 7/1/22?

5 MR. SULLIVAN: Yes, it is. That is our  
 6 estimate of the next 12 months from that 7/1/2021  
 7 starting point.

8 MR. COLLINS: So am I right in saying this?  
 9 To stay at 97.1 percent, we'd have to earn  
 10 8.57 percent?

11 MR. SULLIVAN: The assets would have to earn  
 12 8.57, comprised of two parts, investment returns  
 13 plus plan contributions.

14 MR. COLLINS: But if we did that, we'd stay  
 15 at 97.1. Anything below that and we eat into the  
 16 97.1?

17 MR. SULLIVAN: Correct.

18 MR. COLLINS: Okay. Thank you.

19 MR. SULLIVAN: Sure. Thanks for the  
 20 question. So with that, what I'll do is I'll  
 21 move us ahead to slide 16. 16, please.

22 MS. COMSTOCK: That is showing slide 16,  
 23 John.

24 MR. SULLIVAN: I'm sorry. On my screen it's  
 25 14. Okay. Can we advance two slides, please?

1 MS. COMSTOCK: The slide that I can see,  
2 John, says, SBA Approach to Assumption  
3 Development Overview.  
4 MR. SULLIVAN: Oh, okay. It's frozen on my  
5 screen, so I'll go off the document. I'm sorry.  
6 I'll keep going. So on slide 16, what we're  
7 looking at is the SBA approach to assumption  
8 development. And what we're going to do as part  
9 of this study, which we do each year that we look  
10 at this, is we take Aon's assumptions and we  
11 average the global equity risk premium with two  
12 other firms, Mercer and Wilshire, and we come up  
13 with an average equity risk premium.  
14 We'll then take the average equity risk  
15 premium, apply it to all the return-seeking  
16 capital market assumptions. And in doing so,  
17 we'll be adjusting the Aon-only assumptions to  
18 account for this global averaging.  
19 In the past we had looked at four firms.  
20 Callan was part of this a number of years ago,  
21 but Callan only updates their assumptions  
22 annually. So now that we're doing  
23 asset-liability studies midway through the year,  
24 their assumptions are a bit stale, so we've  
25 excluded them from the averaging period.

1 So that represents how we're building the  
2 global equity risk premium. If we move to slide  
3 18, what we can see is that the equity risk  
4 premium for the 2021 study is 3.92, and that  
5 represents a sizable decrease from last year's of  
6 5.13.  
7 And the reason for that is, as we're looking  
8 at slide 18, the red line represents the average  
9 global equity return over the last six years,  
10 which we've seen kind of a steady decline in that  
11 respect. The blue line at the bottom represents  
12 the core fixed income expected return. And we  
13 can see that last year represented a sharp  
14 downturn in return expectations for core fixed  
15 income, which exacerbated the global equity risk  
16 premium to 5.15, and we've kind of moved back  
17 towards where we have been historically, with  
18 fixed income popping up, global equity moving  
19 down and having an equity risk premium just south  
20 of 4 percent.  
21 So that will be what we end up building into  
22 our stochastic modeling and into our portfolio  
23 analysis. So moving ahead to slide 22 --  
24 MR. GOETZ: John, this is John Goetz. Could  
25 I just ask you, you know, the difference now in

1 the survey, you're at 4.55 and Wilshire is at  
2 3.55. It's 1 percent difference. What's the  
3 main driver to the difference in your  
4 calculation, do you think? Or maybe just tell us  
5 what the main drivers are to your calculation, if  
6 you don't know Wilshire's.

7 MR. SULLIVAN: Yeah. It's hard to take a  
8 peak into what's happening with other firms. We  
9 can certainly talk about ours. So if we move  
10 back to slide 17, here's where we'll look at kind  
11 of the side-by-side comparison of Aon, Mercer and  
12 Wilshire. And as you noted, in that top section,  
13 we have our global equity risk premium of 4.55  
14 compared to Wilshire's at 3.55.

15 Largely, the main difference is driven by  
16 the global equity returns. We're about 135 basis  
17 points higher than Wilshire versus 35 basis  
18 points higher in U.S. core bonds. So the  
19 rationale would be more about the global equity  
20 capital market assumption derivation.

21 And then in terms of how Aon looks at  
22 building that assumption, it's more of a -- it's  
23 a building block approach based on  
24 forward-looking assumptions, where we're looking  
25 at the current state of the inflation

1 environment. We're looking at the current yield  
2 environment, and then we're building in those  
3 equity premiums above those.

4 I'm not totally certain of Wilshire's  
5 methodology in coming up with their assumption,  
6 so it's hard to necessarily say exactly why we're  
7 higher than them.

8 MR. GOETZ: Okay. But clearly --

9 MS. CANIDA: John, this is -- sorry. Go  
10 ahead.

11 MR. GOETZ: I was going to say, but clearly  
12 what's happened is market valuations have gone up  
13 a lot, right, so your return has declined. Have  
14 you raised your inflation assumption since last  
15 year? Is that what the driver is?

16 MR. SULLIVAN: No. I don't believe our  
17 inflation assumption has increased year over  
18 year.

19 MR. GOETZ: Okay.

20 MR. SULLIVAN: Phil, do you have any other  
21 color that you would like to add to the global  
22 equity capital market assumption?

23 MR. KIVARKIS: Yeah. Just a couple quick  
24 points. The first is inflation has been about  
25 stable year over year in terms of our

1 expectations, forward expectations. Global  
2 equity assumptions have come down for each of the  
3 firms, I believe, our firm included. So our  
4 equity return expectation is lower than it was a  
5 year ago because of those higher valuations, I  
6 imagine Mercer and Wilshire as well.

7 And then just in terms of how we developed  
8 that assumption, it's based on a dividend  
9 discount model. We have forward-looking  
10 forecasts, earnings, corporate earnings and then  
11 we use a dividend discount model to back into the  
12 implied rate of return that would bring the  
13 projected cash flows into balance with today's  
14 market price.

15 So as the market price has gone up, the  
16 return expectations going forward have come down,  
17 as some of that price appreciation has been  
18 captured in the last year's results. But our  
19 return expectations are lower as a result of the  
20 market dynamics over the past year.

21 MR. GOETZ: So you haven't changed your  
22 forward earnings or inflation assumptions much.  
23 So this is just primarily the result of the  
24 valuation change. That's what I was asking.

25 MR. KIVARKIS: That is a true statement. We

1 get our earnings expectations from the street.  
2 We have survey methodology, so collecting those  
3 from the street. So as the street's views ebb  
4 and flow, so, too, do our data points. But  
5 you're right, it's mostly valuation related  
6 that's led to a decline in future expectations.

7 MR. SULLIVAN: Okay. Thanks for the  
8 questions. What I'll do is I'll move us ahead to  
9 slide 22. So as we're looking at the global  
10 equity risk premium that we had talked about,  
11 we're building that into our capital market  
12 assumptions. What we see on slide 22 is  
13 essentially where the current policy is  
14 resulting.

15 So the top half of the page is a graphical  
16 illustration. The vertical axis is the expected  
17 return. Horizontal axis is the expected  
18 volatility. The numbers at the top of the page  
19 equate to the table at the bottom, for however  
20 anyone is better able to view. The current  
21 policy, 81 percent return-seeking, has an  
22 expected return of 6.13 percent, with a  
23 volatility of about 13 percent.

24 On these pages we showed additional data  
25 points to illustrate the impact of moving into

1 either more public asset classes, which we are  
2 labeling as the efficiency portfolio, or the  
3 green dot in the green row, as well as an  
4 unconstrained amount of alternatives, which we're  
5 labeling here as a model three portfolio in both  
6 the table and the illustration.

7 In general, we like the risk-reward  
8 trade-off provided by alternatives if they're  
9 manageable. Currently, SBA operates with a  
10 statutory limit on the amount of alternatives  
11 which it is able to use. And that's why the  
12 current asset allocation plots in between both of  
13 those data points. So the current policy results  
14 in an expected return of 6.13 percent. That is  
15 over a 30 year time horizon.

16 If we move to slide 23, here we're looking  
17 at -- the plan is expected to return 6.13 percent  
18 but the range around that 6.13 is going to be  
19 quite large. And it's going to depend on what  
20 our time horizon is. Over a one year window, we  
21 can have asset returns that are down to negative  
22 13 percent all the way up to 30 percent. And  
23 then we'll see, as the time period increases, the  
24 range around that central expectation will begin  
25 to narrow.

1 So that represents the -- we've talked about  
2 the current state of the plan. We've talked  
3 about how we're developing the capital market  
4 assumptions, weighting not only Aon's forward  
5 look but that of Mercer and Wilshire. What do  
6 those assumptions result in? A forward-looking  
7 expectation of 6.13 percent. And now what we'll  
8 do is we'll kind of look through the lens of our  
9 forward-looking asset-liability projections.

10 And with that, what I'd like to move us to  
11 is slide 26. Slide 26 is going to essentially  
12 just set the stage for how we think about  
13 asset-liability simulation analysis. What we're  
14 going to do is we're going to project forward  
15 over 30 years across 5,000 different economic  
16 scenarios.

17 As we led with at the outset, there's a lot  
18 of uncertainty in the forward-looking horizon.  
19 And what we're going to do is try to test as many  
20 different economic scenarios as we can. And with  
21 those 5,000, what we would essentially do is, if  
22 we plotted all those 5,000, it would be  
23 illegible. What we then do is take those 5,000  
24 economic scenarios and we rank those into  
25 percentile distributions.

1 So the illustration that you see on the  
2 right side of slide 26 is how we're going to see  
3 the asset-liability analysis play out in the  
4 slides ahead, so just to kind of set the stage  
5 for how we're going to be viewing this.

6 With that, I'd like to move us to slide 27.  
7 So putting this all together, what we're looking  
8 at on slide 27 is a projection of the funded  
9 ratio. Here we're defining funded ratio as the  
10 market value of assets divided by the actuarial  
11 liability.

12 Circled in the middle of the page is the  
13 current policy at 81 percent return-seeking. The  
14 policies to the right dial risk up to 90 or  
15 100 percent return-seeking. The policies to the  
16 left dial risk down to 70 and 60 percent  
17 return-seeking.

18 We're intending to show a range of risk  
19 tolerance so that we can judge how those  
20 different return-seeking portfolios are moving  
21 these various trend lines. And what we're going  
22 to pay special attention to is the dashed black  
23 line that we see here, that's going to represent  
24 our median expectation, or 50th percentile  
25 outcome.

1 So in looking at the funded ratio  
2 projections, what we see is initially there's a  
3 sharp uptick in funded ratio. That's going to be  
4 the returns that we've seen for fiscal year-end  
5 2021 built into the analysis. Thereafter, over  
6 the 30 year time horizon, the plan is essentially  
7 flatlining. What's happening under the hood is  
8 that we're falling slightly lower in funded ratio  
9 before increasing towards the back end of the  
10 projection period, ultimately landing at a funded  
11 ratio of 102 percent.

12 And as we had noted, reaching the full  
13 funding threshold is kind of the headline for  
14 this asset-liability study. We haven't in the  
15 past few that I've been a part of, so this is a  
16 notable result.

17 And what we see is, if we have risk  
18 tolerance that's lower than 81 percent  
19 return-seeking or portfolios that are 60 and  
20 70 percent, we're expected to fall short of that  
21 full funding mark at the end of 30 year period.  
22 Vice versa, if we move up to 90 or 100 percent,  
23 we're going to risk overshooting the mark and  
24 incurring more risk in the portfolio to hit a  
25 much higher expected funded ratio.



September 20, 2021

Page 36

1 So overall, the key message on slide 27 is  
2 that the plan is expected to hit full funding  
3 over the 30 year time horizon. After our initial  
4 uptick, we're essentially moving sideways, by and  
5 large, moving down initially before ratcheting  
6 back up towards the end of the projection period.

7 With that, so we're moving up toward the end  
8 of the projection period. And why are we doing  
9 that? If we move to slide 28, what we can see  
10 here is the employer contribution rate over the  
11 same 30 year time horizon broken out by all these  
12 same portfolios, going from 60 all the way up to  
13 100, with the current policy circled in the  
14 middle.

15 And what we're going to see is that because  
16 of these increased asset returns for fiscal year  
17 2021, we're going to see contributions  
18 essentially decline in the ensuing years before  
19 having to ramp back up towards the back half of  
20 the projection period.

21 So why is this happening, is funded ratio is  
22 beginning to decline because asset returns, the  
23 6.13 is below the actuarial return. That means  
24 our funded ratio is going to begin to suffer.  
25 That's going to work its way through the

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September 20, 2021

Page 37

1 contribution calculations, ultimately ramping up  
2 contributions further down the line. And those  
3 ramped-up contributions are going to take the  
4 plan to full funding over that central  
5 expectation.

6 From here, what I'd move us to is slide 30.  
7 So we've talked about the funded ratio. We've  
8 talked about the contributions. Another key  
9 variable is going to be our net outflow. Right  
10 now the net outflow of the plan is in the 3 to  
11 4 percent range. Over the projection period,  
12 we're assuming that the central expectation is  
13 going to stay between that 3 and 5 percent of  
14 plan assets.

15 That's relatively staying consistent across  
16 all these different investment strategies, so  
17 that's just something to -- something to note of  
18 today's level of net outflow is expected to be  
19 relatively stable going into the future. And  
20 we'll have some slides in the back of this, when  
21 we talk about peer analysis, where we'll talk  
22 about where this net outflow for the FRS plan  
23 compares to other public plans.

24 Moving ahead to slide 31, slide 31 and 32  
25 show what we're referring to as economic cost.

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1 The economic cost is essentially Aon's all-in  
2 variable that combines not only the present value  
3 of contributions but also present value of any  
4 funding shortfall or surplus at the end of a  
5 projection period. So it's a way of looking at  
6 dollars and percents and equating them all into a  
7 unique variable.

8 And what we're looking at on slide 31 is  
9 essentially our economic cost. So the vertical  
10 axis is the 50th percentile economic cost. The  
11 95th percentile represents the horizontal axis,  
12 or what we're referring to as our economic risk.

13 And the takeaway for this slide is that the  
14 shorter your time horizon, the less incentivized  
15 you are to take risk. And where that's  
16 illustrated is in the gray line that is towards  
17 the bottom left of the exhibit.

18 What we're looking at here are all the  
19 policies from zero percent return-seeking all the  
20 way up to 100 percent return-seeking. And what  
21 we're seeing is that there's very little reward.  
22 So think of reward as, going north to south,  
23 there's very little north to south movement, but  
24 there's a lot of east to west or additional risk  
25 by dialing up from zero to 100 percent

1 return-seeking.

2 So the shorter your time horizon, if you  
3 had -- if your time horizon was a day, you  
4 wouldn't necessarily invest in the stock market  
5 for that. So what this is illustrating is that  
6 smaller time horizons, you're not incentivized to  
7 take risk.

8 Vice versa, as we extend the time horizon  
9 and move from two years to five years to ten  
10 years to 15 years, we can see a shift in that  
11 curve. And we're moving from a mainly horizontal  
12 curve to a mostly vertical curve. And what  
13 that's illustrating is that over longer time  
14 horizons, the plan is going to be incentivized to  
15 take risk.

16 And we're going to see that on slide 31.  
17 We're also going to see that on slide 32, looking  
18 at that same economic cost, but now showing some  
19 sensitivity with regards to the equity risk  
20 premium. The higher the equity risk premium, the  
21 more vertical the curve is going to be, which is  
22 going to incentivize risk-taking. On the flip  
23 side, the lower the equity risk premium, the less  
24 vertical and the less incentive there is to take  
25 risk in the plan.

1           So that moved us through kind of the  
2   stochastic projection results that we saw from  
3   our study. And what we're going to look at now  
4   are the liquidity analysis results that we saw.  
5   So we had mentioned this at the outset and what  
6   I'd point us to is slide 36.

7           Slide 36 is going to take the existing asset  
8   allocation and break it down into various  
9   liquidity buckets. We're going to focus on  
10   liquid assets, what we're terming as  
11   quasi-liquid. So these are assets -- we can  
12   think of these as having anywhere from a one to  
13   three year type of lockup. These are assets that  
14   we can -- are not necessarily as liquid as public  
15   markets but we're able to access some liquidity  
16   over time.

17          We're going to also have different illiquid  
18   lockup buckets of five to ten and ten-plus years.  
19   Ten-plus, those are things like private equity.  
20   Five to ten, this is going to be kind of your  
21   non-core real estate. And for the strategic  
22   allocation, we've done what we've done in years  
23   past and essentially said that half of the  
24   allocation is going to be in this quasi bucket.  
25   The other half is going to be in this illiquid

1   five to ten bucket.

2           And what we're looking at in total on slide  
3   36 is essentially that there are 27 percent of  
4   what we're looking at in terms of illiquid  
5   assets. And what we're going to then do is, on  
6   slide 37, is we're going to take those  
7   allocations and we're going to model them across  
8   three different deterministic scenarios.

9           It's going to be our base case, which is  
10   going to be kind of our -- the 6.13 that we saw  
11   as part of our expected return, as part of our  
12   asset-liability study. We're also going to model  
13   what we're referring to as a recession scenario,  
14   which is a 95th percentile event. This is  
15   essentially two really bad years in overall  
16   markets, followed by a rebound. As well as a  
17   dark skies scenario, which is three really bad  
18   years with no real rebound.

19          As we're looking at slide 37, what I'd focus  
20   your attention on is the upper graphs. Those  
21   represent the market value of the assets under  
22   the plan under each of these scenarios. So we'll  
23   see that the base case has a steady growth. The  
24   recession scenario has a sharp decline for two  
25   years and then kind of gradually increases

1 thereafter. The dark skies has three really bad  
 2 years followed by a continuing decline in the  
 3 overall assets. That's how our top line expected  
 4 assets are going to be.

5 What we have on the bottom graph is an  
 6 illustration of how the asset allocation is going  
 7 to change over those different deterministic  
 8 scenarios. So in our base case, we have a  
 9 27 percent allocation to what we're referring to  
 10 as illiquid assets based on the different  
 11 liquidity breakouts that we had on slide 36. And  
 12 in the base case, over the time horizon, we're  
 13 expected to maintain that same 27 percent  
 14 allocation.

15 Under a recession scenario -- and what we're  
 16 trying to do as part of this analysis is  
 17 understand that we can't necessarily rebalance  
 18 out of illiquid assets, and we're trying to know  
 19 what's the limit of how much we can push into  
 20 illiquids before it starts to impede the plan  
 21 operations and starts to infringe on things like  
 22 being able to pay benefits, being able to  
 23 rebalance back to target allocations.

24 As we're looking at the recession scenario,  
 25 we can see that that 27 percent is going to

1 increase and then essentially kind of flatline.  
 2 We're not moving into any of the green-shaded  
 3 area. And the green-shaded area is going to  
 4 represent our liquid assets, both return-seeking  
 5 and risk-reducing.

6 Similarly, when we move over to the dark  
 7 skies scenario, our illiquid assets, the blue and  
 8 the gray, are going to start to become a  
 9 disproportionate amount of the overall portfolio.  
 10 So we're going to veer from target allocation  
 11 pretty significantly, but it's not going to  
 12 impede on the liquidity of the plan in terms of  
 13 the ability to pay for benefits. There would  
 14 need to be some rebalancing to try to get back to  
 15 policy weights, but overall there isn't anything  
 16 troubling that we would see from the overall plan  
 17 operation.

18 So in looking at slide 37, that kind of  
 19 reinforces where we were at the -- in our  
 20 executive summary to say that we don't  
 21 necessarily foresee any liquidity concerns under  
 22 these three different deterministic scenarios.

23 Now, what we're doing on this slide is we  
 24 are stress testing the returns on the portfolio  
 25 and we're stress testing those only. What we

1 have on slide 38 is not only stress testing the  
2 returns of the portfolio but also stress testing  
3 the contributions that are going to go into the  
4 portfolio.

5 So what we've essentially done on slide 38  
6 is use all these same scenarios, except now what  
7 we're assuming is that for five years the plan is  
8 only going to be contributing the normal cost and  
9 not paying any of the amortization aspect of the  
10 actuarial contribution, so essentially stress  
11 testing the contributions going in, having less  
12 go into the plan than is driven by the actuarial  
13 calculations.

14 And we're going to have similar results  
15 looking at 37 and 38. When we compare the two,  
16 we have less contributions going in, so our top  
17 line asset values are going to be lower. Because  
18 we're going to have less injection of  
19 contributions, that means our liquidity, in terms  
20 of the percentage of allocation that is going to  
21 be comprised of these quasi-liquid and illiquid  
22 assets, is going to be increasing as we're moving  
23 from slide 37 to 38.

24 Even in these cases where we're stress  
25 testing the contribution, there's still ample

1 liquidity in the plan to be able to fund benefit  
2 payments and so forth. We're obviously going to  
3 be drifting even further away from the target  
4 allocation, but in terms of the liquidity profile  
5 of the plan, there's going to be sufficient  
6 liquidity in order to meet the promise of benefit  
7 payments.

8 So ultimately, if we move to slide 39, just  
9 to quickly summarize, we're assuming that the FRS  
10 plan is going to have sufficient liquidity based  
11 on these base case, recession and dark skies  
12 economic scenarios. And then this analysis is  
13 going to be highly sensitive to the assumed  
14 contributions going into the plan.

15 We tried to show a stress testing of those  
16 contributions to show that the plan would still  
17 have sufficient liquidity, but the allocation  
18 would take on more of an illiquid nature to the  
19 extent that less contributions than expected are  
20 funded into the plan.

21 So that is the look at the liquidity of the  
22 plan. And then what I'd like to do is kind of  
23 move us into the final section and look at some  
24 of the peer comparisons that we had discussed.  
25 So I'll point us to slide 42. Slide 42 is

1 looking at the expected return on assets for the  
 2 FRS plan compared to the public plan universe at  
 3 large.

4 The red line is going to represent how the  
 5 FRS plan has changed over time. And what we're  
 6 going to see is over the last five years, we've  
 7 had a steady decline in the expected return on  
 8 assumption, to the point where the FRS plan at  
 9 7 percent is a little bit south of public plans  
 10 by and large as of fiscal year ending 2020, which  
 11 is when this data was updated.

12 Moving ahead to slide 42, I'm sorry, 43.  
 13 43. So we looked at the expected return. Now  
 14 we're looking at funded ratio. Now, this funded  
 15 ratio is based off of an actuarial value of asset  
 16 calculation, which is how the actuarial  
 17 contributions are determined.

18 Over time the FRS plan has been above peers,  
 19 but that gap of how far above peers has been  
 20 dwindling over time. Right now the plan falls  
 21 just below the 75th percentile at 82 percent as  
 22 of fiscal year ending 2020 relative to peers,  
 23 where the peer average was about 74 percent.

24 And then finally what I'd point us to is  
 25 slide 46. We had talked earlier about net

1 outflow, and the net outflow -- net outflow of  
 2 the plan has moved up over time to the point  
 3 where the red line is at about 4 percent, just  
 4 over 4 percent for fiscal year ending 2020, which  
 5 is above the 75th percentile relative to peers.  
 6 The peer average was about 2.4 percent.

7 So we saw that the net outflow was expected  
 8 to stay relatively level over the projection  
 9 period that we're looking at, between 3 and  
 10 5 percent in our central case, and that lines up  
 11 with where the plan has been over the last ten or  
 12 so years.

13 And then where I'd like to wrap us up is  
 14 slide 49, looking at some of the key findings  
 15 that we had already touched on at the outset but  
 16 just to kind of reinforce where we began.

17 We think that the current portfolio is  
 18 well-diversified. Our analysis is incorporating  
 19 the change in the global equity risk premium.  
 20 From last year to this year, that has declined by  
 21 over 100 basis points. And our expected asset  
 22 return is 6.13 for this 2021 analysis.

23 And what that means from an asset-liability  
 24 projection standpoint is we're going to have a  
 25 sharp uptick in our funded ratio building in the

1 fiscal year 2021 experience, and then from there  
 2 we're essentially flatlining. We're going to  
 3 decrease a little bit, but then we're going to  
 4 increase towards the tail end of the projection  
 5 period, driven by contributions initially going  
 6 lower but then moving higher later on in the  
 7 projection period to move that plan back towards  
 8 full funding and actually crossing that  
 9 threshold, which is the standout takeaway from  
 10 this analysis.

11 Finally, when we're wrapping up and looking  
 12 at the current allocation and we're stress  
 13 testing it from a market perspective as well as a  
 14 contribution perspective, we're projecting that  
 15 the current portfolio is going to have sufficient  
 16 liquidity in those stressed environments under  
 17 the deterministic scenarios that we ran and we  
 18 outlined in some of the prior slides.

19 So what I'd like to do, that's kind of it  
 20 for the prepared remarks for the asset-liability  
 21 study. What I wanted to do was allow for some  
 22 time now where we can address any follow-up  
 23 questions or comments that -- or reactions that  
 24 the group has. So with that, I will pause for  
 25 any comments or questions.

1 MR. PETER JONES: John, this is Peter Jones.  
 2 Question. I recall last year we -- because the  
 3 actuarial assumed rate of return last year was  
 4 higher than our expected asset returns, we wrote  
 5 a letter to encourage that that actuarial rate of  
 6 return be reduced, if my memory is correct.  
 7 Should we -- would it be prudent to do something  
 8 similar this year, because a similar scenario  
 9 seems to be the case, if I'm understanding it?

10 MR. SULLIVAN: Yeah. It's a great question,  
 11 and it's one that's going to come up in the  
 12 coming weeks as we move into the annual  
 13 assumption conference.

14 So we've seen capital market assumptions  
 15 decline in recent years, and I feel like this  
 16 year there's probably going to be a renewed push  
 17 to potentially lower that expected return  
 18 assumption, not so much because of future-looking  
 19 capital market assumptions, but there's also a  
 20 really unique opportunity to kind of pair that  
 21 expected return reduction with the outsized asset  
 22 gains that we've had.

23 Typically, when we think of moving down the  
 24 expected return in its own silo, that usually  
 25 means higher liability, lower funded ratio, and

1 contributions need to increase in the future.  
 2 What we have now, with all the recent  
 3 performance, is an ability to pair that return  
 4 decline with asset gains so that the impact on  
 5 the plan is largely neutral.

6 So I'll open it up to others on the Aon  
 7 team. I don't know if there needs to be a formal  
 8 letter, as there was in the past, to necessarily  
 9 recommend that the return be reduced, but I am  
 10 open to others' comments on that issue.

11 MR. KIVARKIS: I'd say there are two  
 12 important points that I want to make here. One  
 13 is -- and you can see it right on the page. It's  
 14 the third bullet point on the page. The expected  
 15 asset returns used in the study -- and, again,  
 16 this is the averaging of the three investment  
 17 advisers, not Aon's alone.

18 But the expected return for assets,  
 19 6.13 percent, it's below the actuarial assumed  
 20 rate of return of 7. And so that by itself might  
 21 indicate, yes, our expectations are lower than 7,  
 22 and as a result, perhaps you might consider  
 23 dropping from 7.

24 So that was one point I wanted to make. The  
 25 other is where you compare relative to peers,

1 you're below the median of peers. If I may ask,  
 2 was it two slides back, two or three slides back,  
 3 there's an analysis of --

4 MR. COLLINS: Right there. No. Wasn't it  
 5 the next one? Yeah.

6 MR. KIVARKIS: That's it. So you can see  
 7 that the median case is just a tick below 7.25.  
 8 That's the black diamond in the last display.  
 9 And that black diamond has steadily declined over  
 10 time. It used to be 8 fairly consistently in the  
 11 universe. But that 8 has dropped to just a hair  
 12 under 7.25, and we expect that will continue to  
 13 trend lower. But you do sit below the median.

14 So from that perspective, when you compare  
 15 to peers, not necessarily a burning case. But I  
 16 think what John described was important, which is  
 17 this, that there are -- many of our clients are  
 18 examining this very question. And as a result of  
 19 asset performance, which takes assets higher, it  
 20 allows for -- if you were to drop the assumption,  
 21 your liabilities will move up.

22 And if your liabilities are moving up, it's  
 23 nice to know that the assets moved up quite a bit  
 24 over the past year, which might ease some of the  
 25 burden of that liability increase on the



1 actuarial books.

2       So there are reasons why these questions are  
3 being asked right now. It doesn't seem like a  
4 burning issue that it's a must have right now.  
5 You've done a nice job in recent years of  
6 dropping that expectation. There are some  
7 indicators that suggest maybe you should consider  
8 continuing the consideration but nothing that  
9 strikes me as you have to drop the rate right  
10 now.

11       MR. COLLINS: I think we need to strike that  
12 last sentence from the record, because I don't  
13 want the legislature to come back, after we're  
14 hammering them for a little bit of a reduction,  
15 and have our consultant say, Well, I don't think  
16 they really need it now.

17       I do think we should send a letter. I do  
18 think we should try to get under 7. Hanging out  
19 just below the median, knowing who most of that  
20 crowd is in the median, it's not a great spot to  
21 be. Right? So if we could get below 7 and if  
22 that was your last gift to us, Ash, in the last  
23 12, 13 years we've gone from 8 to sub-7 in the  
24 actuarial assumption, that would be incredible.

25       MS. CANIDA: Does it not make sense to, when

1 you consider where we started the hurdle rate at  
2 8.59, that that would be necessary, tying it back  
3 to the hurdle rate?

4       MR. PETER JONES: It didn't come through  
5 very clear, Tere, if you could repeat it again.  
6 Maybe it's your speakerphone.

7       MS. CANIDA: I'm saying, when you think  
8 about where we started and the hurdle rate that  
9 we talked about, wouldn't it make sense for the  
10 assumption to be lowered so that the contribution  
11 would help us --

12       MR. COLLINS: Yeah.

13       MS. CANIDA: -- to the hurdle rate?

14       MR. COLLINS: Yeah. That's what we're  
15 saying. How much did we ask for last year? How  
16 much did we push for? Did we push for a specific  
17 number?

18       MR. WILLIAMS: Mr. Chairman, if I may. I  
19 don't believe we did. I think the pattern that  
20 we have followed is being respectful of the many  
21 competing demands that the legislature has to  
22 deal with and balance and basically lay out what  
23 the consensus is and suggest that prudence will  
24 reward conservatism and modesty on the return  
25 assumption and penalize extravagance, and

1 therefore we want to err on the side of prudence.

2 That's the way we've traditionally positioned it.

3 And both the estimating conference and the  
4 legislature itself have done nicely in recent  
5 years in terms of moving us down at a rate of  
6 about 20 basis points a year.

7 MR. PETER JONES: Well, it seems like we --  
8 my view is that we should do it again.

9 MR. BOBBY JONES: Mr. Chairman.

10 MR. PETER JONES: Please, Bobby.

11 MR. BOBBY JONES: Yeah. This is Bobby  
12 Jones. You know it seems like it would be  
13 prudent for you, as our chairman, to point out  
14 that Aon has recommended we look at 6.13 percent,  
15 and knowing that they won't give us all of that,  
16 but it certainly is worth my time and Vinny's  
17 time and it's made it much more reasonable, as  
18 Ash said, coming down 20 basis points, which  
19 certainly puts the FRS in a much better position.

20 MR. PETER JONES: Okay. Thank you, Bobby  
21 Jones. So maybe I'll ask Ash Williams, it sounds  
22 like, if I understood you, you would support  
23 similar approaches that we've taken in recent  
24 years.

25 MR. WILLIAMS: Yes, sir.

1 MR. PETER JONES: Any other comments from  
2 the IAC? Anything counter to that?

3 MR. OLMSTEAD: Vinny Olmstead. I'm in  
4 agreement, similar to last year.

5 MR. NEAL: Mr. Chairman, this is Pat Neal.  
6 I'm certainly in agreement and we certainly need  
7 to talk to the legislative leaders. Keep in mind  
8 that there's been, for a long time with this  
9 legislature, a commitment to reduce the shortfall  
10 by annual appropriation, so there's a fiscal cost  
11 to them. We need to talk to the revenue  
12 estimating conference and the staffs of the two  
13 committees and make sure they have -- this is  
14 really a good presentation by Aon. They need to  
15 have sufficient background.

16 Usually the staff director of the  
17 appropriations chair will say, Mr. Chairman,  
18 we've got to do this. And the political forces  
19 are antithetical to that, but the chair will say,  
20 Okay, in the interest of good government and  
21 conservatism, I'll do it.

22 Unfortunately, with Ash leaving, I  
23 respectfully ask you, as chair, dedicate some  
24 resources to make sure that the committee staffs,  
25 as well as the leaders, understand the importance

1 of what we're doing here.

2 I talk to Wilton and I also talk to Chris,  
3 and I'm happy to talk to them. I thought we  
4 crafted a letter that we sent to the legislature,  
5 but I can't fully recall. Maybe that was last  
6 year. Ash, I'd like you to send me a copy.

7 MR. WILLIAMS: All right. We certainly can  
8 do that, Senator. And I believe the way we've  
9 done this in prior years is, given that the IAC  
10 is an appointed body of the State Board of  
11 Administration, what we've done is styled the  
12 communication as coming from the Investment  
13 Advisory Council to the trustees of the State  
14 Board, and we may have copied the legislative  
15 leadership or just distributed the communication  
16 to them along the way. I believe we've probably  
17 got some legislative staff on the call today with  
18 the meeting.

19 MR. NEAL: Didn't you meet with Wilton last  
20 year and go through this pretty carefully, Ash?

21 MR. WILLIAMS: No, sir. I did meet with  
22 Senate staff, though.

23 MR. NEAL: There's a lot of money this year.  
24 It might be easier this year than most years.  
25 Thanks, Mr. Chair.

1 MR. PETER JONES: Thank you, Senator. We'll  
2 proceed ahead then, working with staff here at  
3 the SBA, to provide our input on this subject  
4 matter as we've outlined. Okay. Very good. Any  
5 other comments, questions?

6 MR. BOBBY JONES: This is Bobby Jones again,  
7 Mr. Chairman. Would it help if the IAC literally  
8 made a motion to have you draft such a letter  
9 with all of our approvals? And as Ash said,  
10 we've done that in each of the last two years,  
11 and citing the Aon actuarial study and  
12 particularly the fact that we're below some of  
13 our peer group, too, and draft that letter to the  
14 trustees, which in the past we've copied both the  
15 Senate and the House leaders, and that has  
16 started the process.

17 MR. PETER JONES: Okay. So, Bobby Jones,  
18 you're suggesting we have a motion -- to make a  
19 motion to proceed ahead as we've been discussing,  
20 which I don't think there's any reason not to  
21 have a motion, just to document the record. So  
22 if that's the case, I'll entertain a motion.  
23 That's a good idea, Bobby Jones.

24 MR. BOBBY JONES: I'd like to so move that  
25 you draft a letter on behalf of the IAC.

1 MR. NEAL: Second.

2 MS. CANIDA: Second.

3 MR. PETER JONES: Okay. All in favor?

4 (Ayes)

5 MR. PETER JONES: Opposed? Okay. Motion

6 carried. Thank you. That was a good

7 recommendation as well.

8 Okay. If there's no further discussion on

9 that topic, we will move on to our global equity

10 asset class review, and I'll turn it over to Tim

11 Taylor, our SIO for global equity.

12 MR. TAYLOR: Thank you, Mr. Chairman. Good

13 afternoon, everybody. On the agenda today, once

14 a year we have the opportunity for a little more

15 time to talk about global equity in more detail.

16 And I'm pleased to be able to be joined today by

17 two of my colleagues, Meghan Brown, who is a

18 senior portfolio manager here in global equity,

19 and also Denise Hale, our director of reporting

20 and analytics.

21 We'll each be covering a respective portion

22 of the presentation over the next several

23 minutes. And then after that, Mr. Chairman, if

24 time permits, Jay Love of Mercer -- Mercer is our

25 asset class consultant, and he's standing by

1 virtually and can provide some comments as well.

2 So with that, John, if we could move to page

3 108. I'm going to ask Meghan to begin our

4 presentation.

5 MS. BROWN: Hi. Today we're going to take a

6 look at the team that makes up global equity, and

7 we'll also discuss the market and industry

8 dynamics from the past year and take a look at

9 the top down from the asset class and our

10 exposures and then discuss how it all comes

11 together with the performance.

12 So moving ahead to the first slide in our

13 presentation, we'll begin on this page, and it

14 really outlines how our asset class is organized

15 into the main functions of internal portfolio

16 management and trading, external manager

17 oversight, our risk and analytics team, which

18 Denise leads, she'll talk in a couple of minutes,

19 Tim, who in his role as SIO is central to our

20 asset class, and our administrative support, who

21 keep everything running efficiently.

22 Although we're listed in these groups, it's

23 real important to note that there's a great deal

24 of overlap on the team. We have traders who

25 evaluate our external managers' trades, we have

1 internal portfolio managers who also cover  
2 external portfolio managers, and members of our  
3 risk team who assist the internal portfolio  
4 management team. There's a great deal of  
5 crossover and shared responsibilities, and we're  
6 not operating in silos.

7 In addition to the individuals that you see  
8 listed here, the groups at the bottom that range  
9 from financial operations to IT also provide  
10 valuable support to our asset class. So all of  
11 the work and all of the results that we discuss  
12 today are only possible because of the collective  
13 efforts of the individuals you see listed here  
14 and the groups represented below.

15 To dive more into that, we'll go into the  
16 next slide, which states the purpose of the asset  
17 class. So we are to invest to achieve or exceed  
18 the benchmark return over a long period of time.  
19 In order to do that, we must be diversified and  
20 strategic in how we use the low-cost passive  
21 capabilities that we have available.

22 We aim to provide positive returns above the  
23 benchmark. We're always mindful of our role in  
24 providing liquidity to help meet fund  
25 obligations. And that's an area that Tim and

1 Denise will talk more about in a few minutes.

2 Not only does our investment policy  
3 statement outline our policy, but it also  
4 identifies our target index, meaning the  
5 benchmarks that we're tasked with beating. And  
6 the next slide has detailed information on the  
7 composition of that benchmark.

8 So we're measured to the MSCI All Country  
9 World Index, or commonly referred to as the ACWI  
10 index. And that's outlined here, and it  
11 represents a really broad opportunity set in  
12 public markets. It contains over 9,000 stocks  
13 spread across 50 countries. And the region and  
14 sector breakdown is shown here. And you'll see  
15 that the U.S. component of the index makes up  
16 almost 60 percent of the benchmark. Non-U.S. is  
17 30, and emerging markets are 12 percent.

18 The illustration at the bottom shows the  
19 sectors in the index and the geographic makeup of  
20 each. And here you'll notice the continued  
21 importance of the U.S. companies that make up the  
22 IT and financial sectors.

23 And the next slide shows how we're currently  
24 positioned relative to that benchmark. We've  
25 heard comments today about the size of this total

September 20, 2021

Page 62

1 plan. And global equity is now managing over  
2 \$108 billion. And this is a high level overview  
3 of how those funds are organized.

4 We're well-diversified, with over 10,000  
5 stocks across 64 countries and 46 currencies.  
6 And that's achieved through investments in seven  
7 internal strategies and 58 external strategies.  
8 The graph on the upper right shows the split  
9 between our active and passive investments.  
10 Right now we're very close to a 50-50 split. And  
11 it's important to note that the majority of  
12 passive funds are in U.S. strategies due to the  
13 efficiencies of that market and the low cost that  
14 we have to implement and trade those strategies.

15 Almost all of our foreign market exposure is  
16 active, since managers can achieve higher alpha  
17 in those regions. Almost 75 percent of our  
18 global allocation is also active for the same  
19 reason.

20 The bottom left shows our efficiency  
21 advantage and breaks out where the internal and  
22 external advantages are. Of note is that our  
23 internal team, so the individuals that you saw  
24 listed on the first page, they are managing over  
25 90 percent of our U.S. allocation.

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September 20, 2021

Page 63

1 We also try to continue to be opportunistic  
2 and look for areas where the alpha potential is  
3 uncorrelated to our benchmark, which helps  
4 further diversify our asset class. And currently  
5 we have an active currency program, a U.S.  
6 microcap investment and an investment in the  
7 Schiehallion closed-end fund.

8 Tim is going to talk more about our  
9 objectives and what we've done during the past  
10 year.

11 MR. TAYLOR: Thank you, Meghan. So on page  
12 114, our objectives are listed on the left-hand  
13 side of the page. And those objectives have been  
14 developed based upon the investment policy  
15 statement for the Florida Retirement System.

16 They set our objectives. They are to  
17 provide beta, return of the market, manage costs,  
18 structure a diversified aggregate, maintain low  
19 active risk levels, be selectively opportunistic  
20 and provide a consistent source of liquidity.

21 Talking about each of these very briefly, we  
22 provide the return of the global equity  
23 opportunity set. That's a basic statement, but  
24 that's why we are here, why we're structured as  
25 we are. Almost 50 percent of our assets are

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1 passively managed. But we believe we can provide  
 2 an even greater return by deviating from the  
 3 benchmark while remaining within the guidelines  
 4 of our risk budget. Our risk budget is 75 basis  
 5 points currently.

6 We tell all of our external managers that  
 7 the level of fees that we pay are very important  
 8 to us. And for managers who have participated in  
 9 searches with us or managers we have now, they've  
 10 probably heard us say that more than once. Fees  
 11 are very important to us.

12 And two advantages that we have that we  
 13 emphasize when negotiating fees are large account  
 14 sizes and the willingness to be very patient when  
 15 a manager is experiencing challenging times,  
 16 whether it's performance, whether it's  
 17 organizational related. But we emphasize that in  
 18 all of our negotiations.

19 We don't want to rely on just one or two  
 20 market conditions to outperform. And that's one  
 21 of the biggest challenges we have, is structuring  
 22 the diversified aggregate. And we diversify by  
 23 many ways, defined in many ways; by process,  
 24 fundamental managers, quantitative managers; by  
 25 style, value managers, growth managers; by

1 geography and by sector. And you'll see some  
 2 more statistics of this a little later on.

3 And we attempt to only accept risk where  
 4 reward is expected, and we want to ensure an  
 5 awareness of all notable risk. If there is a  
 6 risk in our portfolio, we want to make sure we  
 7 know about it. And if we need to manage it or  
 8 mitigate it, we do so.

9 Global equity continues to pursue  
 10 opportunistic or, quote, unquote, nontraditional  
 11 strategies, some of which are not included in our  
 12 benchmark, as Meghan mentioned, our dedicated  
 13 absolute return currency program. One of the  
 14 challenges we have is, because of the significant  
 15 AUM that we have, over \$100 billion at the end of  
 16 June, sometimes it is hard to find an  
 17 opportunistic investment that has the potential  
 18 to have a meaningful impact on our aggregate with  
 19 respect to risk or return or both.

20 And at the bottom of the page, we always  
 21 remain aware of the need to provide liquidity for  
 22 benefits. That's why the FRS exists, to provide  
 23 benefits. Every decision that we make with  
 24 respect to structure and managers, hiring,  
 25 funding, all of those things, liquidity is always

1 part of our thought process.

2 The next page, please. This is a commentary  
3 on meeting our objectives during the last fiscal  
4 year. Our fiscal year, of course, ended  
5 June 30th. Every year we say, what a fiscal  
6 year. I mean, so many things occurred. And we  
7 should know better, that something is always  
8 going to be happening that's interesting. Fiscal  
9 year 20-21 certainly was at the top of  
10 interesting years.

11 Successfully managing passive portfolios is  
12 not easy. Sometimes plans think, well, we can  
13 hire a couple of people and we can run money  
14 in-house internally and save a lot of money.  
15 It's not that easy. Running passive portfolios  
16 is challenging. Strong markets have made it even  
17 more challenging. Any cash that you hold in a  
18 passive portfolio, because cash is not in the  
19 benchmark, as that benchmark consistently rises,  
20 any cash is a drag on performance and needs to be  
21 managed.

22 Also with respect to passive portfolios,  
23 some historical sources of value added have  
24 declined, particularly in the securities lending  
25 market. In years past, securities lending income

1 was a lot higher than it has been in the last  
2 three or four years. So despite those  
3 challenges, our passive portfolios and our  
4 colleagues in global equity provided a modest  
5 level of outperformance in all of our passive  
6 portfolios during the fiscal year.

7 On the second line there, another challenge  
8 in the industry, active managers have generally  
9 underperformed and disappointed investors. And  
10 in particular, if you think of value-oriented  
11 strategies and managers, they have struggled in a  
12 challenging period for a very, very long time.  
13 This has led some investors to go entirely  
14 passive or to adopt strategies that perhaps focus  
15 on factors that are expected to outperform the  
16 market.

17 Fee pressure on managers has been strong.  
18 Now, that's good for us in one way. If fee  
19 pressure on managers is strong, that's heading in  
20 our direction. Fees are very important to us,  
21 remember. But at the same time, this increases  
22 organizational risk, including the survival of  
23 the product itself that we might be in or even  
24 the manager themselves.

25 As the assets under management of a firm



1 have declined, revenues decline, and this may  
2 prompt the organization to reduce expenses, by  
3 eliminating employees, by reducing other  
4 important resources. So while fee pressure on  
5 the industry works for us in one way, it does  
6 present challenges that we need to continually be  
7 aware of.

8 Back to the idea that we can be patient when  
9 others perhaps are not, again, we try to  
10 emphasize that when we're talking to managers.  
11 If a value manager has been underperforming and  
12 facing a challenging period for a very long time,  
13 we know that, and we're willing to be patient  
14 because we do want value managers and exposure in  
15 our portfolio.

16 If you think back to the fiscal year, we had  
17 an incredible change of market leadership, from  
18 growth to value in November. Growth had led the  
19 way through the pandemic. Then Pfizer and  
20 Moderna announced positive news about the  
21 vaccines. And since that time, that led a  
22 reopening trade. That focused investors' buying  
23 and their attention on the most negatively  
24 impacted stocks during the pandemic.

25 However, the value lead started in November.

1 We get to mid-May and again growth reasserts its  
2 leadership. So we had a sharp change during the  
3 year, but then we go back to growth, as it was  
4 during the pandemic. And now it's a little more  
5 mixed since the end of the fiscal year.

6 You'll see later on when we talk -- I  
7 believe Denise or Meghan, one or both are going  
8 to talk about our performance. We were pleased  
9 with our performance. We did well during a very  
10 volatile time in market leadership.

11 During that time, our realized tracking  
12 error in the asset class more than doubled. The  
13 pandemic took hold. Market volatility surged.  
14 We didn't make any big meaningful structural  
15 changes in terms of active/passive, that type of  
16 thing, and yet we saw our realized tracking error  
17 more than double over just a few months. That  
18 was based purely on market volatility.

19 Active management continued to face  
20 challenges. The level of concentration in  
21 benchmarks continued to increase. Mega cap  
22 stocks became even larger parts of indices.  
23 Particularly in the U.S., when you think of the  
24 large mega cap stocks in the U.S., they continued  
25 to do really well. And as they continued to do

1 really well, their representation, their  
2 percentage in the market cap benchmarks  
3 increased. That makes it more difficult for  
4 active managers.

5 At times markets in securities were driven  
6 not by fundamentals but rather by passive flows  
7 or by even pure speculation. And we're all  
8 familiar with the meme stocks and those types of  
9 things, the Reddit board and all that. And that  
10 had a slight impact on global equities, pure  
11 speculation.

12 The next page, John, please. So how did we  
13 navigate this dynamic fiscal year? Well,  
14 starting at the top, I'll comment briefly on a  
15 couple. I won't mention them all. We continued  
16 to develop our internal passive management  
17 resources by developing our staff. Whatever  
18 resources we have, it's the staff that we have at  
19 the SBA in global equity managing passive and  
20 managing external manager oversight and  
21 managing -- that is our most important asset.

22 The record that you see that we've produced,  
23 the success going forward of that is going to be  
24 driven by the talented staff that we have. We  
25 continue to develop staff. And we continue to

1 research ways to add value by focusing on  
2 portfolio management, by focusing on trading  
3 approaches that will minimize transaction costs.

4 Remember, the benchmarks we're trying to  
5 beat do not include transition costs, and so it's  
6 a theoretical return. No transition costs in  
7 there, no trading costs. Well, to manage, you're  
8 going to bear some trading costs, so it's real  
9 important to keep them down.

10 We continued to communicate the importance  
11 of highly competitive fees during investment  
12 management searches. And I know some of our  
13 external managers listen to our webcasts. And  
14 listen up now, we're going to continue to  
15 communicate the importance of highly competitive  
16 fees during investment manager searches. We're  
17 also going to maintain a bias to internal  
18 strategies. So long as alpha is not expected to  
19 be compromised. So we'll manage something  
20 internally as long as alpha is not compromised.

21 In terms of external managers now listening,  
22 I'm going to talk in just the next page about  
23 that a little bit further. But during the year,  
24 on the next line there, you see we hired and  
25 provided initial funding to three international

September 20, 2021

Page 72

1 small cap managers, one emerging market manager,  
2 one developed standard manager and one U.S. large  
3 cap strategy.

4 All of this activity, the search process,  
5 the contract negotiation process, asset  
6 restructuring, all of that took place remotely.  
7 We were essentially remote the entire year, and  
8 yet we continued, I believe, to make some  
9 excellent decisions to structure ourselves for  
10 success going forward.

11 We purchased, you may recall, members of the  
12 IAC, at the end of the first quarter and the  
13 beginning of the second quarter 2020, we bought  
14 almost -- it was over a billion dollars in  
15 equity. It was like 1.3 or \$1.4 billion in  
16 response to the dramatic sell-off. As everybody  
17 else was selling, we bought. We thought it was a  
18 great opportunity to buy.

19 And we were right. Profits were realized  
20 during the fiscal year, and we actually became so  
21 overweight equity that we triggered automatic  
22 asset allocation rebalances. So we sold,  
23 achieved some profit and provided it to other  
24 asset classes during those rebalances. And then  
25 we raised during the fiscal year over

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September 20, 2021

Page 73

1 \$10 billion, and this is liquidity, mostly for  
2 benefit payments, also for asset allocation  
3 rebalances but mostly for benefit payments.

4 So the final page I'm going to talk about  
5 before I turn it over to Denise is the next one.  
6 We're going to continue to evaluate opportunities  
7 to manage active strategies internally. But an  
8 additional way to focus on costs is to continue  
9 negotiating during manager searches very  
10 aggressively but also, where appropriate,  
11 renegotiate fees.

12 Looking forward well into the future, we  
13 want to ensure that we're sharing in scale  
14 efficiencies as the equity markets increase in  
15 value. And we are engaging certain external  
16 managers to reset the economics of our  
17 relationships in anticipation of even more  
18 significant portfolio values over the long term.

19 Now, again, this is a renegotiation. It's  
20 why I said earlier, external managers, kind of  
21 listen up. When our fees -- we do have great fee  
22 schedules, I believe. But I believe many cases,  
23 when we negotiated those fees, we thought perhaps  
24 about account values of a billion dollars. I  
25 don't think we saw the account values reaching

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1 1.5 or \$2 billion. And as we sit here today, and  
 2 I know the market is off a lot today, but  
 3 thinking out several years, we want to ensure  
 4 we're sharing in those scale efficiencies, and so  
 5 we are talking already now and will be talking to  
 6 other external managers about resetting the  
 7 economic relationship.

8 And I think that's very fair. It's been a  
 9 good relationship that we've had with external  
 10 managers and a good fee schedule. But, again, as  
 11 we think about markets into the future, we think  
 12 we can do even better to plan ahead and  
 13 accommodate those even larger account values.

14 We've done well, but we must guard against  
 15 complacency. We're going to maintain our  
 16 diligent focus on monitoring managers,  
 17 restructuring active aggregates that need it,  
 18 identifying and monitoring external managers who  
 19 aren't managers now but might have excellent  
 20 potential to be a partner with us in the future.  
 21 And while doing this, we'll intend to continue  
 22 our efforts to consider, review opportunistic  
 23 strategies that can improve the risk and reward  
 24 return profile of the asset class.

25 So Denise -- with that, I'm going to turn it

1 over now to Denise, who will present some  
 2 information about global equity by the numbers.  
 3 Denise.

4 MS. HALE: Thank you, Tim. Again, my name  
 5 is Denise Hale. I'm the director of reporting  
 6 and analytics within global equity. I'm happy to  
 7 join you today, and we'll share some numbers and  
 8 metrics that show how global equity delivers on  
 9 the strategic objectives and policies.

10 And the first slide that I'm going to  
 11 present really tells the story of how GE fits  
 12 within the total FRS fund. And what you can see  
 13 here, the top two charts, global equity is a  
 14 large asset class. And that is by design. Our  
 15 role, as Tim mentioned, is to provide returns and  
 16 liquidity for beneficiary payments. And so with  
 17 over \$108 billion under management, we represent  
 18 54 percent of the total fund. And that's  
 19 slightly above our allocation target of  
 20 53 percent.

21 What you can see on the top right shows that  
 22 over the last three years, we've been able to  
 23 contribute 67 percent of the FRS absolute  
 24 returns. Looking at the middle, GE focuses on  
 25 low-cost strategies, as Tim has discussed. And

1 what you can see here is that 28 percent of the  
 2 total FRS assets are managed internally by our  
 3 team. And that includes passive and some active  
 4 strategies there.

5 The bottom left chart shows that we've  
 6 provided 87 percent of liquidity for fund  
 7 obligations. And that number translates to  
 8 \$19 billion over the three years. And so it's  
 9 not a small amount by any means.

10 Continuing the story, on the bottom two  
 11 charts on the right, here you can see that this  
 12 demonstrates that we've been able to deliver a  
 13 substantial amount of alpha or excess returns,  
 14 and here you can see that we've contributed  
 15 31 percent of excess return over the last three  
 16 years. And we've been able to do that all while  
 17 maintaining a low level of active risk.

18 On the next slide, we're going to take a  
 19 look at the global equity asset class as a whole.  
 20 And so this top left chart shows that we've been  
 21 able to provide alpha and beta by being actively  
 22 managed. And here it shows at the end of June,  
 23 we were 50 percent active. And you'll note that  
 24 our beta is at .99, so it really shows that we  
 25 are providing that equity exposure.

1 Probably the most important on this page  
 2 would be the top right chart that shows that we  
 3 are able to maintain a low level of risk. And  
 4 you'll see on a rolling three year basis, that we  
 5 are below our target of 75 basis points. And so  
 6 our three year realized tracking error is at 56  
 7 basis points as of the end of June.

8 You hear us talk a lot about taking risk  
 9 where it's rewarded, and you can really see that  
 10 in our information ratio. And here it shows that  
 11 our information ratio over the last three years  
 12 is 1. And I think the fact that we've been able  
 13 to maintain an IR of 1 or greater over the long  
 14 term really proves that we've been able to  
 15 consistently outperform the benchmark, given that  
 16 low level of risk.

17 Where we take our risk is shown on the bar  
 18 chart on the bottom right. This is our one year  
 19 predicted or ante tracking error. And it shows  
 20 that our predicted tracking error is 60 basis  
 21 points. And you can see, we don't take a lot of  
 22 risk in the U.S. That is where we are largely  
 23 passive. That's where the markets are most  
 24 efficient. Where we do take that risk is on the  
 25 non-U.S. and global side. And that's where we do

1 expect to be rewarded for deviating from the  
2 index.

3 Moving on to the next slide, this really  
4 demonstrates performance consistency and how our  
5 focus on diversification of style and region and  
6 risk really have paid off. And so on the left,  
7 you've seen this chart before, but each dot  
8 represents a one year period of performance. And  
9 so any dot above the diagonal line is a period of  
10 outperformance.

11 And it's even more evident when you look at  
12 the bar chart of excess returns on the right.  
13 And there you will see that we only have five  
14 negative one year rolling returns of  
15 underperformance since inception.

16 Next slide. This slide explains reasons why  
17 we are so consistent, and that's a result of  
18 being diversified. And this shows the number of  
19 months that global equity has beat the benchmark  
20 in a variety of different market conditions. And  
21 you can see here in up markets, we've  
22 outperformed 58 percent of the time. But you can  
23 see where we really protect on the downside,  
24 where we've been able to outperform over  
25 90 percent of the time when markets are down.

1 Our aggregate performs really well when  
2 growth beats value, also when low volatility  
3 stocks are outperforming. In addition, when U.S.  
4 stocks are beating the rest of the world, we've  
5 been able to outperform over 70 percent of the  
6 time.

7 Where we've fallen a little short is when  
8 value beats growth. And it really comes from the  
9 fact that since our inception, there aren't very  
10 many observations when value outperformed growth.  
11 And these are just monthly returns. And so if we  
12 were to expect value to beat growth over a long  
13 period of time, that batting average would be  
14 higher, based on the way that we're structured.

15 Next slide. This shows that we strive to  
16 maintain a diverse set of managers, most  
17 importantly by investment process and philosophy.  
18 You can see that we have managers who are  
19 defensive in low beta and really protect in the  
20 down market. And conversely, we have managers  
21 who take advantage of high growth and cyclical  
22 environments.

23 In the bottom table, it really shows our  
24 aggregate has managers with wide ranges of  
25 processes, including fundamental, quantitative,

1 factor based, all different approaches. And each  
2 approach has distinct advantages that will be in  
3 favor in different market conditions.

4 On the next slide, finally, the last slide  
5 in this section really shows how we approach  
6 active management and where we take that risk.  
7 The buckets on this slide are in order of the  
8 dollar amount that we have invested in each. And  
9 you can see here that we are a hundred percent  
10 active in areas of the market that are less  
11 efficient, such as emerging markets and  
12 international small cap. These are the areas  
13 where we do expect to be rewarded for our  
14 tracking error.

15 The average active mandate size that we have  
16 these managers is really driven by liquidity  
17 within each bucket and also capacity at the  
18 manager level. Overall, we continue to evaluate  
19 these managers. We continue to make sure that we  
20 understand their process and remain tactical  
21 about how we're going to use that risk budget so  
22 that we can maintain this market exposure and to  
23 be able to keep delivering returns and providing  
24 liquidity.

25 And with that, I'll turn it back over to

1 Meghan.

2 MS. BROWN: Thank you. So we'll take a look  
3 at performance. We've talked about how at  
4 \$108 billion, we're the largest portion of the  
5 FRS, and we've described how diversification and  
6 risk are really central to our approach, but the  
7 proof is how it all comes together and translates  
8 to performance.

9 So here on this slide, you can see for the  
10 one year number, we've outperformed by 83 basis  
11 points during the most recent fiscal year. And  
12 that's really remarkable considering that the  
13 index, the benchmark we're charged with beating,  
14 was up over 40 percent during that time.

15 And kind of taking a look back, we started  
16 in July of 2020, when many areas of the country  
17 were still under restrictions, and then the fall  
18 brought the U.S. presidential election, and  
19 shortly after that, the news of the vaccine had  
20 been developed, which as Tim mentioned, kicked  
21 off that reopening trade, which brought a really  
22 quick return to value and a shift in market  
23 dynamics. And that played out as we moved into  
24 2021, but then we saw a reversal back to growth  
25 towards the end of the fiscal year in May and

1 June.

2 So in a year that was really unpredictable,  
3 with significant macro events and shifting  
4 headwinds, the diversity of the portfolio really  
5 worked the way that we intended, the way it was  
6 designed, and we were able to still deliver  
7 alpha, even with all those different regimes at  
8 work.

9 The next slide will break out a little bit  
10 more of a detailed view of that performance by  
11 region and approach. So starting with approach,  
12 you can see the top line there, that the passive  
13 strategies that we have contributed 7 basis  
14 points of alpha this past year.

15 And I don't want to skim over that and make  
16 it seem like 7 basis points is insignificant,  
17 because it's not. It's significant, especially  
18 when it's applied to a \$108 billion portfolio.  
19 That's over \$70 million. And you can see that,  
20 again, that's managed by our team, our colleagues  
21 internally. And over the three and five year  
22 time frame, this continued to add those basis  
23 points and that -- lots of dollars that helped  
24 our top line really.

25 Under the passive strategies, you can see

1 that the active strategies continued to do well.  
2 As Denise mentioned, we're more active in areas  
3 we expect to be rewarded. And that came through  
4 this year. They outperformed by 171 basis  
5 points. Stock selection really drove that  
6 performance, which is exactly what we want to  
7 see. We're paying those managers to select  
8 stocks, and those decisions were fruitful this  
9 past year.

10 I think that it's important to mention, Tim  
11 talked about how we will add value strategies  
12 when they're out of favor and how that is  
13 something that we have an advantage for when  
14 we're negotiating fees. Over the past several  
15 years, we've talked about how we've added lots of  
16 value strategies -- not lots, but several value  
17 strategies to different exposures when they were  
18 out of favor. And we're seeing the benefit from  
19 those moves now and in a really meaningful way.  
20 Their performance this past fiscal year affirmed  
21 not only their selection as an organization but  
22 their fit within our overall structure.

23 Turning to regions below, the U.S.  
24 allocation outperformed this year for the first  
25 time, after struggling for several prior years.



September 20, 2021

Page 84

1 Value had a strong year, and the shift in the  
2 market dynamics favored the active managers, and  
3 we were positioned to benefit. We were very  
4 patient in that area, and our patience paid off.

5 Our foreign managers continue to do very  
6 well. The dedicated global aggregate allocation  
7 that you see listed there is a defensively  
8 positioned allocation, which we wouldn't expect  
9 to outperform when the market is up over 40  
10 percent. That's a really hard benchmark for them  
11 to keep up with and environment for them. But  
12 that's an area where we're thinking about ways  
13 that we can make that allocation more of an  
14 all-weather approach.

15 The next slide isolates just the active  
16 strategies that we have, and we'll kind of break  
17 down some of those. So beginning at the top, the  
18 foreign developed standard and emerging market  
19 aggregates continue to be successful and really  
20 added meaningfully in the past year, the same way  
21 they had the last three and five years.

22 And one thing that's important to note is  
23 that we do provide a lot of liquidity. And with  
24 those liquidity draws that we have, we're able to  
25 rebalance where needed and kind of engineer those

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September 20, 2021

Page 85

1 a little bit so that we're not -- you know, we're  
2 being prudent in those exposures. I think that  
3 the other aggregates also performed in line with  
4 expectations for the past year, given the market  
5 environment, and positively contributed.

6 I'd like to highlight that the U.S. large  
7 cap aggregate, which rightfully so, has been the  
8 topic of discussion in this forum as well as on  
9 our team for a long time. And with the shift in  
10 market leadership, those active strategies were  
11 really well-positioned and outperformed by over  
12 700 basis points. We maintained our belief in  
13 being active in that space but kept it  
14 appropriately sized based on the risk and our  
15 overall exposure. And now we're seeing the  
16 benefits from being long term in that space.

17 Even though we had some areas that  
18 distracted, collectively the active exposure  
19 continues to outperform. The performance really  
20 shows how the asset class continues to benefit  
21 from all the different ways that we think about  
22 diversification. We continue to be critical of  
23 all the exposures that we have, and we're making  
24 enhancements where we need to and will continue  
25 to upgrade and diversify not only the risk

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September 20, 2021

Page 86

1 sources so that they're differentiated, but the  
2 alpha sources that are at work for us in the  
3 total exposure.

4 So that concludes the prepared remarks we  
5 have, but we're happy to answer questions before  
6 Mercer shares their comments.

7 MR. PETER JONES: Okay. Thank you very  
8 much. I'll turn -- see if there are any  
9 questions we have.

10 MR. GOETZ: Mr. Chairman, this is John  
11 Goetz. Tim, thanks for those remarks, and Denise  
12 as well. I have a question. Ash started out  
13 with the dilemma we're facing, right? The  
14 markets took off. It was wonderful. It reduced  
15 the funding gap. But the corollary is the  
16 reduction in expected return.

17 I know Jay is on the line, too. So, Jay,  
18 you can jump in. What my question is, is do we  
19 inform our asset allocations within equity by  
20 expected return at all? I mean, clearly, you've  
21 hinted that value underperformed and you  
22 allocated some more because of the  
23 underperformance. But another way to think about  
24 it is expected return. And I'm wondering how  
25 Mercer or other advisers are taking into account

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September 20, 2021

Page 87

1 expected return, either by geography or style.

2 MR. TAYLOR: Thank you, sir, for the  
3 question. I'll begin, and then maybe Jay would  
4 like to add some comments. So we begin in global  
5 equity with the benchmark that we're given. As  
6 Meghan discussed, it's a very diversified  
7 benchmark, large cap, small cap, U.S. and  
8 non-U.S. We can look different than that  
9 benchmark up to a certain extent, as long as we  
10 remain within the guidelines of the risk budget,  
11 which we said was 75 basis points.

12 So many times we look a lot like the target,  
13 and we're not going to take any bets or any  
14 active overweights on, let's say, emerging  
15 markets or international small cap or even U.S.,  
16 non-U.S. We usually try -- when we have the  
17 liquidity event every month, it gives us an  
18 opportunity to look at how are we positioned  
19 relative to that target. And more often than  
20 not, one of the first orders of business is, is  
21 if we're off U.S., non-U.S., I like us to  
22 neutralize that and not make a call on that.  
23 That's served us well over the years.

24 In structuring ourselves, to be responsive  
25 to your question, though, over the years, you

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1 know, as growth has continued to do well and  
2 we've had managers with growth, you know, growth  
3 mind-set, growth philosophy, aspirational growth  
4 even, high growth, and we've had managers who  
5 have done very well, phenomenally well. And  
6 we've taken that opportunity to say, well, all  
7 right, let's take maybe some profits there, let's  
8 pull them back a little bit, and let's not defund  
9 our value managers who are having a difficult  
10 time.

11 So in a way, I think we're not putting in  
12 a -- we don't have a model where we're inputting  
13 numbers or anything like that, but we are trying  
14 to remain diversified, and we're trying to have  
15 exposure, appropriate exposure that we can  
16 outperform in as many market environments as  
17 possible.

18 And at one time, in the last few years, we  
19 did get too much, I thought, of a growth bias.  
20 And we're going back now three or four years ago.  
21 And we adjusted that bias and we -- you know, we  
22 emphasized more of the value managers.

23 So I think at the margins, John, we're not  
24 forecasting returns, but we're trying to remain  
25 well-diversified within our risk budget but

1 trying to knowledge -- take profits where we can  
2 take profits and not hit managers or styles that  
3 we think will benefit us at some time when the  
4 leadership changes.

5 And I think we were positioned really well.  
6 Last fiscal year, going into the pandemic, our  
7 growth, our disrupters did really, really well.  
8 And we actually, you know, took some money from  
9 them towards -- as we headed into the end of the  
10 year. And lo and behold, we still had our value.  
11 Value started to roar ahead.

12 And we underperformed in November because  
13 there was a lot of low-quality value, and we're  
14 just not going to do well when that does well.  
15 But then more of a quality value reappeared. We  
16 started doing better. And we held onto that. We  
17 really didn't hit them yet because maybe they've  
18 got more room to run.

19 So, John, I hope that's responsive to your  
20 question. But it's more trying to remain aware  
21 of our benchmark, remain within the guidelines,  
22 but at the margin -- you know, remain diversified  
23 but at the margin taking profits where we've done  
24 well and leaving things alone where we think  
25 we're going to do well. Jay, would you add any

1 comments to that of Mercer?

2 MR. LOVE: Yeah. I might just quickly kind  
3 of summarize that, John. I think the -- and I'll  
4 talk about this more in a minute. The Florida  
5 program, I think, overall is very deliberate --  
6 is structured in a very deliberate way to take  
7 the most efficient risks it can and be consistent  
8 in taking those.

9 So if you think about starting at the  
10 bottom, you use active management in the least  
11 efficient areas, and that being a very high  
12 consistency, high probability type of approach.  
13 And then you get into the kind of lower  
14 probability or riskier types of portfolio  
15 construction decisions you might make, so  
16 overweighting U.S. versus non-U.S., overweighting  
17 value versus growth. The payoffs for those are  
18 big, but the risk and the time, you know, you  
19 don't have a high degree of confidence in the  
20 timing of getting those right.

21 So I would say this portfolio is built to  
22 take the highest probability risks, the ones that  
23 are most likely to pay off, and has generally not  
24 been structured to try and take -- make big  
25 active shifts based on market valuations overall.

1 In terms -- you asked about our other  
2 clients. I mean, some clients take bigger market  
3 bets than others. And often, lately, the ones  
4 taking bigger market bets have largely been  
5 disappointed because our advice and those of many  
6 others is based on valuations and where things  
7 are likely to go, and this market has continued  
8 to run in the direction opposite of where most  
9 people probably thought it would.

10 So I think the Florida program along those  
11 lines in many ways has been more successful than  
12 many institutional investors from that  
13 standpoint.

14 MR. COLLINS: Can I follow up on that?

15 MR. PETER JONES: Yeah, please, Peter.

16 MR. COLLINS: So in the risk budget, not  
17 understanding how you guys price that out or  
18 parse that out, I should say, that 75 basis  
19 points between, you know, a call on small cap  
20 versus large cap, mine is more sticking with the  
21 value/growth strategy. As you look out in the  
22 next few years -- I mean, Katy knows this. We  
23 sat here eight years ago saying, you know, it's  
24 not going to be a great eight years in fixed  
25 income, right? We switched the index. You

1 started doing some more mortgages. You started  
2 doing a little bit more active management.

3 As we look out over the next few years, it's  
4 hard to see the path that growth continues to  
5 outperform value by a substantial margin, if at  
6 all. So are you beginning to take bets in  
7 your -- are you beginning to use some of that 75  
8 basis points on the growth versus value, or do  
9 you already do that?

10 MR. TAYLOR: I think we already do that.  
11 And thank you for the question. So we have  
12 growth. We have value. You know, and if you  
13 think long term in terms of, well, what's the  
14 environment going to be, well, before the  
15 pandemic, people were talking about low  
16 challenged economic growth, and even if we have  
17 interest rate increases, generally low interest  
18 rates relative historical levels. And that's an  
19 environment, if that's the case, where people  
20 will pay up for growth and they'll prize growth.

21 So I think there is a good argument that,  
22 long term, growth, low interest rates, challenged  
23 growth, growth managers could continue to do  
24 well. And I agree with you, though. It's not  
25 going to be probably to the extent we've seen

1 relative to value over the last decade. But I  
2 think there's a good chance that the environment  
3 that we face long term is the environment that  
4 people were concerned about before, in the first  
5 quarter of 2020 before COVID really took hold in  
6 March and April.

7 Now, shorter term, I'm becoming more  
8 optimistic that perhaps when, you know, vaccines,  
9 we're past the delta wave, some uncertainty is  
10 removed from the market, maybe we see a spike in  
11 economic activity and in certain sectors where  
12 people have a lot of pent-up demand.

13 And you think about maybe how many people  
14 would really like to travel somewhere, how many  
15 people would like to go to a concert or a game,  
16 do some things that we've been restricted from  
17 doing for a long time. I think there probably is  
18 another good argument that we're going to see  
19 some strong economic growth, and some of those  
20 sectors that have really not been doing well  
21 might do well. Well, I think we have exposure to  
22 some of those sectors and we're going to  
23 participate in that.

24 So we're not -- in terms of using our risk  
25 budget, it's used for both growth and value, in a

September 20, 2021

Page 94

1 real general sense here I'm speaking. But it's  
2 to provide that diversification that we desire.  
3 And we're not going to make a call on what's  
4 going to happen over the next year or even the  
5 next two, three, four years.

6 I will say that I think this portfolio, one  
7 of the things that it's benefited from over the  
8 last several years and I think will benefit  
9 continuing into the future is a certain level of  
10 quality, meaning I think we're probably going to  
11 continue to have an underweight to banks, excuse  
12 me, underweight to financials driven primarily by  
13 the banks. I think we're probably going to  
14 continue to have an underweight to energy, driven  
15 a lot by the big oil majors. And we all know  
16 what's happening with respect to divestment and  
17 going to carbon-neutral and all that.

18 So I think those things have served us well  
19 over the last years, and I think those things  
20 will continue to serve us well going forward.  
21 And that quality element will exist -- we're  
22 going to try to ensure that quality element  
23 exists in some part within our portfolio going  
24 forward. I think over the long term, any quality  
25 we have is going to be beneficial.

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September 20, 2021

Page 95

1 MR. GOETZ: Tim, this is John again, John  
2 Goetz. I just want to go back and phrase  
3 slightly differently my first question. You  
4 know, clearly, if we have a 6 percent equity  
5 return expectation, that's global, that was a  
6 global number, that falls short of our actuarial  
7 expense growth. Clearly bonds, as you said,  
8 Peter, have suffered because the return is so low  
9 that it's hard to keep it in the mix and have  
10 much hope. Within the equity market --

11 MR. COLLINS: Katy's brilliance aside.

12 MR. GOETZ: Yeah, Katy's brilliance aside.  
13 I put that on the mike for the record. You know,  
14 I think the interesting question that I was  
15 asking is, if expected returns for certain  
16 segments of the global equity market, pick a  
17 region, United States, or pick a category, you  
18 know, high growth, if the expected returns get  
19 low enough, should we take that into account in  
20 the risk budget?

21 I understand the risk budget is defined for  
22 this purpose as deviation from the market. But  
23 if the market was 80 percent at 2 percent return,  
24 would we as a board be okay with a 2 percent  
25 return equity market when we know there should be

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September 20, 2021

Page 96

1 a risk premium? That's kind of the nature of my  
2 question and whether or not we look at risk from  
3 an expected return standpoint, not just deviation  
4 from the index.

5 MR. COLLINS: Tracking error.

6 MR. GOETZ: Or tracking error, right.  
7 Because I think the return has fallen, but it's  
8 fallen differently in different places on the  
9 globe in terms of equities. That's where I was  
10 going initially. And I know we're not going to  
11 resolve this. I just wanted to table that, you  
12 know, as a thought, that we might follow the  
13 valuation to too low an expected return.

14 MR. PETER JONES: This is Peter Jones. I  
15 have a quick question on the passive strategies,  
16 just if you can help educate me. So you have a  
17 number of passive strategies, and it shows  
18 overall you've outperformed your benchmarks.  
19 Would you just help, again, educate me? What  
20 would be a portfolio technique you use to, in the  
21 passive arena, to outperform your benchmark? I  
22 understand the active side.

23 MR. TAYLOR: Well, there's a couple of  
24 things. First of all, you have to, as much as  
25 possible, minimize trading costs, because they

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September 20, 2021

Page 97

1 are not reflected in that benchmark. And so you  
2 have to minimize trading costs. One of the ways  
3 that you can outperform in a passive portfolio is  
4 trading very smartly.

5 The benchmark is recalculated or rebalanced  
6 periodically. And if you're able to kind of  
7 predict what the changes will be in that  
8 benchmark, which securities will be going in,  
9 which securities will be going out, you can have  
10 a strategy where you can actually perhaps do  
11 better than the benchmark itself. Sometimes  
12 those strategies work. Sometimes they don't.

13 Benchmarks are generally rebalanced at the  
14 close of a particular day, so perhaps you go  
15 early because you think you're going to be better  
16 off, but perhaps you go early and then you're  
17 wrong, or perhaps you want to wait and you  
18 shouldn't have waited. But sometimes they pay  
19 off. And I think that gets back to the skill of  
20 the people doing so.

21 You know, we have people in global equity  
22 that have followed these changes in benchmarks  
23 for years, and as things come up, they can talk  
24 about, well, what's our strategy going to be?  
25 What do you think will happen? When should we

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1 trade? Should we go early? Should we wait?

2 Should we go to the close?

3 So there's that, those trading strategies  
4 that can help or hurt. But there are also  
5 securities lending income, so the securities in  
6 that portfolio, there might be, through our  
7 securities lending agent -- and Katy oversees  
8 this program very well. There are individuals  
9 who would like to borrow those shares because  
10 they want to go short particular securities in  
11 your benchmark. Well, we get income based on  
12 that, and that income flows to the passive  
13 portfolio.

14 There's a couple of ways, you know, trading  
15 strategy, minimizing costs as much as possible  
16 and securities lending income and things of that  
17 nature, that perhaps we can benefit from.

18 MR. PETER JONES: All right. Thank you very  
19 much. Other questions from the IAC?

20 MS. CANIDA: Tim, this is Tere Canida. Can  
21 you comment quickly on the headline news and the  
22 regulatory changes in China and how that's  
23 coloring the view of the SBA, please? Thank you.

24 MR. TAYLOR: Sure. That's quite a question.  
25 Thank you for that question. And clearly it's

1 something we've been watching and monitoring and  
2 considering for a long time. So I will say, some  
3 securities that we have held in our portfolio  
4 that have added value for our beneficiaries for a  
5 very long time, some of those securities have  
6 clearly been under pressure in the last few  
7 months.

8 Some of those China-related names -- and to  
9 name specific names, Tencent, Alibaba -- have  
10 come under a lot of pressure because of the  
11 Chinese government, because of the regulatory  
12 agencies. So we benefited from them in the past.  
13 They have hurt us over the last few months. That  
14 said, we've been diversified enough to continue  
15 to outperform and overcome that negative  
16 attribution.

17 So we've been asking our managers a lot  
18 about -- that hold those securities and other  
19 securities, well, what are you thinking? There  
20 is still a great level of uncertainty as to, you  
21 know, what might they do further in terms of  
22 regulations and things of that nature. But what  
23 is still there, you can't deny the growth of the  
24 market. We talked about trying to find growth in  
25 the world. Even if growth in China is declining,



1 it's still 5, 6 percent or more. So it's at the  
2 top of world in terms of growth.

3 You still have that. You still have a  
4 growing consumer base, a lot of consumer  
5 discretionary companies that will do well. So we  
6 have a pretty diversified group of holdings in  
7 China. It's not just that we hold those two big  
8 names that I mentioned. We have exposure to  
9 other sectors. We have exposure to A shares,  
10 which are only available, until the last couple  
11 of years, to local investors. And a lot of those  
12 A share companies are clearly going to benefit  
13 from the growing consumer in China.

14 So as we go through our calls and meetings  
15 this quarter, it is -- it's still a big topic of  
16 discussion. And there's a lot of uncertainty,  
17 and I think people are trying to see, well, is  
18 there opportunity in the uncertainty, is there  
19 opportunity to perhaps buy some incredible  
20 businesses at really attractive prices. And  
21 right now, in general, I think the answer is no.  
22 We need to wait and see. There's still a lot of  
23 opportunity there, but there clearly is a lot of  
24 uncertainty that is being discussed here in  
25 global equity.

1 MS. CANIDA: Thank you.

2 MR. PETER JONES: All right. Other  
3 questions?

4 MR. WENDT: This is Gary Wendt.

5 MR. PETER JONES: Go ahead.

6 MR. WENDT: Can I be heard? I just got on  
7 and I am a little uncertain of the technology  
8 here, but can I be heard? If I can't, I'll be  
9 quiet.

10 MR. PETER JONES: Well, we heard you  
11 speaking, Gary Wendt, so we're hearing you.

12 MR. WENDT: Okay. Fine. Then I'll make a  
13 quick comment. I think you ought to really be  
14 careful about China at this point.

15 MR. PETER JONES: Okay. Thank you. Tim  
16 Taylor, thank you to you and your team for a very  
17 thorough and very good presentation. We  
18 appreciate that. So we are now moving to section  
19 5, the asset class SIO updates. And I'm going to  
20 ask Alison Romano, deputy CIO, to start this  
21 discussion.

22 MS. ROMANO: Did you want Mercer to share a  
23 few comments or --

24 MR. PETER JONES: Oh, okay. Yes. I'm  
25 sorry. I heard you speak, but more so answering

1 a question. So, Jay Love, if you have other  
2 thoughts. Thank you for that reminder, Alison.

3 MR. LOVE: Sure, sure. Just real quickly.  
4 And I apologize for the slide. That stamp at the  
5 bottom that says "Not Peer Reviewed" should have  
6 been removed. So my bad. This has been peer  
7 reviewed.

8 So I'm Jay Love. I'm the U.S. investment  
9 leader for Mercer. We've been working with the  
10 SBA for probably at least ten years now as your  
11 kind of public markets manager consultant. So we  
12 work with the team on their research of the  
13 investment managers. And then once a year you  
14 ask us to come in and just give kind of a  
15 third -- almost third-party overview or thoughts  
16 on how the program is run and kind of give you  
17 some conviction of what the team is doing.

18 So let me start off just by jumping ahead a  
19 couple of slides to page 5. Some of the interim  
20 slides I'll skip over. Sorry. Go one more page,  
21 if you would. So overall observations on the  
22 Florida public equity program. First of all,  
23 just the general observations, I want to mention  
24 that the team that works with this, Tim and his  
25 team, are one of the most intensive teams that we

1 see in terms of their manager due diligence,  
2 their manager selection process and the  
3 monitoring process that they go through.

4 Sometimes when they're doing a manager  
5 search, I'll warn the managers that this is not  
6 your run-of-the-mill, everyday interview you're  
7 about to go into. This is three hours of a lot  
8 of people who've done a lot of work, asking a lot  
9 of questions. So just be ready and get yourself  
10 prepared. So I think your team does a great job  
11 of digging deep on managers.

12 And then they also ask us, as their kind of  
13 third-party adviser, to help dig in on some  
14 various other things that they may or may not  
15 have the time for, such as operational due  
16 diligence, which I know they dig into as well.  
17 But we've been providing operational due  
18 diligence support as our teams have gone on site  
19 and dig into what the managers do. So I think in  
20 terms of the depth of research that goes on, I  
21 think it's extremely deep.

22 More general comments, to what we were just  
23 talking about, the global equity, public equity  
24 asset class overall we think is definitely  
25 managed in a very prudent and risk-controlled

1 fashion. To your questions, John, I think the  
2 team takes the risks that they feel like have the  
3 highest probability of paying off. They don't go  
4 off and take big active risks around regional  
5 weightings or style weightings.

6 Could that pay off? Yes, it could. I think  
7 there's room for discussion on whether that makes  
8 sense to take, but the risks they do take I think  
9 are very well-thought-out and controlled, and  
10 they spend a lot of time thinking about the way  
11 the managers fit together and in keeping --  
12 keeping that overall tracking error contained  
13 while also delivering as much as value as  
14 possible.

15 One thing that we sometimes see is sometimes  
16 the staff don't have kind of the right levels of  
17 authority to take the actions that they need to  
18 move managers when they need to. We don't see  
19 that problem here. We think the staff is given  
20 kind of all the flexibility they need to run the  
21 portfolio effectively.

22 You make good use of passive management  
23 overall. So I think you've heard a lot about  
24 this, but you're more or less in line with your  
25 peers in terms of your use of passive management,

1 although as we'll see in a moment, you're a  
2 little more skewed to passive in the U.S.,  
3 whereas some of your other peers sprinkle it more  
4 liberally across other areas. But I think that  
5 goes to the using active management and taking  
6 risks where it makes sense, and the U.S. has been  
7 a more challenging place for active management,  
8 certainly over the last ten years or so.

9 They do a great job of managing the active  
10 risk level, very thorough on that. Use of  
11 internal resources, I think they use it where it  
12 makes sense, for passive management and for some  
13 factor-tilted portfolios. And overall, as we  
14 look at it, results have been quite good over  
15 time. So I think, as a high level summary and  
16 scorecard, I think a lot of very positive things  
17 to say about the way the program is run.

18 So this is the -- some of you are new to the  
19 board, so a lot of times a lot of what I go  
20 through is a little repetitive relative to what  
21 Tim and his team have just gone through, but I'll  
22 mention a few things as we go along.

23 So on the next slide, just that comment  
24 about internal management, one of the sources  
25 that we use for this presentation to you is data

September 20, 2021

Page 106

1 from a firm called CEM Benchmarking. They go out  
2 and survey or work with a lot of the large public  
3 plans and some corporate plans as well and get  
4 detailed survey data about what's going on inside  
5 those plans, more detailed probably than Mercer,  
6 Aon or others have, as we only have our clients.  
7 So this is a broader cut.

8 So relative to other large plans, the SBA's  
9 use of internal passive management is much  
10 higher, almost double other large peers. You  
11 don't use a lot of internal active management, as  
12 was just mentioned. It's mainly for slightly  
13 factor-tilted portfolios.

14 You don't use much external active  
15 management. You have the scale to do that  
16 effectively internally. And then you also use  
17 more external active management than peers.  
18 Fifty percent of your portfolio is managed  
19 actively externally versus just 34 percent for  
20 your peers. So overall you're a little bit more  
21 active than your peers, and I think you're tilted  
22 more towards the use of internal active  
23 management.

24 So I'm going to skip ahead a few pages to  
25 again a little more interesting stuff. So we'll

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September 20, 2021

Page 107

1 skip ahead to the one that says "Review of  
2 Equities." So it's four pages ahead. Yeah.  
3 Page 140, yeah, 140 for you. On this page, just  
4 a summary of your asset allocation. Your overall  
5 regional allocation pretty much follows the ACWI  
6 IMI. That's one of your risk controls.

7 So compared to peers, most of your peers do  
8 something similar. Where you look a little bit  
9 different is that some of your peers have made a  
10 larger allocation to global mandates, hiring a  
11 manager whose mandate is the ACWI IMI or the MSCI  
12 World. You have a relatively smaller weighting  
13 to those types of strategies than your peers. So  
14 it's just more of a nuance in terms of the  
15 approach. I don't think it's particularly  
16 indicative of any -- whether the approach is  
17 right or not.

18 Global managers I'll mention. Global  
19 mandates have kind of -- have performed a little  
20 poorly over the past five years or so, as a lot  
21 of managers with the flexibility have gone to  
22 underweighting the U.S., as the U.S. valuations  
23 have been so high. But that tilt has not paid  
24 off for a lot of them. Also a lot of global  
25 mandates tend to be more value oriented, which

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1 has been a little bit of a challenge.  
 2 So while we can certainly talk about whether  
 3 that's going to be the case going forward, over  
 4 the past five years, it's probably been a net  
 5 benefit to you that you didn't have quite as much  
 6 traditionally active global mandates.

7 So on the next page, a couple of comments on  
 8 active versus passive. I think we've already  
 9 talked about this, but in terms of U.S. equity,  
 10 you do use more passive management than most of  
 11 your peers. You're about 85 percent, where your  
 12 peers are closer to 70 percent, on that top line.  
 13 Your peers have about 30 percent in active U.S.,  
 14 whereas you only have about 15 percent. So  
 15 you're kind of tilted to where -- away from one  
 16 of the more challenging areas for active  
 17 management.

18 The next page is a look at performance. And  
 19 this is slightly older performance, because the  
 20 last CEM Benchmarking survey is data as of 2019.  
 21 But the thing to point out here is, through the  
 22 five years into 2019, in general, the Florida  
 23 program has outperformed most of your large  
 24 peers.

25 So if you look at the line labeled "Your

1 fund performance" and then two lines down is the  
 2 peer average, your peer is the other very large  
 3 public funds. In general, SBA has had better  
 4 performance, even in the U.S., where your peers  
 5 are active. And if SBA is largely passive,  
 6 you've outperformed largely for that reason,  
 7 because active has -- U.S. large cap in  
 8 particular has been a challenging place to  
 9 outperform.

10 One place where your peers have outperformed  
 11 slightly is non-U.S. developed markets, which is  
 12 labeled as EAFE Stock. But SBA has outperformed  
 13 in emerging markets and even in that global  
 14 stock.

15 On the next page, looking at costs and  
 16 investment management, to the comments that Tim  
 17 has made, in general, SBA has lower investment  
 18 manager fees across most areas. So whether it's  
 19 U.S. equity, developed non-U.S., emerging  
 20 markets, all of those, your average fees are  
 21 lower for active management as opposed to your  
 22 peers.

23 Global equity is more or less in line with  
 24 your peers, since you put a little bit less money  
 25 there. Maybe that has some impact. But

September 20, 2021

Page 110

1 generally SBA has done a great job in negotiating  
2 lower fees. Now, the size of your mandates helps  
3 with that, but your team also does go through and  
4 presses managers on their fees periodically as  
5 well.

6 And then the final page I'll mention is the  
7 next one, which looks at performance figures.  
8 The team has already covered a lot of this, but  
9 I'll just point out, in terms of information  
10 ratio numbers, you can see the U.S. equity, which  
11 is in the middle of this page -- and this is a  
12 slightly busy page, so I apologize. But your  
13 value added in the U.S., which is the top  
14 section, has been slightly negative over time.  
15 Information ratio is also negative. But your  
16 tracking error is quite low there, so 33 and 28  
17 basis points.

18 In the middle of the page is non-U.S. equity  
19 overall, which includes emerging markets. So  
20 there your value added is pretty meaningful, 186  
21 basis points for three years, in the middle of  
22 the page, and 143 for five years. Information  
23 ratio is very good. So the ratio of excess  
24 return relative to the risk you're taking is  
25 above 1, 1.25 for the three years and 1.09 for

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September 20, 2021

Page 111

1 five years. And that's the majority of your  
2 active management.

3 And then as Meghan and Tim were just talking  
4 about earlier, your global equity mandates have  
5 underperformed for the trailing three and five  
6 years relative to the benchmark, because they are  
7 generally slightly more defensively postured, so  
8 slightly weaker performance there.

9 So that was the highlights that I wanted to  
10 hit. I'll mention, just in closing, a couple of  
11 pages up, where it says "Recent Activity" -- one  
12 more page, if you would. In terms of this, your  
13 team is always pretty active. There's always a  
14 lot going on. But just quickly, they've been  
15 doing emerging market small cap equity searches,  
16 U.S. small cap equity searches, and then there's  
17 been a fair bit of ongoing monitoring. And,  
18 again, that operational due diligence we've been  
19 talking about, there's been a fair bit of  
20 activity in terms of providing those reports.

21 So overall, really a pretty positive  
22 scorecard, I would say, for the way the program  
23 is managed. And happy to take any questions  
24 anybody has.

25 MR. PETER JONES: Thank you, Jay. Any

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1 questions? Okay.

2 MR. WENDT: Gary Wendt --

3 MR. PETER JONES: Please go ahead.

4 MR. WENDT: You said an awful lot of things  
5 which cause those of us who are members of the  
6 council to feel very good and comfortable. Do  
7 you have any suggestions as to things we could do  
8 better?

9 MR. LOVE: I think generally the suggestions  
10 for things to do better are probably things that  
11 are not just a, hey, this would obviously improve  
12 things. So to John's question earlier about  
13 tilting to value or outside of the U.S., I think  
14 those are things that you could consider. I  
15 think that's a valid point, that the potential  
16 for U.S. large cap growth stocks to continue to  
17 outperform dramatically is not all that high and  
18 there's a lot of other places to look. But those  
19 do shift the risk-reward spectrum.

20 So I think you have a fairly tight active  
21 risk budget, and I think there could be some  
22 discussion about whether it makes sense to look  
23 for opportunities to tilt the portfolio in  
24 certain ways when the market does get to  
25 extremes.

1 But those are not easy decisions. And the  
2 case for some of those decisions is strong now.  
3 It was also strong a few years ago, but it has  
4 not yet kind of paid off fully. So I think that  
5 would be kind of the main thing I would say, is  
6 there are places to take risks in the portfolio  
7 that could pay off. They're not as high  
8 probability as some of your current positioning,  
9 but I think it would be worth taking a look at.

10 MR. WENDT: Thank you.

11 MR. PETER JONES: Anything else? All right.  
12 Well, Gary, I viewed the presentation as a nice  
13 stamp of approval from Mercer. That's the way I  
14 took it as well. So nice endorsement for the  
15 good work that our global equity team is doing.

16 So now we will turn it over to -- go to  
17 section 5 and, again, let Alison Romano kick us  
18 off.

19 MS. ROMANO: Thank you. I'll provide some  
20 overarching comments to describe performance over  
21 the last year and the themes that have permeated  
22 all the asset classes. But I first wanted to  
23 update you on the Lawton Chiles fund. If you'll  
24 recall, when we met last, there had been  
25 legislation that had been passed to close that

September 20, 2021

Page 114

1 fund and transfer the proceeds to the State's  
2 stabilization fund. So when that law went into  
3 effect on July 1, we initiated our plan to  
4 liquidate those assets.

5 By July 8th we had delivered \$1.05 billion  
6 to the Department of Financial Services and  
7 locked in gains just for that year of  
8 \$250 million. Not only did we lock in those  
9 returns for the year, but if you look at the life  
10 of the program, we generated real money.

11 To put some stats around that, so a 6.46  
12 annualized performance, we generated 1.2 billion  
13 in investment earnings. We paid out, over the  
14 life of the fund, 1.9 billion and had that  
15 remaining 1.05 to send to the Department of  
16 Financial Services. So a very low-risk strategy,  
17 but one that delivered real dollars for the  
18 State.

19 It's also worth noting in these slides that  
20 if you compare the Chiles fund to a broader  
21 endowment universe, over one, three, five, ten  
22 years, we had top quartile performance. A lot of  
23 that, frankly, is driven by the fact that we had  
24 a lot of the equity exposure, but it was very  
25 well-managed equity exposure with low risk. So

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September 20, 2021

Page 115

1 good numbers with Chiles, and we were happy to be  
2 able to deliver that billion dollars.

3 Now turning to the performance in the  
4 pension plan, as Ash mentioned, stellar  
5 performance over this past year. And we've all  
6 been working here for a long time. I don't think  
7 we've had a year where we could say the total  
8 fund returned over 29 percent and we beat the  
9 benchmark by 3.21 percent.

10 We don't always talk about one year  
11 performance because it's got private markets, we  
12 have other issues. Sometimes that's -- we do  
13 focus longer term. But I thought it was probably  
14 worth mentioning a few things in terms of what's  
15 driving that performance.

16 Each of our SIOs talk about their asset  
17 classes, but if you take a step back, I think  
18 there are two themes this year. One, it was the  
19 fact that we had exposure to economic growth.  
20 And I don't mean growth versus value purely in  
21 the equities perspective, but we, as a fund, need  
22 to be positioned to economic growth to deliver  
23 the long-term returns that we need.

24 Secondly, we were well-positioned coming out  
25 of the volatility with COVID to take advantage of

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1 the upswing of the market. And just some brief  
2 examples of that. So we heard Tim talk about our  
3 foreign equity managers had exposure to growth  
4 and momentum and they did well. In private  
5 equity, our VC managers did amazingly well. We  
6 had our best year ever. We had technology  
7 exposure there.

8 In real estate, for instance, we have  
9 exposure and had good absolute performance out of  
10 medical office buildings, out of logistics  
11 players. Those are areas that are  
12 well-positioned for the trends in the economy and  
13 the growth that we're seeing there, and some  
14 trends that were accelerated through COVID.

15 In terms of a relative sense, that's where I  
16 think we saw some of the impact of being  
17 well-positioned. So in Katy's group, for  
18 instance, fixed income didn't have a strong  
19 absolute return this year, but from a relative  
20 perspective, they did very well because they are  
21 very well-positioned with spread coming out of  
22 the cycle.

23 And also in real estate we were able to take  
24 advantage in our REIT portfolios, the positioning  
25 there. As the market turned and those public

1 REIT securities bounced back, we did well.  
2 So, again, there's a lot of detail, a lot of  
3 choices made in all of these asset classes, but  
4 those are some of the key themes that are  
5 overarching that describe that 3.21 percent  
6 performance.

7 MR. PETER JONES: All right. Thank you,  
8 Alison. Very good news, obviously, on all fronts  
9 there. Thank you. All right. We'll turn it  
10 over to Katy to talk about fixed income.

11 MS. WOJCIECHOWSKI: Can you hear me? John,  
12 are you driving or am I? Good afternoon. So as  
13 was mentioned, we can only produce what we can  
14 produce in fixed income. So this is a fairly  
15 small risk budget, and we have to be mindful  
16 about that we may have to actually create  
17 liquidity. I think Tim's was 87 percent of the  
18 time that (indiscernible).

19 We had a great year last year,  
20 (indiscernible) on an absolute return basis. But  
21 I think we should -- we generally focus more on  
22 the three and five year periods, which also were  
23 pretty good. Outperformance over all of those  
24 periods in both internal and external, both  
25 passive and active.

1 You know, it's rarely good news when you  
 2 hear a headline about bonds. That's just the  
 3 truth. Today we have Evergrande. We've had it  
 4 for the past couple of weeks, months. Bonds come  
 5 into the world at par. They go out of the world  
 6 at par, and you earn a little coupon, even less  
 7 these days, a coupon in the meantime. And  
 8 Evergrande, we're going to see if they're going  
 9 to get par back on these bonds. We don't own  
 10 them, by the way. Let me stress that.

11 We had -- and you'll see later, one of the  
 12 things we explored was a more global mandate, a  
 13 China mandate. And we've passed on it, been  
 14 cautious on it, and just couldn't get our hands  
 15 around some of the accounting of it. And I think  
 16 these things are coming to pass. And we'll see  
 17 if it becomes more contagion.

18 Evergrande by itself or any bonds by itself  
 19 are not a big deal, but is this a Lehman moment?  
 20 Is this just a developer that got over its skis,  
 21 or is it something that is more interconnected  
 22 than we know? So we're looking at that.

23 So 12 month returns, as you see, as I  
 24 mentioned are (indiscernible). The benchmark  
 25 last year was flat, and we performed much better

1 than that. Benchmark returns fiscal year to date  
 2 are up 56, close to flat right now. We are,  
 3 through today, up 7 basis points. Not very  
 4 exciting, but when you think of the ten year  
 5 yielding 1.30, pretty good. Ten year today, as I  
 6 mentioned, in the last quarter dropped from 1.46  
 7 to 1.37. That's -- we're not making much, and  
 8 there's not much room to make much.

9 If we wanted to return a projected even  
 10 2 percent, we would have negative real yields, or  
 11 excuse me, negative absolute yields and nominal  
 12 yields. And we have negative real yields many  
 13 places.

14 We've gotten back from negative 17 -- 17  
 15 trillion in negative yields to 13 trillion right  
 16 now globally. That's still a lot of negative  
 17 yielding bonds. We are the high yield, frankly,  
 18 in the globe right now, which is why we see such  
 19 a flat curve. We are awash with cash. The Fed's  
 20 reverse repo facility hit another record today.  
 21 So there's just a lot of cash sloshing around the  
 22 globe.

23 But if you also look, one thing I want to  
 24 note is the duration has extended in both the  
 25 intermediate agg, which we manage to, and the

1 broader agg is 6.70. And if you look at a yield  
2 of 1.43 for 6.7 years, that's not very exciting.

3 MR. COLLINS: How much are we buying? How  
4 much is the U.S. buying and how much are other  
5 people buying of those Treasuries?

6 MS. WOJCIECHOWSKI: Well, we're buying  
7 (indiscernible) a month in Treasuries for the  
8 foreseeable future. (Indiscernible).

9 MR. COLLINS: I was just curious if we're  
10 tipping that -- if we've come in and really  
11 tipped that in the last 12 to 18 months because  
12 of COVID.

13 MS. WOJCIECHOWSKI: (Indiscernible).

14 MR. COLLINS: Yeah. Okay, thanks.

15 MS. WOJCIECHOWSKI: This is a chart that  
16 (indiscernible), but I've got to say, on an  
17 absolute basis (indiscernible), and on a  
18 risk-adjusted basis, over one, three and five  
19 years, it has been a good (indiscernible).

20 MR. COLLINS: It didn't start well.

21 MS. WOJCIECHOWSKI: I know. It did not. I  
22 really have to reach for those positives and not  
23 be Pollyanna. But on a risk-adjusted basis, it  
24 has been (indiscernible). I said this already,  
25 but I'll say it again, we don't have a lot of

1 income in fixed income. The best you can hope  
2 for is to sidestep land mines. We've been very  
3 good at that. Even with the world migrating  
4 (indiscernible). But if you look on the  
5 right-hand chart, with yield levels as low as  
6 they are, the probability (indiscernible) is  
7 actually higher than it was (indiscernible).

8 Alison mentioned this, but where we made  
9 money last year and why we made so much money on  
10 an excess return basis is we were overweight  
11 spread. We held steady going -- everybody  
12 remembers March of 2020. We held steady. We  
13 talked to all of our external managers. We  
14 talked to them frequently, John and Alison, Tim  
15 and others, and we all held steady with our  
16 process. We felt comfortable that we were in  
17 good shape (indiscernible).

18 If you look at the right-hand graph, where  
19 our risk went during that period, that was really  
20 just a function of volatility. We got very close  
21 to our escalation (indiscernible), and it's come  
22 way back down again. That's really just a  
23 function of the volatility rolling off.

24 Right now we are still well overweight  
25 spread credit. This is the current allocation,

September 20, 2021

Page 122

1 mostly in credit. The securitized assets are  
2 CMBS (indiscernible), very little in  
3 mortgage-backed securities, underweight in  
4 traditional mortgage-backed securities, little in  
5 government related (indiscernible). Most of our  
6 managers in our active internal portfolio  
7 (indiscernible). We're in a Goldilocks spot  
8 right now. (Indiscernible).

9 Just a quick note on things that we have  
10 done, where we are looking forward, we continue  
11 to look at out-of-benchmark opportunities. We  
12 expanded our use of our barbell, which is a full  
13 core, so that's the longer duration benchmark,  
14 and we barbelled it with a short credit. We may  
15 expand on that. We may go out of benchmark. We  
16 usually -- our managers, our external managers  
17 benchmark against the intermediate agg. We may  
18 go more with a specialized credit-only manager or  
19 some other internal (indiscernible).

20 I'm very mindful always that we have  
21 (indiscernible). We try to use our external  
22 managers where we can (indiscernible). Other  
23 than that, we've looked at ex-U.S., but we're not  
24 (indiscernible). I think that's it. Any  
25 questions?

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September 20, 2021

Page 123

1 MR. COLLINS: Are you still real active on  
2 the mortgage side?

3 MS. WOJCIECHOWSKI: We are. Not necessarily  
4 in residential mortgage-backed securities, more  
5 in commercial mortgage-backed securities, credit  
6 risk transfers, things like that, the rent-to-own  
7 or rental securitizations. (Indiscernible).

8 MR. COLLINS: So that's actively managed?

9 MS. WOJCIECHOWSKI: (Indiscernible).

10 MR. PETER JONES: Other questions for Katy?

11 MR. COLLINS: It's a shame to outperform  
12 your benchmark by 103 basis points and, you know,  
13 that's what you returned.

14 MS. WOJCIECHOWSKI: Yeah, I agree. And I  
15 really don't have (indiscernible).

16 MR. PETER JONES: All right. Well, thank  
17 you, Katy.

18 MS. WOJCIECHOWSKI: (Indiscernible).

19 MR. WILLIAMS: Thank you for being with us  
20 and thank you for all the marvelous stuff you've  
21 done in the time you've been running fixed  
22 income.

23 MR. PETER JONES: Okay. Real estate. Steve  
24 Spook.

25 MR. FOGLIANO: I know I have a sign that

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1 says Steve Spook.

2 MR. PETER JONES: I know.

3 MR. FOGLIANO: My name is Michael Fogliano.  
4 I oversee the externally managed program in real  
5 estate. Steve asked me to pinch hit for him at  
6 the last minute. Glad to do it.

7 So you can see real estate is at 8.8 percent  
8 invested as of March 31st, with our targeted  
9 10 percent, we are 120 basis points  
10 under-allocated. This is due to the strong  
11 performance of global equities, private equity  
12 and some of the other asset classes. So the  
13 denominator effect has made it difficult for us  
14 to keep pace from an allocation perspective.

15 The core portion of the portfolio is  
16 approximately 26 percent levered, and the  
17 non-core is just under 60 percent levered.  
18 Eighty-one percent of the portfolio is in core  
19 holdings. Naturally, the overall leverage is  
20 going to be -- over all leverage is  
21 (indiscernible).

22 Principal investments, leverage has  
23 increased slightly over the last couple of years.  
24 Leverage has intentionally been increased when  
25 possible. But because of fees and costs and

1 other things, it's usually done at acquisition,  
2 bring on leverage. And I believe principal  
3 investments is using a consultant to help them  
4 optimize leverage when possible.

5 MR. COLLINS: Can I just ask you a question  
6 about that, because you know I have to? Can we  
7 go back to the slide? So Lynne usually takes  
8 this. When we're buying an asset internally,  
9 we're the only owner, it's a core asset in a core  
10 market, and if you're putting leverage on that  
11 today, what's the level of leverage that you are  
12 looking at there? And I'm going to just qualify  
13 it with this. This is my sort of "got you."

14 If you look at 6/30/18, our leverage is  
15 26.8. If you look at 3/31/21, it's 27.8. Now,  
16 we hear every meeting about how we're committed  
17 to this and we're going to increase the leverage,  
18 but it just doesn't seem that much. I think our  
19 limit is 30 or 35.

20 MR. FOGLIANO: Overall portfolio leverage is  
21 30 percent. And on individual -- an individual  
22 basis, they can go up to 50 percent, except when  
23 there's a joint venture, and they can go up to  
24 70 percent when there's a joint venture partner.

25 MR. COLLINS: Yeah. So, as I understand it,

1 we're investing in funds, opportunity funds that  
2 have 60 percent leverage or 50 percent leverage,  
3 right? That was all wrapped into the  
4 27.8 percent? Or the funds, those externally  
5 managed funds, those opportunistic funds, do they  
6 not count towards that 27.8 percent?

7 MR. FOGLIANO: Can you go back to the prior  
8 slide? You can see on the right side the pooled  
9 funds leverage, the closed-end funds are at  
10 57.8 percent. The open-ended funds on the  
11 externally managed side is at 27.3 percent. And  
12 then if you jump over to the left side of the  
13 slide on slide 281, you can see it's 25.7 percent  
14 leverage. So the core open-ended funds -- and by  
15 the way, the open-ended funds include core --

16 MR. COLLINS: Right.

17 MR. FOGLIANO: -- plus strategy. It's  
18 27.3 percent. So the ODCE-type funds and the  
19 core-plus funds average 27.3, which is only  
20 slightly higher than the principal investments  
21 leverage.

22 MR. COLLINS: So last comment, and this is  
23 like my recurring comment. Our principal  
24 investments, where you could argue they're our  
25 least risky assets, right? Best assets in the

1 best markets, we own them 100 percent. We don't  
2 have partner risk or things like that. Maybe we  
3 do in some, but it's not like we're invested in  
4 some funds. That's our lowest leverage.

5 That's what doesn't make sense to me. We're  
6 happy to invest in somebody's opportunistic fund  
7 and let them go to 41 or to 50 percent, but the  
8 stuff that we own that we control that we can  
9 determine the outcome of, you know, that's our  
10 lowest leverage.

11 MR. FOGLIANO: Right. And so you have --

12 MR. COLLINS: I'm not yelling you. I'm just  
13 pointing this out.

14 MR. FOGLIANO: No, that's good. So, you  
15 know, if you have a long-term lease in place or  
16 strong credit tenant leased building, the  
17 leverage is going to be higher. And I believe  
18 that principal investments hit their maximum on a  
19 deal like that.

20 In other buildings where there may be a lot  
21 of near-term lease expirations, they're going to  
22 be a little bit more conservative on the  
23 leverage. They may even buy the building  
24 unlevered. But once it's levered, usually you  
25 have defeasance cost, and you know about that.

September 20, 2021

Page 128

1 So that's one of the problems with just magically  
2 making this all go up higher. And then we don't  
3 have that much room to run in total leverage,  
4 plus we're at 25.7 within the principal  
5 investments portfolio, and their max is 30.

6 MR. COLLINS: Okay. Thank you.

7 MR. FOGLIANO: We should be on slide 283.  
8 The real estate portfolio has outperformed over  
9 all time periods. For the one year period, 270  
10 basis points of outperformance. The three year  
11 period, which we really generally focus on during  
12 these meetings, is 90 basis points of  
13 outperformance.

14 The three year period, principal investments  
15 outperformed its ODCE benchmark by 40 basis  
16 points. The focus will be on the three year  
17 performance attribution. Principal investments  
18 contributors consist of industrial, medical  
19 office, self storage and a couple of strong  
20 credit tenant office buildings with long-term  
21 leases. Detractors consist of retail assets, New  
22 York City and northern Virginia office and San  
23 Francisco multifamily.

24 Moving over to the externally managed  
25 performance, for the three year period,

September 20, 2021

Page 129

1 externally managed portfolio outperformed the  
2 custom weighted benchmark by 270 basis points.  
3 I'll focus on the three year performance  
4 attribution again for externally managed.  
5 Contributors to the outperformance consist of  
6 investments heavily weighted toward industrial,  
7 multifamily development and alternative property  
8 sectors, which we really made a really strong  
9 focus on that beginning four to five years ago,  
10 and we've been steering the ship in the direction  
11 of those assets since then. Detractors consist  
12 of funds with moderate exposure to retail, urban  
13 multifamily and urban office.

14 The overall portfolio, you can see the  
15 property type diversification on slide 286. And,  
16 you know, we're -- as an overall portfolio, we're  
17 striving to bring down office overall, bring up  
18 apartments, increase industrial. But the biggest  
19 thing here is our "other" category, which are the  
20 alternative assets that we have, 500 basis points  
21 over benchmark, exposure to those assets.

22 Private market geographic diversification,  
23 the portfolio as a whole, you can see that on  
24 slide 287. We've got 6.8 percent international.  
25 On the last page here, you can see some of the

September 20, 2021

1 recent activity since the last IAC report. At <sup>Page 130</sup>  
2 the top you have industrial. And that is a --  
3 one of them was a core logistics asset in  
4 Savannah, which is seeing a lot of demand now due  
5 to the port there, a million-square-foot  
6 industrial building.

7 And then there's also a development JV for  
8 approximately two and a half million square feet,  
9 which is also in Savannah. Those are two  
10 different managers. Also that was purchased was  
11 a JV for 12 existing manufactured housing assets,  
12 and some medical office associated with it.

13 On the externally managed side, you can see  
14 that we are underwriting several funds right now,  
15 and we have several other opportunities in the  
16 pipeline.

17 Any questions?

18 MR. COLLINS: May I have one more question,  
19 Mr. Chairman? When you focus on -- when you say  
20 closed-end focused on alternatives, what would be  
21 like some stuff that you look at in their  
22 portfolio and say, yeah, that's interesting to  
23 us?

24 MR. FOGLIANO: Usually the closed-end funds,  
25 as you know, those are mostly non-specified

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September 20, 2021

1 funds, but managers that have really strong focus <sup>Page 131</sup>  
2 on things like self storage, manufactured housing  
3 and some of the other categories. And then there  
4 are some other categories, senior housing being  
5 an example.

6 MR. COLLINS: You would think senior housing  
7 is an alternative? Is that -- do you look at it  
8 the same way as student housing?

9 MR. FOGLIANO: You know, as far as --

10 MR. COLLINS: Being specialty?

11 MR. FOGLIANO: Yeah. I mean, sometimes  
12 we'll break it out. As far as the ODCE  
13 benchmark, I don't have that in front of me.

14 MR. COLLINS: I got you. Okay.

15 MR. FOGLIANO: Right now, as you know, a lot  
16 of the assets are highly priced, and we're having  
17 to chase after some of the alternatives, where  
18 there's still some juice left in it, and those  
19 assets are impressive. We're trying to get in  
20 those in various regions, whether U.S., Europe or  
21 Asia, with the right managers.

22 MR. PETER JONES: Okay. Other questions?  
23 All right. And I did know you weren't Steve  
24 Spook. I just thought he might be on the Zoom  
25 call, which I can't see. But thank you for

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September 20, 2021

Page 132

1 joining us and your presentation. All right.

2 Next up are strategic investments, Trent Webster.

3 MR. WEBSTER: Thank you, Mr. Chairman. I'll

4 go to the first page here on the portfolio page.

5 This is a slow-moving chart, but it does move.

6 The debt portion of strategic investments is

7 currently 27 percent of the asset class. Equity

8 is 20. Both real assets and diversifying

9 strategies are 21. And that orange part is what  
10 we call flexible mandates.

11 The largest allocation is into distressed.

12 That's a bit of a misnomer. It's really more

13 what our consultant would call credit

14 opportunities, which includes distressed,

15 stressed and other financing opportunities. But

16 we would expect more of the beta area of our

17 portfolio to grow over the short-term.

18 By the way, all this stuff that's going on

19 with Evergrande and some of the volatility with

20 capital markets, our managers love that type of

21 stuff.

22 If you were to think about our portfolio as

23 partly growth and partly diversifying, whereas

24 the blue part would be the diversifying portion,

25 mimicking, say, what a Treasury portfolio would

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September 20, 2021

Page 133

1 look like, and then the income portion what a

2 credit portfolio would look like, that's about

3 40 percent. And the red part would be what we

4 call growth, which would be more 60 percent,

5 mimicking a 60/40 portfolio in the public

6 markets. That's not by design necessarily.

7 That's just a happy outcome.

8 Switch over to the performance page, and you

9 can see here our performance has picked up. We

10 had -- the prior meetings that we've had for the

11 last year, we had been underperforming. Frankly,

12 that's just by how we're marked oftentimes,

13 simply because some of the -- a chunk of the

14 portfolio is benchmarked to public markets, and

15 then we have private markets funds, which often

16 tend to lag the markups. And so now you're

17 seeing some of the marks come back up and

18 catching up to the benchmark.

19 So we've outperformed over the last year.

20 We don't get -- we don't read too, too much into

21 that. Three years we've been roughly flat to the

22 benchmark and slightly above over five years and

23 longer term ahead by a bit.

24 So we actually were cash flow positive for

25 the most recent quarter, but we haven't been for

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September 20, 2021

Page 134

1 the year, so we called \$1.2 billion in the fiscal  
2 year, which shouldn't be too surprising, given  
3 all the commitments that we had made. We had  
4 \$950 million in closings in the most recent  
5 quarter. And for the first time in a while I've  
6 been able to come to you and say we haven't  
7 closed anything this quarter.

8 We do have nine, it's actually now ten funds  
9 in the pipeline. We're hoping to get a few of  
10 them across the line by the end of the month.  
11 But activity, as we had communicated in past  
12 meetings, has slowed.

13 In the pipeline we've got -- three of these  
14 are new relationships, and actually all of the  
15 new relationships are outside the United States.  
16 Two of them are in Europe and one is in an  
17 emerging markets infrastructure fund. So all  
18 these -- other than that, these are mostly  
19 re-ups. And we haven't done any hedge funds for  
20 a little bit.

21 In terms of the investment themes, this  
22 really hasn't changed a lot. The opportunities  
23 in aircraft has kind of been bounced around for  
24 the last couple of months. But with the  
25 announcement today that the United States now

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September 20, 2021

Page 135

1 opening up to vaccinated travelers, we would  
2 expect some of the airline travel to accelerate.

3 We still like insurance markets, though our  
4 portfolio has taken a bit of a hit on that with  
5 the events and the hurricanes and wildfires, but  
6 that means hardening markets, and so we're still  
7 very positive there. And on the credit markets,  
8 there is a lot of debt in the system, and so any  
9 sort of hiccups that come through that we should  
10 be able to benefit from, given that we've got a  
11 fair amount of dry powder left in our private  
12 debt, our private debt book.

13 And we do think we're going to see a bit of  
14 a softening in commodities here. Much of the  
15 commodities market is driven by China, so we  
16 would expect some of the metals to come off.  
17 We've seen that in some commodities, like iron  
18 ore. Copper has come off a little bit, but we  
19 think, over the intermediate term, there's going  
20 to be an acceleration in demand with the  
21 electronic vehicles coming onto market. And  
22 we're still bullish on energy, and we've seen gas  
23 explode higher as the LNG arbitrage between Asia  
24 and North America is really benefiting the energy  
25 companies. That's all I had.

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1 MR. PETER JONES: Very good. Questions?

2 All right. We are moving to private equity.  
3 John Bradley.

4 MR. WENDT: Could Gary Wendt ask a quick  
5 question, although he was slow to get to it?

6 MR. PETER JONES: Please do, Gary.

7 MR. WENDT: What is your -- why do you think  
8 commodities -- why do you think the commodities  
9 are going to be booming?

10 MR. WEBSTER: We think there's a supply and  
11 demand misbalance or imbalance, sorry. When you  
12 look at the capex that's gone into the ground in  
13 metals and to a lesser extent in energy, we don't  
14 think enough money is flowing into that industry  
15 to make up -- to meet the demand in the coming  
16 years.

17 Now, this on a year-to-year basis, we were  
18 actually a little cautious on it here. But when  
19 you look at the planned capital expenditures in  
20 commodities, we think they're going to be off  
21 pretty significantly. And that's just how  
22 commodities markets work. In our opinion, you  
23 want to be going into these areas where people  
24 don't love them and you want to be very cautious  
25 when people are pounding the table on them.

1 And certainly right now, with a few  
2 exceptions -- we saw some good activity earlier  
3 in the year in some of the markets. But for the  
4 most part, if you look at what the companies are  
5 doing and the balance sheets and their capex  
6 plans, we think that portends positive  
7 developments in commodities over the intermediate  
8 term.

9 MR. WENDT: Thank you.

10 MR. PETER JONES: I'll try again. All  
11 right. John Bradley.

12 MR. BRADLEY: Thank you, Mr. Chairman. I  
13 will start with a quick look at the PE market.  
14 Private equity activity continues to surge post  
15 the COVID dip in the first quarter of 2020. So  
16 whether you're looking at deal flow, deal volume,  
17 fund raising, you name it, all are reaching post  
18 GFC highs.

19 Venture-backed IPOs set a record in the  
20 second quarter of 2021, which surpassed the  
21 record set in the first quarter of 2021. And so  
22 we were fortunate in our portfolio that we were  
23 positioned and did participate in those  
24 successes.

25 Overall, our PE portfolio is up 13.3 percent

September 20, 2021

Page 138

1 in the first quarter and up 65.7 percent for the  
2 year ended 3/31. Venture remains our strongest  
3 sub-group. It generated an eye-popping  
4 111.1 percent return for the one year ended 3/31.  
5 And then lastly, net cash flow through the end of  
6 August was a positive 1.2 billion, which is  
7 already the best calendar year total in our  
8 history, and we still have four months left to go  
9 in the year. And I would also note that notable  
10 in that is that our venture program accounts for  
11 60 percent or 728 million of that net 1.2 billion  
12 return so far in 2021.

13 There's been no change of note in our sector  
14 or geographic exposures. Our largest overweights  
15 remain technology and North America, while our  
16 largest underweights remain financials and  
17 geographically Asia. I do have to apologize.  
18 Our sector chart did leave off the consumer and  
19 health care sectors. And so those represent  
20 28 percent of our PE portfolio and then 34 and  
21 31 percent of the Cambridge benchmark and the  
22 public MSCI benchmark.

23 Here's our performance at 3/31. We can see  
24 both the portfolio and benchmark generated  
25 remarkable absolute returns, both over 60 percent

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September 20, 2021

Page 139

1 each for the year. And judging by the majority  
2 of the June 30 financial statements I've seen to  
3 date, we will likely see this one year  
4 performance tick up a bit when we update this  
5 slide when we next meet in December. But over  
6 the more meaningful longer-term time periods,  
7 five years, ten years and since inception, the  
8 portfolio continues to show strong  
9 outperformance.

10 So if we look at our sub-strategies, as  
11 mentioned earlier, short-term performance of our  
12 venture and growth equity portfolio stands out.  
13 Venture is now our best-performing sub-strategy  
14 over all time periods. And as Ash mentioned  
15 earlier, the foundation of this venture  
16 performance was set coming out of the GFC, when  
17 we remained committed to a strategy that was  
18 very, very much out of favor at the time.

19 And so if we look at our 111 percent one  
20 year performance in venture, our biggest  
21 contributors to that are our 2011, 2012 and 2013  
22 vintages. So these are investments that we made  
23 eight, nine and ten years ago that are driving  
24 that outperformance today.

25 And then lastly, through August, we've

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1 committed 1.2 billion to 12 funds in 2021.  
 2 781 million went to six buyout funds, 175 million  
 3 to three venture funds. 200 million was  
 4 committed to two distressed funds and then  
 5 40 million to one secondary fund.

6 And that's all I have, Mr. Chairman. I'm  
 7 happy to take any questions.

8 MR. PETER JONES: Okay. Pretty remarkable  
 9 year. Questions for John Bradley?

10 MR. GOETZ: I have one. This is John Goetz.  
 11 John, last time I asked -- last meeting I asked  
 12 you about how to think of venture and whether  
 13 there should be a reduction in expected return,  
 14 given the rise in valuation. That's tough,  
 15 right, to have any valuation metrics.

16 In private equity, would you say that the  
 17 run-up, say, 60 percent has reduced the expected  
 18 return going forward? Do you have any feel for  
 19 that? I'm just going back to the overall  
 20 expectations.

21 MR. BRADLEY: Yeah. I think what we've seen  
 22 and when we see returns like this, we've seen  
 23 additional capital continue to flow into the  
 24 asset class. We've seen fundraisings pick up.  
 25 We've seen fund sizes pick up. We've seen the

1 time between fundraises shrink. And so we think  
 2 all of those are likely signs that returns will  
 3 be compressing in the asset class.

4 MR. GOETZ: Is there an estimate to that  
 5 reduction?

6 MR. BRADLEY: I don't have an estimate. I  
 7 mean, our funds would tell you and I will tell  
 8 you they're still underwriting the same returns,  
 9 right, when they enter a deal and go into a  
 10 transaction. But our experience has shown, when  
 11 we see these huge peaks in capital inflows, the  
 12 returns do compress and come down.

13 MR. COLLINS: How many distinct venture  
 14 funds do we have? Not -- distinct meaning  
 15 managers. How many different managers?

16 MR. BRADLEY: So we have -- the program is  
 17 managed through two primary fund of fund  
 18 relationships and then a third separate account  
 19 in a fund of one relationship with us. If we  
 20 looked underneath that, there's probably -- we  
 21 have a total of 30, 35 venture funds in there.  
 22 The top ten likely represent 60, 70 percent of  
 23 our allocation in terms of dollars.

24 MR. COLLINS: So we do -- we don't do those  
 25 direct, those venture funds? We do them through

1 funds?

2 MR. BRADLEY: That's correct. We do them  
3 through fund of funds and then through separate  
4 accounts that we have with those fund of funds.

5 MR. COLLINS: All right.

6 MR. WILLIAMS: There's a very good reason  
7 for that that's interesting, because it's not  
8 intuitive, and I see your logic and you're  
9 thinking, well, just like our private equity, our  
10 real estate, why in the world would we have the  
11 extra load of cost, et cetera. Here's the  
12 reason.

13 If you go back, I'm going to say, 12 years,  
14 something like that, one of the very high-profile  
15 California VCs got in a dust-up with a public  
16 pension fund.

17 MR. COLLINS: I think it was Kleiner Perkins  
18 or somebody, wasn't it?

19 MR. WILLIAMS: Well, we're not going to name  
20 names. But, anyway, a high-profile fund got into  
21 a dust-up with a public pension fund over the  
22 fund insisting on detail about its portfolio  
23 holdings because somebody was using the public  
24 information law of that state as a lever to get  
25 that information.

1 And the very high-profile, highly-desired,  
2 over-subscribed venture capital firm said, You  
3 know what? Life's too short. Why don't you,  
4 public pension fund, take your money, go back to  
5 wherever you came and enjoy your public records  
6 law. And they basically said, We're not doing  
7 business with public pension funds.

8 So it's a classic example of a party that  
9 you wanted to be at because it was the best party  
10 in town long term, but people like you were not  
11 invited. So you had to find somebody to get you  
12 to the dance. And the answer was, well, we can  
13 partner with various folks, come in under their  
14 umbrella, get the exposure. And if those  
15 partnerships are well-chosen and they're of  
16 meaningful value to the fund of funds, the  
17 aggregate economics are still very, very positive  
18 for us.

19 And we have taken that theme, and John and  
20 his team have exploited that on a global basis in  
21 a remarkably successful way and built a couple of  
22 relationships where they've been very synergistic  
23 for the funds of funds and ourselves, and we've  
24 been able to improve the economics even more by  
25 having follow-on vehicles for co-invest with

1 extraordinarily favorable economics for us that  
2 have been a really benevolent tailwind both to  
3 the funds of funds, ourselves and to the  
4 underlying venture funds.

5 MR. COLLINS: And are those co-investment  
6 vehicles, do you have discretion over that, or  
7 you commit a certain amount of capital to them  
8 and they can put it in the co-investments as they  
9 deem them appropriate?

10 MR. BRADLEY: So in the majority of the  
11 co-investment vehicles, we have discretion. And  
12 so our team is actively sourcing the relationship  
13 with the VC. We're actively gaining the  
14 allocation in their fund. We then turn that over  
15 and partner with our fund of fund relationships  
16 and our separate accounts and our co-investments  
17 account to actually go and make --

18 MR. COLLINS: Because of what Ash said about  
19 the public records law.

20 MR. BRADLEY: Correct.

21 MR. COLLINS: Yeah, okay. Thanks, Ash.

22 MR. PETER JONES: That was interesting.  
23 Other questions?

24 MR. OLMSTEAD: Yeah, Mr. Chairman. Vinny  
25 Olmstead here, if you don't mind.

1 MR. PETER JONES: Please.

2 MR. OLMSTEAD: John, I just would love to  
3 hear your view on how you're looking at China and  
4 maybe a different question than Gary Wendt but  
5 maybe similar. So it looks like you put  
6 17 percent in Asia. There's a lot going on there  
7 in both the public and private side. How are you  
8 looking at that? And if you look at your overall  
9 exposure, is it significant? We can't argue with  
10 111 percent, but is there some risk to the  
11 whole what's going on over there with your  
12 portfolio?

13 MR. BRADLEY: So if we looked at -- the  
14 portfolio today is approximately 12 percent  
15 allocated to Asia. Of that 12 percent, we have  
16 an overall 7 percent allocation to China. And I  
17 think, as we think of China long term, we're  
18 still bullish on China for all the reasons we've  
19 all heard in terms of economic growth, the rise  
20 of the middle class.

21 I think we're fortunate that, with COVID, it  
22 has slowed down our investment activity there.  
23 So not being able to travel, not being able to  
24 make relationships and meet GPs has kind of  
25 stopped what we're doing in China for the moment.

September 20, 2021

Page 146

1 So we are actively just taking this time to say,  
2 hey, let's reassess what risks there are in  
3 China, where our exposures are and how we want to  
4 go forward in that market.

5 I would say, though, what's in the ground  
6 today is largely focused on local GPs who invest  
7 in domestic businesses focused on the consumer.  
8 So it's largely consumer staples. What it's not,  
9 it's not technology. We have very, very little  
10 exposure to the education industry and almost  
11 zero exposure to export-oriented businesses in  
12 China.

13 Though we still like where we're at, and  
14 again I just think we are fortunate, given what  
15 we've gone through with COVID, that we've kind of  
16 taken a pause in China until we can get back on  
17 the road.

18 MR. OLMSTEAD: Makes sense. Thanks.

19 MR. PETER JONES: Anyone else? Okay. Thank  
20 you, John Bradley. All right. We're going to  
21 turn our attention to the defined contribution  
22 program. So turn it over to Dan Beard.

23 MR. BEARD: Thank you. Good afternoon.  
24 This first slide here is just a snapshot of the  
25 FRS investment plan as of June 30th, 2021. A

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September 20, 2021

Page 147

1 couple of things I want to point out on this  
2 slide, our assets under management increased  
3 about 30 percent last fiscal year. A lot of that  
4 was, again, driven by market gains. Also our  
5 overall returns for the fiscal year was  
6 28.4 percent, which was 108 basis points above  
7 the benchmark.

8 The next slide is just our performance as of  
9 June 30th for fiscal year, quarter to date, one  
10 year, three year and five year and also inception  
11 of the plan, also broken out by asset classes.

12 The next slide just breaks out our assets  
13 and where they're -- what asset class they're  
14 under. You'll see that 46 percent of our assets  
15 are in retirement date funds, and then the next  
16 highest is equity funds. Retirement date funds,  
17 the reason that's the largest is because when a  
18 person joins the investment plan, they default  
19 into a retirement date fund if they decide not to  
20 allocate among the other funds available.

21 The next slide is just our membership  
22 growth. For the fiscal year, we had an 8 percent  
23 membership growth, a lot less or about 5 percent  
24 less than the previous two fiscal years. One  
25 thing we noticed from last fiscal year compared

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September 20, 2021

Page 148

1 to the previous fiscal year is that the hiring  
2 for public employees who are part of the Florida  
3 Retirement System was less last fiscal year. We  
4 know why. They stopped hiring when COVID started  
5 back in March. They did start picking up as the  
6 year progressed and learned how to work with  
7 COVID. But it did drop off initially. That's  
8 why you see an 8 percent growth in membership,  
9 I'm sorry, 8 percent increase compared to  
10 previous years.

11 And then this last slide here, for the  
12 financial guidance program. So for last fiscal  
13 year, there was a 3 percent increase of calls.  
14 We had 35 percent increase in workshops. And  
15 these are workshops that EY financial planners do  
16 throughout the state of Florida. One thing we  
17 did was all our workshops were virtual. Even  
18 with doing them all virtual, we had a 35 percent  
19 increase, as well as attendance increased  
20 22 percent doing all those workshops virtual.  
21 Website hits increased about 20 percent, and then  
22 our chats went up about 8 percent.

23 That's all I have. Are there any questions?

24 MR. PETER JONES: Any questions? Okay.

25 Thank you, Dan Beard.

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September 20, 2021

Page 149

1 MR. GOETZ: If I could just jump in. This  
2 is John Goetz. When someone leaves the employ of  
3 the State, they don't automatically leave the  
4 plan.

5 MR. BEARD: No.

6 MR. GOETZ: Right? So turnover increases  
7 the head count over time?

8 MR. BEARD: That's correct.

9 MR. GOETZ: Okay.

10 MR. BEARD: They only leave the plan if they  
11 take all their money out. So if they take a full  
12 distribution, then they're considered to have  
13 left the plan. If they just take a partial or  
14 take no money at all, then they're considered  
15 still in the plan. If you go back to this slide,  
16 you'll notice that members, we have inactive.  
17 Those are those who have left the State, have no  
18 contributions that are coming in, and they have a  
19 balance in the plan. It's 80,000, I believe.  
20 80,000 people.

21 MR. GOETZ: So what would you expect, Dan,  
22 your membership growth to be over time? You said  
23 8 percent is low, right? So would it be  
24 10 percent plus over time?

25 MR. BEARD: Each year, if you go back to

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1 this slide here, we've been averaging probably  
2 about, what -- we had 11 percent the first year,  
3 13 percent. Then it dropped to 8 percent. I  
4 would expect it to be probably double digit.  
5 About between 10 and 15 percent.

6 So when you look at the new hires over the  
7 state of Florida, we get about 60- to 70,000 new  
8 hires in the state of Florida. About seven out  
9 of every ten are joining the investment plan,  
10 either by default, which is about 50 percent, and  
11 then the rest is active election. So if you take  
12 that over time, it's going to increase.

13 If you go back to this slide, where you see  
14 the breakdown of members, we have 28 percent of  
15 active FRS members. Right now the FRS has  
16 approximately 630,000 active members, meaning  
17 they're getting contributions. Approximately  
18 28 percent of those are in the investment plan.  
19 That number is going to grow every year. You're  
20 going to have more people joining the investment  
21 plan, and the number of people in the pension  
22 plan are going to continue to decline. When you  
23 take that out, I'd say probably within five  
24 years, definitely by ten years, it should be  
25 close to half and half, maybe not exactly but

1 close to it.

2 MR. GOETZ: Thank you.

3 MR. PETER JONES: All right. Thank you. So  
4 we're up -- up next is Mike McCauley, investment  
5 programs and governance. And, Mike, I assume  
6 you're on the Microsoft Team dial-in.

7 MR. McCAULEY: I am. Thank you, Mr.  
8 Chairman. Good afternoon. Unfortunately, the  
9 camera is not working within the Teams app,  
10 though, so hopefully you can hear me okay.

11 I'm going to just go to the first slide.  
12 During fiscal year 2021, we had overall voting  
13 levels decline by a little over 2 percent, and we  
14 had a total vote count among annual and special  
15 meetings of about 10,174 that were voted by  
16 staff.

17 And really, while the volume kind of  
18 recovered from the approximate, we had about an  
19 8 percent decline last year due to COVID, there  
20 was still some kind of consolidation in numbers  
21 for the most recent period. We had a little bit  
22 of failover between the two fiscal years and just  
23 kind of an organic reduction, I think, in the  
24 number of meetings itself.

25 There were a couple of significant

September 20, 2021

Page 152

1 regulatory actions in the last few months. One  
2 was in the U.S. and one was in Japan. The first  
3 one in the U.S. was the SEC's approval in August  
4 of a proposal by the Nasdaq Stock Exchange  
5 regarding new listing rules on board diversity.

6 And essentially, under the new rules, most  
7 Nasdaq-listed companies will need to have at  
8 least two diverse directors, including one  
9 director who self-identifies as a female and one  
10 director who self-identifies as an  
11 underrepresented minority. The new rules also  
12 require firms to enhance their disclosure on  
13 diversity statistics for their boards of  
14 directors each year. So that's been kind of an  
15 ask that a lot of investors have been advocating  
16 for for the last several years.

17 And it really -- it kind of comes as many  
18 public companies are really already disclosing  
19 quite a bit of information on their diversity  
20 statistics, not only for their board of  
21 directors, but also the entire organizational  
22 workforce and employees, et cetera. We touched  
23 on that in the past.

24 The second item involved the Tokyo Stock  
25 Exchange, the TSE. They reformed their, what's

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September 20, 2021

Page 153

1 called the main board listing requirements. This  
2 was in late July. They announced new listing  
3 requirements for companies to stay -- in order to  
4 stay listed on its top-tier main board. And the  
5 new criteria included higher profitability  
6 standards, some mandatory additional disclosures  
7 in English, and then chiefly it was focused on  
8 stricter rules for liquidity. So there was a  
9 35 percent tradable share ratio requirement and a  
10 new higher minimum for market capitalization  
11 size.

12 And all the reforms are really -- they're  
13 focused on governance standards and trying to  
14 achieve more of a global level playing field  
15 within the developed markets, but they also are  
16 really kind of squarely aimed on the financial  
17 quality of Japanese companies and really aimed at  
18 attracting foreign investment. It's been kind of  
19 a common theme the last few years.

20 And not unlike the board diversity reporting  
21 in the U.S., we've already seen a lot of Japanese  
22 companies already kind of preemptively adopt the  
23 new standards through -- primarily through share  
24 buy-backs. We've seen a lot of increases to the  
25 dividend payout ratio targets, which has been

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September 20, 2021

Page 154

1 another kind of foreign investor critique in the  
2 Japanese market. And then also kind of last and  
3 maybe least, actually, there are further  
4 reductions in kind of cross shareholdings. That  
5 used to be a very big problem 10, 15 years ago.  
6 But the market -- most Japanese companies, there  
7 are some exceptions, but most of them have gotten  
8 those cross shareholdings down to pretty modest  
9 levels.

10 And then this will all go into effect in  
11 April of next year, April and through the summer.  
12 And they're going to rename -- the stock exchange  
13 will rename that main board as the prime market.  
14 So they hope to kind of attract kind of a higher  
15 quality level of Japanese companies to those  
16 listing segments.

17 Those two items, as well as we also had a  
18 few significant proxy votes during the second  
19 quarter, in the last few months. So we had a  
20 proxy context to Box, Incorporated. There was  
21 the -- kind of the merger saga three-way between  
22 Kansas City Southern Railway and the Canadian  
23 National and Canadian Pacific.

24 And then there was kind of an unusual failed  
25 merger vote at Monmouth Real Estate Corporation

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September 20, 2021

Page 155

1 that was not approved by shareholders, and we  
2 kind of -- I won't go into the detail on each of  
3 those, but those are in the quarterly standing  
4 report to the trustees.

5 And then on the next slide, I go into a  
6 little more detail on U.S. proxy voting and just  
7 give you kind of a quick summary of the proxy  
8 season. All these comments kind of focus on  
9 U.S. -- in the U.S. context. This year's proxy  
10 contests, it was notable for a couple of reasons,  
11 and it was similar to the last few years in some  
12 ways and different in others.

13 Similar to last year, we had -- again, you  
14 had the COVID restrictions caused many, many  
15 companies, hundreds of companies to switch and  
16 kind of conduct virtual shareowner meetings. So  
17 there was no physical meeting. Many of them kind  
18 of delayed the meeting.

19 Kind of fast-forward into 2021, and because  
20 most of those meetings went off without a hitch,  
21 they were pretty smooth by and large, there were  
22 some hiccups here and there, but most of the  
23 companies like that approach, like that format.  
24 It's lower cost. So now you're seeing a lot of  
25 companies announce that they've permanently

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1 switched to that format. So you're just going to  
2 see permanent virtual shareowner meetings.

3 And I would just kind of review a couple of  
4 the major ballot categories. Within the director  
5 elections category, not much has changed. It  
6 essentially remains statistically unchanged, with  
7 average support levels for U.S. directors were  
8 about 95.6 percent.

9 Somewhat notably or just kind of maybe of  
10 note, the average support for female directors  
11 was about a percentage higher than the average  
12 support for male nominees, at least through the  
13 first half of the year. So year-over-year  
14 comparisons are a little rough at this point, but  
15 they're tracking a little bit higher for women  
16 nominees.

17 And on the executive compensation side,  
18 specifically with respect to say-on-pay ballot  
19 items, this was another area where there was  
20 increased dissent essentially. Shareowners  
21 increased their opposition really across the  
22 board, both small and mid cap companies as well  
23 as large companies. So kind of unusually low  
24 support. I think it was 89 percent among Russell  
25 3000 companies and a little bit lower than that

1 for S&P 500 companies, around 87 percent.

2 And it also exhibited a very high failure  
3 rate of approximately 2 percent, which may not  
4 sound like a high failure rate, but it's  
5 typically in the fractions of 1 percent, so it's  
6 about twice as high or a little more than 2X,  
7 2.5X compared to just last year.

8 And that's just kind of another reflection.  
9 I think there was a lot of concern among many  
10 investors about what changes, performance  
11 objectives, you know, would there be performance  
12 goals changed, that sort of thing, as a result of  
13 the quarantine and COVID.

14 And so far, there's been a little bit of  
15 that, but it hasn't really been the problem. I  
16 think many investors, myself included, thought  
17 that that would kind of bear out over '21. We  
18 just really haven't seen that.

19 Getting to shareowner resolutions, there was  
20 also a shift among the types of shareowner  
21 resolutions submitted and kind of the related  
22 voting patterns. So if you look at the ESG,  
23 within the G, within the governance subset of  
24 shareowner resolutions, you had the number of  
25 total resolutions decline year over year and

1 received essentially mixed average support  
2 levels, you know, depending on the type of  
3 proposal.

4 There were a couple of standouts, proposals  
5 to declassify the board of directors, which  
6 require a policy change, moving to annual  
7 election cycles. It's a charter, a bylaw  
8 amendment. Those received very high levels of  
9 support from management and kind of reversed the  
10 last few years of voting support trends. And  
11 they almost saw nearly unanimous passage.

12 There were a few that didn't pass, but the  
13 vast majority did. And then likewise proposals  
14 to eliminate supermajority voting requirements,  
15 every single resolution of that type passed,  
16 which is highly unusual.

17 Several new or even expanded resolution  
18 topics surfaced during the first half of the  
19 year, including really two items that were  
20 primary, including employee representation on  
21 boards, which is not a completely new topic, but  
22 it got a lot more attention, and the volumes --  
23 there was a notable uptick in volume of  
24 resolutions, as well as requests for companies to  
25 convert to what's called a public benefit

1 corporation or a PBC.

2 There were about 14 PBC proposals in the  
3 first half of the year, mostly at large companies  
4 in the kind of financial, industrial and tech  
5 sector. Only two of those proposals received  
6 majority support during the first half of the  
7 year. And we've taken a pretty dim view. We  
8 didn't really support any of those resolutions.  
9 And as a group, they've received very low levels  
10 of support in the market. I think they were  
11 tracking about the 2 to 3 percent range.

12 MR. COLLINS: Hey, Mike?

13 MR. McCAULEY: Yeah.

14 MR. COLLINS: Hey, it's Peter Collins. On  
15 the public benefit corporation, what's the --  
16 what are they getting at with trying to get these  
17 companies to do this? I struggle to understand  
18 this.

19 MR. McCAULEY: Yeah. It's -- I mean,  
20 ultimately it's a change in corporate law. I  
21 mean, Delaware was I think one of the first  
22 states to move, and you've seen it in a couple of  
23 other states. But basically it gives legal  
24 protections to the board if they want to consider  
25 other kind of non-financial, essentially social

1 or stakeholder issues within the context of their  
2 business operations.

3 So it's literally a different form of  
4 company, of a corporate structure. They still  
5 want to make money, but they're not as concerned,  
6 let's say, relative to a traditional for-profit  
7 entity. The uptake has been very slow, but it's  
8 starting to build a little bit of support. There  
9 have been some companies that have converted to a  
10 PBC.

11 MR. COLLINS: And so, in your mind, those  
12 companies that are converting to the PBC model,  
13 they're just trying to get ahead of the constant  
14 criticism that they get, or is it real? It just  
15 seems to me that it's antithetical to shareholder  
16 value, fiduciary obligation. What they're trying  
17 to do is say, oh, you don't have a fiduciary  
18 obligation to maximize shareholder value because  
19 you have to consider the public good, right?

20 MR. McCAULEY: That's exactly right. We  
21 haven't supported those types of resolutions.

22 MR. COLLINS: Would you think -- so is this  
23 going to continue to grow or -- I'm amazed that  
24 two companies even did it, but -- unless they did  
25 it because they just wanted to quiet the noise

1 and they're going to keep on going about what  
2 they're doing, which is not a good idea either.  
3 What's your view? If there was a dozen this  
4 year, is there going to be two dozen next year,  
5 or is it a slower ramp-up?

6 MR. McCAULEY: I mean, my guess would be  
7 that it would increase. I don't know if it would  
8 be a dramatic escalation, but you probably will  
9 see more companies making that shift. I think  
10 it's just a reflection of kind of the backdrop  
11 and the momentum for a stakeholder view of the  
12 company.

13 You kind of use the term social good, public  
14 benefit. It's -- I think companies are  
15 increasingly sensitive to environmental concerns,  
16 social concerns, not only within the company, not  
17 only within their own organization, so employees  
18 and other supply chain issues, but really a  
19 broader societal context.

20 Some more than others obviously, but there  
21 is a lot of momentum for that perspective and  
22 that view. How fast and how deep and which  
23 sectors and that sort of thing, I think it  
24 remains to be seen. But it's probably -- my  
25 guess would be this isn't going away.

1 MR. COLLINS: Thanks.

2 MR. McCAULEY: So I was just going to touch  
3 on some of the environmental and social issues.  
4 That's a good question. Those resolutions hit  
5 record levels for this year in both volume and  
6 investor support. And that's essentially the  
7 same story that we've seen in the last few years,  
8 last three or four years anyway.

9 So from 2018 through 2020, the majority of  
10 all U.S. shareowner proposals submitted were  
11 topics related to E&S. This is also the case in  
12 2021 with Institutional Shareholder Services, or  
13 ISS, they tracked about 500 E&S-related  
14 proposals. But that was just in the first half  
15 of the year. So clearly it's already beat the  
16 record for the last few years. It's clearly  
17 going to go even higher.

18 A record number of said proposals were also  
19 withdrawn. So that typically occurs after you've  
20 had some kind of -- some level of engagement or  
21 negotiation between the shareowner advocate or  
22 the shareowner group and management or the boards  
23 of directors. There's some sort of a negotiated  
24 settlement, commonly results in the shareowner  
25 withdrawing the resolution. So none of the other

1 investors get to vote on it, but the company  
2 still goes forward in some form with that policy  
3 change, whatever it may be.

4 And another kind of notable takeaway this  
5 year -- and this is really the first year that  
6 we've really ever seen this. It was very  
7 exceptional in prior years, but this year it was  
8 pretty widespread. For those resolutions that  
9 were actually voted on by investors, about 40 E&S  
10 proposals received majority support. And this is  
11 the key factor. About a quarter of those  
12 actually were supported by company management.

13 So some of the classified board and the  
14 supermajority voting items I mentioned earlier  
15 were also supported by management, but we saw  
16 this year for really the first time where you had  
17 many environmental and social-related proposals  
18 that were actually supported by the board.

19 And when that happens, the support levels  
20 kind of go through the roof. It might have  
21 gotten 30 or 40 or maybe passed with a slim  
22 majority if it was opposed, but when management  
23 supports it and recommends investor support for  
24 it, it will go up to 70, 80, 90 percent. And we  
25 had quite a few of those.



September 20, 2021

Page 164

1 Two areas that were -- the top two were, the  
2 very top, were resolutions tied to human capital  
3 management. Those were the largest single  
4 category. There were about 130 proposals filed.  
5 And human capital management is kind of a  
6 buzzword or industry term that kind of covers a  
7 lot of ground. But these are things like  
8 mandatory arbitration clauses, policies related  
9 to sexual harassment, gender racial pay gaps,  
10 anything that would essentially fall under the  
11 DEI or diversity/equity/inclusion moniker, and  
12 kind of workplace issues, workplace policies.  
13 They're primarily focused within the company but  
14 sometimes they can extend to the supply chain and  
15 kind of the broader kind of environment.

16 And then kind of last but not least, we had  
17 climate-related proposals were the second most  
18 prevalent. There were about 84 proposals filed.  
19 Only 24 actually were voted on, but of the ones  
20 that were voted on, half of those, about half of  
21 those received majority support, which is  
22 extremely high compared to historical levels.  
23 You might have had two or three every year that  
24 were actually receiving majority support.

25 So there's a lot of tailwinds that go into

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September 20, 2021

Page 165

1 that, the management support, board support, and  
2 we've seen a lot of -- predominantly the larger  
3 passive asset managers changed policies just in  
4 the last 12, 18, 24 months to support more of the  
5 ESG-type resolutions, director voting. It's all  
6 kind of interrelated.

7 But that's just a very kind of quick  
8 drive-by. I'm happy to answer any more  
9 questions. We have just one more slide in the  
10 appendix, but I wasn't going to cover that. That  
11 just gives a little more granularity on the  
12 voting for the fiscal year. That's all I've got.

13 MR. PETER JONES: All right. Thank you,  
14 Mike, for that review. Questions from the IAC?  
15 Okay. Well, very good. Thank you again, Mike  
16 McCauley.

17 There's been an additional agenda item that  
18 was added this morning, and we'll cover that  
19 right now. It's called the "Review changes to  
20 the FRS pension plan investment policy  
21 statement," and I'll turn it over to Ash Williams  
22 to review that, please.

23 MR. WILLIAMS: Thank you, Mr. Chair. This  
24 falls back on an item that has been in the news  
25 since the third week in July, and that is the ice

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September 20, 2021

Page 166

1 cream company, Ben & Jerry's, which was bought by  
2 Unilever some years ago. It was back in around  
3 2000, something like that. Ben & Jerry's in that  
4 acquisition had an unusual structure, which is to  
5 say they retained their own board independent of  
6 that of Unilever, and that board retained the  
7 ability on various social initiatives that Ben &  
8 Jerry's chooses to embrace.

9 What this has to do with us is the  
10 following. Florida has a law in place that was  
11 adopted, gosh, I don't remember exactly how long  
12 ago, probably five years ago now, that basically  
13 says, to the extent any company becomes a  
14 supporter of the boycott, divest and sanction  
15 Israel movement, or BDS for short, then the  
16 Florida State Board will not invest any  
17 additional capital in that company. It's not a  
18 backward-looking divestiture requirement. Is it  
19 a forward-looking bar to further investment.

20 So Ben & Jerry's apparently made a  
21 decision -- not apparently, they did make a  
22 decision to cease manufacturing operations in  
23 certain of the disputed territories in Israel.  
24 And that is exactly the sort of thing that  
25 triggers the BDS provision in the law.

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September 20, 2021

Page 167

1 Mike McCauley and his team became aware of  
2 this immediately. We provided written notice to  
3 Unilever, as the parent of Ben & Jerry's, pretty  
4 much in realtime about our law and the  
5 consequences of violating it. We established a  
6 dialogue with Ben & Jerry's and had a call with  
7 the governance people at Unilever very shortly  
8 after this whole thing came to our attention. We  
9 wrote a letter putting them on notice about the  
10 law.

11 And the law has a provision that if the  
12 conditions that have created the violation of the  
13 boycott, divest and sanction law in Florida are  
14 not alleviated within a period of 90 days, then  
15 we're barred from making further investments.

16 A number of other states have laws that are  
17 very similar to Florida's. At least one other  
18 major state I'm aware of even references Florida  
19 in their law and says -- basically says, if  
20 Florida decides to do this, that's good enough  
21 for us. We'll follow them.

22 And so we advised Unilever of that reality  
23 and also advised them that there's more to the  
24 law than just us not owning their securities, and  
25 that is a violation of BDS also triggers a

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September 20, 2021

Page 168

1 prohibition for all local governments and the  
2 state government in Florida not to do business  
3 with that company and not buy their goods or  
4 services.

5       So if you think of all the consumer products  
6 Unilever makes and all the public institutions  
7 that might buy food or personal care or other  
8 items produced by Unilever subsidiaries around  
9 the world, I would argue this is not something  
10 that's smart for them to ignore.

11       And we made that argument in as plain a  
12 language as we possibly could to the Unilever  
13 people. They were just not responsive. And for  
14 that reason, I have zero expectation that they're  
15 going to take any action on this within the 90  
16 days, and we want to be ready.

17       So that means we need to adjust our  
18 investment policy statement. We use a custom  
19 benchmark for global equities that excludes  
20 various countries that are named in the  
21 Protecting Florida's Investments Act. So what  
22 we've done here is come up with a modification to  
23 our investment policy statement that's in the new  
24 information you've got.

25       It would simply say we would have a

September 20, 2021

Page 169

1 customized version of the MSCI All Country World  
2 Investable Market Index in dollar terms that  
3 would be adjusted to reflect securities and other  
4 investments prohibited by Florida law or that  
5 would be prohibited by Florida law if acquired as  
6 of the date of measurement of such index. Long  
7 story short, this is a way to cover the Unilever  
8 issue.

9       Where this goes, I don't know, but we need  
10 to have this in place. And in order for us to  
11 take this change to the trustees, and we do have  
12 it on the agenda for tomorrow, it must be  
13 reviewed and approved in public meeting of the  
14 Investment Advisory Council. That's why it's  
15 being brought to you today, and apologies for the  
16 haste in so doing, but would ask your  
17 consideration and action in the form of approval  
18 of this proposed change.

19       MR. NEAL: I move approval, Mr. Chairman.

20       MR. PETER JONES: Is there a second?

21       MR. GOETZ: Second.

22       MR. PETER JONES: Okay. All in favor?

23       (Ayes)

24       MR. PETER JONES: Opposed? Okay. Motion  
25 carried. Thanks for the good explanation, Ash,

September 20, 2021

Page 170

1 very good. All right. We're moving to what will  
2 now be section 7, major mandate performance  
3 review, and I'll turn it back over to Aon,  
4 Kristen Doyle and Katie Comstock.

5 MS. COMSTOCK: Great. Thank you, everyone.  
6 This is Katie from Aon again. And I'll start on  
7 page 205. I'll be covering the five major  
8 mandates, soon to be four here. And a lot of  
9 this you have heard, so I'll be concise and try  
10 not to be redundant in my comments. But all of  
11 this information is through the end of June 30th,  
12 so the end of the fiscal year.

13 You can see -- we'll start with the pension,  
14 and you can see here that the pension ended the  
15 year with just shy of \$200 billion in assets  
16 under management. That's growth over the year of  
17 \$38.9 billion. And that's net of benefit and  
18 expense payments. You heard earlier that the  
19 fund continued to grow and now exceeds that  
20 \$200 billion mark. 203 billion was the statistic  
21 that I've heard.

22 If you flip ahead one page, you'll just see  
23 a snapshot at the end of the fiscal year of the  
24 pension's asset allocation relative to target,  
25 with the differences highlighted in blue in the

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September 20, 2021

Page 171

1 chart. As you can see, consistent --  
2 consistently, the plan is managed in line with  
3 its target. So no surprise, there's a modest  
4 overweight to global equity relative -- with a  
5 corresponding underweight to fixed income, just  
6 given how markets have played out. This also was  
7 a benefit to performance over the past year, just  
8 given, again, how well equity has done compared  
9 to fixed income.

10 Then just pause on page 207. Here we're  
11 looking at the total fund's results. And as  
12 mentioned, Alison did cover this, but it's nice  
13 to see these numbers on paper. Truly remarkable  
14 results over the one year period, which has  
15 boosted longer-term returns as well.  
16 29.5 percent for the total fund. I did look up  
17 your past fiscal year returns, so looking at the  
18 one year period ending 6/30, and this is the  
19 strongest absolute return achieved in over 30  
20 years. So, again, very strong results. And then  
21 looking -- this has boosted the trailing time  
22 periods shown here, all well north of that  
23 7 percent, the current assumed rate of return,  
24 and the three and five year north of 10 percent  
25 annualized. So extremely strong absolute

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1 returns.

2 Relative performance also phenomenal. The  
3 total fund outperformed its benchmark,  
4 represented in blue, by 3.2 percentage points.  
5 Definitely, obviously the allocation -- you heard  
6 from Mr. Bradley the strong performance from  
7 private equity. That was the largest contributor  
8 to relative performance, though all asset classes  
9 over this one year period did outperform their  
10 respective benchmarks and so contributed to that  
11 outperformance.

12 And so it's nice to see all things working  
13 well in aggregate at the same time, and that's  
14 also true over the five and ten year periods as  
15 well. So really a phenomenal period and one to  
16 be celebrated. But I will also juxtapose this  
17 with what we started the meeting with, and that  
18 was our expectation looking forward of much lower  
19 rates of return. So want to balance celebrating  
20 this but also looking forward at what we can  
21 expect.

22 The next that we'll do is just expand these  
23 returns out a little bit further, looking over  
24 the past 20, 25 and 30 years, and here we're  
25 focused on the absolute nominal target rate of

1 return, which is currently CPI plus 4 percent,  
2 and as well, very strong annualized results and  
3 outperforming its benchmark notably over all time  
4 periods.

5 If you flip ahead to page 209, we next look  
6 at the total fund's performance relative to  
7 peers, but we start with looking at the asset  
8 allocation relative to peers. And this data is  
9 as of March. The data was not available at the  
10 time this report was needed, but generally this  
11 information doesn't change much quarter over  
12 quarter.

13 And so consistently the message that you've  
14 heard and seen, the difference between the FRS's  
15 asset allocation relative to this median peer  
16 group plans' asset allocation continues to be  
17 within public equity. The FRS has a modestly  
18 greater exposure to public equity, but that's  
19 mostly concentrated in foreign securities.

20 If we flip ahead one more slide, here you  
21 can see, just scanning your eyes across these  
22 time periods, the total fund has outperformed the  
23 median plans' performance across all of these  
24 time periods. And then flipping ahead one more  
25 page to page 211, we put the rank down there at

1 the bottom where the FRS has ranked in this  
 2 universe. And again, I apologize. I didn't  
 3 mention it at the outset, but this is the TUCS  
 4 top ten largest pension plans in the U.S.

5 So you can see there over the one year  
 6 period, the FRS ranked in the top percentile, so  
 7 the top plan in this universe, and the longer  
 8 ones have been above median and very strong as  
 9 well. Definitely, the greater allocation to  
 10 global equity than peers has been beneficial, and  
 11 we expect over that one year period, the strong  
 12 outperformance from your private equity group  
 13 also contributed to these strong ranks.

14 Are there any questions on the pension?  
 15 Okay. Flipping ahead two pages to 213, touching  
 16 on the investment plan, Dan also covered this, so  
 17 I don't have too much more to add. But there was  
 18 \$14.8 billion at the end of June 2021. The  
 19 absolute returns of the aggregated assets in the  
 20 investment plan are at the top, in the top table  
 21 there.

22 But I'll focus your attention on the third  
 23 row, which shows the relative performance. And  
 24 over all of these trailing time periods, there  
 25 was notable value add of the fund offerings

1 relative to the benchmarks. And so strong  
 2 performance across the active options. And this  
 3 again was also -- similar to the pension plan,  
 4 this came across all asset classes for these time  
 5 periods. Each asset class in aggregate  
 6 outperformed its benchmark. So strong  
 7 performance from the active options within the  
 8 investment plan.

9 Flipping ahead to the next mandate that we  
 10 cover, the Florida Hurricane Catastrophe Funds,  
 11 or CAT Funds. Just a reminder, the purpose of  
 12 these is to provide a stable and ongoing source  
 13 of reimbursement to insurers for a portion of  
 14 their hurricane losses. And so these funds are  
 15 invested in short-term and high-quality bonds to  
 16 minimize interest rate and credit risk.

17 And you can see, to no surprise, these  
 18 extremely low returns, just given where interest  
 19 rates are and in the universe in which they have  
 20 to invest in, but I will note that relative  
 21 performance continues to outperform their  
 22 benchmarks shown here. At the end of June, the  
 23 operating funds stood at \$12.5 billion.

24 And then flipping ahead two more slides,  
 25 actually three, to page 213, likely the last time

1 we will be reporting on the Lawton Chiles  
2 Endowment Fund, and here's just kind of putting  
3 onto paper the returns that Alison noted earlier.  
4 This has been a very successful program for  
5 Lawton Chiles and a very strong way to end the  
6 investment of these assets, 31.1 percent for the  
7 one year period. It was primarily invested in  
8 global equities, which explains the very strong  
9 returns and very strong outperformance over that  
10 one year period, 2.3 percentage points.

11 And then last but not least, the Florida  
12 PRIME portfolio on page 220. This ended the  
13 fiscal year at \$17.4 billion. The goals of this  
14 portfolio, just as a reminder, are safety,  
15 liquidity and then competitive return, also  
16 invested in very short-term and high-quality  
17 bonds.

18 So you can see there, similar to the CAT  
19 Funds, some very low absolute levels of return  
20 but strong outperformance relative to the  
21 benchmark, which is a peer group of other  
22 government investment pools. So strong relative  
23 performance. And as a reminder, this is managed  
24 by Federated.

25 So overall, I apologize. I went pretty

1 quickly through all of this, but a very strong  
2 report across the major mandates, and I'd be  
3 happy to answer any questions.

4 MR. PETER JONES: All right. Thank you.  
5 Any questions? Well, very good. I appreciate  
6 the good review.

7 The next section is the IAC Compensation  
8 Subcommittee update, which is actually chaired by  
9 Vinny Olmstead. So I'm going to turn it over to  
10 you, Vinny, to give us a summary of the meeting  
11 last week, please.

12 MR. OLMSTEAD: I'll go ahead and take it off  
13 mute here. Thank you. I think, as we did last  
14 year, had the committee meet, and the committee  
15 has been fairly consistent, Gary Wendt, myself  
16 and Peter Collins. We had a few others that sat  
17 in on it, including Peter Jones.

18 But the intent of the compensation committee  
19 is to take a look exclusively at the CIO's  
20 compensation and to look at both his base pay and  
21 whether there was a merit pay moving forward and  
22 also his variable pay, which is divided into two  
23 buckets. One is based on a formula, so there's  
24 not a lot of decision-making on our side, and the  
25 other is based on a survey and careful

1 consideration of performance for the CIO.  
2 And so in real quick and short summary,  
3 given the fact that this is Ash's last meeting at  
4 the helm, there wasn't a lot of conversation  
5 around future compensation. We did discuss his  
6 variable pay and gave him glowing reviews. And  
7 one of the hiccups of this particular plan is  
8 that if you're not an employee at the time the  
9 variable pay is paid off, then you don't receive  
10 your variable pay.

11 So unfortunate for Ash, although he deserves  
12 it and has done a suburb job, including some of  
13 the numbers that Peter mentioned in the  
14 beginning, will not receive -- we recommend that  
15 he gets at least some recognition of doing a  
16 suburb job, and he would have gotten 100 percent  
17 of the variable pay based on the subjective  
18 reviews. He will not be able to get them this  
19 year, but again I think, for those who sat on the  
20 call, there was some real appreciation to what  
21 he's done over the years. So that's the quick  
22 summary of the call that we had.

23 MR. PETER JONES: Okay. Well, that's not  
24 the outcome we were hoping for you, Ash. So  
25 thank you, Vinny, for explaining all that. Okay.

1 So --

2 MR. COLLINS: One question about that, Mr.  
3 Chairman. One of the things that we talked about  
4 was amending that, amending some of the language  
5 going forward so that -- you know, it was never  
6 an intention -- it was always a retention issue  
7 and an incentive issue to stay, because you had  
8 to be here to get your bonus, but it was never an  
9 intention to capture somebody on a technicality  
10 because they were retiring or some other reason.

11 And so what we did talk about in that  
12 meeting was possibly amending the plan to address  
13 that. I know that we're not going to do it for  
14 various reasons directly related to Ash, but I'm  
15 still wondering if that's something that needs to  
16 get done.

17 MR. WILLIAMS: May I take a shot at that?  
18 We went over this very carefully after that  
19 discussion we had in the comp committee and  
20 reconstructed all of the original discussion in  
21 the plan design work that we did with Mercer and  
22 internally.

23 And what we concluded was, no, actually we  
24 built in some offsets to the seeming inequity of  
25 getting left holding the bag on the tail end of



1 your career. And the way we corrected for that  
2 was to put a provision in that said, at such time  
3 as someone turns age 65 or they actually retire,  
4 they can get the entire amount in a single  
5 payment as opposed to spread over two years. In  
6 my case, I'm over 65, so I've already had that  
7 benefit. So at a time when others didn't get a  
8 full year payout at one time, I did.

9 Now, one could say, well, all that did was  
10 change the timing of when you got money that you  
11 would have gotten anyway, so that's not fully  
12 responsive. But on balance, we tried to design  
13 this thing in a way that was, A, consistent with  
14 market standards in our peer group and, B,  
15 reserved a couple of elements of the way the IRS  
16 looks at these things, not least of them being  
17 there has to be what's called substantial risk of  
18 forfeiture of any held-over amounts. And to the  
19 extent you start changing around what we've got  
20 now, you put that at direct risk.

21 So our conclusion on that was, we've got  
22 actually a pretty good plan. Nobody has been  
23 sandbagged by it. It's been good for recruiting  
24 purposes. It's been good for retention purposes.  
25 And most importantly, we haven't had a word of

1 negativity out of the IRS.

2 So when you consider the kind of gains we've  
3 had that have been tax exempt, the IRS is about  
4 the last person you want to get on the wrong side  
5 of, if you're sitting where we are, with these  
6 kinds of gains.

7 And the other thing that gives me a very  
8 real incentive not to get on the wrong side of  
9 the IRS is I would also be on the back end of  
10 that and subject to potential backward recapture  
11 if they for some reason disallowed our plan.

12 MR. PETER JONES: Thanks. Well, as usual,  
13 Ash, you're taking the high road. It still feels  
14 a little inequitable to me, but thank you for  
15 that.

16 Okay. We're at our last agenda item. Any  
17 audience comments?

18 MR. BOBBY JONES: (Indiscernible) to commend  
19 Ash as our executive director and chief  
20 investment officer for so many years of service  
21 and so much of what he's done for the  
22 beneficiaries of the Florida Retirement System.  
23 So that's all I wanted to say.

24 MR. PETER JONES: Yeah, I echo that, Bobby  
25 Jones. And I think we all would feel the same.

September 20, 2021

Page 182

1 It's truly been an honor and privilege to serve  
2 on the IAC with -- and working with you, Ash, for  
3 the time that we have been. And hopefully we can  
4 look forward to another more appropriate time to  
5 recognize your many achievements. So with  
6 that --

7 MR. WENDT: Gary Wendt --

8 MR. PETER JONES: Please, go ahead.

9 MR. WENDT: (Indiscernible.)

10 MR. COLLINS: He wants to make it unanimous,  
11 he said.

12 MR. PETER JONES: Okay. Thank you. So I  
13 want to thank the presenters for all their time  
14 and effort in preparing for this, the SBA staff  
15 for their meeting coordination. And our next  
16 meeting is December 14th. Hopefully we'll all be  
17 here in person. And with that, I'll declare the  
18 meeting adjourned. Thank you.

19 (The meeting concluded at 4:53 p.m.)  
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25

September 20, 2021

Page 183

1 CERTIFICATE OF REPORTER

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3 STATE OF FLORIDA

4 COUNTY OF LEON  
5

6 I, JO LANGSTON, RPR, certify that I was  
7 authorized to and did stenographically report the  
8 foregoing meeting, and that the transcript is a true  
9 and complete record of my stenographic notes.

10 Dated this 26th day of September 2021.  
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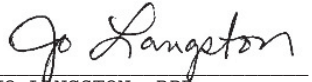
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JO LANGSTON, RPR

September 20, 2021

1

|                  |                 |                 |                 |                 |
|------------------|-----------------|-----------------|-----------------|-----------------|
| <b>\$</b>        | <b>\$5</b> 7:9  | <b>10,000</b>   | 31:23           | 25:1            |
| <b>\$1.05</b>    | <b>\$70</b>     | 62:4            | 32:22           | <b>2</b>        |
| 114:5            | 82:19           | <b>10,174</b>   | 52:23           |                 |
| <b>\$1.2</b>     | <b>\$950</b>    | 151:15          | 119:15          |                 |
| 134:1            | 134:4           | <b>10.28</b>    | 150:3           | <b>2</b> 95:23, |
| <b>\$1.4</b>     | <b>1</b>        | 5:17            | <b>13.3</b>     | 24              |
| 72:15            | <b>1</b> 5:8,12 | <b>100</b> 5:14 | 137:25          | 119:10          |
| <b>\$10</b> 73:1 | 28:2            | 16:12           | <b>13.7</b> 7:3 | 151:13          |
| <b>\$100</b>     | 77:12,13        | 21:13           | <b>130</b>      | 157:3           |
| 65:15            | 110:25          | 34:15           | 164:4           | 159:11          |
| <b>\$108</b>     | 114:3           | 35:22           | <b>135</b>      | <b>2.3</b>      |
| 62:2             | 157:5           | 36:13           | 28:16           | 176:10          |
| 75:17            | <b>1.05</b>     | 38:20,25        | <b>14</b> 5:23  | <b>2.4</b> 47:6 |
| 81:4             | 114:15          | 47:21           | 25:25           | <b>2.5X</b>     |
| 82:18            | <b>1.09</b>     | 127:1           | 159:2           | 157:7           |
| <b>\$12.5</b>    | 110:25          | 178:16          | <b>140</b>      | <b>20</b> 54:6, |
| 175:23           | <b>1.2</b>      | <b>102</b>      | 107:3           | 18 132:8        |
| <b>\$14.8</b>    | 114:12          | 35:11           | <b>143</b>      | 148:21          |
| 174:18           | 138:6,11        | <b>103</b>      | 172:24          | <b>20-21</b>    |
| <b>\$17</b> 25:2 | 140:1           | 123:12          | 110:22          | 66:9            |
| <b>\$17.1</b>    | <b>1.25</b>     | <b>108</b> 59:3 | <b>15</b> 39:10 | <b>200</b>      |
| 24:5             | 110:25          | 147:6           | 108:14          | 140:3           |
| <b>\$17.4</b>    | <b>1.3</b>      | <b>11</b> 150:2 | 150:5           | <b>2000</b>     |
| 176:13           | 72:15           | <b>111</b>      | 154:5           | 166:3           |
| <b>\$19</b> 76:8 | <b>1.30</b>     | 139:19          | 25:21,22        | <b>2008</b>     |
| <b>\$2</b> 13:5  | 119:5           | 145:10          | 26:6            | 5:8,11,         |
| 74:1             | <b>1.37</b>     | <b>111.1</b>    | <b>167</b> 5:15 | 12              |
| <b>\$20</b> 7:7  | 119:7           | 138:4           | <b>17</b> 28:10 | <b>2011</b>     |
| <b>\$200</b>     | <b>1.43</b>     | <b>114</b>      | 119:14          | 139:21          |
| 23:5             | 120:2           | 63:12           | 145:6           | <b>2012</b>     |
| 170:15,          | <b>1.46</b>     | <b>12</b> 25:6  | <b>171</b> 83:4 | 139:21          |
| 20               | 119:6           | 52:23           | <b>175</b>      | <b>2013</b>     |
| <b>\$203</b> 7:5 | <b>1.5</b> 74:1 | 61:17           | 140:2           | 139:21          |
| <b>\$205</b>     | <b>1.9</b>      | 118:23          | <b>18</b> 27:3, | <b>2018</b>     |
| 23:6             | 114:14          | 120:11          | 8 120:11        | 162:9           |
| <b>\$25</b> 7:10 | <b>10</b> 19:19 | 130:11          | 165:4           | <b>2019</b> 6:1 |
| <b>\$250</b>     | 124:9           | 140:1           | <b>186</b>      | 108:20,         |
| 114:8            | 149:24          | 142:13          | 110:20          | 22              |
| <b>\$38.9</b>    | 150:5           | 145:14,         | <b>19</b> 23:12 | <b>2020</b> 9:2 |
| 170:17           | 154:5           | 15 165:4        | <b>199</b> 5:13 | 15:11           |
|                  | 171:24          | <b>120</b>      | <b>1st</b>      | 22:16           |
|                  |                 | 124:9           | 22:16           | 46:10,22        |
|                  |                 | <b>13</b> 5:19  | 24:10           | 47:4            |
|                  |                 | 22:9            |                 |                 |

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(888) 811-3408

September 20, 2021

2

|                 |                 |                 |                 |                 |
|-----------------|-----------------|-----------------|-----------------|-----------------|
| 72:13           | <b>220</b>      | <b>287</b>      | <b>3000</b>     | <b>4</b>        |
| 81:16           | 176:12          | 129:24          | 156:25          | <b>4</b> 20:9   |
| 93:5            | <b>23</b> 32:16 | <b>29</b> 115:8 | <b>30th</b>     | 27:20           |
| 121:12          | <b>24</b>       | <b>29.5</b>     | 5:8,13          | 37:11           |
| 137:15          | 164:19          | 171:16          | 66:5            | 47:3,4          |
| 162:9           | 165:4           | <b>2X</b> 157:6 | 146:25          | 173:1           |
| <b>2021</b> 3:5 | <b>25</b>       | <b>3</b>        | 147:9           | <b>4.55</b>     |
| 5:9,13          | 172:24          | 37:10,          | 170:11          | 28:1,13         |
| 20:9            | <b>25.7</b>     | 13 47:9         | <b>31</b> 37:24 | <b>40</b> 81:14 |
| 22:17           | 126:13          | 148:13          | 38:8            | 84:9            |
| 27:4            | 128:4           | 159:11          | 39:16           | 128:15          |
| 35:5            | <b>26</b> 33:11 | <b>3.2</b>      | 76:15           | 133:3           |
| 36:17           | 34:2            | 172:4           | 138:21          | 140:5           |
| 47:22           | 124:16          | <b>3.21</b>     | <b>31.1</b>     | 163:9,21        |
| 48:1            | <b>26.8</b>     | 115:9           | 176:6           | <b>41</b> 127:7 |
| 81:24           | 125:15          | 117:5           | <b>31st</b>     | <b>42</b> 45:25 |
| 137:20,         | <b>27</b> 34:6, | 124:8           | 124:8           | 46:12           |
| 21              | 8 36:1          | <b>3.55</b>     | <b>32</b> 37:24 | <b>43</b>       |
| 138:12          | 41:3            | 28:2,14         | 39:17           | 46:12,13        |
| 140:1           | 42:9,13,        | 27:4            | <b>33</b>       | <b>46</b> 46:25 |
| 146:25          | 25 132:7        | <b>3/31</b>     | 110:16          | 62:5            |
| 151:12          | <b>27.3</b>     | 138:2,4,        | <b>334</b> 7:3  | 147:14          |
| 155:19          | 126:11,         | 23              | <b>34</b>       | <b>49</b> 47:14 |
| 162:12          | 18,19           | <b>3/31/21</b>  | 106:19          |                 |
| 174:18          | <b>27.8</b>     | 125:15          | 138:20          | <b>5</b>        |
| <b>203</b>      | 125:15          | 126:4,6         | <b>35</b> 28:17 | 37:13           |
| 170:20          | <b>270</b>      | <b>30</b> 21:5, | 125:19          | 47:10           |
| <b>205</b>      | 170:7           | 10              | 141:21          | 100:1           |
| <b>207</b>      | 171:10          | 32:15,22        | 148:14,         | 101:19          |
| <b>209</b>      | 173:5           | 33:15           | 18 153:9        | 102:19          |
| <b>20th</b> 3:5 | 179:17          | 35:6,21         | <b>36</b> 40:6, | 113:17          |
| <b>21</b> 132:9 | 173:25          | 36:3,11         | 42:11           | 147:23          |
| 157:17          | <b>211</b>      | 37:6            | <b>37</b> 41:6, | <b>5,000</b>    |
| <b>213</b>      | 174:15          | 61:17           | 19 43:18        | 33:15,          |
| 175:25          | 175:25          | 108:13          | 44:15,23        | 21,22,23        |
| <b>22</b> 27:23 | 177:23          | 125:19,         | <b>38</b> 44:1, | <b>5.13</b>     |
| 31:9,12         | <b>281</b>      | 21 128:5        | 5,15,23         | 27:6            |
| 148:20          | 126:13          | 139:2           | <b>39</b> 45:8  | <b>5.15</b>     |
|                 | <b>283</b>      | 141:21          |                 | 27:16           |
|                 | 128:7           | 147:3           |                 | <b>50</b> 61:13 |
|                 | <b>286</b>      | 163:21          |                 | 63:25           |
|                 | 129:15          | 171:19          |                 |                 |
|                 |                 | 172:24          |                 |                 |

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September 20, 2021

3

|                 |                  |                 |                 |                 |
|-----------------|------------------|-----------------|-----------------|-----------------|
| 76:23           | <b>6.70</b>      | 119:3           | 52:23           |                 |
| 125:22          | 120:1            | 145:16          | 147:22          | <b>9</b>        |
| 126:2           | <b>6.8</b>       | 170:2           | 148:8,9,        |                 |
| 127:7           | 129:24           | 171:23          | 22              | <b>9,000</b>    |
| 150:10          | <b>6/30</b>      | <b>7.25</b>     | 149:23          | 61:12           |
| <b>50-50</b>    | 171:18           | 51:7,12         | 150:3           | <b>9.41</b>     |
| 62:10           | <b>6/30/18</b>   | <b>7/1/2021</b> | 151:19          | 5:18            |
| <b>500</b>      | 125:14           | 22:22           | <b>8.32</b>     | <b>90</b> 13:6  |
| 129:20          | <b>6/30/2021</b> | 23:4            | 24:7            | 34:14           |
| 157:1           | 19:2             | 25:6            | <b>8.57</b>     | 35:22           |
| 162:13          | <b>60</b> 34:16  | <b>7/1/21</b>   | 23:18           | 62:25           |
| <b>50th</b>     | 35:19            | 25:4            | 24:12           | 78:25           |
| 34:24           | 36:12            | <b>7/1/22</b>   | 25:10,12        | 128:12          |
| 38:10           | 61:16            | 25:4            | <b>8.59</b>     | 163:24          |
| <b>53</b> 75:20 | 77:20            | <b>70</b> 34:16 | 53:2            | 167:14          |
| <b>54</b> 75:18 | 124:17           | 35:20           | <b>8.8</b>      | 168:15          |
| <b>56</b> 77:6  | 126:2            | 79:5            | 124:7           | <b>95.6</b>     |
| 119:2           | 133:4            | 108:12          | <b>80</b> 95:23 | 156:8           |
| <b>57.8</b>     | 138:11,          | 125:24          | 163:24          | <b>95th</b>     |
| 126:10          | 25               | 141:22          | <b>80,000</b>   | 21:20           |
| <b>58</b> 62:7  | 140:17           | 163:24          | 149:19,         | 38:11           |
| 78:22           | 141:22           | <b>70,000</b>   | 20              | 41:14           |
| <b>5X</b> 9:6   | <b>60-</b>       | 150:7           | <b>81</b> 20:3  | <b>97</b> 23:2, |
|                 | 150:7            | <b>700</b>      | 23:1,11         | 7 25:1          |
| <b>6</b>        | <b>60/40</b>     | 85:12           | 31:21           | <b>97.1</b>     |
|                 | 133:5            | <b>728</b>      | 34:13           | 25:9,15,        |
| <b>6</b> 17:3,  | <b>630,000</b>   | 138:11          | 35:18           | 16              |
| 16 95:4         | 150:16           | <b>74</b> 46:23 | <b>82</b> 46:21 | <b>99</b> 5:12  |
| 100:1           | <b>64</b> 62:5   | <b>75</b> 62:17 | <b>83</b> 81:10 | 76:24           |
| <b>6.13</b>     | <b>65.7</b>      | 64:4            | <b>84</b>       | <b>99th</b>     |
| 20:17           | 138:1            | 77:5            | 164:18          | 21:22           |
| 31:22           | <b>67</b> 5:16   | 87:11           | <b>85</b>       |                 |
| 32:14,          | 75:23            | 91:18           | 108:11          | <b>A</b>        |
| 17,18           |                  | 92:7            | <b>87</b> 5:19, |                 |
| 33:7            | <b>7</b>         | <b>75th</b>     | 22 76:6         | <b>ability</b>  |
| 36:23           |                  | 46:21           | 117:17          | 12:20           |
| 41:10           | <b>7</b> 17:2    | 47:5            | 157:1           | 15:15           |
| 47:22           | 20:19            | <b>781</b>      | <b>89</b>       | 43:13           |
| 50:19           | 24:2             | 140:2           | 156:24          | 50:3            |
| 54:14           | 46:9             |                 | <b>8th</b>      | 166:7           |
| <b>6.46</b>     | 50:20,           | <b>8</b>        | 114:5           | <b>able</b>     |
| 114:11          | 21,23            |                 |                 | 31:20           |
| <b>6.7</b>      | 52:18,21         | <b>8</b> 18:14  |                 | 32:11           |
| 120:2           | 82:13,16         | 51:10,11        |                 | 40:15           |

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(888) 811-3408

September 20, 2021

4

|                  |                  |                 |                  |                   |
|------------------|------------------|-----------------|------------------|-------------------|
| 42:22            | <b>accept</b>    | 152:1           | 123:8            | <b>adjusted</b>   |
| 45:1             | 65:3             | <b>active</b>   | 144:12,          | 88:21             |
| 58:16            | <b>access</b>    | 62:9,16,        | 13 146:1         | 169:3             |
| 75:22            | 40:15            | 18 63:5,        | <b>activity</b>  | <b>adjusting</b>  |
| 76:12,           | <b>accommoda</b> | 19 67:8         | 72:4             | 26:17             |
| 16,21            | <b>te</b> 74:13  | 69:19           | 93:11            | <b>adjustmen</b>  |
| 77:3,12,         | <b>accomplis</b> | 70:4            | 111:11,          | <b>ts</b> 11:16   |
| 14 78:24         | <b>hes</b> 5:2   | 73:7            | 20 130:1         | <b>Administra</b> |
| 79:5             | <b>account</b>   | 74:17           | 134:11           | <b>tion</b>       |
| 80:23            | 26:18            | 76:3,17,        | 137:2,14         | 56:11             |
| 82:6             | 64:13            | 23 80:6,        | 145:22           | <b>administr</b>  |
| 84:24            | 73:24,25         | 10,15           | <b>actuarial</b> | <b>ative</b>      |
| 97:6             | 74:13            | 83:1,2          | 17:13            | 59:20             |
| 115:2            | 86:25            | 84:2,15         | 20:19            | <b>adopt</b>      |
| 116:23           | 95:19            | 85:10,          | 34:10            | 67:14             |
| 134:6            | 141:18           | 13,18           | 36:23            | 153:22            |
| 135:10           | 144:17           | 87:14           | 44:10,12         | <b>adopted</b>    |
| 143:24           | <b>accountin</b> | 90:10,25        | 46:15,16         | 166:11            |
| 145:23           | <b>g</b> 118:15  | 92:2            | 49:3,5           | <b>advance</b>    |
| 178:18           | <b>accounts</b>  | 96:22           | 50:19            | 25:25             |
| <b>absolute</b>  | 138:10           | 104:4           | 52:1,24          | <b>advantage</b>  |
| 65:13            | 142:4            | 105:5,7,        | 57:11            | 62:21             |
| 75:23            | 144:16           | 9               | 95:6             | 79:21             |
| 116:9,19         | <b>accruals</b>  | 106:11,         | <b>actuary</b>   | 83:13             |
| 117:20           | 24:3             | 14,17,          | 14:25            | 115:25            |
| 119:11           | <b>achieve</b>   | 21,22           | <b>ACWI</b>      | 116:24            |
| 120:17           | 60:17            | 108:6,8,        | 61:9             | <b>advantage</b>  |
| 138:25           | 62:16            | 13,16           | 107:5,11         | <b>s</b> 62:22    |
| 171:19,          | 153:14           | 109:5,7,        | <b>addition</b>  | 64:12             |
| 25               | <b>achieved</b>  | 21              | 60:7             | 80:2              |
| 172:25           | 62:6             | 111:2,13        | 79:3             | <b>advice</b>     |
| 174:19           | 72:23            | 112:20          | <b>additiona</b> | 91:5              |
| 176:19           | 72:23            | 117:25          | <b>l</b> 31:24   | <b>advised</b>    |
| <b>absolutel</b> | 171:19           | 122:6           | 38:24            | 167:22,           |
| <b>y</b> 11:11   | <b>acquired</b>  | 123:1           | 73:8             | 23                |
| 24:22            | 169:5            | 150:11,         | 140:23           | <b>adviser</b>    |
| <b>accelerat</b> | <b>acquisiti</b> | 15,16           | 153:6            | 103:13            |
| <b>e</b> 135:2   | <b>on</b> 125:1  | 175:2,7         | 165:17           | <b>advisers</b>   |
| <b>accelerat</b> | 166:4            | <b>active/</b>  | 166:17           | 50:17             |
| <b>ed</b>        | <b>action</b>    | <b>passive</b>  | <b>address</b>   | 86:25             |
| 116:14           | 168:15           | 69:15           | 48:22            | <b>Advisory</b>   |
| <b>accelerat</b> | 169:17           | <b>actively</b> | 179:12           | 3:1               |
| <b>ion</b> 9:24  | <b>actions</b>   | 76:21           | <b>adjust</b>    | 56:13             |
| 135:20           | 104:17           | 106:19          | 168:17           |                   |

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|                  |                  |                  |                  |                  |
|------------------|------------------|------------------|------------------|------------------|
| 169:14           | 85:3             | <b>Alibaba</b>   | 145:16           | <b>America</b>   |
| <b>advocate</b>  | <b>aggressiv</b> | 99:9             | 172:5            | 135:24           |
| 162:21           | <b>ely</b>       | <b>Alison</b>    | 173:8            | 138:15           |
| <b>advocatin</b> | 73:10            | 101:20           | 174:9            | <b>amortizat</b> |
| <b>g</b> 152:15  | <b>agreement</b> | 102:2            | <b>allocatio</b> | <b>ion</b> 44:9  |
| <b>affirmed</b>  | 55:4,6           | 113:17           | <b>ns</b> 41:7   | <b>amount</b>    |
| 83:20            | <b>ahead</b>     | 117:8            | <b>allow</b>     | 8:22 9:9         |
| <b>afternoon</b> | 7:4,7            | 121:8,14         | 48:21            | 32:4,10          |
| 14:1             | 19:7             | 171:12           | <b>allows</b>    | 43:9             |
| 16:24            | 22:6             | 176:3            | 51:20            | 76:9,13          |
| 58:13            | 25:21            | <b>all-in</b>    | <b>alluded</b>   | 80:8             |
| 117:12           | 27:23            | 38:1             | 15:19            | 135:11           |
| 146:23           | 29:10            | <b>all-</b>      | 19:4             | 144:7            |
| 151:8            | 31:8             | <b>weather</b>   | 23:3             | <b>ample</b>     |
| <b>agencies</b>  | 34:4             | 84:14            | <b>alpha</b>     | 44:25            |
| 99:12            | 37:24            | <b>alleviate</b> | 62:16            | <b>analyses</b>  |
| <b>agenda</b>    | 46:12            | <b>d</b> 167:14  | 63:2             | 17:18            |
| 11:4             | 57:2,19          | <b>allocate</b>  | 71:18,20         | <b>analysis</b>  |
| 13:20            | 59:12            | 147:20           | 76:13,21         | 15:7             |
| 58:13            | 74:12            | <b>allocated</b> | 82:7,14          | 16:19            |
| 165:17           | 89:11            | 86:22            | 86:2             | 17:25            |
| 169:12           | 101:5            | 145:15           | <b>alternati</b> | 18:3             |
| <b>agent</b>     | 102:18           | <b>allocatio</b> | <b>ve</b>        | 19:25            |
| 98:7             | 106:24           | <b>n</b> 12:18   | 129:7,20         | 20:2,5,          |
| <b>agg</b>       | 107:1,2          | 13:6             | 131:7            | 22 21:17         |
| 119:25           | 112:3            | 20:4             | <b>alternati</b> | 22:3             |
| 120:1            | 133:23           | 21:25            | <b>ves</b>       | 23:23            |
| 122:17           | 160:13           | 23:11            | 32:4,8,          | 24:15,19         |
| <b>aggregate</b> | 170:22           | 40:8,22,         | 10               | 27:23            |
| 9:6              | 173:5,           | 24 42:9,         | 130:20           | 33:13            |
| 63:18            | 20,24            | 14 44:20         | 131:17           | 34:3             |
| 64:22            | 174:15           | 45:4,17          | <b>aluminum</b>  | 35:5             |
| 65:18            | 175:9,24         | 48:12            | 10:17            | 37:21            |
| 79:1,24          | 177:12           | 62:18,25         | <b>amazed</b>    | 40:4             |
| 84:6             | <b>aim</b>       | 75:19            | 160:23           | 42:16            |
| 85:7             | 60:22            | 83:24            | <b>amazing</b>   | 45:12            |
| 143:17           | <b>aimed</b>     | 84:6,8,          | 6:10             | 47:18,22         |
| 172:13           | 153:16,          | 13               | <b>amazingly</b> | 48:10            |
| 175:5            | 17               | 107:5,10         | 116:5            | 51:3             |
| <b>aggregate</b> | <b>aircraft</b>  | 121:25           | <b>amending</b>  | <b>analytics</b> |
| <b>d</b> 174:19  | 134:23           | 124:14           | 179:4,12         | 58:20            |
| <b>aggregate</b> | <b>airline</b>   | 132:11           | <b>amendment</b> | 59:17            |
| <b>s</b> 74:17   | 135:2            | 141:23           | 158:8            | 75:6             |
| 84:19            |                  | 144:14           |                  |                  |

|                  |                  |                  |                  |                  |
|------------------|------------------|------------------|------------------|------------------|
| <b>announce</b>  | 106:6            | 82:11            | 124:16           | 16:25            |
| 3:12             | 170:3,6          | 84:14            | 130:8            | 17:7             |
| 155:25           | <b>Aon's</b>     | 90:12            | 145:14           | 23:2             |
| <b>announced</b> | 26:10            | 107:15,          | 150:16,          | 52:22            |
| 68:20            | 33:4             | 16               | 17 157:3         | 54:18,21         |
| 153:2            | 38:1             | 155:23           | <b>April</b>     | 55:22            |
| <b>announcem</b> | 50:17            | <b>approache</b> | 93:6             | 56:6,20          |
| <b>ent</b>       | <b>Aon-only</b>  | <b>s</b> 54:23   | 154:11           | 57:9             |
| 134:25           | 26:17            | 71:3             | <b>arbitrage</b> | 86:12            |
| <b>annual</b>    | <b>apartment</b> | 80:1             | 135:23           | 115:4            |
| 14:18            | <b>s</b> 129:18  | <b>appropria</b> | <b>arbitrati</b> | 139:14           |
| 17:5             | <b>apologies</b> | <b>te</b> 14:21  | <b>on</b> 164:8  | 144:18,          |
| 49:12            | 17:3             | 73:10            | <b>areas</b>     | 21               |
| 55:10            | 23:15            | 88:15            | 11:6             | 165:21           |
| 151:14           | 169:15           | 144:9            | 63:2             | 169:25           |
| 158:6            | <b>apologize</b> | <b>appropria</b> | 80:10,12         | 178:11,          |
| <b>annualize</b> | 102:4            | <b>tely</b>      | 81:16            | 24               |
| <b>d</b> 114:12  | 110:12           | 85:14            | 83:2             | 179:14           |
| 171:25           | 138:17           | <b>appropria</b> | 85:17            | <b>Ash's</b>     |
| 173:2            | 174:2            | <b>tion</b>      | 90:11            | 5:3              |
| <b>annually</b>  | 176:25           | 55:10            | 105:4            | 178:3            |
| 26:22            | <b>app</b>       | <b>appropria</b> | 108:16           | <b>Asia</b>      |
| <b>answering</b> | 151:9            | <b>tions</b>     | 109:18           | 131:21           |
| 101:25           | <b>apparentl</b> | 55:17            | 116:11           | 135:23           |
| <b>ante</b>      | <b>y</b>         | <b>approval</b>  | 136:23           | 138:17           |
| 77:19            | 166:20,          | 6:18             | 164:1            | 145:6,15         |
| <b>anticipat</b> | 21               | 113:13           | <b>arena</b>     | <b>aside</b>     |
| <b>e</b> 13:4    | <b>appendix</b>  | 152:3            | 96:21            | 95:11,12         |
| <b>anticipat</b> | 165:10           | 169:17,          | <b>arguably</b>  | <b>aspect</b>    |
| <b>ion</b>       | <b>applied</b>   | 19               | 9:21             | 44:9             |
| 73:17            | 82:18            | <b>approvals</b> | <b>argue</b>     | <b>aspiratio</b> |
| <b>antitheti</b> | <b>appointed</b> | 57:9             | 14:19            | <b>nal</b> 88:3  |
| <b>cal</b>       | 56:10            | <b>approve</b>   | 126:24           | <b>assess</b>    |
| 55:19            | <b>appreciat</b> | 4:7,9            | 145:9            | 16:6             |
| 160:15           | <b>ion</b>       | <b>approved</b>  | 168:9            | <b>asset</b>     |
| <b>Aon</b>       | 30:17            | 155:1            | <b>argument</b>  | 5:24             |
| 13:22,24         | 178:20           | 169:13           | 92:21            | 12:19            |
| 14:2             | <b>approach</b>  | <b>approxima</b> | 93:18            | 15:20            |
| 28:11,21         | 6:5              | <b>te</b>        | 168:11           | 18:23            |
| 50:6             | 26:2,7           | 151:18           | <b>Ash</b>       | 20:17            |
| 54:14            | 28:23            | <b>approxima</b> | 4:19,20          | 21:24            |
| 55:14            | 80:2,5           | <b>tely</b>      | 5:3,5,9          | 22:22,25         |
| 57:11            | 81:6             | 5:15             | 6:5              | 32:1,21          |
|                  |                  |                  | 13:20            | 36:16,22         |

September 20, 2021

7

|                  |                  |                  |                  |                  |
|------------------|------------------|------------------|------------------|------------------|
| 40:7             | 73:2             | 46:1             | 49:13,18         | <b>attributi</b> |
| 44:17            | 107:4            | 50:18            | 51:20            | <b>on</b> 6:16   |
| 46:15            | 170:24           | 51:19,23         | 52:24            | 99:16            |
| 47:21            | 173:15,          | 63:25            | 53:10,25         | 128:17           |
| 49:4,21          | 16               | 67:25            | <b>assumptio</b> | 129:4            |
| 50:4,15          | <b>asset all</b> | 76:2             | <b>ns</b>        | <b>audience</b>  |
| 51:19            | <b>ocations</b>  | 114:4            | 17:10,           | 3:13             |
| 58:10,25         | 86:19            | 122:1            | 22,24            | <b>audio</b>     |
| 59:9,14,         | <b>asset-</b>    | 126:25           | 18:21            | 3:21             |
| 20               | <b>liability</b> | 128:21           | 24:18            | <b>August</b>    |
| 60:10,16         | 13:21            | 129:11,          | 26:10,           | 138:6            |
| 63:4             | 14:10            | 20,21            | 16,17,           | 139:25           |
| 69:12            | 17:5,20          | 130:11           | 21,24            | 152:3            |
| 70:21            | 18:13            | 131:16,          | 28:24            | <b>AUM</b>       |
| 72:5,24          | 19:6,21          | 19 132:8         | 30:2,22          | 65:15            |
| 74:24            | 20:22            | 147:2,           | 31:12            | <b>authority</b> |
| 75:14            | 22:11,14         | 12,14            | 33:4,6           | 104:17           |
| 76:19            | 23:17,23         | 170:15           | 49:14,19         | <b>automatic</b> |
| 85:20            | 26:23            | 174:19           | <b>attempt</b>   | 72:21            |
| 101:19           | 33:9,13          | 176:6            | 18:5             | <b>automatic</b> |
| 103:24           | 34:3             | <b>assist</b>    | 65:3             | <b>ally</b>      |
| 113:22           | 35:14            | 60:3             | <b>attendanc</b> | 149:3            |
| 115:16           | 41:12            | <b>associate</b> | <b>e</b> 148:19  | <b>available</b> |
| 117:3            | 47:23            | <b>d</b> 130:12  | <b>attention</b> | 60:21            |
| 124:12           | 48:20            | <b>assumed</b>   | 34:22            | 100:10           |
| 125:8,9          | <b>assets</b>    | 45:13            | 41:20            | 147:20           |
| 130:3            | 5:24             | 49:3             | 68:23            | 173:9            |
| 132:7            | 8:14             | 50:19            | 146:21           | <b>average</b>   |
| 140:24           | 12:8,24          | 171:23           | 158:22           | 26:11,           |
| 141:3            | 14:24            | <b>assuming</b>  | 167:8            | 13,14            |
| 147:11,          | 15:11            | 21:4             | 174:22           | 27:8             |
| 13 165:3         | 23:5,12,         | 37:12            | <b>attenuate</b> | 46:23            |
| 172:8            | 20               | 44:7             | <b>d</b> 10:10   | 47:6             |
| 173:7            | 24:10,11         | 45:9             | 11:8             | 79:13            |
| 175:4,5          | 25:11            | <b>assumptio</b> | <b>attenuati</b> | 80:15            |
| <b>asset all</b> | 34:10            | <b>n</b> 7:17    | <b>on</b> 9:24   | 109:2,20         |
| <b>ocation</b>   | 37:14            | 15:3             | <b>attract</b>   | 126:19           |
| 11:9             | 40:10,           | 20:19            | 154:14           | 156:7,           |
| 14:20,22         | 11,13            | 26:2,7           | <b>attractin</b> | 10,11            |
| 16:4,7           | 41:5,21          | 28:20,22         | <b>g</b> 153:18  | 158:1            |
| 23:10            | 42:3,4,          | 29:5,14,         | <b>attractiv</b> | <b>averaging</b> |
| 32:12            | 10,18            | 17,22            | <b>e</b> 100:20  | 26:18,25         |
| 42:6             | 43:4,7           | 30:8             |                  | 50:16            |
| 72:22            | 44:22            | 46:8             |                  | 150:1            |

www.phippsreporting.com  
(888) 811-3408

September 20, 2021

8

|                  |                  |                  |                  |                  |
|------------------|------------------|------------------|------------------|------------------|
| <b>aware</b>     | 172:19           | 121:10           | 92:6,7           | 168:19           |
| 65:21            | <b>ballot</b>    | 123:12           | 129:9            | 172:3            |
| 68:7             | 156:4,18         | 124:9            | 178:14           | 173:3            |
| 89:20            | <b>banks</b>     | 125:22           | <b>behold</b>    | 175:6            |
| 167:1,18         | 94:11,13         | 128:10,          | 89:10            | 176:21           |
| <b>awareness</b> | <b>bar</b> 6:6   | 12,15            | <b>belief</b>    | <b>benchmark</b> |
| 65:5             | 77:17            | 129:2,20         | 85:12            | <b>ed</b>        |
| <b>awash</b>     | 78:12            | 136:17           | <b>Ben</b>       | 133:14           |
| 119:19           | 166:19           | 143:20           | 166:1,3,         | <b>Benchmark</b> |
| <b>awful</b>     | <b>barbell</b>   | 147:6            | 7,20             | <b>ing</b>       |
| 112:4            | 122:12           | <b>batting</b>   | 167:3,6          | 106:1            |
| <b>axis</b>      | <b>barbelled</b> | 79:13            | <b>benchmark</b> | 108:20           |
| 31:16,17         | 122:14           | <b>BDS</b>       | 5:18             | <b>benchmark</b> |
| 38:10,11         | <b>barred</b>    | 166:15,          | 60:18,23         | <b>s</b> 61:5    |
| <b>aye</b> 4:14  | 167:15           | 25               | 61:7,16,         | 69:21            |
| <b>Ayes</b>      | <b>basic</b>     | 167:25           | 24 63:3          | 70:2             |
| 4:15             | 63:23            | <b>bear</b>      | 64:3             | 71:4             |
| 58:4             | <b>basis</b>     | 9:10             | 65:12            | 96:18            |
| 169:23           | 5:20,22          | 71:8             | 66:19            | 97:13,22         |
|                  | 7:3,18           | 157:17           | 77:15            | 172:10           |
| <b>B</b>         | 8:17             | <b>Beard</b>     | 78:19            | 175:1,22         |
|                  | 13:7             | 146:22,          | 81:13            | <b>beneficia</b> |
| <b>backdrop</b>  | 14:18            | 23               | 84:10            | <b>l</b> 94:25   |
| 161:10           | 22:25            | 148:25           | 87:5,7,9         | 174:10           |
| <b>backgroun</b> | 28:16,17         | 149:5,8,         | 89:21            | <b>beneficia</b> |
| <b>d</b> 55:15   | 47:21            | 10,25            | 96:21            | <b>ries</b>      |
| <b>backward</b>  | 54:6,18          | <b>beat</b>      | 97:1,5,          | 99:4             |
| 7:20             | 64:4             | 71:5             | 8,11             | <b>beneficia</b> |
| <b>backward-</b> | 77:4,5,          | 78:19            | 98:11            | <b>ry</b> 75:16  |
| <b>looking</b>   | 7,20             | 79:12            | 111:6            | <b>benefit</b>   |
| 166:18           | 81:10            | 115:8            | 115:9            | 5:15 7:9         |
| <b>bad</b>       | 82:13,           | 162:15           | 118:24           | 24:3             |
| 41:15,17         | 16,22            | <b>beating</b>   | 119:1            | 45:1,6           |
| 42:1             | 83:4             | 61:5             | 122:13,          | 73:2,3           |
| 102:6            | 85:12            | 79:4             | 15,17            | 83:18            |
| <b>bag</b>       | 87:11            | 81:13            | 123:12           | 84:3             |
| 179:25           | 91:18            | <b>beats</b>     | 128:15           | 85:20            |
| <b>balance</b>   | 92:8             | 79:2,8           | 129:2,21         | 89:3             |
| 7:4              | 110:17,          | <b>becoming</b>  | 131:13           | 94:8             |
| 15:23            | 21               | 93:7             | 133:18,          | 98:17            |
| 30:13            | 117:20           | <b>beginning</b> | 22               | 100:12           |
| 53:22            | 119:3            | 36:22            | 138:21,          | 108:5            |
| 137:5            | 120:17,          | 72:13            | 22,24            | 135:10           |
| 149:19           | 18,23            | 84:17            | 147:7            | 158:25           |

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(888) 811-3408

|                   |                 |                         |                |                   |
|-------------------|-----------------|-------------------------|----------------|-------------------|
| 159:15            | <b>big</b> 5:22 | 176:13                  | <b>bonds</b>   | <b>bounced</b>    |
| 161:14            | 9:16            | <b>bittersweet-type</b> | 8:9            | 117:1             |
| 170:17            | 10:16           | 4:19                    | 28:18          | 134:23            |
| 171:7             | 69:14           | <b>black</b>            | 95:7           | <b>Box</b>        |
| <b>benefited</b>  | 90:18,24        | 34:22                   | 118:2,4,       | 154:20            |
| 94:7              | 94:15           | 51:8,9                  | 9,18           | <b>boycott</b>    |
| 99:12             | 100:7,15        | <b>block</b>            | 119:17         | 166:14            |
| <b>benefiting</b> | 104:4           | 28:23                   | 175:15         | 167:13            |
| <b>g</b> 135:24   | 118:19          | <b>blue</b>             | 176:17         | <b>Bradley</b>    |
| <b>benefits</b>   | 154:5           | 27:11                   | <b>bonus</b>   | 11:19,23          |
| 15:16             | <b>bigger</b>   | 43:7                    | 179:8          | 12:16             |
| 42:22             | 91:2,4          | 132:24                  | <b>book</b>    | 136:3             |
| 43:13             | <b>biggest</b>  | 170:25                  | 18:8           | 137:11,           |
| 65:22,23          | 64:21           | 172:4                   | 135:12         | 12                |
| 85:16             | 129:18          | <b>board</b>            | <b>books</b>   | 140:9,21          |
| <b>benevolent</b> | 139:20          | 56:10,14                | 52:1           | 141:6,16          |
| <b>t</b> 144:2    | <b>billion</b>  | 70:9                    | <b>booming</b> | 142:2             |
| <b>best-</b>      | 5:12,13,        | 95:24                   | 136:9          | 144:10,           |
| <b>performing</b> | 14,15,          | 105:19                  | <b>boosted</b> | 20                |
| <b>g</b> 139:13   | 16,23           | 152:5,20                | 171:15,        | 145:13            |
| <b>beta</b>       | 7:5,7,9,        | 153:1,4,                | 21             | 146:20            |
| 63:17             | 10 13:5         | 20                      | <b>borrow</b>  | 172:6             |
| 76:21,24          | 23:5,6          | 154:13                  | 98:9           | <b>break</b>      |
| 79:19             | 24:5            | 156:22                  | <b>bottom</b>  | 11:1              |
| 132:16            | 25:2            | 158:5                   | 23:9,13,       | 40:8              |
| <b>bets</b>       | 62:2            | 159:24                  | 16 24:7        | 82:9              |
| 87:13             | 65:15           | 163:13,                 | 27:11          | 84:16             |
| 91:3,4            | 72:14,15        | 18 165:1                | 31:19          | 131:12            |
| 92:6              | 73:1,24         | 166:5,6,                | 38:17          | <b>breakdown</b>  |
| <b>better</b>     | 74:1            | 16                      | 42:5           | 61:14             |
| 13:10             | 75:17           | <b>boards</b>           | 60:8           | 150:14            |
| 31:20             | 76:8            | 152:13                  | 61:18          | <b>breakouts</b>  |
| 54:19             | 81:4            | 158:21                  | 62:20          | 42:11             |
| 66:7              | 82:18           | 162:22                  | 65:20          | <b>breaks</b>     |
| 74:12             | 114:5,          | <b>Bobby</b>            | 76:5,10        | 62:21             |
| 89:16             | 12,14           | 3:20                    | 77:18          | 147:12            |
| 97:11,15          | 115:2           | 4:11,13                 | 79:23          | <b>brief</b>      |
| 109:3             | 134:1           | 54:9,10,                | 90:10          | 116:1             |
| 112:8,10          | 138:6,11        | 11,20                   | 102:5          | <b>briefly</b>    |
| 118:25            | 140:1           | 57:6,17,                | 174:1          | 63:21             |
| <b>bias</b>       | 170:15,         | 23,24                   | <b>bought</b>  | 70:14             |
| 71:17             | 17,20           | <b>body</b>             | 72:13,17       | <b>brilliance</b> |
| 88:19,21          | 174:18          | 56:10                   | 166:1          | <b>e</b> 95:11,   |
|                   | 175:23          |                         |                | 12                |

|                |                   |                  |                     |                  |
|----------------|-------------------|------------------|---------------------|------------------|
| <b>bring</b>   | <b>building</b>   | <b>buy-backs</b> | <b>Canada</b>       | 140:23           |
| 6:22           | 27:1,21           | 153:24           | 3:23                | 141:11           |
| 16:6           | 28:22,23          | <b>buyers</b>    | 4:10                | 143:2            |
| 30:12          | 29:2              | 12:25            | 29:9                | 144:7            |
| 125:2          | 31:11             | <b>buying</b>    | 52:25               | 164:2,5          |
| 129:17         | 47:25             | 68:22            | 53:7,13             | 166:17           |
| <b>broad</b>   | 127:16,           | 120:3,4,         | 58:2                | <b>capitaliz</b> |
| 61:11          | 23 130:6          | 5,6              | 98:20               | <b>ation</b>     |
| <b>broaden</b> | <b>buildings</b>  | 125:8            | 101:1               | 153:10           |
| 5:4            | 116:10            | <b>buyout</b>    | <b>cap</b>          | <b>Capitol</b>   |
| 106:7          | 127:20            | 140:2            | 69:21,24            | 9:18             |
| 114:20         | 128:20            | <b>buzzword</b>  | 70:2                | <b>capture</b>   |
| 120:1          | <b>built</b>      | 164:6            | 72:1,3              | 179:9            |
| 161:19         | 35:5              | <b>bylaw</b>     | 80:12               | <b>captured</b>  |
| 164:15         | 90:21             | 158:7            | 85:7                | 30:18            |
| <b>broken</b>  | 143:21            |                  | 87:7,15             | <b>carbon-</b>   |
| 36:11          | 179:24            | <b>C</b>         | 91:19,20            | <b>neutral</b>   |
| 147:11         | <b>bullet</b>     | <b>calculati</b> | 109:7               | 94:17            |
| <b>Brown</b>   | 50:14             | <b>on</b> 28:4,  | 111:15,             | <b>care</b>      |
| 58:17          | <b>bullish</b>    | 5 46:16          | 16                  | 138:19           |
| 59:5           | 135:22            | <b>calculati</b> | 112:16              | 168:7            |
| 81:2           | 145:18            | <b>ons</b> 37:1  | 156:22              | <b>careful</b>   |
| <b>bucket</b>  | <b>bumping</b>    | 44:13            | <b>capabilities</b> | 101:14           |
| 40:24          | 11:14             | <b>calendar</b>  | 60:21               | 177:25           |
| 41:1           | <b>burden</b>     | 6:23,25          | <b>capacity</b>     | <b>carefully</b> |
| 80:17          | 51:25             | 7:8,10           | 80:17               | 56:20            |
| <b>buckets</b> | <b>burning</b>    | 138:7            | <b>capex</b>        | 179:18           |
| 40:9,18        | 51:15             | <b>Californi</b> | 136:12              | <b>carried</b>   |
| 80:7           | 52:4              | <b>a</b> 142:15  | 137:5               | 4:17             |
| 177:23         | <b>business</b>   | <b>Callan</b>    | <b>capital</b>      | 58:6             |
| <b>budget</b>  | 4:6 7:20          | 26:20,21         | 7:16                | 169:25           |
| 64:4           | 87:20             | <b>calls</b>     | 12:10               | <b>cash</b>      |
| 80:21          | 143:7             | 100:14           | 15:3                | 30:13            |
| 87:10          | 160:2             | 148:13           | 17:9,22             | 66:17,           |
| 88:25          | 168:2             | <b>Cambridge</b> | 24:18               | 18,20            |
| 91:16          | <b>businesses</b> | 138:21           | 26:16               | 119:19,          |
| 93:25          | <b>s</b> 100:20   | <b>camera</b>    | 28:20               | 21               |
| 95:20,21       | 146:7,11          | 151:9            | 29:22               | 133:24           |
| 112:21         | <b>buy</b>        | <b>Canadian</b>  | 31:11               | 138:5            |
| 117:15         | 72:18             | 154:22,          | 33:3                | <b>CAT</b>       |
| <b>build</b>   | 100:19            | 23               | 49:14,19            | 175:11           |
| 24:17          | 127:23            |                  | 132:20              | 176:18           |
| 160:8          | 168:3,7           |                  | 136:19              |                  |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Catastrophe</b><br>175:10                                                                                                                                                                                                                                                                                                                                                                                                                                | <b>chair</b><br>6:13<br>55:17,<br>19,23<br>56:25<br>165:23                                                                                                                                                                                     | 108:16<br>109:8<br><b>chance</b><br>93:2<br><b>changes</b><br>4:9 8:18<br>69:15<br>89:4<br>97:7,22<br>98:22<br>157:10<br>165:19                                                                                                                                                                                                                                            | <b>chiefly</b><br>153:7<br><b>Chiles</b><br>113:23<br>114:20<br>115:1<br>176:1,5<br><b>China</b><br>10:4,9<br>98:22<br>99:25<br>100:7,13<br>101:14<br>118:13<br>135:15<br>145:3,<br>16,17,<br>18,25<br>146:3,<br>12,16<br><b>China-</b><br><b>related</b><br>99:8<br><b>Chinese</b><br>99:11<br><b>choices</b><br>117:3<br><b>chooses</b><br>166:8<br><b>Chris</b><br>56:2<br><b>chunk</b><br>133:13<br><b>CIO</b><br>101:20<br>178:1<br><b>CIO's</b><br>177:19<br><b>circled</b><br>23:18<br>34:12<br>36:13<br><b>cite</b> 5:6 | <b>citing</b><br>57:11<br><b>City</b><br>128:22<br>154:22<br><b>class</b><br>12:19<br>58:10,25<br>59:9,14,<br>20<br>60:10,17<br>63:4<br>69:12<br>74:24<br>75:14<br>76:19<br>85:20<br>101:19<br>103:24<br>132:7<br>140:24<br>141:3<br>145:20<br>147:13<br>175:5<br><b>classes</b><br>32:1<br>72:24<br>113:22<br>115:17<br>117:3<br>124:12<br>147:11<br>172:8<br>175:4<br><b>classic</b><br>143:8<br><b>classified</b><br>163:13<br><b>clauses</b><br>164:8<br><b>clients</b><br>51:17<br>91:2 |
| <b>catching</b><br>133:18                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>chaired</b><br>177:8<br><b>chairman</b><br>53:18<br>54:9,13<br>55:5,17<br>57:7<br>58:12,23<br>86:10<br>130:19<br>132:3<br>137:12<br>140:6<br>144:24<br>151:8<br>169:19<br>179:3                                                             | <b>character</b><br>8:1<br><b>character</b><br><b>izes</b><br>13:12<br><b>charged</b><br>81:13<br><b>chart</b><br>76:5,20<br>77:2,18<br>78:7,12<br>120:15<br>121:5<br>132:5<br>138:18<br>171:1<br><b>charter</b><br>158:7<br><b>charts</b><br>75:13<br>76:11<br><b>chase</b><br>131:17<br><b>chats</b><br>148:22<br><b>cheap</b><br>8:5,6<br><b>check</b><br>14:2<br>16:22 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>categories</b><br>131:3,<br>4 156:4<br><b>category</b><br>95:17<br>129:19<br>156:5<br>164:4<br><b>cautious</b><br>16:14<br>118:14<br>136:18,<br>24<br><b>cease</b><br>166:22<br><b>ceiling</b><br>11:15<br><b>celebrate</b><br>172:16<br><b>celebrating</b><br>172:19<br><b>CEM</b><br>106:1<br>108:20<br><b>central</b><br>21:10<br>32:24<br>37:4,12<br>47:10<br>59:19<br>81:6<br><b>cetera</b><br>142:11<br>152:22<br><b>chain</b><br>161:18<br>164:14 | <b>challenge</b><br>67:7<br>108:1<br><b>challenge</b><br>92:16,<br>22<br><b>challenge</b><br>18:17,<br>19,23<br>64:21<br>65:14<br>67:3<br>68:6<br>69:20<br><b>challengi</b><br><b>ng</b> 18:20<br>64:15<br>66:16,17<br>67:12<br>68:12<br>105:7 |                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 106:6<br><b>climate-</b><br><b>related</b><br>164:17<br><b>clock</b><br>9:1<br><b>clockwise</b><br>23:8<br><b>closed-</b><br><b>end</b> 63:7<br>126:9<br>130:20,<br>24<br><b>closer</b><br>108:12<br><b>closings</b><br>134:4<br><b>CMBS</b><br>122:2<br><b>co-invest</b><br>143:25<br><b>co-</b><br><b>investmen</b><br><b>t</b> 144:5,<br>11<br><b>co-</b><br><b>investmen</b><br><b>ts</b><br>144:8,16<br><b>collabora</b><br><b>te</b> 15:2<br><b>colleague</b><br><b>s</b> 14:7<br>58:17<br>67:4<br>82:20<br><b>collectin</b><br><b>g</b> 31:2<br><b>collectiv</b><br><b>e</b> 60:12<br><b>collectiv</b><br><b>ely</b><br>85:18 | <b>Collins</b><br>3:8<br>24:21,23<br>25:8,14,<br>18 51:4<br>52:11<br>53:12,14<br>91:14,16<br>95:11<br>96:5<br>120:3,9,<br>14,20<br>123:1,8,<br>11<br>125:5,25<br>126:16,<br>22<br>127:12<br>128:6<br>130:18<br>131:6,<br>10,14<br>141:13,<br>24<br>142:5,17<br>144:5,<br>18,21<br>159:12,<br>14<br>160:11,<br>22 162:1<br>177:16<br>179:2<br><b>color</b><br>29:21<br><b>coloring</b><br>98:23<br><b>combinati</b><br><b>on</b> 12:18<br>20:12<br><b>combines</b><br>38:2 | <b>comfortab</b><br><b>le</b> 112:6<br>121:16<br><b>comfortin</b><br><b>g</b> 6:1,7<br><b>comment</b><br>6:15<br>70:14<br>98:21<br>101:13<br>105:23<br>126:22,<br>23<br><b>commentar</b><br><b>y</b> 66:2<br><b>comments</b><br>4:22<br>6:12<br>14:15<br>16:18<br>48:23,25<br>50:10<br>55:1<br>57:5<br>59:1<br>61:25<br>86:6<br>87:4<br>90:1<br>101:23<br>103:22<br>108:7<br>109:16<br>113:20<br>155:8<br>170:10<br><b>commerca</b><br><b>l</b> 123:5<br><b>commit</b><br>144:7<br><b>commitmen</b><br><b>t</b> 55:9 | <b>commitmen</b><br><b>ts</b> 134:3<br><b>committed</b><br>125:16<br>139:17<br>140:1,4<br><b>committee</b><br>55:24<br>177:14,<br>18<br>179:19<br><b>committee</b><br><b>s</b> 55:13<br><b>commoditi</b><br><b>es</b><br>135:14,<br>15,17<br>136:8,<br>20,22<br>137:7<br><b>common</b><br>153:19<br><b>commonly</b><br>61:9<br>162:24<br><b>communica</b><br><b>te</b><br>71:10,15<br><b>communica</b><br><b>ted</b><br>134:11<br><b>communica</b><br><b>tion</b><br>56:12,15<br><b>comp</b><br>179:19<br><b>companies</b><br>61:21<br>100:5,12<br>135:25<br>137:4<br>152:7,18<br>153:3, | 17,22<br>154:6,15<br>155:15,<br>23,25<br>156:22,<br>23,25<br>157:1<br>158:24<br>159:3,17<br>160:9,<br>12,24<br>161:9,14<br><b>compare</b><br>44:15<br>50:25<br>51:14<br>114:20<br><b>compared</b><br>28:14<br>46:2<br>107:7<br>147:25<br>148:9<br>157:7<br>164:22<br>171:8<br><b>compares</b><br>18:4<br>37:23<br><b>compariso</b><br><b>n</b> 28:11<br><b>compariso</b><br><b>ns</b> 18:3<br>45:24<br>156:14<br><b>compensat</b><br><b>ion</b> 4:24<br>156:17<br>177:7,<br>18,20<br>178:5<br><b>competing</b><br>53:21 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|



|                                          |                                           |                                          |                                                             |                                                                              |
|------------------------------------------|-------------------------------------------|------------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------------------|
| <b>competitive</b><br>71:11,15<br>176:15 | <b>concerns</b><br>43:21<br>161:15,<br>16 | <b>consider</b><br>50:22<br>52:7<br>53:1 | <b>consolidation</b><br>151:20<br><b>constant</b><br>160:13 | 160:1<br>161:19                                                              |
| <b>complacency</b> 74:15                 | <b>concert</b><br>93:15                   | 74:22<br>112:14                          | <b>construct</b><br>24:19                                   | <b>continual</b><br>68:6                                                     |
| <b>complete</b><br>13:2                  | <b>concise</b><br>170:9                   | 159:24<br>160:19                         | <b>continued</b><br>61:20                                   | <b>continued</b><br>69:19,<br>21,24,25                                       |
| <b>completely</b> 158:21                 | <b>concluded</b><br>179:23                | <b>consideration</b><br>52:8             | <b>constructive</b><br>13:17                                | 70:15<br>71:10<br>72:8                                                       |
| <b>compliments</b> 6:9                   | <b>concludes</b><br>86:4                  | 169:17<br>178:1                          | <b>consultant</b><br>52:15                                  | 82:22<br>83:1<br>88:1                                                        |
| <b>component</b><br>61:15                | <b>conditions</b> 64:20                   | <b>considered</b><br>149:12,<br>14       | <b>consultants</b> 15:2                                     | 91:7<br>170:19                                                               |
| <b>composition</b> 61:7                  | 80:3<br>167:12                            | <b>considering</b> 81:12                 | 58:25<br>102:11<br>125:3                                    | <b>continues</b><br>65:9                                                     |
| <b>compress</b><br>141:12                | <b>conduct</b><br>155:16                  | 99:2<br><b>consist</b><br>128:18,<br>21  | 132:13<br><b>consultants</b> 15:2                           | 85:19,20<br>92:4<br>137:14                                                   |
| <b>compressing</b> 141:3                 | <b>conference</b><br>49:13                | 129:5,11<br><b>consistent</b><br>78:4    | <b>consume</b><br>10:15                                     | 139:8<br>173:16<br>175:21                                                    |
| <b>comprised</b><br>25:12                | <b>confidence</b><br>90:19                | 90:12<br><b>consistently</b><br>51:10    | <b>consumer</b><br>100:4,13                                 | <b>contract</b><br>72:5                                                      |
| <b>compromised</b><br>71:19,20           | <b>congratulations</b><br>6:10            | 177:15<br><b>consistently</b><br>66:19   | 138:18<br>146:7,8<br>168:5                                  | <b>contribute</b><br>75:23                                                   |
| <b>Comstock</b><br>13:23,25              | <b>consecutive</b><br>8:2                 | 63:20<br>78:17                           | <b>consumers</b><br>10:16                                   | <b>contributed</b> 76:14                                                     |
| 14:1,5<br>25:22<br>26:1<br>170:4,5       | <b>consensus</b><br>53:23                 | 90:7<br>171:1<br>177:15                  | <b>contagion</b><br>118:17                                  | 82:13<br>85:5<br>172:10<br>174:13                                            |
| <b>concentrated</b><br>173:19            | <b>consequences</b> 11:3                  | <b>consistently</b><br>66:19             | <b>contained</b><br>104:12                                  | <b>contributing</b> 44:8                                                     |
| <b>concentration</b><br>69:20            | <b>conservative</b><br>127:22             | 77:15<br>171:2<br>173:13                 | <b>contains</b><br>61:12                                    | <b>contribution</b><br>36:10<br>37:1<br>44:10,25<br>48:14<br>53:10<br>146:21 |
| <b>concern</b><br>157:9                  |                                           |                                          | <b>contests</b><br>155:10                                   |                                                                              |
| <b>concerned</b><br>93:4<br>160:5        |                                           |                                          | <b>context</b><br>8:4<br>154:20<br>155:9                    |                                                                              |

|                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>contributions</b><br>25:13<br>36:17<br>37:2,3,8<br>38:3<br>44:3,11,<br>16,19<br>45:14,<br>16,19<br>46:17<br>48:5<br>50:1<br>149:18<br>150:17 | <b>copied</b><br>56:14<br>57:14<br><b>Copper</b><br>135:18<br><b>core</b><br>27:12,14<br>28:18<br>122:13<br>124:15,<br>18 125:9<br>126:14,<br>15 130:3<br><b>core-plus</b><br>126:19<br><b>corner</b><br>22:13<br>23:9,16<br><b>corollary</b><br>126:6<br>149:7<br>151:14<br><b>corporate</b><br>30:10<br>106:3<br>159:20<br>160:4<br><b>corporation</b><br>154:25<br>159:1,15<br><b>corresponding</b><br>171:5<br><b>cost</b><br>24:1<br>37:25<br>38:1,9,<br>10 39:18<br>44:8<br>55:10<br>62:13<br>127:25<br>142:11<br>171:12<br>155:24 | <b>costs</b><br>10:13,19<br>24:3<br>63:17<br>71:3,5,<br>6,7,8<br>73:8<br>96:25<br>97:2<br>98:15<br>109:15<br>124:25<br><b>council</b><br>3:1<br>56:13<br>112:6<br>169:14<br><b>count</b><br>126:6<br>149:7<br>151:14<br><b>counter</b><br>55:2<br><b>countries</b><br>61:13<br>62:5<br>168:20<br><b>country</b><br>61:8<br>81:16<br>169:1<br><b>coupon</b><br>118:6,7<br><b>course</b><br>4:21 5:3<br>6:3 9:8<br>66:4<br><b>cover</b><br>18:7<br>60:1<br>165:10,<br>18 169:7<br>171:12<br>175:10 | <b>covered</b><br>110:8<br>174:16<br><b>covering</b><br>11:5<br>18:10<br>58:21<br>170:7<br><b>covers</b><br>164:6<br><b>COVID</b><br>9:2 93:5<br>115:25<br>116:14<br>120:12<br>137:15<br>145:21<br>146:15<br>148:4,7<br>151:19<br>155:14<br>157:13<br><b>COVID-RELATED</b><br>9:16<br><b>CPI</b><br>173:1<br><b>crafted</b><br>56:4<br><b>crazy</b><br>8:13,14<br><b>cream</b><br>166:1<br><b>create</b><br>15:2<br>117:16<br><b>created</b><br>167:12<br><b>credit</b><br>121:25<br>122:1,14<br>123:5<br>127:16<br>128:20 | 132:13<br>133:2<br>135:7<br>175:16<br><b>credit-only</b><br>122:18<br><b>credits</b><br>5:4<br><b>crisis</b><br>8:21 9:7<br><b>criteria</b><br>153:5<br><b>critical</b><br>85:22<br><b>criticism</b><br>160:14<br><b>critique</b><br>154:1<br><b>cross</b><br>154:4,8<br><b>crossing</b><br>48:8<br><b>crossover</b><br>60:5<br><b>crowd</b><br>52:20<br><b>culture</b><br>6:4<br><b>curious</b><br>120:9<br><b>currencie</b><br>s 62:5<br><b>currency</b><br>63:5<br>65:13<br><b>current</b><br>17:7,19<br>19:17<br>20:2<br>21:17,24<br>22:11,20<br>28:25 |
|-------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                  |                 |                  |                  |                  |
|------------------|-----------------|------------------|------------------|------------------|
| 29:1             | 174:16          | <b>decide</b>    | <b>decrease</b>  | <b>DEI</b>       |
| 31:13,20         | <b>dance</b>    | 147:19           | 27:5             | 164:11           |
| 32:12,13         | 143:12          | <b>decides</b>   | 48:3             | <b>Delaware</b>  |
| 33:2             | <b>dark</b>     | 167:20           | <b>decreased</b> | 159:21           |
| 34:13            | 21:21           | <b>decision</b>  | 18:21            | <b>delayed</b>   |
| 36:13            | 41:17           | 13:17            | <b>dedicate</b>  | 155:18           |
| 47:17            | 42:1            | 65:23            | 55:23            | <b>deliberat</b> |
| 48:12,15         | 43:6            | 166:21,          | <b>dedicated</b> | <b>e</b> 90:5,6  |
| 113:8            | 45:11           | 22               | 65:12            | <b>deliver</b>   |
| 121:25           | <b>dashed</b>   | <b>decision-</b> | 84:6             | 76:12            |
| 171:23           | 34:22           | <b>making</b>    | <b>deem</b>      | 82:6             |
| <b>currently</b> | <b>data</b>     | 177:24           | 144:9            | 115:2,22         |
| 19:1             | 31:4,24         | <b>decisions</b> | <b>deep</b>      | <b>delivered</b> |
| 32:9             | 32:13           | 17:14            | 103:11,          | 114:5,17         |
| 61:23            | 46:11           | 72:9             | 21               | <b>deliverin</b> |
| 63:4             | 105:25          | 83:8             | 161:22           | <b>g</b> 80:23   |
| 64:5             | 106:4           | 90:15            | <b>default</b>   | 104:13           |
| 132:7            | 108:20          | 113:1,2          | 10:6             | <b>delivers</b>  |
| 173:1            | 173:8,9         | <b>declassif</b> | 147:18           | 75:8             |
| <b>curve</b>     | <b>days</b>     | <b>y</b> 158:5   | 150:10           | <b>delivery</b>  |
| 39:11,           | 118:7           | <b>decline</b>   | 9:12             | 9:12             |
| 12,21            | 167:14          | 20:10            | <b>defeasanc</b> | <b>delta</b>     |
| 119:19           | 168:16          | 21:2             | <b>e</b> 127:25  | 93:9             |
| <b>custom</b>    | <b>deal</b>     | 27:10            | <b>defensive</b> | <b>demand</b>    |
| 15:3             | 5:22            | 31:6             | 79:19            | 93:12            |
| 129:2            | 53:22           | 36:18,22         | <b>defensive</b> | 130:4            |
| 168:18           | 59:23           | 41:24            | <b>ly</b> 84:7   | 135:20           |
| <b>customize</b> | 60:4            | 42:2             | 111:7            | 136:11,          |
| <b>d</b> 169:1   | 118:19          | 46:7             | <b>defined</b>   | 15               |
| <b>cut</b>       | 127:19          | 49:15            | 64:23            | <b>demands</b>   |
| 106:7            | 137:16          | 50:4             | 95:21            | 53:21            |
| <b>cycle</b>     | 141:9           | 68:1             | 146:21           | <b>demonstra</b> |
| 116:22           | <b>debate</b>   | 150:22           | <b>defining</b>  | <b>tes</b>       |
| <b>cycles</b>    | 9:17            | 151:13,          | 34:9             | 76:12            |
| 158:7            | <b>debt</b>     | 19               | <b>definitel</b> | 78:4             |
| <b>cyclical</b>  | 10:6            | 157:25           | <b>y</b> 103:24  | <b>Denise</b>    |
| 79:21            | 132:6           | <b>declined</b>  | 150:24           | 58:19            |
|                  | 135:8,12        | 29:13            | 172:5            | 59:18            |
| <b>D</b>         | <b>decade</b>   | 47:20            | 174:9            | 61:1             |
| <b>Dan</b>       | 18:24           | 51:9             | <b>defund</b>    | 69:7             |
| 146:22           | 93:1            | 66:24            | 88:8             | 73:5             |
| 148:25           | <b>December</b> | 68:1             | <b>degree</b>    | 74:25            |
| 149:21           | 6:1             | <b>declining</b> | 90:19            | 75:1,3,5         |
|                  | 139:5           | 99:25            |                  |                  |

|                  |                  |                  |                  |                  |
|------------------|------------------|------------------|------------------|------------------|
| 83:2             | 155:2,6          | <b>developme</b> | <b>dig</b>       | <b>disappoin</b> |
| 86:11            | <b>detailed</b>  | <b>nts</b>       | 103:13,          | <b>ted</b> 67:9  |
| <b>denominat</b> | 61:6             | 137:7            | 16,19            | 91:5             |
| <b>or</b>        | 82:10            | <b>develops</b>  | <b>digging</b>   | <b>disclosin</b> |
| 124:13           | 106:4,5          | 17:21            | 18:12            | <b>g</b> 152:18  |
| <b>deny</b>      | <b>details</b>   | <b>deviating</b> | 103:11           | <b>disclosur</b> |
| 99:23            | 21:25            | 64:2             | <b>digit</b>     | <b>e</b> 152:12  |
| <b>Departmen</b> | <b>determine</b> | 78:1             | 150:4            | <b>disclosur</b> |
| <b>t</b> 114:6,  | 127:9            | <b>deviation</b> | <b>dilemma</b>   | <b>es</b> 153:6  |
| 15               | <b>determine</b> | 95:22            | 86:13            | <b>discount</b>  |
| <b>depend</b>    | <b>d</b> 46:17   | 96:3             | <b>diligence</b> | 24:1             |
| 32:19            | <b>determini</b> | <b>diagonal</b>  | 103:1,           | 30:9,11          |
| <b>depending</b> | <b>ng</b> 14:21  | 78:9             | 16,18            | <b>discounti</b> |
| 158:2            | <b>determini</b> | <b>dial</b>      | 111:18           | <b>ng</b> 23:25  |
| <b>depth</b>     | <b>stic</b>      | 34:14,16         | <b>diligent</b>  | <b>discretio</b> |
| 103:20           | 41:8             | <b>dial-in</b>   | 74:16            | <b>n</b> 144:6,  |
| <b>deputy</b>    | 42:7             | 151:6            | <b>dim</b>       | 11               |
| 101:20           | 43:22            | <b>dialing</b>   | 159:7            | <b>discretio</b> |
| <b>derivatio</b> | 48:17            | 19:18            | <b>dip</b>       | <b>nary</b>      |
| <b>n</b> 28:20   | <b>Detractor</b> | 38:25            | 137:15           | 100:5            |
| <b>describe</b>  | <b>s</b> 128:21  | <b>dialogue</b>  | <b>direct</b>    | <b>discuss</b>   |
| 113:20           | 129:11           | 167:6            | 9:16             | 59:7,10          |
| 117:5            | <b>develop</b>   | <b>diamond</b>   | 141:25           | 60:11            |
| <b>described</b> | 70:16,25         | 51:8,9           | <b>direction</b> | 178:5            |
| 51:16            | <b>developed</b> | <b>differenc</b> | 9:23             | <b>discussio</b> |
| 81:5             | 20:6             | <b>e</b> 9:8     | 67:20            | <b>n</b> 7:23    |
| <b>deserves</b>  | 30:7             | 27:25            | 91:8             | 58:8             |
| 178:11           | 63:14            | 28:2,3,          | 129:10           | 85:8             |
| <b>design</b>    | 72:2             | 15               | <b>directly</b>  | 100:16           |
| 75:14            | 81:20            | 173:14           | 179:14           | 101:21           |
| 133:6            | 84:18            | <b>differenc</b> | <b>director</b>  | 104:7            |
| 179:21           | 109:11,          | <b>es</b>        | 55:16            | 112:22           |
| <b>designed</b>  | 19               | 170:25           | 58:19            | 179:19,          |
| 82:6             | 153:15           | <b>different</b> | 75:5             | 20               |
| <b>desire</b>    | <b>developer</b> | <b>iated</b>     | 152:9,10         | <b>display</b>   |
| 94:2             | 118:20           | 86:1             | 156:4            | 51:8             |
| <b>despite</b>   | <b>developin</b> | <b>ly</b> 95:3   | 165:5            | <b>dispropor</b> |
| 67:2             | <b>g</b> 33:3    | 96:8             | <b>directors</b> | <b>tionate</b>   |
| <b>detail</b>    | 70:17            | <b>difficult</b> | 152:8,           | 43:9             |
| 21:15            | <b>developme</b> | 70:3             | 14,21            | <b>disputed</b>  |
| 58:15            | <b>nt</b> 26:3,  | 88:9             | 156:7,10         | 166:23           |
| 117:2            | 8 129:7          | 124:13           | 158:5            |                  |
| 142:22           | 130:7            |                  | 162:23           |                  |

|                                           |                                                                   |                                         |                          |                                             |
|-------------------------------------------|-------------------------------------------------------------------|-----------------------------------------|--------------------------|---------------------------------------------|
| <b>disrupter</b><br>s 89:7                | <b>diversifi</b><br><b>ed</b> 60:19                               | 80:8<br>169:2                           | 112:17                   | <b>dry</b><br>135:11                        |
| <b>disruptiv</b><br><b>e</b> 11:2         | 63:18                                                             | <b>dollars</b><br>38:6                  | 84:24                    | <b>ducks</b><br>12:2                        |
| <b>dissent</b><br>156:20                  | 64:22                                                             | 72:14                                   | <b>drifting</b><br>45:3  | <b>due</b><br>62:12                         |
| <b>dissimila</b><br><b>r</b> 8:1          | 78:18                                                             | 73:24                                   | <b>drill</b><br>19:24    | 103:1,                                      |
| <b>distinct</b><br>80:2                   | 88:14                                                             | 82:23                                   | <b>drive-by</b><br>15,17 | 111:18                                      |
| 141:13,                                   | 89:22                                                             | 114:17                                  | 165:8                    | 124:10                                      |
| 14                                        | 99:14                                                             | 115:2                                   | <b>driven</b><br>20:11   | 130:4                                       |
| <b>distra</b><br><b>cted</b> 85:18        | 100:6                                                             | 141:23                                  | 23:2                     | 151:19                                      |
| <b>distresse</b><br><b>d</b><br>132:11,   | <b>diversify</b><br>63:4                                          | <b>domestic</b><br>146:7                | 28:15                    | <b>duration</b><br>119:24                   |
| 14 140:4                                  | 64:22                                                             | <b>dot</b> 32:3                         | 44:12                    | 122:13                                      |
| <b>distribut</b><br><b>ed</b> 56:15       | 85:25                                                             | 78:7,9                                  | 48:5                     | <b>dust-up</b><br>142:15,                   |
| <b>distribut</b><br><b>ion</b><br>149:12  | <b>diversify</b><br><b>ing</b><br>132:8,                          | <b>double</b><br>69:17                  | 70:5,24                  | 21                                          |
| <b>distribut</b><br><b>ions</b><br>33:25  | 23,24                                                             | 106:10                                  | 80:16                    | <b>dwindling</b><br>46:20                   |
| <b>dive</b><br>16:19                      | <b>diversity</b><br>82:4                                          | 150:4                                   | 94:12,14                 | <b>dynamic</b><br>70:13                     |
| 22:2                                      | 152:5,                                                            | <b>doubled</b><br>69:12                 | 114:23                   | <b>dynamics</b><br>30:20                    |
| 60:15                                     | 13,19                                                             | 17:24                                   | 135:15                   | 59:8                                        |
| <b>diverse</b><br>79:16                   | 153:20                                                            | <b>dovetail</b><br>147:4                | 147:4                    | 81:23                                       |
| 152:8                                     | <b>downside</b><br>78:23                                          | <b>driver</b><br>28:3                   | 28:3                     | 84:2                                        |
| <b>diversifi</b><br><b>cation</b><br>78:5 | <b>diversity</b><br><b>/equity/</b><br><b>inclusion</b><br>164:11 | <b>drivers</b><br>28:5                  | 29:15                    |                                             |
| 81:5                                      | <b>divest</b><br>166:14                                           | <b>driving</b><br>115:15                | 117:12                   | <b>E</b>                                    |
| 85:22                                     | 167:13                                                            | 139:23                                  |                          |                                             |
| 94:2                                      | <b>divestitu</b><br><b>re</b><br>166:18                           | <b>drop</b><br>51:20                    |                          | <b>E&amp;s</b><br>162:11                    |
| 129:15,                                   | <b>divestmen</b><br><b>t</b> 94:16                                | 52:9                                    |                          | 163:9                                       |
| 22                                        | <b>divided</b><br>34:10                                           | 148:7                                   |                          | <b>E&amp;s-</b><br><b>related</b><br>162:13 |
|                                           | 177:22                                                            | <b>dropped</b><br>15:11                 |                          | <b>EAFE</b><br>109:12                       |
|                                           | <b>dividend</b><br>30:8,11                                        | 66:20                                   |                          | <b>earn</b><br>25:9,11                      |
|                                           | 153:25                                                            | <b>dramatic</b><br>22:21                |                          | 118:6                                       |
|                                           | <b>dollar</b><br>25:2                                             | 72:16                                   |                          | <b>earnings</b><br>30:10,22                 |
|                                           |                                                                   | 161:8                                   |                          | 31:1                                        |
|                                           |                                                                   | <b>dramatica</b><br><b>lly</b><br>15:12 |                          |                                             |

|                                         |                                         |                                         |                                         |                                           |
|-----------------------------------------|-----------------------------------------|-----------------------------------------|-----------------------------------------|-------------------------------------------|
| 114:13                                  | <b>efficienc</b><br><b>ies</b><br>62:13 | 84:18                                   | <b>engagemen</b><br><b>t</b> 162:20     | <b>environme</b><br><b>ntal</b><br>161:15 |
| <b>ease</b><br>51:24                    | 73:14                                   | 109:13,                                 | <b>engaging</b><br>73:15                | 162:3                                     |
| <b>east</b><br>38:24                    | 74:4                                    | 19                                      | <b>engineer</b><br>84:25                | 163:17                                    |
| <b>eat</b><br>25:15                     | <b>efficienc</b><br><b>y</b> 32:2       | 110:19                                  | <b>English</b><br>153:7                 | <b>environme</b><br><b>nts</b><br>48:16   |
| <b>ebb</b> 31:3                         | 62:20                                   | 111:15                                  | <b>emphasize</b><br>64:13,17            | 79:22                                     |
| <b>echo</b><br>23:15                    | <b>efficient</b><br>77:24               | 134:17                                  | 68:10                                   | 88:16                                     |
| <b>economic</b><br>16:5                 | 80:11                                   | <b>emphasize</b><br><b>d</b> 88:22      | <b>enhance</b><br>152:12                | <b>equate</b><br>31:19                    |
| 21:18                                   | 90:7,11                                 | <b>employ</b><br>149:2                  | <b>enhanceme</b><br><b>nts</b><br>85:24 | <b>equating</b><br>38:6                   |
| 33:15,                                  | <b>efficient</b><br><b>ly</b> 59:21     | <b>employee</b><br>158:20               | <b>enjoy</b><br>143:5                   | <b>equities</b><br>8:7                    |
| 20,24                                   | <b>efforts</b><br>60:13                 | 178:8                                   | <b>ensuing</b><br>19:23                 | 70:10                                     |
| 37:25                                   | 74:22                                   | <b>employees</b><br>68:3                | 36:18                                   | 96:9                                      |
| 38:1,9,                                 | <b>eight</b><br>91:23,24                | 148:2                                   | <b>ensure</b><br>65:4                   | 107:2                                     |
| 10,12                                   | 139:23                                  | 152:22                                  | 73:13                                   | 115:21                                    |
| 39:18                                   | <b>Eighty-</b><br><b>one</b><br>124:18  | 161:17                                  | 74:3                                    | 124:11                                    |
| 45:12                                   | <b>election</b><br>81:18                | <b>employer</b><br>36:10                | 94:22                                   | 168:19                                    |
| 74:7                                    | 150:11                                  | <b>encourage</b><br>49:5                | <b>enter</b><br>141:9                   | 176:8                                     |
| 92:16                                   | 158:7                                   | <b>ended</b><br>66:4                    | <b>entertain</b><br>57:22               | <b>equity</b><br>11:11,15                 |
| 93:11,19                                | <b>economics</b><br>73:16               | 138:2,4                                 | 13:6                                    | 12:11,19                                  |
| 115:19,                                 | 143:17,                                 | 170:14                                  | 15:4                                    | 20:6,8,                                   |
| 22                                      | 24 144:1                                | 176:12                                  | 10,12                                   | 26:11,                                    |
| 145:19                                  | <b>economy</b><br>116:12                | <b>endorseme</b><br><b>nt</b><br>113:14 | 13,14                                   | 27:2,3,                                   |
| <b>educate</b><br>96:16,19              | <b>electroni</b><br><b>c</b> 135:21     | <b>endowment</b><br>114:21              | 152:21                                  | 9,15,18,                                  |
| <b>education</b><br>146:10              | <b>element</b><br>94:21,22              | 176:2                                   | <b>entirely</b><br>67:13                | 19                                        |
| <b>effect</b><br>114:3                  | <b>eliminate</b><br>158:14              | <b>energy</b><br>94:14                  | <b>entity</b><br>160:7                  | 28:13,                                    |
| 124:13                                  | <b>eliminati</b><br><b>ng</b> 68:3      | 135:22,                                 | <b>environme</b><br><b>nt</b> 6:4       | 28:13,                                    |
| 154:10                                  | <b>embrace</b><br>166:8                 | 24                                      | 29:1,2                                  | 16,19                                     |
| <b>effective</b><br><b>ly</b><br>104:21 | <b>emerging</b><br>61:17                | 136:13                                  | 84:11                                   | 29:3,22                                   |
| 106:16                                  | 72:1                                    |                                         | 85:5                                    | 30:2,4                                    |
|                                         | 80:11                                   |                                         | 92:14,19                                | 31:10                                     |
|                                         |                                         |                                         | 93:2,3                                  | 39:19,                                    |
|                                         |                                         |                                         | 164:15                                  | 20,23                                     |
|                                         |                                         |                                         |                                         | 40:19                                     |
|                                         |                                         |                                         |                                         | 47:19                                     |

|                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 58:9,11,<br>15,18<br>59:6<br>62:1<br>63:22<br>65:9<br>67:4<br>70:19<br>72:15,21<br>73:14<br>75:2,6,<br>8,13<br>76:19,25<br>78:19<br>86:19<br>87:5<br>95:4,10,<br>16,25<br>97:21<br>100:25<br>102:22<br>103:23<br>108:9<br>109:19,<br>23<br>110:10,<br>18<br>111:4,<br>15,16<br>113:15<br>114:24,<br>25<br>116:3,5<br>124:11<br>132:7<br>136:2<br>137:14<br>139:12<br>140:16<br>142:9<br>147:16<br>171:4,8<br>172:7<br>173:17, | 18<br>174:10,<br>12<br><b>err</b> 54:1<br><b>error</b><br>69:12,16<br>77:6,19,<br>20 80:14<br>96:5,6<br>104:12<br>110:16<br><b>escalatio</b><br><b>n</b> 121:21<br>161:8<br><b>ESG</b><br>157:22<br><b>ESG-TYPE</b><br>165:5<br><b>especiall</b><br><b>y</b> 82:17<br><b>essential</b><br><b>ly</b> 18:15<br>21:11,20<br>23:24<br>24:14<br>31:13<br>33:11,21<br>35:6<br>36:4,18<br>38:1,9<br>40:23<br>41:3,15<br>43:1<br>44:5,10<br>48:2<br>72:7<br>152:6<br>156:6,20<br>158:1<br>159:25<br>162:6<br>164:10 | <b>establish</b><br><b>ed</b> 167:5<br><b>estate</b><br>8:14<br>10:4<br>40:21<br>116:8,23<br>123:23<br>124:5,7<br>128:8<br>142:10<br>154:25<br><b>estimate</b><br>25:6<br>141:4,6<br><b>estimatin</b><br><b>g</b> 54:3<br>55:12<br><b>et</b><br>142:11<br>152:22<br><b>Europe</b><br>10:12<br>131:20<br>134:16<br><b>evaluate</b><br>16:4<br>19:16<br>59:25<br>73:6<br>80:18<br><b>event</b><br>41:14<br>87:17<br><b>events</b><br>82:3<br>135:5<br><b>Evergrand</b><br><b>e</b> 118:3,<br>8,18<br>132:19<br><b>everybody</b><br>14:2<br>58:13 | 72:16<br>121:11<br><b>everyday</b><br>103:6<br><b>evident</b><br>78:11<br><b>ex-u.s.</b><br>122:23<br><b>exacerbat</b><br><b>ed</b> 27:15<br><b>exactly</b><br>29:6<br>83:6<br>150:25<br>160:20<br>166:11,<br>24<br><b>examining</b><br>51:18<br><b>example</b><br>131:5<br>143:8<br><b>examples</b><br>116:2<br><b>exceed</b><br>60:17<br><b>exceeds</b><br>170:19<br><b>excellent</b><br>72:9<br>74:19<br><b>exception</b><br><b>al</b> 163:7<br><b>exception</b><br><b>s</b> 137:2<br>154:7<br><b>excess</b><br>76:13,15<br>78:12<br>110:23<br>121:10<br><b>exchange</b><br>152:4,25 | 154:12<br><b>exciting</b><br>119:4<br>120:2<br><b>excluded</b><br>26:25<br><b>excludes</b><br>168:19<br><b>exclusive</b><br><b>ly</b><br>177:19<br><b>excuse</b><br>94:11<br>119:11<br><b>executive</b><br>17:17<br>43:20<br>156:17<br><b>exhibit</b><br>38:17<br><b>exhibited</b><br>157:2<br><b>exist</b><br>94:21<br><b>existing</b><br>40:7<br>130:11<br><b>exists</b><br>65:22<br>94:23<br><b>expand</b><br>122:15<br>172:22<br><b>expanded</b><br>122:12<br>158:17<br><b>expect</b><br>51:12<br>78:1<br>79:12<br>80:13<br>83:3<br>84:8<br>132:16 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 135:2,16<br>149:21<br>150:4<br>172:21<br>174:11<br><b>expectati</b><br><b>on</b> 16:15<br>30:4<br>32:24<br>33:7<br>34:24<br>37:5,12<br>52:6<br>95:5<br>168:14<br>172:18<br><b>expectati</b><br><b>ons</b> 7:15<br>15:24<br>27:14<br>30:1,16,<br>19 31:1,<br>6 50:21<br>85:4<br>140:20<br><b>expected</b><br>16:3,5<br>18:21<br>20:17<br>21:2<br>24:2<br>27:12<br>31:16,<br>17,22<br>32:14,17<br>35:20,25<br>36:2<br>37:18<br>41:11<br>42:3,13<br>45:19<br>46:1,7,<br>13 47:7,<br>21 49:4, | 17,21,24<br>50:14,18<br>65:4<br>67:15<br>71:18<br>86:16,<br>20,24<br>87:1<br>95:15,18<br>96:3,13<br>140:13,<br>17<br><b>expecting</b><br>19:7<br>24:4<br><b>expeditu</b><br><b>res</b><br>136:19<br><b>expense</b><br>95:7<br>170:18<br><b>expenses</b><br>68:2<br><b>experienc</b><br><b>e</b> 48:1<br>141:10<br><b>experienc</b><br><b>ed</b> 15:25<br><b>experienc</b><br><b>ing</b><br>64:15<br><b>expiratio</b><br><b>ns</b><br>127:21<br><b>explainin</b><br><b>g</b> 178:25<br><b>explains</b><br>78:16<br>176:8<br><b>explanati</b><br><b>on</b><br>169:25 | <b>explode</b><br>135:23<br><b>exploited</b><br>143:20<br><b>explored</b><br>118:12<br><b>export-</b><br><b>oriented</b><br>146:11<br><b>exposure</b><br>11:13,16<br>62:15<br>68:14<br>76:25<br>80:22<br>85:15,18<br>86:3<br>88:15<br>93:21<br>100:8,9<br>114:24,<br>25<br>115:19<br>116:3,7,<br>9<br>129:12,<br>21<br>143:14<br>145:9<br>146:10,<br>11<br>173:18<br><b>exposures</b><br>59:10<br>83:17<br>85:2,23<br>138:14<br>146:3<br><b>extend</b><br>39:8<br>164:14<br><b>extended</b><br>119:24 | <b>extent</b><br>12:6<br>45:19<br>87:9<br>92:25<br>136:13<br>166:13<br><b>external</b><br>59:16,25<br>60:2<br>62:7,22<br>64:6<br>70:20<br>71:13,21<br>73:15,20<br>74:6,9,<br>18<br>106:14,<br>17<br>117:24<br>121:13<br>122:16,<br>21<br><b>externali</b><br><b>ties</b><br>9:21<br><b>externall</b><br><b>y</b> 106:19<br>124:4<br>126:4,11<br>128:24<br>129:1,4<br>130:13<br><b>extra</b><br>142:11<br><b>extraordi</b><br><b>narily</b><br>9:4<br>144:1<br><b>extravaga</b><br><b>nce</b><br>53:25<br><b>extremely</b><br>6:1,6 | 103:21<br>164:22<br>171:25<br>175:18<br><b>extremes</b><br>112:25<br><b>EY</b><br>148:15<br><b>eye-</b><br><b>popping</b><br>138:3<br><b>eyes</b><br>173:21<br><hr/> <b>F</b><br><hr/> <b>face</b><br>18:18<br>69:19<br>93:3<br><b>facility</b><br>119:20<br><b>facing</b><br>68:12<br>86:13<br><b>fact</b><br>13:16<br>57:12<br>77:12<br>79:9<br>114:23<br>115:19<br>178:3<br><b>factor</b><br>80:1<br>163:11<br><b>factor-</b><br><b>tilted</b><br>105:13<br>106:13<br><b>factors</b><br>10:20<br>67:15 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                           |                                          |                             |                                    |                       |
|---------------------------|------------------------------------------|-----------------------------|------------------------------------|-----------------------|
| <b>failed</b><br>154:24   | <b>fast-</b><br><b>forward</b><br>155:19 | 124:25                      | <b>financial</b><br><b>s</b> 94:12 | 21<br>162:14          |
| <b>failover</b><br>151:22 | <b>faster</b><br>9:12                    | <b>feet</b><br>130:8        | 138:16                             | 163:5,16              |
| <b>failure</b><br>157:2,4 | <b>favor</b><br>4:14                     | <b>felt</b><br>121:16       | <b>financing</b><br>132:15         | <b>fiscal</b><br>6:25 |
| <b>fairly</b><br>12:23    | 11:14                                    | <b>female</b><br>152:9      | <b>findings</b><br>47:14           | 8:23                  |
| 51:10                     | 58:3                                     | 156:10                      | <b>firm</b><br>30:3                | 9:4,6,9,<br>13,15,22  |
| 112:20                    | 80:3                                     | <b>fiduciary</b><br>160:16, | 67:25                              | 18:25                 |
| 117:14                    | 83:12,18                                 | 17                          | 106:1                              | 22:23                 |
| 177:15                    | 139:18                                   | <b>field</b><br>153:14      | 143:2                              | 35:4                  |
| <b>fall</b><br>35:20      | 169:22                                   | <b>fifth</b><br>11:22,23    | <b>firms</b><br>20:7               | 36:16                 |
| 81:17                     | 21:9                                     | <b>Fifty</b><br>106:18      | 26:12,19                           | 46:10,22              |
| 164:10                    | 144:1                                    | <b>figures</b><br>110:7     | 28:8                               | 47:4                  |
| <b>fallen</b><br>21:12    | <b>fed's</b><br>96:7,8                   | <b>filed</b><br>164:4,18    | 30:3                               | 48:1                  |
| 79:7                      | <b>Federated</b><br>176:24               | <b>final</b><br>45:23       | 152:12                             | 55:10                 |
| <b>falling</b><br>35:8    | <b>fee</b><br>67:17,18                   | 73:4                        | <b>first</b><br>4:6 9:2            | 66:3,4,<br>5,8 67:6   |
| <b>falls</b><br>46:20     | 68:4                                     | 110:6                       | 10:24                              | 68:16                 |
| 95:6                      | 73:21                                    | <b>finally</b><br>21:16     | 29:24                              | 69:5                  |
| 165:24                    | 74:10                                    | 23:13                       | 59:12                              | 70:13                 |
| <b>familiar</b><br>14:12  | <b>feel</b><br>18:10                     | 46:24                       | 62:24                              | 72:20,25              |
| 70:8                      | 22:8                                     | 48:11                       | 72:12                              | 81:11,25              |
| <b>Fantastic</b><br>16:24 | 49:15                                    | 80:4                        | 75:10                              | 83:20                 |
| <b>far</b> 4:8            | 104:2                                    | <b>financial</b><br>8:21    | 83:24                              | 89:6                  |
| 19:2                      | 112:6                                    | 9:7,13                      | 87:20                              | 119:1                 |
| 21:8                      | 140:18                                   | 19:16                       | 93:4                               | 134:1                 |
| 46:19                     | <b>fees</b><br>64:7,10,                  | 20:21                       | 95:3                               | 147:3,5,              |
| 131:9,12                  | 13 67:20                                 | 60:9                        | 96:24                              | 9,22,24,              |
| 138:12                    | 71:11,16                                 | 61:22                       | 102:22                             | 25                    |
| 157:14                    | 73:11,                                   | 114:6,16                    | 113:22                             | 148:1,3,              |
| <b>fashion</b><br>104:1   | 21,23                                    | 139:2                       | 132:4                              | 12                    |
| <b>fast</b><br>161:22     | 83:14                                    | 148:12,                     | 134:5                              | 151:12,               |
|                           | 109:18,                                  | 15                          | 137:15,                            | 22                    |
|                           | 20                                       | 153:16                      | 21 138:1                           | 165:12                |
|                           | 110:2,4                                  | 159:4                       | 146:24                             | 170:12,               |
|                           |                                          |                             | 150:2                              | 23                    |
|                           |                                          |                             | 151:11                             | 171:17                |
|                           |                                          |                             | 152:2                              | 176:13                |
|                           |                                          |                             | 156:13                             | <b>fit</b><br>83:22   |
|                           |                                          |                             | 158:18                             | 104:11                |
|                           |                                          |                             | 159:3,6,                           | <b>fits</b><br>75:11  |

|                           |                                         |                           |                            |                                            |
|---------------------------|-----------------------------------------|---------------------------|----------------------------|--------------------------------------------|
| <b>five</b> 8:2<br>39:9   | <b>flatlinin</b><br><b>g</b> 35:7       | <b>flowing</b><br>136:14  | 131:9,<br>11,15            | <b>foresee</b><br>43:21                    |
| 40:18,20                  | 48:2                                    | <b>flows</b><br>30:13     | <b>folks</b><br>143:13     | <b>foreseeab</b><br><b>le</b> 120:8        |
| 41:1                      | <b>flexibili</b><br><b>ty</b><br>104:20 | 70:6                      | <b>follow</b><br>20:14     | <b>forgoing</b><br>13:9                    |
| 44:7                      | 107:21                                  | <b>focus</b><br>15:7      | 91:14                      | <b>formal</b><br>50:7                      |
| 46:6                      | <b>flexible</b><br>132:10               | 17:7                      | 96:12                      | <b>format</b><br>3:6                       |
| 78:13                     | <b>flip</b><br>39:22                    | 19:11                     | 167:21                     | 155:23                                     |
| 82:21                     | 170:22                                  | 40:9                      | <b>follow-on</b><br>143:25 | 156:1                                      |
| 84:21                     | 173:5,20                                | 41:19                     | <b>follow-up</b><br>48:22  | <b>formula</b><br>177:23                   |
| 107:20                    | <b>flipping</b><br>173:24               | 67:14                     | <b>followed</b><br>41:16   | <b>forth</b><br>45:2                       |
| 108:4,22                  | 174:15                                  | 73:8                      | 42:2                       | <b>fortunate</b><br>137:22                 |
| 110:22                    | 175:9,24                                | 74:16                     | 53:20                      | 145:21                                     |
| 111:1,5                   | <b>Florida</b><br>7:2 17:6              | 78:5                      | 97:22                      | 146:14                                     |
| 114:21                    | 63:15                                   | 115:13                    | <b>following</b><br>166:10 | <b>forum</b><br>85:8                       |
| 117:22                    | 90:4                                    | 117:21                    | 129:3,9                    | <b>forward-</b><br><b>looking</b><br>17:15 |
| 120:18                    | 91:10                                   | 128:11,<br>16             | 130:19                     | 28:24                                      |
| 129:9                     | 102:22                                  | 155:8                     | 131:1                      | 30:9                                       |
| 133:22                    | 108:22                                  | 174:22                    | 153:7,13                   | 33:6,9,<br>18                              |
| 139:7                     | 148:2,16                                | <b>focused</b><br>68:22   | 164:13                     | 166:19                                     |
| 147:10                    | 150:7,8                                 | 130:20                    | 167:13,                    | <b>found</b><br>19:20                      |
| 150:23                    | 16                                      | 146:6,7                   | 18,20                      | <b>foundatio</b><br><b>n</b> 17:1          |
| 166:12                    | 167:10,13,                              | 153:7,13                  | 168:2                      | 139:15                                     |
| 170:7                     | 16                                      | 164:13                    | 169:4,5                    | <b>foundatio</b><br><b>nal</b><br>14:19    |
| 171:24                    | 167:13,                                 | 172:25                    | 175:10                     | <b>four</b> 8:2                            |
| 172:14                    | 168:2                                   | <b>focuses</b><br>75:24   | 176:11                     | 26:19                                      |
| <b>fixed</b><br>20:13     | 168:21                                  | <b>focusing</b><br>71:1,2 | <b>Florida's</b><br>167:17 | 67:2                                       |
| 27:12,                    | 168:21                                  | <b>Fogliano</b><br>123:25 | 168:21                     | 88:20                                      |
| 14,18                     | 169:4,5                                 | <b>flow</b><br>31:4       | 168:21                     | 94:5                                       |
| 91:24                     | 175:10                                  | 124:3                     | 168:21                     |                                            |
| 116:18                    | 176:11                                  | 125:20                    | 168:21                     |                                            |
| 117:10,                   | <b>Florida's</b><br>167:17              | 126:7,17                  | 168:21                     |                                            |
| 14 121:1                  | 168:21                                  | 127:11,                   | 168:21                     |                                            |
| 123:21                    | 168:21                                  | 14 128:7                  | 168:21                     |                                            |
| 171:5,9                   | 168:21                                  | 130:24                    | 168:21                     |                                            |
| <b>flat</b><br>118:25     | 168:21                                  |                           | 168:21                     |                                            |
| 119:2,19                  | 168:21                                  |                           | 168:21                     |                                            |
| 133:21                    | 168:21                                  |                           | 168:21                     |                                            |
| <b>flatline</b><br>43:1   | 168:21                                  |                           | 168:21                     |                                            |
| <b>flatlined</b><br>21:11 | 168:21                                  |                           | 168:21                     |                                            |

|                  |                  |                  |                  |                |
|------------------|------------------|------------------|------------------|----------------|
| 107:2            | 146:25           | 141:17,          | 37:4             | 154:3          |
| 129:9            | 150:15           | 19               | 38:4             | 166:19         |
| 138:8            | 165:20           | 142:3,4,         | 48:8             | 167:15         |
| 162:8            | 173:17           | 16,20,           | 65:25            | 172:23         |
| 170:8            | 174:1,6          | 21,22            | 71:25            | <b>future</b>  |
| <b>fourth</b>    | <b>FRS's</b>     | 143:4,16         | 86:15            | 17:9,11        |
| 11:21            | 173:14           | 144:14,          | <b>fundraise</b> | 18:1           |
| <b>fractions</b> | <b>fruitful</b>  | 15               | <b>s</b> 141:1   | 19:5,9,        |
| 157:5            | 83:8             | 147:19           | <b>fundraisi</b> | 15 20:21       |
| <b>frame</b>     | <b>full</b>      | 170:19           | <b>ngs</b>       | 31:6           |
| 11:25            | 21:5,12          | 171:16           | 140:24           | 37:19          |
| 82:22            | 35:12,21         | 172:3            | <b>funds</b>     | 50:1           |
| <b>Francisco</b> | 36:2             | 173:22           | 62:3,12          | 73:12          |
| 128:23           | 37:4             | 174:25           | 109:3            | 74:11,20       |
| <b>frankly</b>   | 48:8             | 176:2            | 126:1,4,         | 94:9           |
| 114:23           | 122:12           | <b>fund's</b>    | 5,9,10,          | 120:8          |
| 119:17           | 149:11           | 14:22            | 14,15,           | 178:5          |
| 133:11           | <b>fully</b>     | 171:11           | 18,19            | <b>future-</b> |
| <b>free</b>      | 56:5             | 173:6            | 127:4            | <b>looking</b> |
| 18:10            | 113:4            | <b>fundament</b> | 129:12           | 49:18          |
| 22:8             | <b>fulsome</b>   | <b>al</b> 64:24  | 130:14,          | <hr/>          |
| <b>frequentl</b> | 7:23             | 79:25            | 24 131:1         | <b>G</b>       |
| <b>y</b> 121:14  | <b>function</b>  | <b>fundament</b> | 133:15           | <hr/>          |
| <b>Friday</b>    | 121:20,          | <b>als</b> 70:6  | 134:8,19         | <b>gain</b>    |
| 6:23             | 23               | <b>funded</b>    | 140:1,2,         | 5:15           |
| <b>Friday's</b>  | <b>functions</b> | 15:22            | 3,4              | 7:10           |
| 7:1              | 59:15            | 16:12            | 141:7,           | <b>gaining</b> |
| <b>front</b>     | <b>fund</b>      | 18:22            | 14,21,25         | 144:13         |
| 131:13           | 5:11,12          | 21:1             | 142:1,3,         | <b>gains</b>   |
| <b>fronts</b>    | 7:1,2,4          | 22:22,25         | 4 143:7,         | 12:21          |
| 117:8            | 45:1             | 23:7             | 16,23            | 49:22          |
| <b>frozen</b>    | 60:24            | 34:8,9           | 144:3,4          | 50:4           |
| 26:4             | 63:7             | 35:1,3,          | 147:15,          | 114:7          |
| <b>FRS</b>       | 75:12,18         | 8,10,25          | 16,20            | 147:4          |
| 18:3,16          | 76:6             | 36:21,24         | 175:10,          | <b>game</b>    |
| 37:22            | 109:1            | 37:7             | 11,14,23         | 93:15          |
| 45:9             | 113:23           | 45:20            | 176:19           | <b>gap</b>     |
| 46:2,5,          | 114:1,2,         | 46:14            | <b>further</b>   | 46:19          |
| 8,18             | 14,20            | 47:25            | 37:2             | 86:15          |
| 54:19            | 115:8,21         | 49:25            | 45:3             | <b>gaps</b>    |
| 65:22            | 127:6            | <b>funding</b>   | 58:8             | 164:9          |
| 75:12,23         | 134:17           | 21:5,12          | 63:4             | <b>Gary</b>    |
| 76:2             | 137:17           | 35:13,21         | 71:23            | 101:4,11       |
| 81:5             | 140:5,25         | 36:2             | 99:21            | 112:2          |

|                  |               |                 |                  |                 |
|------------------|---------------|-----------------|------------------|-----------------|
| 113:12           | <b>gives</b>  | 143:20          | <b>Goldilock</b> | <b>grateful</b> |
| 136:4,6          | 87:17         | 153:14          | <b>s</b> 122:7   | 13:14           |
| 145:4            | 159:23        | 168:19          | <b>goods</b>     | <b>gray</b>     |
| 177:15           | 165:11        | 171:4           | 168:3            | 38:16           |
| <b>gas</b>       | <b>Glad</b>   | 174:10          | <b>gosh</b>      | 43:8            |
| 10:11,           | 124:6         | 176:8           | 166:11           | <b>greater</b>  |
| 14,16            | <b>global</b> | <b>globally</b> | <b>gotten</b>    | 9:9 64:2        |
| 135:22           | 10:8          | 10:3            | 8:6              | 77:13           |
| <b>gather</b>    | 26:11,18      | 119:16          | 119:14           | 173:18          |
| 15:1             | 27:2,9,       | <b>globe</b>    | 154:7            | 174:9           |
| <b>GE</b>        | 15,18         | 96:9            | 163:21           | <b>green</b>    |
| 75:11,24         | 28:13,        | 119:18,         | 178:16           | 32:3            |
| <b>gender</b>    | 16,19         | 22              | <b>governanc</b> | <b>green-</b>   |
| 164:9            | 29:21         | <b>glowing</b>  | <b>e</b> 6:2,3   | <b>shaded</b>   |
| <b>generally</b> | 30:1          | 178:6           | 13:17            | 43:2,3          |
| 67:8             | 31:9          | <b>go-</b>      | 151:5            | <b>gross</b>    |
| 90:23            | 47:19         | <b>forward</b>  | 153:13           | 7:10            |
| 92:17            | 58:9,11,      | 7:18            | 157:23           | <b>ground</b>   |
| 97:13            | 15,18         | 8:17            | 167:7            | 22:10           |
| 110:1            | 59:6          | <b>goals</b>    | <b>governmen</b> | 136:12          |
| 111:7            | 62:1,18       | 157:12          | <b>t</b> 55:20   | 146:5           |
| 112:9            | 63:22         | 176:13          | 99:11            | 164:7           |
| 117:21           | 65:9          | <b>goes</b>     | 122:5            | <b>group</b>    |
| 128:11           | 67:4          | 13:3            | 168:2            | 13:15           |
| 173:10           | 70:10,19      | 103:20          | 176:22           | 22:6            |
| <b>generated</b> | 75:2,6,       | 105:5           | <b>governmen</b> | 48:24           |
| 114:10,          | 8,13          | 163:2           | <b>ts</b> 168:1  | 57:13           |
| 12               | 76:19         | 169:9           | <b>GPS</b>       | 100:6           |
| 138:3,24         | 77:25         | <b>Goetz</b>    | 145:24           | 116:17          |
| <b>geographi</b> | 78:19         | 3:8             | 146:6            | 159:9           |
| <b>c</b> 61:19   | 84:6          | 10:18           | <b>gradually</b> | 162:22          |
| 129:22           | 87:4          | 27:24           | 41:25            | 173:16          |
| 138:14           | 95:5,6,       | 29:8,11,        | <b>granulari</b> | 174:12          |
| <b>geographi</b> | 16 97:21      | 19 30:21        | <b>ty</b>        | 176:21          |
| <b>cally</b>     | 100:25        | 86:10,11        | 165:11           | <b>groups</b>   |
| 138:17           | 103:23        | 95:1,2,         | <b>graph</b>     | 59:22           |
| <b>geography</b> | 107:10,       | 12 96:6         | 42:5             | 60:8,14         |
| 65:1             | 18,24         | 140:10          | 62:8             | <b>grow</b>     |
| 87:1             | 108:6         | 141:4           | 121:18           | 23:24           |
| <b>GFC</b>       | 109:13,       | 149:1,2,        | <b>graphical</b> | 24:5,12         |
| 137:18           | 23 111:4      | 6,9,21          | 31:15            | 132:17          |
| 139:16           | 113:15        | 151:2           | <b>graphs</b>    | 150:19          |
| <b>gift</b>      | 118:12        | 169:21          | 41:20            | 160:23          |
| 52:22            | 124:11        |                 |                  | 170:19          |

|                            |                            |                             |                 |                |
|----------------------------|----------------------------|-----------------------------|-----------------|----------------|
| <b>growing</b><br>100:4,13 | <b>guideline</b><br>s 64:3 | <b>harassmen</b><br>t 164:9 | 22:7            | 95:18          |
| <b>growth</b><br>15:21     | 87:10                      | <b>hard</b>                 | 101:11          | 105:15         |
| 18:22                      | 89:21                      | 28:7                        | <b>heat</b>     | 107:23         |
| 23:17,21                   | <b>H</b>                   | 29:6                        | 10:14           | 112:17         |
| 24:13                      |                            | 65:16                       | <b>heavily</b>  | 113:7          |
| 41:23                      | <b>hair</b>                | 84:10                       | 10:5            | 119:17         |
| 64:25                      | 51:11                      | 92:4                        | 129:6           | 157:2,4,       |
| 68:18                      | <b>Hale</b>                | 95:9                        | <b>hedge</b>    | 6 158:8        |
| 69:1,3                     | 58:19                      | <b>hardening</b>            | 134:19          | 164:22         |
| 79:2,8,                    | 75:4,5                     | 135:6                       | <b>hello</b>    | <b>high-</b>   |
| 10,12,21                   | <b>half</b> 9:2            | <b>harder</b>               | 4:2             | <b>profile</b> |
| 81:24                      | 31:15                      | 24:11                       | <b>helm</b>     | 142:14,        |
| 88:1,2,                    | 36:19                      | <b>haste</b>                | 178:4           | 20 143:1       |
| 3,4,19                     | 40:23,25                   | 169:16                      | <b>help</b>     | <b>high-</b>   |
| 89:7                       | 130:8                      | <b>head</b>                 | 3:13            | <b>quality</b> |
| 90:17                      | 150:25                     | 149:7                       | 53:11           | 175:15         |
| 92:4,8,                    | 156:13                     | <b>headed</b>               | 57:7            | 176:16         |
| 12,16,                     | 158:18                     | 89:9                        | 60:24           | <b>higher</b>  |
| 20,22,23                   | 159:3,6                    | <b>heading</b>              | 96:16,19        | 16:1           |
| 93:19,25                   | 162:14                     | 67:19                       | 98:4            | 20:13          |
| 95:7,18                    | 164:20                     | <b>headline</b>             | 103:13          | 28:17,18       |
| 99:23,                     | <b>hammering</b>           | 125:3                       | 29:7            | 30:5           |
| 24,25                      | 52:14                      | 35:13                       | 30:5            | 35:25          |
| 100:2                      | <b>hands</b>               | 98:21                       | <b>helped</b>   | 39:20          |
| 112:16                     | 118:14                     | 118:2                       | <b>helps</b>    | 48:6           |
| 115:19,                    | <b>Hanging</b>             | <b>headwinds</b>            | 63:3            | 49:4,25        |
| 20,22                      | 52:18                      | 10:21                       | 110:2           | 51:19          |
| 116:3,13                   | <b>happens</b>             | 82:4                        | <b>hey</b>      | 62:16          |
| 132:23                     | 5:5                        | <b>health</b>               | 24:23           | 67:1           |
| 133:4                      | 163:19                     | 138:19                      | 112:11          | 79:14          |
| 139:12                     | <b>happy</b>               | <b>healthy</b>              | 146:2           | 106:10         |
| 145:19                     | 16:25                      | 15:22                       | 159:12,         | 121:7          |
| 147:22,                    | 56:3                       | 16:15                       | 14              | 126:20         |
| 23 148:8                   | 75:6                       | <b>hear</b>                 | <b>Hi</b> 59:5  | 127:17         |
| 149:22                     | 86:5                       | 14:3                        | <b>hiccups</b>  | 128:2          |
| 170:16                     | 111:23                     | 16:22                       | 135:9           | 135:23         |
| <b>guard</b>               | 115:1                      | 77:8                        | 155:22          | 153:5,10       |
| 74:14                      | 127:6                      | 117:11                      | 178:7           | 154:14         |
| <b>guidance</b>            | 133:7                      | 118:2                       | <b>high</b> 6:6 | 156:11,        |
| 148:12                     | 140:7                      | 125:16                      | 62:2            | 15             |
|                            | 165:8                      | 145:3                       | 79:21           | 162:17         |
|                            | 177:3                      | 151:10                      | 88:4            | <b>highest</b> |
|                            |                            | <b>hearing</b>              | 90:11,          | 90:22          |
|                            |                            | 16:19                       | 12,19           |                |

|                                    |                                |                                    |                                      |                                     |
|------------------------------------|--------------------------------|------------------------------------|--------------------------------------|-------------------------------------|
| 104:3                              | <b>historica</b><br><b>lly</b> | 21:1,6,                            | <b>hybrid</b><br>3:6                 | <b>illustrat</b><br><b>e</b> 31:25  |
| 147:16                             | 27:17                          | 32:15,20                           | <b>I</b>                             | <b>illustrat</b><br><b>ed</b> 38:16 |
| <b>highlight</b>                   | <b>history</b>                 | 33:18                              | <b>IAC</b> 3:5,                      | <b>illustrat</b><br><b>ing</b>      |
| 16:3                               | 6:16                           | 35:6                               | 7,16                                 | 39:5,13                             |
| 20:15                              | 138:8                          | 36:3,11                            | 5:25 6:8                             | <b>illustrat</b><br><b>ion</b>      |
| 22:21                              | <b>hit</b> 18:6                | 38:14                              | 56:9                                 | 31:16                               |
| 85:6                               | 35:24                          | 39:2,3,8                           | 57:7,25                              | 32:6                                |
| <b>highlight</b><br><b>ed</b>      | 36:2                           | 42:12                              | 72:12                                | 34:1                                |
| 170:25                             | 89:2,17                        | <b>horizons</b>                    | 98:19                                | 42:6                                |
| <b>highlight</b><br><b>s</b> 18:6  | 111:10                         | 20:23,25                           | 130:1                                | 61:18                               |
| 19:22                              | 119:20                         | 39:6,14                            | 165:14                               | <b>imagine</b>                      |
| 111:9                              | 124:5                          | <b>horizontal</b>                  | 177:7                                | 30:6                                |
| <b>highly</b>                      | 127:18                         | <b>l</b> 31:17                     | <b>ice</b>                           | <b>imbalance</b>                    |
| 45:13                              | 135:4                          | 38:11                              | 165:25                               | 136:11                              |
| 71:11,15                           | 162:4                          | 39:11                              | <b>idea</b>                          | <b>IMI</b>                          |
| 131:16                             | <b>hitch</b>                   | <b>hours</b>                       | 12:1                                 | 107:6,11                            |
| 158:16                             | 155:20                         | 103:7                              | 57:23                                | <b>immediate</b>                    |
| <b>highly-</b><br><b>desired</b>   | <b>hits</b>                    | <b>House</b>                       | 68:8                                 | <b>ly</b> 167:2                     |
| 143:1                              | 148:21                         | 57:15                              | 161:2                                | <b>impact</b>                       |
| <b>highs</b>                       | <b>hitting</b>                 | <b>housing</b>                     | <b>identifie</b><br><b>s</b> 61:4    | 15:15                               |
| 8:7                                | 21:13                          | 130:11                             | <b>identify</b>                      | 31:25                               |
| 137:18                             | <b>holdings</b>                | 131:2,4,                           | 3:14,17                              | 65:18                               |
| <b>Hill</b>                        | 100:6                          | 6,8                                | <b>identifiyi</b><br><b>ng</b> 74:18 | 70:10                               |
| 9:18                               | 124:19                         | <b>huge</b>                        | <b>ignore</b>                        | 109:25                              |
| <b>hinted</b>                      | 142:23                         | 141:11                             | 168:10                               | 116:16                              |
| 86:21                              | <b>homes</b>                   | <b>human</b>                       | <b>illegible</b>                     | <b>impacted</b>                     |
| <b>hire</b>                        | 10:15                          | 164:2,5                            | 33:23                                | 68:24                               |
| 66:13                              | <b>hood</b>                    | 80:9                               | <b>illiquid</b>                      | <b>impacts</b>                      |
| <b>hired</b>                       | 35:7                           | <b>hundreds</b>                    | 40:17,25                             | 19:17                               |
| 71:24                              | 13:1                           | 155:15                             | 41:4                                 | <b>impede</b>                       |
| <b>hires</b>                       | 16:2                           | <b>hurdle</b>                      | 42:10,18                             | 42:20                               |
| 150:6,8                            | 89:19                          | 25:3                               | 43:7                                 | 43:12                               |
| <b>hiring</b>                      | 95:10                          | 53:1,3,                            | 44:21                                | <b>impeding</b>                     |
| 65:24                              | 121:1                          | 8,13                               | 45:18                                | <b>implement</b>                    |
| 107:10                             | 154:14                         | <b>hurricane</b>                   | <b>illiquids</b>                     | 62:14                               |
| 148:1,4                            | 151:10                         | 175:10,                            | 42:20                                |                                     |
| <b>historica</b><br><b>l</b> 66:23 | <b>hoping</b>                  | 14                                 |                                      |                                     |
| 92:18                              | 134:9                          | <b>hurricane</b><br><b>s</b> 135:5 |                                      |                                     |
| 164:22                             | 178:24                         | <b>hurt</b>                        |                                      |                                     |
|                                    | <b>horizon</b>                 | 98:4                               |                                      |                                     |
|                                    | 10:12                          | 99:13                              |                                      |                                     |



|                                     |                                     |                                   |                                     |                                       |
|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|---------------------------------------|
| <b>implicate</b><br>s 20:20         | <b>inactive</b><br>149:16           | 133:1<br>171:5,9                  | <b>increasin</b><br><b>gly</b>      | <b>individua</b><br><b>l</b> 125:21   |
| <b>implied</b><br>30:12             | <b>incentive</b><br>39:24           | <b>Incorporat</b><br><b>ed</b>    | 161:15                              | <b>individua</b><br><b>ls</b> 10:14   |
| <b>implies</b><br>14:24             | 179:7                               | 154:20                            | <b>incredibl</b><br><b>e</b> 52:24  | 60:7,13                               |
| <b>importanc</b><br><b>e</b> 55:25  | <b>incentivi</b><br><b>ze</b> 20:24 | <b>incorpora</b><br><b>ting</b>   | 68:17                               | 62:23                                 |
| 61:21                               | 39:22                               | 47:18                             | 100:19                              | 98:8                                  |
| 71:10,15                            | <b>incentivi</b><br><b>zed</b>      | <b>increase</b><br>5:14           | <b>incurring</b><br><b>l</b> 128:18 | <b>industria</b><br><b>l</b> 129:6,18 |
| <b>important</b><br>14:20           | 38:14                               | 24:7                              | <b>independe</b><br><b>nt</b> 166:5 | 130:2,6                               |
| 15:10                               | 39:6,14                             | 43:1                              | <b>index</b><br>61:4,9,             | 159:4                                 |
| 50:12                               | <b>inception</b><br>78:15           | 48:4                              | 10,15,19                            | <b>industry</b><br>12:13              |
| 51:16                               | 79:9                                | 50:1                              | 78:2                                | 59:7                                  |
| 59:23                               | 139:7                               | 51:25                             | 81:13                               | 67:8                                  |
| 62:11                               | 147:10                              | 69:21                             | 91:25                               | 68:5                                  |
| 64:7,11                             | <b>include</b><br>71:5              | 73:14                             | 96:4                                | 136:14                                |
| 67:20                               | 126:15                              | 125:17                            | 169:2,6                             | 146:10                                |
| 68:4                                | <b>includes</b><br>76:3             | 129:18                            | <b>indicate</b><br>50:21            | 164:6                                 |
| 70:21                               | 110:19                              | 148:9,                            | <b>inequity</b><br>179:24           |                                       |
| 71:9                                | 132:14                              | 13,14,19                          | <b>indicativ</b><br><b>e</b> 107:16 | <b>inflation</b><br>10:1              |
| 77:1                                | <b>increased</b><br>23:1            | 150:12                            | <b>indicator</b><br><b>s</b> 52:7   | 28:25                                 |
| 83:10                               | <b>including</b><br>67:22           | 161:7                             | <b>indices</b><br>69:22             | 29:14,                                |
| 84:22                               | 79:25                               | 29:17                             | 70:3                                | 17,24                                 |
| <b>important</b><br><b>ly</b> 79:17 | 152:8                               | 36:16                             | <b>indiscern</b><br><b>ible</b>     | 30:22                                 |
| <b>impressiv</b><br><b>e</b> 131:19 | 158:19,                             | 70:3                              | 124:23,                             | <b>inflows</b><br>141:11              |
| <b>improve</b><br>74:23             | 20                                  | 124:23,                           | 24 147:2                            | <b>inform</b><br>7:17                 |
| 112:11                              | 177:17                              | 148:19,                           | 21                                  | 86:19                                 |
| 143:24                              | 178:12                              | 21                                | 118:24                              | <b>informed</b><br>7:21               |
| <b>improved</b><br>18:23            | <b>income</b><br>20:13              | 148:19,                           | 120:7,8,                            | <b>infrastru</b><br><b>cture</b>      |
| 19:3                                | 27:12,                              | 21                                | 13,16,                              | 9:18                                  |
| <b>improveme</b><br><b>nt</b> 22:21 | 15,18                               | <b>increases</b><br>32:23         | 17,19,24                            | 134:17                                |
| <b>improving</b><br>21:3            | 66:25                               | 41:25                             | 121:4,6,                            | <b>infringe</b><br>42:21              |
| <b>in-house</b><br>66:14            | 91:25                               | 67:21                             | 7,17,21                             | <b>initial</b><br>14:14               |
|                                     | 98:5,11,                            | 92:17                             | 122:2,5,                            |                                       |
|                                     | 12,16                               | 149:6                             | 7,8,19,                             |                                       |
|                                     | 116:18                              | 153:24                            | 21,22,24                            |                                       |
|                                     | 117:10,                             | <b>increasin</b><br><b>g</b> 35:9 | 123:7,9,                            |                                       |
|                                     | 14 121:1                            | 44:22                             | 15,18                               |                                       |
|                                     | 123:22                              |                                   | 124:21                              |                                       |

|                                     |                                        |                                    |                                    |                                     |
|-------------------------------------|----------------------------------------|------------------------------------|------------------------------------|-------------------------------------|
| 36:3                                | 74:21                                  | 135:19                             | <b>Investabl</b><br><b>e</b> 169:2 | 176:6,22                            |
| 71:25                               | <b>intended</b><br>82:5                | 137:7                              | <b>invested</b><br>80:8            | <b>investmen</b><br><b>ts</b> 62:6, |
| <b>initially</b><br>21:2            | <b>intending</b><br>34:18              | <b>internal</b><br>59:15           | 124:8                              | 9 124:22                            |
| 35:2                                | <b>intensive</b><br>102:25             | 60:1,3                             | 127:3                              | 125:3                               |
| 36:5                                | <b>intent</b><br>71:17                 | 62:7,21,                           | 126:20,                            | 24                                  |
| 48:5                                | 177:18                                 | 23 70:16                           | 175:15                             | 127:18                              |
| 96:10                               | <b>intention</b><br>179:6,9            | 71:17                              | 176:7,16                           | 128:5,                              |
| 148:7                               | <b>intention</b><br>179:6,9            | 105:11,                            | 126:1                              | 14,17                               |
| <b>initiated</b><br>114:3           | <b>intention</b><br><b>ally</b> 124:24 | 24                                 | <b>investmen</b><br><b>t</b> 3:1   | 129:6                               |
| <b>initiativ</b><br><b>es</b> 166:7 | <b>interconn</b><br><b>ected</b>       | 106:9,                             | 5:14                               | 132:2,6                             |
| <b>injection</b><br>44:18           | 118:21                                 | 11,22                              | 7:10,17,                           | 139:22                              |
| <b>innovativ</b><br><b>e</b> 12:12  | <b>interest</b><br>11:5                | 117:24                             | 19 14:8                            | 167:15                              |
| <b>input</b><br>57:3                | 15:9                                   | 122:6,19                           | 20:1,7                             | 168:21                              |
| <b>inputting</b><br>88:12           | 55:20                                  | <b>internall</b><br><b>y</b> 66:14 | 25:12                              | 169:4                               |
| <b>inside</b><br>106:4              | 92:17,22                               | 71:20                              | 37:16                              | <b>investor</b><br>154:1            |
| <b>insignifi</b><br><b>cant</b>     | 175:16,                                | 73:7                               | 50:16                              | 162:6                               |
| 82:16                               | 18                                     | 82:21                              | 56:12                              | 163:23                              |
| <b>insisting</b><br>142:22          | <b>interesse</b><br><b>d</b> 12:25     | 106:16                             | 61:2                               | <b>investors</b><br>67:9,13         |
| <b>instance</b><br>116:8,18         | <b>interesti</b><br><b>ng</b> 15:19    | 125:8                              | 63:6,14                            | 91:12                               |
| <b>institute</b><br><b>onal</b>     | 66:8,10                                | 179:22                             | 65:17                              | 100:11                              |
| 91:12                               | 95:14                                  | <b>internati</b><br><b>onal</b>    | 71:11,16                           | 152:15                              |
| 162:12                              | 106:25                                 | 71:25                              | 79:17                              | 157:10,                             |
| <b>instituti</b><br><b>ons</b>      | 130:22                                 | 80:12                              | 102:8,13                           | 16                                  |
| 168:6                               | 142:7                                  | 87:15                              | 109:16,                            | 163:1,9                             |
| <b>insurance</b><br>135:3           | 144:22                                 | 129:24                             | 114:13                             | <b>investors</b><br>' 68:22         |
| <b>insurers</b><br>175:13           | <b>interim</b><br>102:19               | <b>interrela</b><br><b>ted</b>     | 134:21                             | <b>invited</b><br>143:11            |
| <b>intend</b><br>17:4               | <b>interject</b><br>18:11              | 165:6                              | 145:22                             | <b>involved</b><br>152:24           |
|                                     | 22:8                                   | <b>interview</b><br>103:6          | 146:25                             | <b>IPOS</b><br>137:19               |
|                                     | <b>intermedi</b><br><b>ate</b>         | <b>intuitive</b><br>142:8          | 147:18                             | <b>IR</b> 77:13                     |
|                                     | 119:25                                 | <b>invest</b><br>39:4              | 150:9,                             | <b>iron</b><br>135:17               |
|                                     | 122:17                                 | 60:17                              | 18,20                              | <b>isolates</b><br>84:15            |
|                                     |                                        | 127:6                              | 151:4                              | <b>Israel</b><br>166:15,            |
|                                     |                                        | 146:6                              | 153:18                             | 23                                  |
|                                     |                                        | 166:16                             | 165:20                             |                                     |
|                                     |                                        | 175:20                             | 166:19                             |                                     |
|                                     |                                        |                                    | 168:18,                            |                                     |
|                                     |                                        |                                    | 23                                 |                                     |
|                                     |                                        |                                    | 169:14                             |                                     |
|                                     |                                        |                                    | 174:16,                            |                                     |
|                                     |                                        |                                    | 20 175:8                           |                                     |



|                 |                 |                |                |                  |
|-----------------|-----------------|----------------|----------------|------------------|
| <b>ISS</b>      | 167:3,6         | <b>joined</b>  | 136:1,6        | 174:18           |
| 162:13          | <b>job</b> 6:11 | 5:10,25        | 137:10         | 175:22           |
| <b>issue</b>    | 52:5            | 14:6           | 140:8          | <b>juxtapose</b> |
| 50:10           | 103:10          | 58:16          | 144:22         | 172:16           |
| 52:4            | 105:9           | <b>joining</b> | 145:1          | <b>JV</b>        |
| 169:8           | 110:1           | 132:1          | 146:19         | 130:7,11         |
| 179:6,7         | 178:12,         | 150:9,20       | 148:24         |                  |
| <b>issues</b>   | 16              | <b>joins</b>   | 151:3          | <hr/>            |
| 115:12          | <b>John</b> 3:7 | 147:18         | 165:13         | <b>K</b>         |
| 160:1           | 10:17           | <b>joint</b>   | 169:20,        | <b>Kansas</b>    |
| 161:18          | 11:19,22        | 125:23,        | 22,24          | 154:22           |
| 162:3           | 12:12           | 24             | 177:4,17       | <b>Katie</b>     |
| 164:12          | 13:23           | <b>Jones</b>   | 178:23         | 13:23            |
| <b>item</b> 4:6 | 14:7            | 3:3,4,         | <b>judge</b>   | 14:1             |
| 13:20           | 15:4            | 20,22,24       | 34:19          | 16:21,25         |
| 152:24          | 16:9,17,        | 4:1,11,        | <b>judging</b> | 17:7,18          |
| 165:17,         | 20 25:23        | 13,16          | 139:1          | 19:3             |
| 24              | 26:2            | 6:20           | <b>juice</b>   | 20:5             |
| <b>items</b>    | 27:24           | 13:19          | 131:18         | 21:4             |
| 154:17          | 29:9            | 14:4           | <b>July</b>    | 170:4,6          |
| 156:19          | 49:1            | 16:23          | 22:16          | <b>Katy</b>      |
| 158:19          | 51:16           | 49:1           | 24:10          | 91:22            |
| 163:14          | 59:2            | 53:4           | 25:1           | 98:7             |
| 168:8           | 70:12           | 54:7,9,        | 81:16          | 117:10           |
|                 | 86:10           | 10,11,         | 114:3,5        | 123:10,          |
|                 | 88:23           | 12,20,21       | 153:2          | 17               |
| <hr/>           | 89:19           | 55:1           | 165:25         | <b>Katy's</b>    |
| <b>J</b>        | 90:3            | 57:1,6,        | <b>jump</b>    | 95:11,12         |
| <b>Japan</b>    | 95:1            | 17,23,24       | 86:18          | 116:17           |
| 152:2           | 104:1           | 58:3,5         | 126:12         | <b>keeping</b>   |
| <b>Japanese</b> | 117:11          | 86:7           | 104:11,        | 104:11,          |
| 153:17,         | 121:14          | 91:15          | 12             | 12               |
| 21              | 136:3           | 96:14          | <b>jumping</b> | <b>kept</b>      |
| 154:2,6,        | 137:11          | 98:18          | 102:18         | 85:13            |
| 15              | 140:9,          | 101:2,5,       | <b>June</b>    | <b>key</b> 22:4  |
| <b>Jay</b>      | 10,11           | 10,15,24       | 5:8,13         | 23:17,21         |
| 58:24           | 143:19          | 111:25         | 65:16          | 36:1             |
| 86:17           | 145:2           | 112:3          | 76:22          | 37:8             |
| 87:3            | 146:20          | 113:11         | 77:7           | 47:14            |
| 89:25           | 149:2           | 117:7          | 82:1           | 117:4            |
| 102:1,8         | <b>John's</b>   | 123:10,        | 139:2          | 163:11           |
| 111:25          | 112:12          | 16,23          | 146:25         | <b>kick</b>      |
| <b>Jerry's</b>  | <b>join</b>     | 124:2          | 147:9          | 14:15            |
| 166:1,3,        | 75:7            | 131:22         | 170:11         | 16:16            |
| 8,20            |                 |                |                |                  |

|                  |                |                  |                  |                  |
|------------------|----------------|------------------|------------------|------------------|
| 113:17           | <b>large</b>   | <b>late</b>      | 85:10            | 63:12            |
| <b>kicked</b>    | 32:19          | 5:11             | 89:4             | <b>legal</b>     |
| 81:20            | 36:5           | 24:25            | <b>leads</b>     | 159:23           |
| <b>Kivarkis</b>  | 46:3,10        | 153:2            | 59:18            | <b>legislati</b> |
| 14:8             | 64:13          | <b>lately</b>    | <b>learned</b>   | <b>on</b>        |
| 29:23            | 69:24          | 91:3             | 148:6            | 113:25           |
| 30:25            | 72:2           | <b>law</b>       | <b>lease</b>     | <b>legislati</b> |
| 50:11            | 75:14          | 114:2            | 127:15,          | <b>ve</b> 55:7   |
| 51:6             | 85:6           | 142:24           | 21               | 56:14,17         |
| <b>Kleiner</b>   | 87:7           | 143:6            | <b>leased</b>    | <b>legislatu</b> |
| 142:17           | 91:20          | 144:19           | 127:16           | <b>re</b> 7:18   |
| <b>knock</b>     | 106:2,8,       | 159:20           | <b>leases</b>    | 52:13            |
| 13:1             | 10             | 166:10,          | 128:21           | 53:21            |
| <b>knowing</b>   | 108:23         | 25               | <b>leave</b>     | 54:4             |
| 52:19            | 109:2,7        | 167:4,           | 18:8             | 55:9             |
| 54:15            | 112:16         | 10,11,           | 138:18           | 56:4             |
| <b>Kristen</b>   | 155:21         | 13,19,24         | 149:3,10         | <b>Lehman</b>    |
| 13:23            | 156:23         | 169:4,5          | <b>leaves</b>    | 118:19           |
| 14:6             | 159:3          | <b>laws</b>      | 149:2            | <b>lending</b>   |
| 170:4            | <b>largely</b> | 167:16           | <b>leaving</b>   | 66:24,25         |
|                  | 28:15          | <b>Lawton</b>    | 55:22            | 98:5,7,          |
|                  | 50:5           | 113:23           | 89:24            | 16               |
|                  | 77:22          | 176:1,5          | <b>led</b> 31:6  | <b>lens</b>      |
|                  | 91:4           | <b>law</b>       | 33:17            | 17:9,12          |
|                  | 109:5,6        | 53:22            | 67:13            | 33:8             |
|                  | 146:6,8        | <b>laying</b>    | 68:18,21         | <b>lesser</b>    |
| <b>labeling</b>  | <b>larger</b>  | 23:10            | <b>left</b>      | 136:13           |
| 32:2,5           | 69:22          | <b>layout</b>    | 12:8             | <b>letter</b>    |
| <b>labor</b>     | 74:13          | 17:12            | 24:7             | 49:5             |
| 10:19            | 107:10         | <b>lead</b>      | 34:16            | 50:8             |
| <b>lag</b>       | 165:2          | 13:24            | 38:17            | 52:17            |
| 133:16           | <b>largest</b> | 68:25            | 62:20            | 56:4             |
| <b>laid</b>      | 81:4           | <b>leader</b>    | 76:5,20          | 57:8,13,         |
| 17:1,19          | 132:11         | 5:5              | 78:6             | 25 167:9         |
| <b>land</b>      | 138:14,        | 12:13            | 126:12           | <b>level</b>     |
| 121:2            | 16             | 102:9            | 131:18           | 6:2 10:8         |
| <b>landing</b>   | 147:17         | <b>leaders</b>   | 135:11           | 14:21            |
| 35:10            | 164:3          | 55:7,25          | 138:8            | 19:13            |
| <b>landscape</b> | 172:7          | 57:15            | 149:13,          | 37:18            |
| 18:19            | 174:4          | <b>leadershi</b> | 17               | 47:8             |
| <b>language</b>  | <b>lastly</b>  | <b>p</b> 5:3     | 179:25           | 62:2             |
| 168:12           | 138:5          | 56:15            | <b>left-hand</b> | 64:7             |
| 179:4            | 139:25         | 68:17            | 22:13            | 67:5             |
|                  |                | 69:2,10          | 23:16            | 69:20            |

|                 |                  |                  |                  |                    |
|-----------------|------------------|------------------|------------------|--------------------|
| 76:17           | 127:24           | 85:3             | 62:24            | 71:18,20           |
| 77:3,16         | <b>liability</b> | 86:17            | 63:12            | 73:18              |
| 80:18           | <b>es</b> 14:25  | 104:24           | 84:7             | 77:13              |
| 94:9            | 17:13            | 108:12,          | 153:4            | 79:12              |
| 99:20           | 23:6             | 25               | <b>listen</b>    | 85:9,16            |
| 105:10,         | 24:2             | 109:23           | 71:13,14         | 87:9               |
| 15              | 51:21,22         | 134:10           | 73:21            | 92:13,22           |
| 125:11          | <b>liability</b> | 171:2            | <b>listening</b> | 93:3,17            |
| 153:14          | 15:1             | <b>lines</b>     | 71:21            | 94:24              |
| 154:15          | 23:20,24         | 34:21            | <b>listing</b>   | 99:2,5             |
| 162:20          | 24:5,8,          | 47:10            | 152:5            | 115:6              |
| <b>levels</b>   | 13 25:3          | 91:11            | 153:1,2          | 143:10             |
| 10:23           | 34:11            | 109:1            | 154:16           | 145:17             |
| 63:19           | 49:25            | <b>liquid</b>    | <b>literally</b> | 166:11             |
| 92:18           | 51:25            | 40:10,14         | 57:7             | 169:6              |
| 104:16          | <b>liberally</b> | 43:4             | <b>long-term</b> |                    |
| 121:5           | 105:4            | <b>liquidate</b> | LNG              | 115:23             |
| 151:13          | <b>life</b>      | 114:4            | 135:23           | 127:15             |
| 154:9           | 114:9,14         | <b>liquidity</b> | <b>lo</b> 89:10  | 128:20             |
| 156:7           | <b>Life's</b>    | 15:6,7,8         | <b>load</b>      | <b>longer</b>      |
| 158:2,8         | 143:3            | 18:1             | 142:11           | 20:23              |
| 159:9           | <b>light</b>     | 21:17,24         | <b>local</b>     | 39:13              |
| 162:5           | 7:14             | 40:4,9,          | 100:11           | 115:13             |
| 163:19          | 16:6             | 15 42:11         | 146:6            | 122:13             |
| 164:22          | <b>likewise</b>  | 43:12,21         | 168:1            | 133:23             |
| 176:19          | 158:13           | 44:19            | <b>lock</b>      | 174:7              |
| <b>lever</b>    | <b>limit</b>     | 45:1,4,          | 114:8            | <b>longer-term</b> |
| 142:24          | 32:10            | 6,10,17,         | <b>locked</b>    | 139:6              |
| <b>leverage</b> | 42:19            | 21 48:16         | 114:7            | 171:15             |
| 10:2            | 125:19           | 60:24            | <b>lockup</b>    | <b>looked</b>      |
| 124:19,         | <b>line</b>      | 63:20            | 40:13,18         | 26:19              |
| 20,22,24        | 24:6             | 65:21,25         | <b>logic</b>     | 46:13              |
| 125:2,4,        | 27:8,11          | 73:1             | 142:8            | 122:23             |
| 10,11,          | 34:23            | 75:16            | <b>logistics</b> | 141:20             |
| 14,17,20        | 37:2             | 76:6             | 116:10           | 145:13             |
| 126:2,9,        | 38:16            | 80:16,24         | 130:3            | <b>losses</b>      |
| 14,21           | 42:3             | 84:23,24         | <b>long</b> 5:7  | 175:14             |
| 127:4,          | 44:17            | 87:17            | 7:6              | <b>lot</b> 4:21    |
| 10,17,23        | 46:4             | 117:17           | 11:13            | 8:16,24            |
| 128:3           | 47:3             | 153:8            | 20:25            | 18:6               |
| <b>levered</b>  | 67:7             | 176:15           | 55:8             | 19:6               |
| 10:5            | 71:24            | <b>listed</b>    | 60:18            | 22:3               |
| 124:16,         | 78:9             | 60:8,13          | 67:12            | 29:13              |
| 17              | 82:12,24         |                  | 68:12            |                    |

|          |                    |                  |                  |                  |
|----------|--------------------|------------------|------------------|------------------|
| 33:17    | 161:21             | <b>low-risk</b>  | <b>maintaini</b> | 126:5,11         |
| 38:24    | 164:7,25           | 114:16           | <b>ng</b> 76:17  | 128:24           |
| 56:23    | 165:2              | <b>lower</b>     | <b>major</b>     | 129:1,4          |
| 66:14    | 170:8              | 8:8              | 10:4,9           | 130:13           |
| 67:1     | 177:24             | 15:24            | 156:4            | 141:17           |
| 74:2     | 178:4              | 20:12            | 167:18           | 171:2            |
| 77:8,21  | <b>lots</b>        | 30:4,19          | 170:2,7          | 176:23           |
| 84:23    | 82:23              | 35:8,18          | 177:2            | <b>managemen</b> |
| 87:12    | 83:15,16           | 39:23            | <b>majority</b>  | <b>t</b> 59:16   |
| 89:13    | <b>love</b>        | 44:17            | 62:11            | 60:4             |
| 93:12    | 8:11               | 48:6             | 111:1            | 67:25            |
| 94:15    | 58:24              | 49:17,25         | 139:1            | 69:19            |
| 99:10,17 | 90:2               | 50:21            | 144:10           | 70:16            |
| 100:4,   | 102:1,3,           | 51:13            | 158:13           | 71:2,12          |
| 11,16,   | 8 112:9            | 90:13            | 159:6            | 75:17            |
| 22,23    | 132:20             | 109:17,          | 162:9            | 80:6             |
| 103:7,8  | 136:24             | 21 110:2         | 163:10,          | 90:10            |
| 104:10,  | 145:2              | 155:24           | 22               | 92:2             |
| 23       | <b>loved</b>       | 156:25           | 164:21,          | 104:22,          |
| 105:16,  | 8:9,11             | 172:18           | 24               | 25               |
| 19       | <b>low</b>         | <b>lowered</b>   | <b>majors</b>    | 105:5,7,         |
| 106:2,11 | 62:13              | 53:10            | 94:15            | 12,24            |
| 107:20,  | 63:18              | <b>lowest</b>    | <b>makeup</b>    | 106:9,           |
| 24 110:8 | 76:17              | 127:4,10         | 61:19            | 11,15,           |
| 111:14   | 77:3,16            | <b>Lynne</b>     | <b>male</b>      | 17,23            |
| 112:4,18 | 79:2,19            | 125:7            | 156:12           | 108:10,          |
| 114:22,  | 92:15,             |                  | <b>manage</b>    | 17               |
| 24 117:2 | 17,22              | <b>M</b>         | 63:17            | 109:16,          |
| 119:16,  | 95:8,19            |                  | 65:7             | 21 111:2         |
| 21       | 96:13              | <b>macro</b>     | 71:7,19          | 147:2            |
| 120:25   | 110:16             | 82:3             | 73:7             | 158:9            |
| 127:20   | 114:25             | <b>magically</b> | 119:25           | 162:22           |
| 130:4    | 121:5              | 128:1            | <b>manageabl</b> | 163:12,          |
| 131:15   | 149:23             | <b>maintain</b>  | <b>e</b> 32:9    | 15,22            |
| 134:22   | 156:23             | 42:13            | <b>managed</b>   | 164:3,5          |
| 135:8    | 159:9              | 63:18            | 64:1             | 165:1            |
| 145:6    | 175:18             | 71:17            | 66:21            | 170:16           |
| 147:3,23 | 176:19             | 74:15            | 76:2,22          | <b>manager</b>   |
| 152:15   | <b>low-cost</b>    | 77:3,13          | 82:20            | 58:18            |
| 153:21,  | 60:20              | 79:16            | 80:22            | 59:16            |
| 24       | 75:25              | 80:22            | <b>maintaine</b> | 64:15            |
| 155:24   | <b>low-quality</b> | <b>d</b> 85:12   | 111:23           | 67:24            |
| 157:9    | 89:13              |                  | 123:8            | 68:11            |
| 158:22   |                    |                  | 124:4            | 70:20            |

|                 |                  |                |                |                  |
|-----------------|------------------|----------------|----------------|------------------|
| 71:16           | 16,22            | 148:5          | 74:2           | 109:11,          |
| 72:1,2          | 130:10           | 173:9          | 78:20          | 13,20            |
| 73:9            | 131:1,21         | <b>margin</b>  | 79:20          | 110:19           |
| 80:18           | 132:20           | 12:8           | 80:3,10,       | 115:11           |
| 102:11          | 141:15           | 89:22,23       | 22 81:22       | 127:1            |
| 103:1,2,        | 165:3            | 92:5           | 84:2,9,        | 132:20           |
| 4 107:11        | <b>managers'</b> | <b>margins</b> | 18 85:4,       | 133:6,           |
| 109:18          | <b>managing</b>  | 10:21          | 10 88:16       | 14,15            |
| 122:18          | 62:1,24          | 88:23          | 90:25          | 134:17           |
| <b>managers</b> | 66:11            | <b>mark</b>    | 91:2,4,7       | 135:3,6,         |
| 60:1,2          | 70:19,           | 35:21,23       | 93:10          | 7 136:22         |
| 62:16           | 20,21            | 170:20         | 95:10,         | 137:3            |
| 64:6,8,         | 105:9            | <b>marked</b>  | 16,22,         | 153:15           |
| 9,24,25         | <b>mandate</b>   | 133:12         | 23,25          | 171:6            |
| 65:24           | 80:15            | <b>market</b>  | 99:24          | <b>marks</b>     |
| 67:8,11,        | 107:11           | 7:16           | 111:15         | 133:17           |
| 17,19           | 118:12,          | 12:20          | 112:24         | <b>markups</b>   |
| 68:10,14        | 13 170:2         | 15:3           | 116:1,25       | 133:16           |
| 70:4            | 175:9            | 17:9,22        | 125:10         | <b>marries</b>   |
| 71:13,21        | <b>mandates</b>  | 22:24          | 129:22         | 14:24            |
| 72:1            | 107:10,          | 24:18          | 135:15,        | <b>marvelous</b> |
| 73:16,20        | 19,25            | 26:16          | 21             | 123:20           |
| 74:6,10,        | 108:6            | 28:20          | 137:13         | <b>max</b>       |
| 16,18,19        | 110:2            | 29:12,22       | 146:4          | 128:5            |
| 79:16,          | 111:4            | 30:14,         | 147:4          | <b>maximize</b>  |
| 18,20,24        | 132:10           | 15,20          | 153:10         | 160:18           |
| 80:16,19        | 170:8            | 31:11          | 154:2,6,       | <b>maximum</b>   |
| 83:7            | 177:2            | 33:3           | 13             | 127:18           |
| 84:2,5          | <b>mandatory</b> | 34:10          | 159:10         | <b>Mccauley</b>  |
| 88:2,4,         | 153:6            | 39:4           | 169:2          | 151:4,7          |
| 9,22            | 164:8            | 41:21          | <b>markets</b> | 159:13,          |
| 89:2            | <b>manufactu</b> | 48:13          | 40:15          | 19               |
| 92:23           | <b>red</b>       | 49:14,19       | 41:16          | 160:20           |
| 99:17           | 130:11           | 59:7           | 61:12,17       | 161:6            |
| 102:13          | 131:2            | 62:13,15       | 66:16          | 162:2            |
| 103:5,          | <b>manufactu</b> | 63:17          | 70:5           | 165:16           |
| 11,19           | <b>ring</b>      | 64:20          | 73:14          | 167:1            |
| 104:11,         | 166:22           | 66:25          | 74:11          | <b>meaning</b>   |
| 18              | <b>March</b>     | 67:16          | 77:23          | 61:4             |
| 107:18,         | 15:11            | 68:17          | 78:21,25       | 94:10            |
| 21 110:4        | 93:6             | 69:10,         | 80:11          | 141:14           |
| 116:3,5         | 121:12           | 13,18          | 86:14          | 150:16           |
| 121:13          | 124:8            | 70:2           | 87:15          |                  |
| 122:6,          |                  | 72:1           | 102:11         |                  |

|                  |                  |                  |                  |                  |
|------------------|------------------|------------------|------------------|------------------|
| <b>meaningfu</b> | 18               | <b>meme</b>      | 102:9            | 110:11,          |
| <b>l</b> 65:18   | 169:13           | 70:8             | 106:5            | 18,21            |
| 69:14            | 172:17           | <b>memory</b>    | 113:13           | 145:20           |
| 83:19            | 177:10           | 49:6             | 179:21           | <b>midway</b>    |
| 110:20           | 178:3            | <b>mention</b>   | <b>merger</b>    | 26:23            |
| 139:6            | 179:12           | 70:15            | 154:21,          | <b>migrating</b> |
| 143:16           | <b>meetings</b>  | 83:10            | 25               | 121:3            |
| <b>meaningfu</b> | 3:17 8:2         | 102:23           | <b>merit</b>     | <b>mike</b>      |
| <b>lly</b>       | 100:14           | 105:22           | 177:21           | 14:2             |
| 84:20            | 128:12           | 107:18           | <b>message</b>   | 16:22            |
| <b>measure</b>   | 133:10           | 110:6            | 36:1             | 95:13            |
| 7:15             | 134:12           | 111:10           | 173:13           | 151:4,5          |
| <b>measured</b>  | 151:15,          | 174:3            | <b>messy</b>     | 159:12           |
| 61:8             | 24               | <b>mentioned</b> | 11:1             | 165:14,          |
| <b>measureme</b> | 155:16,          | 20:5             | <b>met</b>       | 15 167:1         |
| <b>nt</b> 169:6  | 20 156:2         | 21:4             | 113:24           | <b>million</b>   |
| <b>median</b>    | <b>mega</b>      | 40:5             | <b>metals</b>    | 25:2             |
| 34:24            | 69:21,24         | 65:12            | 135:16           | 82:19            |
| 51:1,7,          | <b>Meghan</b>    | 75:15            | 136:13           | 114:8            |
| 13               | 58:17            | 81:20            | <b>methodolo</b> | 130:8            |
| 52:19,20         | 59:3             | 83:2             | <b>gy</b> 29:5   | 134:4            |
| 173:15,          | 63:11            | 100:8            | 31:2             | 138:11           |
| 23 174:8         | 65:12            | 106:12           | <b>metrics</b>   | 140:2,3,         |
| <b>medical</b>   | 69:7             | 115:4            | 23:17            | 5                |
| 116:10           | 81:1             | 117:13           | 75:8             | <b>million-</b>  |
| 128:18           | 87:6             | 118:24           | 140:15           | <b>square-</b>   |
| 130:12           | 111:3            | 119:6            | <b>Michael</b>   | <b>foot</b>      |
| <b>meet</b>      | <b>member</b>    | 121:8            | 124:3            | 130:5            |
| 45:6             | 6:2,8            | 139:11,          | <b>microcap</b>  | <b>mimicking</b> |
| 56:19,21         | <b>members</b>   | 14               | 63:6             | 132:25           |
| 60:24            | 3:16             | 163:14           | <b>microphon</b> | 133:5            |
| 136:15           | 15:16            | 171:12           | <b>e</b> 3:11    | <b>mind</b>      |
| 139:5            | 60:2             | 178:13           | <b>Microsoft</b> | 55:7             |
| 145:24           | 72:11            | <b>mentionin</b> | 3:16             | 144:25           |
| 177:14           | 112:5            | <b>g</b> 115:14  | 151:6            | 160:11           |
| <b>meeting</b>   | 149:16           | <b>Mercer</b>    | <b>mid</b>       | <b>mind-set</b>  |
| 3:1,5            | 150:14,          | 26:12            | 156:22           | 88:3             |
| 4:5,19,          | 15,16            | 28:11            | <b>mid-may</b>   | <b>mindful</b>   |
| 20 23:3          | <b>membershi</b> | 30:6             | 69:1             | 60:23            |
| 56:18            | <b>P</b>         | 33:5             | <b>middle</b>    | 117:15           |
| 66:3             | 147:21,          | 58:24            | 34:12            | 122:20           |
| 125:16           | 23 148:8         | 86:6,25          | 36:14            | <b>mine</b>      |
| 140:11           | 149:22           | 90:1             | 75:24            | 91:20            |
| 155:17,          |                  | 101:22           |                  |                  |

|                             |                                    |                                              |                        |                                          |
|-----------------------------|------------------------------------|----------------------------------------------|------------------------|------------------------------------------|
| <b>mines</b><br>121:2       | <b>modeling</b><br>27:22           | 103:3<br>111:17                              | <b>moved</b><br>27:16  | <b>multiple</b><br>9:11                  |
| <b>minimize</b><br>71:3     | <b>moderate</b><br>129:12          | <b>Monmouth</b><br>154:25                    | 40:1                   | <b>mute</b><br>177:13                    |
| 96:25                       | <b>Moderna</b><br>68:20            | <b>month</b><br>13:2                         | 51:23                  | <b>muted</b><br>3:12                     |
| 97:2                        | <b>modest</b><br>67:4              | 87:17                                        | <b>movement</b>        |                                          |
| 175:16                      | 154:8                              | 118:23                                       | 38:23                  |                                          |
| <b>minimizing</b><br>98:15  | 171:3                              | 120:7                                        | 166:15                 | <b>N</b>                                 |
| <b>minimum</b><br>153:10    | <b>modestly</b><br>173:17          | 134:10                                       | <b>moves</b><br>83:19  | <b>named</b><br>168:20                   |
| <b>minority</b><br>152:11   | <b>modesty</b><br>53:24            | <b>monthly</b><br>79:11                      | <b>moving</b><br>13:20 | <b>names</b><br>99:8,9                   |
| <b>minute</b><br>14:14      | <b>modification</b><br>168:22      | <b>months</b><br>25:6                        | 27:18,23               | 100:8                                    |
| 90:4                        | 168:22                             | 69:17                                        | 31:25                  | 142:20                                   |
| 124:6                       | <b>moment</b><br>105:1             | 78:19                                        | 34:20                  | <b>narrow</b><br>32:25                   |
| <b>minutes</b><br>4:7 6:19  | 118:19                             | 99:7,13                                      | 36:4,5,7               | <b>Nasdaq</b><br>152:4                   |
| 58:23                       | 145:25                             | 118:4                                        | 37:24                  | <b>Nasdaq-</b><br><b>listed</b><br>152:7 |
| 59:18                       | <b>momentum</b><br>116:4           | 120:11                                       | 39:11                  | <b>National</b><br>154:23                |
| 61:1                        | 161:11,21                          | 134:24                                       | 43:2                   | <b>natural</b><br>10:11,16               |
| <b>mirror</b><br>7:22       | <b>monetary</b><br>8:22            | 138:8                                        | 44:22                  | 12:9                                     |
| <b>misbalance</b><br>136:11 | 9:3,22                             | 152:1                                        | 46:12                  | <b>Naturally</b><br>124:19               |
| <b>misnomer</b><br>132:12   | <b>money</b><br>56:23              | 154:19                                       | 48:6                   | <b>nature</b><br>45:18                   |
| <b>mitigate</b><br>65:8     | 66:13,14                           | 165:4                                        | 49:23                  | 96:1                                     |
| <b>mix</b><br>11:17         | 89:8                               | <b>morning</b><br>165:18                     | 51:22                  | 98:17                                    |
| 95:9                        | 109:24                             | <b>morning's</b><br>10:3                     | 54:5                   | 99:22                                    |
| <b>mixed</b><br>69:5        | 114:10                             | <b>mortgage</b><br>123:2                     | 59:12                  | <b>navigate</b><br>70:13                 |
| 158:1                       | 121:9                              | <b>mortgage-</b><br><b>backed</b><br>122:3,4 | 78:3                   | <b>Neal</b><br>55:5                      |
| <b>model</b><br>30:9,11     | 136:14                             | 123:4,5                                      | 101:18                 | 56:19,23                                 |
| 32:5                        | 143:4                              | <b>mortgages</b><br>92:1                     | 128:24                 | 58:1                                     |
| 41:7,12                     | 149:11,14 160:5                    | <b>motion</b><br>4:9,16                      | 136:2                  | 169:19                                   |
| 88:12                       | <b>moniker</b><br>164:11           | 6:18                                         | 158:6                  | <b>near-term</b><br>127:21               |
| 160:12                      | <b>monitoring</b><br>74:16,18 99:1 | 57:8,18,19,21,22                             | 170:1                  |                                          |
|                             |                                    | 58:5                                         | 177:21                 |                                          |
|                             |                                    | 169:24                                       | <b>MSCI</b><br>61:8    |                                          |
|                             |                                    |                                              | 107:11                 |                                          |
|                             |                                    |                                              | 138:22                 |                                          |
|                             |                                    |                                              | 169:1                  |                                          |
|                             |                                    |                                              | <b>multifamily</b>     |                                          |
|                             |                                    |                                              | 128:23                 |                                          |
|                             |                                    |                                              | 129:7,13               |                                          |

|                                         |                            |                                           |                           |                                |
|-----------------------------------------|----------------------------|-------------------------------------------|---------------------------|--------------------------------|
| <b>nearly</b><br>5:19                   | 18,22<br>46:25             | <b>nifty</b><br>7:9                       | <b>northern</b><br>128:22 | <b>number</b><br>8:5           |
| 158:11                                  | 47:1,7                     | <b>nine</b><br>134:8                      | <b>notable</b><br>35:16   | 14:11                          |
| <b>necessarily</b><br>18:7              | 108:4                      | 139:23                                    | 65:5                      | 18:17                          |
| 29:6                                    | 138:5,11                   | <b>noise</b><br>160:25                    | 138:9                     | 21:7                           |
| 39:4                                    | 170:17                     | <b>nominal</b><br>119:11                  | 155:10                    | 23:18,21                       |
| 40:14                                   | 50:5                       | 172:25                                    | 158:23                    | 25:2                           |
| 42:17                                   | <b>neutralize</b><br>87:22 | <b>nominees</b><br>156:12,16              | 163:4                     | 26:20                          |
| 43:21                                   | <b>new</b><br>8:7          | 16                                        | 174:25                    | 53:17                          |
| 50:8                                    | 14:16                      | <b>non-core</b><br>40:21                  | <b>notably</b><br>37:17   | 76:7                           |
| 51:15                                   | 24:3                       | 124:17                                    | 59:23                     | 78:18                          |
| 123:3                                   | 105:18                     | <b>non-financial</b><br>159:25            | 62:11,22                  | 81:10                          |
| 133:6                                   | 128:21                     | <b>non-specified</b><br>130:25            | 76:23                     | 95:6                           |
| <b>negative</b><br>8:11                 | 134:14,15                  | <b>non-u.s.</b><br>61:16                  | 84:22                     | 96:17                          |
| 32:21                                   | 15                         | 77:25                                     | 119:24                    | 150:19,21                      |
| 78:14                                   | 150:6,7                    | 87:8,16,21 90:16                          | 122:9                     | 151:24                         |
| 99:15                                   | 152:5,6,11                 | 109:11,19                                 | 138:9,13                  | 157:24                         |
| 110:14,15                               | 153:2,5,10,23              | 110:18                                    | 156:10                    | 162:18                         |
| 15                                      | 158:17,21                  | <b>nontradit</b><br><b>ional</b><br>65:10 | 175:20                    | 167:16                         |
| <b>negativel</b><br><b>y</b><br>68:23   | 168:23                     | <b>normal</b><br>24:3                     | <b>noted</b><br>28:12     | <b>numbers</b><br>6:24         |
| <b>negotiate</b><br><b>d</b><br>73:23   | 10:2                       | 44:8                                      | 35:12                     | 9:19                           |
| 162:23                                  | 16:11                      | <b>north</b><br>38:22,23                  | 176:3                     | 31:18                          |
| <b>negotiating</b><br>64:13             | 68:20                      | 135:24                                    | <b>nothing's</b><br>8:5   | 75:2,7                         |
| 73:9                                    | 81:19                      | 171:12                                    | <b>notice</b><br>61:20    | 88:13                          |
| 83:14                                   | 98:21                      | 172:12                                    | 149:16                    | 110:10                         |
| 110:1                                   | 117:8                      | <b>nicely</b><br>54:4                     | 167:2,9                   | 115:1                          |
| <b>negotiating</b><br><b>on</b><br>72:5 | 118:1                      |                                           | <b>noticed</b><br>147:25  | 151:20                         |
| 162:21                                  | 165:24                     |                                           | <b>noting</b><br>114:19   | 171:13                         |
| <b>negotiations</b><br>64:18            | 51:23                      |                                           | <b>November</b><br>5:8,12 | 178:13                         |
| <b>net</b><br>5:15                      | 52:5                       |                                           | 68:18,25                  |                                |
| 7:8                                     | 113:12,14                  |                                           | 89:12                     | <b>obligation</b><br>160:16,18 |
| 37:9,10,                                | 171:12                     |                                           | <b>nuance</b><br>107:14   |                                |

|                                                                                              |                                                 |                                                                                                  |                                                                                                                         |                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------|-------------------------------------------------|--------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>obligations</b> 10:7<br>60:25<br>76:7                                                     | 64:10<br>102:13<br>127:24                       | <b>opportunistic</b><br>63:1,19<br>65:10,17<br>74:22<br>126:5<br>127:6                           | <b>options</b><br>175:2,7                                                                                               | <b>outflow</b><br>37:9,10,<br>18,22<br>47:1,7                                                                                                                             |
| <b>observations</b><br>79:10<br>102:21,<br>23                                                | <b>ones</b><br>90:22<br>91:3<br>164:19<br>174:8 | <b>opportunities</b><br>13:9,10<br>73:6<br>112:23<br>122:11<br>130:15<br>132:14,<br>15<br>134:22 | <b>orange</b><br>132:9                                                                                                  | <b>outline</b><br>61:3                                                                                                                                                    |
| <b>observing</b><br>6:4                                                                      | <b>ongoing</b><br>111:17<br>175:12              | <b>open</b><br>9:2<br>10:3<br>50:6,10                                                            | <b>ore</b><br>135:18                                                                                                    | <b>outlined</b><br>48:18<br>57:4<br>61:10                                                                                                                                 |
| <b>occurred</b><br>66:6                                                                      | <b>onset</b><br>175:12                          | <b>open-ended</b><br>126:10,<br>14,15                                                            | <b>organizational</b> 68:2<br>83:21<br>161:17                                                                           | <b>outlines</b><br>59:14                                                                                                                                                  |
| <b>occurs</b><br>162:19                                                                      | <b>open</b><br>10:3<br>50:6,10                  | <b>opening</b><br>135:1                                                                          | <b>organized</b><br>59:14<br>62:3                                                                                       | <b>outlook</b><br>16:10,<br>14,15                                                                                                                                         |
| <b>October</b><br>5:11                                                                       | <b>open-</b><br><b>ended</b>                    | <b>operate</b><br>13:12                                                                          | <b>oriental</b><br>107:25                                                                                               | <b>outperform</b><br>64:20<br>67:15<br>77:15<br>78:24<br>79:5<br>84:9<br>85:19<br>88:16<br>92:5<br>96:21<br>97:3<br>99:15<br>109:9<br>112:17<br>123:11<br>172:9<br>175:21 |
| <b>ODCE</b><br>128:15<br>131:12                                                              | <b>operates</b><br>32:9                         | <b>operating</b><br>60:6<br>175:23                                                               | <b>original</b><br>179:20                                                                                               | <b>outcome</b><br>21:21,22<br>34:25<br>127:9<br>133:7<br>178:24<br>13 129:5<br>139:9,24<br>172:11<br>174:12<br>176:9,20                                                   |
| <b>ODCE-TYPE</b><br>126:18                                                                   | <b>operates</b><br>32:9                         | <b>operating</b><br>60:6<br>175:23                                                               | <b>others'</b><br>50:10                                                                                                 | <b>outperform</b><br>67:5<br>78:10<br>117:23<br>128:10,<br>13 129:5<br>139:9,24<br>172:11<br>174:12<br>176:9,20                                                           |
| <b>offerings</b><br>174:25                                                                   | <b>operates</b><br>32:9                         | <b>operating</b><br>60:6<br>175:23                                                               | <b>ought</b><br>101:13                                                                                                  | <b>outperform</b><br>67:5<br>78:10<br>117:23<br>128:10,<br>13 129:5<br>139:9,24<br>172:11<br>174:12<br>176:9,20                                                           |
| <b>offsets</b><br>179:24                                                                     | <b>operates</b><br>32:9                         | <b>operating</b><br>60:6<br>175:23                                                               | <b>out-of-</b><br><b>benchmark</b><br>122:11                                                                            | <b>outperform</b><br>67:5<br>78:10<br>117:23<br>128:10,<br>13 129:5<br>139:9,24<br>172:11<br>174:12<br>176:9,20                                                           |
| <b>oftentimes</b> 133:12                                                                     | <b>operating</b><br>60:6<br>175:23              | <b>operating</b><br>60:6<br>175:23                                                               | <b>outcome</b><br>21:21,22<br>34:25<br>127:9<br>133:7<br>178:24<br>13 129:5<br>139:9,24<br>172:11<br>174:12<br>176:9,20 | <b>outperform</b><br>67:5<br>78:10<br>117:23<br>128:10,<br>13 129:5<br>139:9,24<br>172:11<br>174:12<br>176:9,20                                                           |
| <b>oil</b><br>94:15                                                                          | <b>operation</b><br>43:17                       | <b>operation</b><br>43:17                                                                        | <b>ought</b><br>101:13                                                                                                  | <b>outperform</b><br>67:5<br>78:10<br>117:23<br>128:10,<br>13 129:5<br>139:9,24<br>172:11<br>174:12<br>176:9,20                                                           |
| <b>older</b><br>108:19                                                                       | <b>operation</b><br>43:17                       | <b>operation</b><br>43:17                                                                        | <b>out-of-</b><br><b>benchmark</b><br>122:11                                                                            | <b>outperform</b><br>67:5<br>78:10<br>117:23<br>128:10,<br>13 129:5<br>139:9,24<br>172:11<br>174:12<br>176:9,20                                                           |
| <b>Olmstead</b><br>3:19<br>4:24<br>5:21<br>55:3<br>144:24,<br>25 145:2<br>146:18<br>177:9,12 | <b>operation</b><br>43:17                       | <b>operation</b><br>43:17                                                                        | <b>ought</b><br>101:13                                                                                                  | <b>outperform</b><br>67:5<br>78:10<br>117:23<br>128:10,<br>13 129:5<br>139:9,24<br>172:11<br>174:12<br>176:9,20                                                           |
| <b>once</b><br>58:13                                                                         | <b>operation</b><br>43:17                       | <b>operation</b><br>43:17                                                                        | <b>ought</b><br>101:13                                                                                                  | <b>outperform</b><br>67:5<br>78:10<br>117:23<br>128:10,<br>13 129:5<br>139:9,24<br>172:11<br>174:12<br>176:9,20                                                           |

|                                                                                                                                                                   |                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>outperform</b><br>78:22<br>79:10<br>81:10<br>83:4,24<br>85:11<br>96:18<br>108:23<br>109:6,<br>10,12<br>128:8,15<br>129:1<br>133:19<br>172:3<br>173:22<br>175:6 | 85:15<br>90:5,25<br>96:18<br>102:21<br>103:24<br>104:12,<br>23<br>105:13<br>106:20<br>107:4<br>110:19<br>111:21<br>124:19<br>125:20<br>129:14,<br>16,17<br>137:25<br>140:19<br>145:8,16<br>147:5<br>151:12<br>176:25                                                           | <b>overweigh</b><br>72:21<br>121:10,<br>24 171:4<br><b>overweigh</b><br><b>ting</b><br>90:16<br><b>overweigh</b><br><b>ts</b> 87:14<br>138:14<br><b>overwhelm</b><br><b>ing</b> 8:24<br><b>owner</b><br>125:9<br><b>owning</b><br>167:24                                                    | 110:6,<br>11,12,<br>18,22<br>111:12<br>129:25<br>132:4<br>133:8<br>170:7,22<br>171:10<br>173:5,25<br>175:25<br>176:12<br><b>pages</b><br>31:24<br>106:24<br>107:2<br>111:11<br>174:15                                                                                            | <b>part</b><br>11:12<br>19:5,20<br>20:4<br>21:14<br>24:19<br>26:8,20<br>35:15<br>41:11<br>42:16<br>66:1<br>94:23<br>132:9,24<br>133:3<br>137:4<br>148:2<br><b>partial</b><br>149:13<br><b>participa</b><br><b>te</b> 93:23<br>137:23<br><b>participa</b><br><b>ted</b> 64:8<br><b>particula</b><br><b>r</b> 67:10<br>97:14<br>98:10<br>109:8<br>178:7<br><b>particula</b><br><b>rly</b><br>57:12<br>66:24<br>69:23<br>107:15<br><b>partly</b><br>132:23<br><b>partner</b><br>74:20<br>125:24<br>127:2<br>143:13<br>144:15 |
| <b>outperforming</b><br>79:3<br>173:3                                                                                                                             | <b>outset</b><br>23:3<br>33:17<br>40:5<br>47:15<br>174:3<br><b>outside</b><br>112:13<br>134:15<br><b>outsized</b><br>49:21<br><b>over-</b><br><b>subscribe</b><br><b>d</b> 143:2<br><b>overall</b><br>20:16<br>23:19<br>36:1<br>41:15<br>42:3<br>43:9,15,<br>16 80:18<br>83:22 | <b>overarchi</b><br><b>ng</b><br>113:20<br>117:5<br><b>overcome</b><br>99:15<br><b>overlap</b><br>59:24<br><b>oversee</b><br>124:4<br><b>oversees</b><br>98:7<br><b>overshoot</b><br><b>ing</b><br>35:23<br><b>oversight</b><br>59:17<br>70:20<br><b>overview</b><br>26:3<br>62:2<br>102:15 | <b>P</b><br><b>pace</b><br>23:20<br>24:13<br>124:14<br><b>Pacific</b><br>154:23<br><b>page</b><br>22:13<br>23:8<br>31:15,18<br>34:12<br>50:13,14<br>59:2,13<br>62:24<br>63:11,13<br>65:20<br>66:2<br>70:12<br>71:22<br>73:4<br>77:1<br>102:19,<br>20 107:3<br>108:7,18<br>109:15 | <b>paid</b><br>78:6<br>84:4<br>107:23<br>113:4<br>114:13<br>178:9<br><b>pair</b><br>49:20<br>50:3<br><b>pandemic</b><br>8:16 9:3<br>68:19,24<br>69:4,13<br>89:6<br>92:15<br><b>paper</b><br>171:13<br>176:3<br><b>par</b><br>118:5,6,<br>9<br><b>parent</b><br>167:3<br><b>parse</b><br>91:18                                                                                                                                                                                                                             |

|                                                                                                                                                                                                                                                                     |                                                               |                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>partnerships</b><br>143:15                                                                                                                                                                                                                                       | <b>Pat</b> 55:5<br><b>path</b><br>92:4                        | 170:18<br><b>payoffs</b><br>90:17                                                                                                                                                                                                                                                                                    | 10,22,24<br>173:7,8<br>174:10                                                                                                                                                                                                                                                                                            | 35:11,<br>18,20,22<br>37:11,13                                                                                                                                                                                                                                                                                     |
| <b>parts</b><br>25:12<br>69:22                                                                                                                                                                                                                                      | <b>patience</b><br>84:4                                       | <b>payout</b><br>7:9                                                                                                                                                                                                                                                                                                 | <b>penalize</b><br>53:25                                                                                                                                                                                                                                                                                                 | 38:19,<br>20,25                                                                                                                                                                                                                                                                                                    |
| <b>party</b><br>143:8,9                                                                                                                                                                                                                                             | <b>patient</b><br>64:14                                       | 153:25<br><b>PBC</b>                                                                                                                                                                                                                                                                                                 | <b>pension</b><br>5:16                                                                                                                                                                                                                                                                                                   | 41:3<br>42:9,13,                                                                                                                                                                                                                                                                                                   |
| <b>pass</b><br>118:16<br>158:12                                                                                                                                                                                                                                     | 68:8,13<br>84:4                                               | 159:1,2<br>160:10,                                                                                                                                                                                                                                                                                                   | 17:8<br>18:20                                                                                                                                                                                                                                                                                                            | 25 46:9,<br>21,23                                                                                                                                                                                                                                                                                                  |
| <b>passage</b><br>8:6<br>158:11                                                                                                                                                                                                                                     | <b>pattern</b><br>53:19                                       | 12<br><b>PE</b>                                                                                                                                                                                                                                                                                                      | 115:4<br>142:16,                                                                                                                                                                                                                                                                                                         | 47:3,4,<br>6,10                                                                                                                                                                                                                                                                                                    |
| <b>passed</b><br>113:25<br>118:13<br>158:15<br>163:21                                                                                                                                                                                                               | <b>patterns</b><br>157:22                                     | 137:13,<br>25<br>138:20                                                                                                                                                                                                                                                                                              | 21<br>143:4,7<br>150:21                                                                                                                                                                                                                                                                                                  | 50:19<br>54:14<br>61:16,17                                                                                                                                                                                                                                                                                         |
| <b>passive</b><br>60:20<br>62:9,12<br>66:11,<br>15,18,22<br>67:3,5,<br>14 70:6,<br>16,19<br>76:3<br>77:23<br>82:12,25<br>96:15,<br>17,21<br>97:3<br>98:12<br>104:22,<br>25<br>105:2,12<br>106:9<br>108:8,10<br>109:5<br>117:25<br>165:3<br><b>passively</b><br>64:1 | <b>pause</b><br>16:16,17<br>22:5<br>48:24<br>146:16<br>171:10 | <b>peak</b><br>28:8<br><b>peaks</b><br>141:11<br><b>peer</b><br>18:3<br>37:21<br>45:24<br>46:23<br>47:6<br>57:13<br>102:5,6<br>109:2<br>173:15<br>176:21<br><b>peers</b><br>46:18,<br>19,22<br>47:5<br>50:25<br>51:1,15<br>104:25<br>105:3<br>106:10,<br>17,20,21<br>107:7,9,<br>13<br>108:11,<br>12,13,24<br>109:4, | 165:20<br>170:13,<br>14<br>174:4,14<br>175:3<br><b>pension's</b><br>170:24<br><b>pent-up</b><br>93:12<br><b>percent</b><br>5:17,18<br>7:3<br>16:12<br>20:3,9,<br>17,19<br>21:13<br>23:1,2,<br>7,11,12,<br>18 24:2,<br>12 25:1,<br>9,10<br>27:20<br>28:2<br>31:21,<br>22,23<br>32:14,<br>17,22<br>33:7<br>34:13,<br>15,16 | 62:17,25<br>63:25<br>75:18,<br>20,23<br>76:1,6,<br>15,23<br>78:22,25<br>79:5<br>80:9<br>81:14<br>84:10<br>95:4,23,<br>24 100:1<br>106:18,<br>19<br>108:11,<br>12,13,14<br>115:8,9<br>117:5,17<br>119:10<br>124:7,9,<br>16,17,18<br>125:21,<br>22,24<br>126:2,4,<br>6,10,11,<br>13,18<br>127:1,7<br>129:24<br>132:7 |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 133:3,4<br>137:25<br>138:1,4,<br>11,20,<br>21,25<br>139:19<br>140:17<br>141:22<br>145:6,<br>10,14,<br>15,16<br>147:3,6,<br>14,22,23<br>148:8,9,<br>13,14,<br>18,20,<br>21,22<br>149:23,<br>24<br>150:2,3,<br>5,10,14,<br>18<br>151:13,<br>19 153:9<br>156:8,24<br>157:1,3,<br>5 159:11<br>163:24<br>171:16,<br>23,24<br>173:1<br>176:6<br>178:16<br><b>percentag</b><br><b>e</b> 21:12<br>44:20<br>70:2<br>156:11<br>172:4<br>176:10<br><b>percentil</b><br><b>e</b> 21:21,<br>22 33:25<br>34:24 | 38:10,11<br>41:14<br>46:21<br>47:5<br>174:6<br><b>percents</b><br>38:6<br><b>perfectly</b><br>12:17<br><b>perform</b><br>16:4<br><b>performan</b><br><b>ce</b> 6:22<br>11:12<br>12:19<br>22:23<br>50:3<br>51:19<br>59:11<br>64:16<br>66:20<br>69:8,9<br>78:4,8<br>81:3,8<br>82:10<br>83:6,20<br>85:19<br>108:18,<br>19<br>109:1,4<br>110:7<br>111:8<br>113:20<br>114:12,<br>22<br>115:3,5,<br>11,15<br>116:9<br>117:6<br>124:11<br>128:17,<br>25 129:3<br>133:8,9<br>138:23 | 139:4,<br>11,16,20<br>147:8<br>157:10,<br>11 170:2<br>171:7<br>172:2,6,<br>8 173:6,<br>23<br>174:23<br>175:2,7,<br>21<br>176:23<br>178:1<br><b>performed</b><br>85:3<br>107:19<br>118:25<br><b>performs</b><br>79:1<br><b>period</b><br>5:17<br>9:10<br>16:13<br>21:3<br>22:24<br>23:7<br>26:25<br>32:23<br>35:10,21<br>36:6,8,<br>20 37:11<br>38:5<br>47:9<br>48:5,7<br>60:18<br>67:12<br>68:12<br>78:8,9<br>79:13<br>121:19<br>128:9,<br>11,14,25<br>151:21 | 167:14<br>171:14,<br>18<br>172:9,15<br>174:6,11<br>176:7,10<br><b>periodica</b><br><b>lly</b> 97:6<br>110:4<br><b>periods</b><br>22:16,19<br>117:22,<br>24 128:9<br>139:6,14<br>171:22<br>172:14<br>173:4,<br>22,24<br>174:24<br>175:5<br><b>Perkins</b><br>142:17<br><b>permanent</b><br>156:2<br><b>permanent</b><br><b>ly</b><br>155:25<br><b>permeated</b><br>113:21<br><b>permits</b><br>58:24<br><b>person</b><br>3:7 4:21<br>147:18<br><b>personal</b><br>168:7<br><b>perspecti</b><br><b>ve</b><br>48:13,14<br>51:14<br>115:21<br>116:20<br>124:14<br>161:21 | <b>Peter</b><br>3:3,8,<br>22,24<br>4:1,13,<br>16 6:20<br>13:19<br>14:4<br>16:23<br>24:23<br>49:1<br>53:4<br>54:7,10,<br>20 55:1<br>57:1,17<br>58:3,5<br>86:7<br>91:15<br>95:8<br>96:14<br>98:18<br>101:2,5,<br>10,15,24<br>111:25<br>112:3<br>113:11<br>117:7<br>123:10,<br>16,23<br>124:2<br>131:22<br>136:1,6<br>137:10<br>140:8<br>144:22<br>145:1<br>146:19<br>148:24<br>151:3<br>159:14<br>165:13<br>169:20,<br>22,24<br>177:4,<br>16,17 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                                     |                        |                                      |                           |                                      |
|-------------------------------------|------------------------|--------------------------------------|---------------------------|--------------------------------------|
| 178:13,<br>23                       | 166:10<br>169:10       | 74:12<br>114:3                       | <b>players</b><br>116:11  | 54:6,18<br>64:5                      |
| <b>Pfizer</b>                       | <b>places</b><br>96:8  | 115:4                                | <b>playing</b><br>153:14  | 77:5,7,<br>21 81:11                  |
| 68:19                               | 112:18                 | 146:25                               | <b>please</b><br>3:10,11  | 82:14,<br>16,23                      |
| <b>phenomena</b><br>1 172:2,<br>15  | 113:6<br>119:13        | 147:11,<br>18                        | 13:24                     | 83:5                                 |
| <b>phenomena</b><br><b>lly</b> 88:5 | <b>plain</b><br>168:11 | 10,13,<br>15,19                      | 25:21,25                  | 85:12<br>87:11                       |
| <b>Phil</b><br>14:7                 | <b>plan</b><br>5:16    | 150:9,<br>18,21,22                   | 54:10                     | 91:19<br>92:8                        |
| 16:17                               | 14:13                  | 165:20                               | 66:2                      | 110:17,<br>21 119:3                  |
| 29:20                               | 16:11,14               | 171:2                                | 70:12                     | 123:12                               |
| <b>Phil's</b><br>16:9               | 17:8,12                | 174:7,<br>16,20                      | 91:15                     | 124:9                                |
| <b>philosoph</b><br><b>y</b> 79:17  | 18:2,4,<br>16,22       | 175:3,8                              | 98:23                     | 128:10,<br>12,16                     |
| 88:3                                | 19:1,13                | 178:7                                | 112:3                     | 129:2,20                             |
| <b>phone</b><br>14:6                | 20:16                  | 179:12,<br>21                        | 136:6                     | 147:6                                |
| <b>phrase</b><br>95:2               | 21:1,4,<br>9,23        | <b>plan's</b><br>15:15               | 145:1                     | 172:4<br>176:10                      |
| <b>physical</b><br>155:17           | 22:10,25               | <b>planned</b><br>136:19             | 165:22                    | <b>policies</b><br>34:14,15          |
| <b>pick</b><br>95:16,17             | 23:4                   | <b>planners</b><br>148:15            | 177:11                    | 38:19                                |
| 140:24,<br>25                       | 24:9                   | <b>plans</b><br>18:4,15,<br>20 19:10 | <b>pleased</b><br>58:16   | 75:9                                 |
| <b>picked</b><br>133:9              | 25:13                  | 37:23                                | 69:8                      | 164:8,12                             |
| <b>picking</b><br>148:5             | 32:17                  | 37:23                                | <b>plots</b><br>32:12     | 165:3                                |
| <b>pinch</b><br>124:5               | 33:2                   | 39:14,25                             | <b>plotted</b><br>33:22   | <b>policy</b><br>9:13,15,<br>22 14:8 |
| <b>pipeline</b><br>130:16           | 35:6                   | 41:22                                | <b>plus</b><br>25:13      | 19:17                                |
| 134:9,13                            | 36:2                   | 42:20                                | 20 19:10                  | 31:13,21                             |
| <b>place</b><br>16:7                | 37:4,10,<br>14,22      | 43:12,16                             | 126:17                    | 32:13                                |
| 72:6                                | 46:9                   | 44:7,12                              | 128:4                     | 34:13                                |
| 105:7                               | 66:12                  | 45:1,5,<br>10,14,<br>23              | 149:24                    | 36:13                                |
| 109:8,10                            | 106:3,5,<br>8 137:6    | <b>plastics</b><br>10:15             | 173:1                     | 43:15                                |
| 127:15                              | 174:4                  | <b>plans'</b><br>173:16,<br>23       | <b>pointing</b><br>127:13 | 61:2,3                               |
|                                     | <b>played</b><br>81:23 | <b>play</b><br>34:3                  | <b>points</b><br>5:20,22  | 63:14                                |
|                                     | 171:6                  |                                      | 7:4 9:23                  | 158:6                                |
|                                     |                        |                                      | 13:7                      | 163:2                                |
|                                     |                        |                                      | 18:7                      | 165:20                               |
|                                     |                        |                                      | 28:17,18                  | 168:18,<br>23                        |
|                                     |                        |                                      | 29:24                     |                                      |
|                                     |                        |                                      | 31:4,25                   |                                      |
|                                     |                        |                                      | 32:13                     |                                      |
|                                     |                        |                                      | 47:21                     |                                      |
|                                     |                        |                                      | 50:12                     |                                      |

|                              |                                    |                                     |                                          |                             |
|------------------------------|------------------------------------|-------------------------------------|------------------------------------------|-----------------------------|
| <b>political</b><br>9:17     | 98:6,13<br>99:3                    | 132:6,24<br>133:1                   | <b>post</b><br>137:14,<br>17             | 28:13<br>31:10              |
| 55:18                        | 104:21                             | 175:13                              | <b>position</b><br>15:22                 | 39:20,23                    |
| <b>Pollyanna</b><br>120:23   | 106:18                             | 21:9                                | <b>posted</b><br>7:6                     | 47:19                       |
| <b>pooled</b><br>126:8       | 112:23                             | 54:19                               | <b>postured</b><br>111:7                 | 96:1                        |
| <b>pools</b><br>176:22       | 113:6                              | <b>positione</b><br><b>d</b> 54:2   | <b>potential</b><br>10:1,18,<br>20 18:17 | <b>premiums</b><br>29:3     |
| <b>poorly</b><br>107:20      | 122:6                              | 61:24                               | 63:2                                     | <b>prepared</b><br>48:20    |
| <b>popping</b><br>27:18      | 124:15,<br>18                      | 84:3,8                              | 65:17                                    | 86:4                        |
| <b>port</b><br>130:5         | 128:5,8                            | 87:18                               | 74:20                                    | 103:10                      |
| <b>portends</b><br>137:6     | 129:1,<br>14,16,23                 | 89:5                                | 112:15                                   | <b>present</b><br>38:2,3    |
| <b>portfolio</b><br>12:17,22 | 130:22                             | 115:22                              | <b>potential</b><br><b>ly</b> 16:1       | 68:6                        |
| 15:8,13                      | 132:4,<br>17,22,25                 | 137:23                              | 49:17                                    | 75:1,11                     |
| 17:24                        | 133:2,5,<br>14 135:4               | <b>positioni</b><br><b>ng</b> 113:8 | <b>presentation</b><br>55:14             | <b>presses</b><br>110:4     |
| 19:11                        | 137:22,<br>25                      | 116:24                              | <b>pounding</b><br>136:25                | <b>pressure</b><br>67:17,19 |
| 20:2                         | 15:8,13                            | <b>positive</b><br>60:22            | <b>powder</b><br>135:11                  | 68:4                        |
| 21:17                        | 138:20,<br>24                      | 68:20                               | <b>powerful</b><br>9:4                   | 99:6,10                     |
| 27:22                        | 139:8,12                           | 105:16                              | <b>powers</b><br>10:9                    | <b>pretty</b><br>5:7        |
| 32:2,5                       | 142:22                             | 111:21                              | <b>predict</b><br>97:7                   | 43:11                       |
| 35:24                        | 145:12,<br>14                      | 133:24                              | <b>predicted</b><br>77:19,20             | 56:20                       |
| 43:9,24                      | 146:12,<br>14                      | 135:7                               | <b>predomina</b><br><b>ntly</b>          | 100:6                       |
| 44:2,4                       | 176:12,<br>14                      | 137:6                               | 165:2                                    | 107:5                       |
| 47:17                        | <b>portfolio</b><br><b>s</b> 17:25 | 138:6                               | <b>preemptiv</b><br><b>ely</b>           | 110:20                      |
| 48:15                        | 19:14                              | 143:17                              | 153:22                                   | 111:13,<br>21               |
| 58:18                        | 34:20                              | <b>positivel</b><br><b>y</b> 85:5   | <b>premium</b><br>15:4                   | 117:23                      |
| 59:15                        | 35:19                              | <b>positives</b><br>120:22          | 20:6,8,<br>10                            | 119:5                       |
| 60:1,2,3                     | 36:12                              | <b>possible</b><br>60:12            | 26:11,<br>13,15                          |                             |
| 65:6                         | 66:11,<br>15,22                    | 88:17                               | 27:2,4,<br>16,19                         |                             |
| 66:18                        | 67:3,6                             | 96:25                               |                                          |                             |
| 68:15                        | 105:13                             | 98:15                               |                                          |                             |
| 71:2                         | 106:13                             | 104:14                              |                                          |                             |
| 73:18                        | 116:24                             | 124:25                              |                                          |                             |
| 82:4,18                      | <b>portion</b><br>58:21            | 125:4                               |                                          |                             |
| 90:14,21                     | 81:4                               | <b>possibly</b><br>168:12           |                                          |                             |
| 94:6,23                      | 96:20                              | 179:12                              |                                          |                             |
| 96:20                        | 97:3                               |                                     |                                          |                             |
| 97:3                         |                                    |                                     |                                          |                             |



|                  |                  |                  |                  |                  |
|------------------|------------------|------------------|------------------|------------------|
| 136:21           | 19:3             | 102:10           | <b>products</b>  | <b>prohibite</b> |
| 140:8            | 48:18            | 106:5            | 10:15            | <b>d</b> 169:4,  |
| 154:8            | 56:9             | 108:4            | 168:5            | 5                |
| 155:21           | 83:25            | 112:10           | <b>profile</b>   | <b>prohibiti</b> |
| 159:7            | 126:7            | 115:13           | 17:20            | <b>on</b> 168:1  |
| 163:8            | 133:10           | 141:20           | 22:11            | <b>project</b>   |
| 167:3            | 163:7            | 150:1,4,         | 45:4             | 19:15            |
| 176:25           | <b>private</b>   | 23               | 74:24            | 33:14            |
| <b>prevalent</b> | 8:13             | 161:8,24         | <b>profit</b>    | <b>projected</b> |
| 164:18           | 11:10,15         | 166:12           | 13:8             | 30:13            |
| <b>previous</b>  | 12:11,19         | <b>problem</b>   | 72:23            | 119:9            |
| 147:24           | 13:6             | 104:19           | <b>profitabi</b> | <b>projectin</b> |
| 148:1,10         | 40:19            | 154:5            | <b>lity</b>      | <b>g</b> 16:11   |
| <b>price</b>     | 115:11           | 157:15           | 10:22            | 48:14            |
| 30:14,           | 116:4            | <b>problems</b>  | 153:5            | <b>projectio</b> |
| 15,17            | 124:11           | 10:3             | <b>profits</b>   | <b>n</b> 16:13   |
| 91:17            | 129:22           | 128:1            | 72:19            | 19:8             |
| <b>priced</b>    | 133:15           | <b>proceed</b>   | 88:7             | 23:23            |
| 131:16           | 135:11,          | 57:2,19          | 89:1,2,          | 34:8             |
| <b>prices</b>    | 12 136:2         | <b>proceeds</b>  | 23               | 35:10            |
| 10:17            | 137:14           | 114:1            | <b>program</b>   | 36:6,8,          |
| 100:20           | 140:16           | <b>process</b>   | 14:12            | 20 37:11         |
| <b>primarily</b> | 142:9            | 13:1             | 63:5             | 38:5             |
| 30:23            | 145:7            | 57:16            | 65:13            | 40:2             |
| 94:12            | 172:7            | 64:23            | 90:5             | 47:8,24          |
| 153:23           | 174:12           | 66:1             | 91:10            | 48:4,7           |
| 164:13           | <b>prize</b>     | 72:4,5           | 98:8             | <b>projectio</b> |
| 176:7            | 92:20            | 79:17            | 102:16,          | <b>ns</b> 18:1   |
| <b>primary</b>   | <b>probabili</b> | 80:20            | 22               | 33:9             |
| 141:17           | <b>ty</b>        | 103:2,3          | 105:17           | 35:2             |
| 158:20           | 90:12,           | 121:16           | 108:23           | <b>promise</b>   |
| <b>prime</b>     | 14,22            | <b>processes</b> | 111:22           | 45:6             |
| 154:13           | 104:3            | 13:18            | 114:10           | <b>promised</b>  |
| 176:12           | 113:8            | 79:25            | 124:4            | 15:16            |
| <b>principal</b> | 121:6            | <b>produce</b>   | 138:10           | <b>prompt</b>    |
| 124:22           | <b>probably</b>  | 13:4             | 141:16           | 68:2             |
| 125:2            | 49:16            | 117:13,          | 146:22           | <b>proof</b>     |
| 126:20,          | 56:16            | 14               | 148:12           | 81:7             |
| 23               | 64:10            | <b>produced</b>  | 176:4            | <b>property</b>  |
| 127:18           | 77:1             | 70:22            | <b>programs</b>  | 129:7,15         |
| 128:4,           | 91:9             | 168:8            | 151:5            | <b>proposal</b>  |
| 14,17            | 92:25            | <b>product</b>   | <b>progresse</b> | 152:4            |
| <b>prior</b>     | 93:17            | 67:23            | <b>d</b> 148:6   | 158:3            |
| 14:11            | 94:10,13         |                  |                  |                  |

|                  |                  |                  |                  |                |
|------------------|------------------|------------------|------------------|----------------|
| <b>proposals</b> | 76:25            | 158:25           | 88:11            | <b>quasi</b>   |
| 158:4,13         | 80:23            | 159:15           | 125:10           | 40:24          |
| 159:2,5          | 103:17           | 160:19           | 167:9            | <b>quasi-</b>  |
| 162:10,          | 111:20           | 161:13           | 176:2            | <b>liquid</b>  |
| 14,18            | <b>provision</b> | 168:6            |                  | 40:11          |
| 163:10,          | 166:25           | 169:13           | <b>Q</b>         | 44:21          |
| 17               | 167:11           | 173:17,          |                  | <b>quick</b>   |
| 164:4,           | <b>proxy</b>     | 18               | <b>quacking</b>  | 14:2           |
| 17,18            | 154:18,          | <b>pull</b>      | 12:2,3,4         | 15:12,14       |
| <b>proposed</b>  | 20               | 88:8             | <b>qualify</b>   | 17:17          |
| 169:18           | 155:6,7,         | <b>purchased</b> | 125:12           | 19:19          |
| <b>protect</b>   | 9                | 72:11            | <b>quality</b>   | 29:23          |
| 78:23            | <b>prudence</b>  | 130:10           | 6:2              | 81:22          |
| 79:19            | 7:19             | <b>pure</b>      | 89:15            | 96:15          |
| <b>Protectin</b> | 53:23            | 70:7,10          | 94:10,           | 101:13         |
| <b>g</b> 168:21  | 54:1             | <b>purely</b>    | 21,22,24         | 122:9          |
| <b>protectio</b> | <b>prudent</b>   | 69:18            | 153:17           | 136:4          |
| <b>ns</b>        | 49:7             | 115:20           | 154:15           | 137:13         |
| 159:24           | 54:13            | <b>purpose</b>   | <b>quantitat</b> | 155:7          |
| <b>proves</b>    | 85:2             | 60:16            | <b>ive</b>       | 165:7          |
| 77:14            | 103:25           | 95:22            | 64:24            | 178:2,21       |
| <b>provide</b>   | <b>public</b>    | 175:11           | 79:25            | <b>quickly</b> |
| 57:3             | 10:4             | <b>pursue</b>    | <b>quarantin</b> | 16:17          |
| 59:1             | 18:4,15,         | 65:9             | <b>e</b> 157:13  | 45:9           |
| 60:9,22          | 20 32:1          | <b>push</b>      | <b>quarter</b>   | 90:2           |
| 63:17,           | 37:23            | 42:19            | 72:12,13         | 98:21          |
| 20,22            | 40:14            | 49:16            | 93:5             | 102:3          |
| 64:1             | 46:2,9           | 53:16            | 100:15           | 111:14         |
| 65:21,22         | 61:12            | <b>pushed</b>    | 119:6            | 177:1          |
| 75:15            | 102:11,          | 11:9             | 133:25           | <b>quiet</b>   |
| 76:21            | 22               | <b>put</b>       | 134:5,7          | 101:9          |
| 84:23            | 103:23           | 11:13            | 137:15,          | 160:25         |
| 94:2             | 106:2            | 12:16            | 20,21            | <b>quite</b>   |
| 113:19           | 109:3            | 15:21            | 138:1            | 5:24           |
| 175:12           | 116:25           | 95:13            | 147:9            | 13:9           |
| <b>provided</b>  | 133:5,14         | 109:24           | 154:19           | 32:19          |
| 32:8             | 138:22           | 114:11           | 163:11           | 51:23          |
| 67:4             | 142:15,          | 144:8            | 173:11,          | 98:24          |
| 71:25            | 21,23            | 145:5            | 12               | 105:14         |
| 72:23            | 143:4,5,         | 173:25           | <b>quarterly</b> | 108:5          |
| 76:6             | 7 144:19         | <b>puts</b>      | 155:3            | 110:16         |
| 167:2            | 145:7            | 54:19            | <b>quartile</b>  | 152:19         |
| <b>providing</b> | 148:2            | <b>putting</b>   | 114:22           | 163:25         |
| 60:24            | 152:18           | 34:7             |                  |                |



|                          |                            |                             |                              |                              |
|--------------------------|----------------------------|-----------------------------|------------------------------|------------------------------|
| <b>quote</b><br>65:10    | <b>ranked</b><br>174:1,6   | 110:10,<br>15,23            | <b>reassess</b><br>146:2     | <b>recommend</b><br>ed 54:14 |
| <b>R</b>                 | <b>ranks</b><br>174:13     | 153:9,25                    | <b>rebalance</b><br>12:20    | <b>recommend</b><br>s 163:23 |
| <b>racial</b><br>164:9   | <b>rapport</b><br>13:16    | 28:19                       | 42:17,23                     | <b>reconstru</b><br>cted     |
| <b>Railway</b><br>154:22 | <b>rarely</b><br>118:1     | <b>re-ups</b><br>134:19     | 84:25                        | 179:20                       |
| <b>raise</b><br>10:21    | <b>ratchetin</b><br>g 36:5 | <b>reach</b><br>16:12       | <b>rebalance</b><br>d 97:5,  | <b>record</b><br>7:6         |
| <b>raised</b><br>29:14   | <b>rate</b> 9:5            | 21:5                        | 13                           | 52:12                        |
| 72:25                    | 23:19                      | 120:22                      | <b>rebalance</b><br>s 72:22, | 57:21                        |
| <b>raising</b><br>137:17 | 25:3                       | <b>reaching</b><br>35:12    | 24 73:3                      | 70:22                        |
| <b>ramificat</b><br>ions | 30:12                      | 73:25                       | <b>rebalanci</b><br>ng 13:8  | 95:13                        |
| 8:19                     | 36:10                      | 137:17                      | 43:14                        | 119:20                       |
| 10:13                    | 49:3,5                     | <b>reactions</b><br>22:6    | <b>rebound</b><br>41:16,18   | 137:19,                      |
| <b>ramp</b><br>36:19     | 50:20                      | 48:23                       | <b>recalcula</b><br>ted 97:5 | 21                           |
| <b>ramp-up</b><br>161:5  | 52:9                       | <b>reality</b><br>167:22    | <b>receive</b><br>178:9,14   | 143:5                        |
| <b>ramped-up</b><br>37:3 | 53:1,3,                    | <b>realize</b><br>12:21     | <b>received</b><br>158:1,8   | 144:19                       |
| <b>ramping</b><br>37:1   | 8,13                       | <b>realized</b><br>69:11,16 | 159:5,9                      | <b>recovered</b><br>151:18   |
| <b>ran</b><br>48:17      | 172:25                     | 72:19                       | 163:10                       | <b>recovery</b><br>15:12,14  |
| <b>range</b><br>16:3,5   | 175:16                     | 77:6                        | 164:21                       | <b>recurring</b><br>126:23   |
| 32:18,24                 | <b>rates</b><br>8:8,12     | <b>realtime</b><br>167:4    | <b>receiving</b><br>164:24   | <b>red</b> 27:8              |
| 34:18                    | 92:18,22                   | <b>reappeare</b><br>d 89:15 | <b>recession</b><br>21:20    | 46:4                         |
| 37:11                    | 172:19                     | <b>rearview</b><br>41:13,24 | 42:15,24                     | 47:3                         |
| 60:8                     | 175:19                     | 7:22                        | 45:11                        | 133:3                        |
| 159:11                   | <b>ratio</b><br>21:2       | <b>reasonabl</b><br>e 54:17 | <b>recogniti</b><br>on       | <b>Reddit</b><br>70:9        |
| <b>ranges</b><br>79:24   | 22:22,25                   | <b>reasons</b><br>52:2      | 178:15                       | <b>reduce</b><br>13:5        |
| <b>ranging</b><br>21:19  | 23:7                       | 78:16                       | 50:9                         | 55:9                         |
| <b>rank</b><br>33:24     | 34:9                       | 145:18                      | <b>recommen</b><br>d 68:2    | <b>reduced</b><br>49:6       |
| 173:25                   | 36:21,24                   | 155:10                      | 178:14                       | 50:9                         |
|                          | 37:7                       | 179:14                      | <b>recommen</b><br>dation    | 86:14                        |
|                          | 46:14,15                   | <b>reasserts</b><br>69:1    | 58:7                         | 140:17                       |
|                          | 47:25                      |                             |                              |                              |
|                          | 49:25                      |                             |                              |                              |
|                          | 77:10,11                   |                             |                              |                              |

|                              |                              |                              |                           |                              |
|------------------------------|------------------------------|------------------------------|---------------------------|------------------------------|
| <b>reducing</b><br>68:3      | <b>regimes</b><br>82:7       | <b>relations</b><br>hip      | <b>rely</b><br>64:19      | <b>rename</b><br>154:12,     |
| <b>reduction</b><br>49:21    | <b>region</b><br>61:13       | 74:7,9                       | <b>remain</b><br>65:21    | 13                           |
| 52:14                        | 78:5                         | 141:19                       | 80:20                     | <b>renegotia</b><br>te 73:11 |
| 86:16                        | 82:11                        | 144:12                       | 87:10                     | <b>renegotia</b><br>tion     |
| 140:13                       | 95:17                        | <b>relations</b><br>hips     | 88:14,24                  | 73:19                        |
| 141:5                        | <b>regional</b><br>104:4     | 73:17                        | 89:20,                    | <b>renewed</b><br>15:9       |
| 151:23                       | 107:5                        | 134:14,                      | 138:15,                   | 49:16                        |
| <b>reduction</b><br>s 154:4  | <b>regions</b><br>62:17      | 15                           | 16                        | <b>rent-to-</b><br>own       |
| <b>redundant</b><br>170:10   | 83:23                        | 141:18                       | <b>remained</b><br>139:17 | 123:6                        |
| <b>reevaluat</b><br>e 16:7   | 131:20                       | 144:15                       | <b>remaining</b><br>64:3  | <b>rental</b><br>123:7       |
| <b>reference</b><br>s 167:18 | <b>regulatio</b><br>ns 99:22 | 145:24                       | 6:25                      | <b>reopening</b><br>68:22    |
| <b>referred</b><br>61:9      | <b>regulator</b><br>y 98:22  | <b>relative</b><br>6:25      | 46:22                     | 81:21                        |
| <b>referring</b><br>37:25    | 99:11                        | 114:15                       | 47:5                      | <b>repeat</b><br>53:5        |
| 38:12                        | 152:1                        | 87:19                        | 50:25                     | <b>repetitiv</b><br>e 105:20 |
| 41:13                        | <b>reimburse</b><br>ment     | 92:18                        | 61:24                     | <b>repo</b><br>119:20        |
| 42:9                         | 175:13                       | 93:1                         | 87:19                     | <b>report</b><br>130:1       |
| <b>reflect</b><br>169:3      | <b>reinforce</b><br>47:16    | 105:20                       | 92:18                     | 155:4                        |
| <b>reflected</b><br>97:1     | <b>reinforce</b><br>s 43:19  | 106:8                        | 93:1                      | 173:10                       |
| <b>reflectin</b><br>g 11:18  | <b>reinvesti</b><br>ng 12:10 | 110:24                       | 138:25                    | 177:2                        |
| <b>reflectio</b><br>n 157:8  | REIT                         | 111:6                        | 140:8                     | <b>reporting</b><br>58:19    |
| 161:10                       | 116:24                       | 116:15,                      | 171:13                    | 75:5                         |
| <b>reflectio</b><br>ns 11:7  | 117:1                        | 19 160:6                     | 171:4                     | 153:20                       |
| <b>reflected</b><br>152:25   | <b>reiterate</b><br>5:2      | 170:24                       | 172:2,8                   | 176:1                        |
| <b>reforms</b><br>153:12     | <b>related</b><br>31:5       | 171:4                        | 173:6,8,                  | <b>reports</b><br>111:20     |
| <b>regarding</b><br>152:5    | 64:17                        | 14:17                        | 15                        | <b>represent</b><br>34:23    |
| <b>regards</b><br>39:19      | 122:5                        | 102:2                        | 174:23                    | 41:21                        |
|                              | 157:21                       | 175:11                       | 175:1,20                  | 43:4                         |
|                              | 162:11                       | 176:14,                      | 176:20,                   | 46:4                         |
|                              | 164:8                        | 23                           | 22                        | 75:17                        |
|                              | 179:14                       | <b>relativel</b><br>y 37:15, | <b>remote</b><br>72:7     |                              |
|                              |                              | 19 47:8                      | <b>remotely</b><br>72:6   |                              |
|                              |                              | 107:12                       | <b>removed</b><br>93:10   |                              |
|                              |                              | <b>relevant</b><br>7:13      | 102:6                     |                              |

|                  |                  |                  |                  |                 |
|------------------|------------------|------------------|------------------|-----------------|
| 138:19           | <b>residenti</b> | <b>response</b>  | <b>retail</b>    | 65:13,19        |
| 141:22           | <b>al</b> 123:4  | 72:16            | 128:21           | 71:6            |
| <b>represent</b> | <b>resolutio</b> | <b>responsib</b> | 129:12           | 74:24           |
| <b>ation</b>     | <b>n</b>         | <b>ilities</b>   | <b>retained</b>  | 76:15           |
| 70:1             | 158:15,          | 60:5             | 166:5,6          | 81:22           |
| 158:20           | 17               | <b>responsiv</b> | <b>retention</b> | 86:16,          |
| <b>represent</b> | 162:25           | <b>e</b> 87:24   | 179:6            | 20,24           |
| <b>ed</b> 8:3    | <b>resolutio</b> | 89:19            | <b>retiremen</b> | 87:1            |
| 27:13            | <b>ns</b>        | 168:13           | <b>t</b> 7:2     | 95:5,8,         |
| 60:14            | 157:19,          | <b>rest</b>      | 17:6             | 23,25           |
| 172:4            | 21,24,25         | 79:4             | 63:15            | 96:3,7,         |
| <b>represent</b> | 158:24           | 150:11           | 147:15,          | 13              |
| <b>s</b> 20:9    | 159:8            | <b>restrict</b>  | 16,19            | 110:24          |
| 23:19            | 160:21           | <b>d</b> 93:16   | 148:3            | 116:19          |
| 24:7,14          | 162:4            | <b>restricti</b> | <b>retiring</b>  | 117:20          |
| 27:1,5,          | 163:8            | <b>ons</b>       | 179:10           | 119:9           |
| 8,11             | 164:2            | 81:17            | <b>return</b>    | 121:10          |
| 33:1             | 165:5            | 155:14           | 5:17,18          | 138:4,12        |
| 38:11            | <b>resolve</b>   | <b>restructu</b> | 7:17             | 140:13,         |
| 61:11            | 96:11            | <b>ring</b>      | 12:8             | 18              |
| 78:8             | <b>resources</b> | 72:6             | 16:14            | 171:19,         |
| <b>requests</b>  | 55:24            | 74:17            | 18:21            | 23              |
| 158:24           | 68:4             | <b>result</b>    | 20:17,           | 172:19          |
| <b>require</b>   | 70:17,18         | 30:19,23         | 18,19            | 173:1           |
| 152:12           | 105:11           | 33:6             | 23:19            | 176:15,         |
| 158:6            | <b>respect</b>   | 35:16            | 24:2             | 19              |
| <b>requireme</b> | 27:11            | 50:22            | 27:9,12,         | <b>return-</b>  |
| <b>nt</b> 153:9  | 65:19,24         | 51:18            | 14 29:13         | <b>seeking</b>  |
| 166:18           | 66:22            | 78:17            | 30:4,12,         | 19:12           |
| <b>requireme</b> | 94:16            | 157:12           | 16,19            | 20:4            |
| <b>nts</b>       | 156:18           | <b>resulting</b> | 31:17,22         | 23:11           |
| 153:1,3          | <b>respectfu</b> | 31:14            | 32:14,17         | 26:15           |
| 158:14           | <b>l</b> 53:20   | <b>results</b>   | 36:23            | 31:21           |
| <b>research</b>  | <b>respectfu</b> | 30:18            | 41:11            | 34:13,          |
| 71:1             | <b>lly</b>       | 32:13            | 46:1,7,          | 15,17,20        |
| 102:12           | 55:23            | 40:2,4           | 13 47:22         | 35:19           |
| 103:20           | <b>respectiv</b> | 44:14            | 49:3,6,          | 38:19,20        |
| <b>reset</b>     | <b>e</b> 58:21   | 60:11            | 17,21,24         | 39:1            |
| 73:16            | 172:10           | 105:14           | 50:3,9,          | 43:4            |
| <b>resetting</b> | <b>respects</b>  | 162:24           | 18,20            | <b>returned</b> |
| 74:6             | 6:7              | 171:11,          | 53:24            | 115:8           |
|                  | <b>respond</b>   | 14,20            | 60:18            | 123:13          |
|                  | 19:14            | 173:2            | 63:17,22         | <b>returns</b>  |
|                  |                  |                  | 64:2             | 7:14,16         |

|                 |                  |          |                  |                 |
|-----------------|------------------|----------|------------------|-----------------|
| 15:24           | <b>reversed</b>  | 15:4     | 107:6            | <b>roaring</b>  |
| 18:24           | 158:9            | 19:18    | 110:24           | 8:15            |
| 20:12,13        | <b>review</b>    | 20:6,8,  | 112:21           | <b>Robb</b>     |
| 23:2            | 4:7              | 10,24    | 114:25           | 3:25            |
| 25:12           | 13:21            | 26:11,   | 117:15           | <b>rocky</b>    |
| 28:16           | 58:10            | 13,14    | 121:19           | 19:8,14         |
| 32:21           | 74:22            | 27:2,3,  | 123:6            | <b>role</b>     |
| 35:4            | 107:1            | 15,19    | 127:2            | 59:19           |
| 36:16,22        | 156:3            | 28:13    | 145:10           | 60:23           |
| 43:24           | 165:14,          | 31:10    | 175:16           | 75:15           |
| 44:2            | 19,22            | 34:14,   | <b>risk-</b>     | <b>roll</b> 9:1 |
| 49:4            | 170:3            | 16,18    | <b>adjusted</b>  | <b>rolling</b>  |
| 50:15           | 177:6            | 35:17,   | 120:18,          | 77:4            |
| 60:22           | <b>reviewed</b>  | 23,24    | 23               | 78:14           |
| 75:15,24        | 4:8              | 38:12,   | <b>risk-</b>     | 121:23          |
| 76:13           | 102:5,7          | 15,24    | <b>controlle</b> | <b>Romano</b>   |
| 78:12,14        | 169:13           | 39:7,15, | <b>d</b> 103:25  | 101:20,         |
| 79:11           | <b>reviews</b>   | 19,20,   | <b>risk-</b>     | 22              |
| 80:23           | 178:6,18         | 23,25    | <b>reducing</b>  | 113:17,         |
| 88:24           | <b>reward</b>    | 47:19    | 23:12            | 19              |
| 95:15,18        | 38:21,22         | 59:17    | 43:5             | <b>roof</b>     |
| 114:9           | 53:24            | 60:3     | <b>risk-</b>     | 163:20          |
| 115:23          | 65:4             | 63:19    | <b>reward</b>    | <b>room</b>     |
| 118:23          | 74:23            | 64:4     | 32:7             | 89:18           |
| 119:1           | <b>rewarded</b>  | 65:3,5,  | 112:19           | 104:7           |
| 138:25          | 77:9             | 6,19     | <b>risk-</b>     | 119:8           |
| 140:22          | 78:1             | 67:22    | <b>taking</b>    | 128:3           |
| 141:2,8,        | 80:13            | 74:23    | 39:22            | <b>rough</b>    |
| 12 147:5        | 83:3             | 76:17    | <b>riskier</b>   | 156:14          |
| 171:15,         | <b>rich</b>      | 77:3,8,  | 90:14            | <b>roughly</b>  |
| 17              | 7:14             | 16,17,   | <b>risks</b>     | 5:9             |
| 172:1,23        | <b>right-</b>    | 22,24    | 90:7,22          | 133:21          |
| 174:19          | <b>hand</b>      | 78:6     | 104:2,4,         | <b>row</b> 32:3 |
| 175:18          | 23:9             | 80:6,21  | 8 105:6          | 174:23          |
| 176:3,9         | 121:5,18         | 81:6     | 113:6            | <b>rules</b>    |
| <b>revenue</b>  | <b>rightfull</b> | 85:14,25 | 146:2            | 152:5,6,        |
| 55:11           | <b>y</b> 85:7    | 87:10    | <b>risky</b>     | 11 153:8        |
| <b>revenues</b> | <b>rise</b>      | 88:25    | 126:25           | <b>run</b>      |
| 68:1            | 140:14           | 90:18    | <b>road</b>      | 14:9,17         |
| <b>reversal</b> | 145:19           | 91:16    | 19:8,14          | 17:17           |
| 81:24           | <b>rises</b>     | 93:24    | 146:17           | 66:13           |
| <b>reverse</b>  | 66:19            | 95:20,21 | <b>roar</b>      | 89:18           |
| 119:20          | <b>risk</b>      | 96:1,2   | 89:11            | 91:8            |
|                 | 14:21            | 105:10   |                  | 102:16          |

|                 |                  |                  |                  |                  |
|-----------------|------------------|------------------|------------------|------------------|
| 104:20          | <b>SBA</b> 4:22  | <b>scorecard</b> | 110:14           | <b>selective</b> |
| 105:17          | 5:10 6:3         | 105:16           | 113:17           | <b>ly</b> 63:19  |
| 128:3           | 17:21            | 111:22           | 170:2            | <b>self</b>      |
| <b>run-of-</b>  | 26:2,7           | <b>screen</b>    | 177:7            | 128:19           |
| <b>the-mill</b> | 32:9             | 4:3              | <b>sector</b>    | 131:2            |
| 103:6           | 57:3             | 25:24            | 61:14            | <b>self-</b>     |
| <b>run-up</b>   | 70:19            | 26:5             | 65:1             | <b>identifie</b> |
| 140:17          | 98:23            | <b>search</b>    | 138:13,          | <b>s</b> 152:9,  |
| <b>running</b>  | 102:10           | 72:4             | 18 159:5         | 10               |
| 59:21           | 109:3,5,         | 103:5            | <b>sectors</b>   | <b>sell</b>      |
| 66:15           | 12,17            | <b>searches</b>  | 61:19,22         | 12:5,24          |
| 123:21          | 110:1            | 64:9             | 93:11,           | <b>sell-off</b>  |
| <b>Russell</b>  | <b>SBA's</b>     | 71:12,16         | 20,22            | 72:16            |
| 156:24          | 106:8            | 73:9             | 100:9            | <b>selling</b>   |
|                 | <b>scale</b>     | 111:15,          | 129:8            | 72:17            |
|                 | 73:13            | 16               | 138:19           | <b>Senate</b>    |
| <b>S</b>        | 74:4             | <b>searing</b>   | 161:23           | 56:22            |
| <b>S&amp;p</b>  | 106:15           | 11:11            | <b>securitie</b> | 57:15            |
| 157:1           | <b>scanning</b>  | <b>season</b>    | <b>s</b> 66:24,  | <b>Senator</b>   |
| <b>safety</b>   | 173:21           | 155:8            | 25 70:5          | 56:8             |
| 176:14          | <b>scenario</b>  | <b>SEC's</b>     | 97:8,9           | 57:1             |
| <b>saga</b>     | 21:20,22         | 152:3            | 98:5,7,          | <b>send</b>      |
| 154:21          | 41:13,           | <b>second</b>    | 10,16            | 52:17            |
| <b>sale</b>     | 17,24            | 4:12,13          | 99:3,5,          | 56:6             |
| 12:11           | 42:15,24         | 11:25            | 18,19            | 114:15           |
| <b>sales</b>    | 43:7             | 58:1,2           | 117:1            | <b>senior</b>    |
| 11:20           | 49:8             | 67:7             | 122:3,4          | 58:18            |
| <b>San</b>      | <b>scenarios</b> | 72:13            | 123:4,5          | 131:4,6          |
| 128:22          | 21:19,23         | 137:20           | 167:24           | <b>sense</b>     |
| <b>sanction</b> | 33:16,           | 152:24           | 169:3            | 52:25            |
| 166:14          | 20,24            | 154:18           | 173:19           | 53:9             |
| 167:13          | 41:8,22          | 164:17           | <b>securitiz</b> | 94:1             |
| <b>sat</b>      | 42:8             | 169:20,          | <b>ations</b>    | 104:8            |
| 91:23           | 43:22            | 21               | 123:7            | 105:6,12         |
| 177:16          | 44:6             | <b>secondary</b> | <b>securitiz</b> | 112:22           |
| 178:19          | 45:12            | 11:20            | <b>ed</b> 122:1  | 116:15           |
| <b>Savannah</b> | 48:17            | 140:5            | <b>segments</b>  | 127:5            |
| 130:4,9         | <b>schedule</b>  | <b>Secondly</b>  | 95:16            | 146:18           |
| <b>save</b>     | 74:10            | 115:24           | 154:16           | <b>sensitive</b> |
| 66:14           | <b>schedules</b> | <b>section</b>   | <b>select</b>    | 45:13            |
| <b>say-on-</b>  | 73:22            | 28:12            | 83:7             | 161:15           |
| <b>pay</b>      | <b>Schiehall</b> | 45:23            | <b>selection</b> |                  |
| 156:18          | <b>ion</b> 63:7  | 80:5             | 83:5,21          |                  |
|                 |                  | 101:18           | 103:2            |                  |

|                  |                  |                  |                 |                  |
|------------------|------------------|------------------|-----------------|------------------|
| <b>sensitivi</b> | <b>shared</b>    | 84:1             | <b>shot</b>     | <b>sideways</b>  |
| <b>ty</b> 39:19  | 60:5             | 85:9             | 179:17          | 36:4             |
| <b>sentence</b>  | <b>sharehold</b> | 112:19           | <b>showed</b>   | <b>sign</b>      |
| 52:12            | <b>er</b>        | 157:20           | 31:24           | 123:25           |
| <b>sentiment</b> | 160:15,          | 161:9            | <b>showing</b>  | <b>significa</b> |
| 11:2             | 18               | <b>shifting</b>  | 25:22           | <b>nt</b> 65:14  |
| <b>separate</b>  | 162:12           | 82:3             | 39:18           | 73:18            |
| 141:18           | <b>sharehold</b> | <b>shifts</b>    | <b>shows</b>    | 82:3,17          |
| 142:3            | <b>ers</b>       | 10:19            | 61:18,23        | 145:9            |
| 144:16           | 155:1            | 90:25            | 62:8,20         | 151:25           |
| <b>September</b> | <b>sharehold</b> | <b>ship</b>      | 75:21           | 154:18           |
| 3:5              | <b>ings</b>      | 129:10           | 76:5,20,        | <b>significa</b> |
| <b>series</b>    | 154:4,8          | <b>short</b>     | 22,24           | <b>ntly</b>      |
| 17:18            | <b>shareowne</b> | 21:12            | 77:2,10,        | 43:11            |
| 21:18            | <b>r</b> 155:16  | 35:20            | 19 78:18        | 136:21           |
| <b>serve</b>     | 156:2            | 79:7             | 79:15,23        | <b>signs</b>     |
| 94:20            | 157:19,          | 95:6             | 80:5            | 141:2            |
| <b>served</b>    | 20,24            | 98:10            | 85:20           | <b>silo</b>      |
| 87:23            | 162:10,          | 122:14           | 96:17           | 49:24            |
| 94:18            | 21,22,24         | 143:3            | 174:23          | <b>silos</b>     |
| <b>services</b>  | <b>Shareowne</b> | 166:15           | <b>shrink</b>   | 60:6             |
| 14:9             | <b>rs</b>        | 169:7            | 141:1           | <b>similar</b>   |
| 114:6,16         | 156:20           | 178:2            | <b>shy</b>      | 4:23             |
| 162:12           | <b>shares</b>    | 170:15           | <b>side</b>     | 7:25             |
| 168:4            | 86:6             | <b>short-</b>    | 34:2            | 16:22            |
| <b>setting</b>   | 98:9             | <b>term</b>      | 11:3            | 44:14            |
| 14:20            | 100:9            | 132:17           | 39:23           | 49:8             |
| <b>settlemen</b> | <b>sharing</b>   | 139:11           | 54:1            | 54:23            |
| <b>t</b> 162:24  | 73:13            | 175:15           | 63:13           | 55:4             |
| <b>seven</b>     | 74:4             | 176:16           | 77:25           | 107:8            |
| 62:6             | <b>sharp</b>     | <b>shortages</b> | 96:22           | 145:5            |
| 150:8            | 27:13            | 10:12            | 123:2           | 155:11,          |
| <b>sexual</b>    | 35:3             | <b>shorter</b>   | 126:8,          | 13               |
| 164:9            | 41:24            | 20:24            | 11,12           | 167:17           |
| <b>shame</b>     | 47:25            | 38:14            | 130:13          | 175:3            |
| 123:11           | 69:2             | 39:2             | 145:7           | 176:18           |
| <b>shape</b>     | <b>she'll</b>    | 93:7             | 156:17          | <b>Similarly</b> |
| 121:17           | 59:18            | <b>shortfall</b> | 177:24          | 43:6             |
| <b>share</b>     | <b>sheets</b>    | 38:4             | <b>side-by-</b> | <b>simply</b>    |
| 75:7             | 137:5            | 55:9             | <b>side</b>     | 133:13           |
| 100:12           | <b>shift</b>     | <b>shortly</b>   | 28:11           | 168:25           |
| 101:22           | 39:10            | 3:9              | <b>sidestep</b> | <b>simulatio</b> |
| 153:9,23         | 81:22            | 81:19            | 121:2           | <b>n</b> 33:13   |
|                  |                  | 167:7            |                 |                  |

|                  |               |               |                 |                  |
|------------------|---------------|---------------|-----------------|------------------|
| <b>sincere</b>   | 43:7          | 76:18         | 95:3            | <b>smooth</b>    |
| 6:15             | 45:11         | 78:3,16       | 106:12          | 19:8             |
| <b>single</b>    | <b>skill</b>  | 79:15         | 108:19          | 155:21           |
| 158:15           | 97:19         | 80:4,7        | 109:11          | <b>snapshot</b>  |
| 164:3            | <b>skim</b>   | 81:9          | 110:12,         | 19:20            |
| <b>SIO</b>       | 82:15         | 82:9          | 14              | 22:14            |
| 58:11            | <b>skip</b>   | 84:15         | 111:7,8         | 146:24           |
| 59:19            | 102:20        | 102:4         | 124:23          | 170:23           |
| 101:19           | 106:24        | 105:23        | 126:20          | <b>social</b>    |
| <b>SIOS</b>      | 107:1         | 125:7         | 133:22          | 159:25           |
| 115:16           | <b>skis</b>   | 126:8,13      | <b>slim</b>     | 161:13,          |
| <b>sir</b>       | 118:20        | 128:7         | 163:21          | 16 162:3         |
| 54:25            | <b>sleeve</b> | 129:15,       | <b>sloshing</b> | 166:7            |
| 56:21            | 12:14         | 24 139:5      | 119:21          | <b>social-</b>   |
| 87:2             | <b>slide</b>  | 146:24        | <b>slow</b>     | <b>related</b>   |
| <b>sit</b>       | 17:2,3,       | 147:2,8,      | 136:5           | 23:17            |
| 51:13            | 16 18:7,      | 12,21         | 160:7           | <b>societal</b>  |
| 74:1             | 14 19:19      | 148:11        | <b>slow-</b>    | 161:19           |
| <b>site</b>      | 22:9          | 149:15        | <b>moving</b>   | <b>softening</b> |
| 103:18           | 25:21,22      | 150:1,13      | 132:5           | 135:14           |
| <b>sits</b> 7:5  | 26:1,6        | 155:5         | <b>slowed</b>   | <b>sold</b>      |
| <b>situation</b> | 27:2,8,       | 165:9         | 134:12          | 72:22            |
| 15:20            | 23 28:10      | 173:20        | 145:22          | <b>solutions</b> |
| 19:2             | 31:9,12       | <b>slides</b> | <b>slower</b>   | 18:18            |
| <b>six</b> 27:9  | 32:16         | 18:10         | 161:5           | <b>somebody</b>  |
| 140:2            | 33:11         | 19:24         | <b>small</b>    | 142:18,          |
| <b>sizable</b>   | 34:2,6,8      | 20:14         | 72:1            | 23               |
| 27:5             | 36:1,9        | 22:1          | 76:9            | 143:11           |
| <b>size</b>      | 37:6,24       | 25:25         | 80:12           | 179:9            |
| 61:25            | 38:8,13       | 34:4          | 87:7,15         | <b>somebody'</b> |
| 80:15            | 39:16,17      | 37:20         | 91:19           | <b>s</b> 127:6   |
| 110:2            | 40:6,7        | 48:18         | 111:15,         | <b>somewhat</b>  |
| 153:11           | 41:2,6,       | 51:2          | 16              | 7:25             |
| <b>sized</b>     | 19 42:11      | 102:19,       | 117:15          | 156:9            |
| 85:14            | 43:18,23      | 20            | 156:22          | <b>sort</b>      |
| <b>sizes</b>     | 44:1,5,       | 114:19        | <b>smaller</b>  | 13:16            |
| 64:14            | 23 45:8,      | 175:24        | 39:6            | 17:14            |
| 140:25           | 25            | <b>slight</b> | 107:12          | 125:13           |
| <b>skewed</b>    | 46:12,25      | 70:10         | <b>smart</b>    | 135:9            |
| 105:2            | 47:14         | 11:12         | 157:12          | 161:23           |
| <b>skies</b>     | 59:12         | 168:10        | <b>smartly</b>  | 162:23           |
| 21:21            | 60:16         | 24:9          | 97:4            | 166:24           |
| 41:17            | 61:6,23       | 35:8          |                 |                  |
| 42:1             | 75:10         | 75:19         |                 |                  |

|                  |                  |                  |                 |                  |
|------------------|------------------|------------------|-----------------|------------------|
| <b>sound</b>     | 131:10           | <b>stable</b>    | 96:3            | 148:16           |
| 157:4            | 137:19           | 29:25            | <b>stands</b>   | 149:3,17         |
| <b>sounds</b>    | 15:18            | 37:19            | 139:12          | 150:7,8          |
| 54:21            | 175:12           | <b>staff</b>     | <b>staples</b>  | 166:16           |
| <b>source</b>    | 22:15            | 55:16            | 146:8           | 167:18           |
| 63:20            | 53:16            | 56:17,22         | <b>start</b>    | 168:2            |
| 175:12           | 99:9             | 57:2             | 19:10           | <b>State's</b>   |
| <b>sources</b>   | <b>specifica</b> | 70:17,           | 43:8            | 114:1            |
| 66:23            | <b>lly</b>       | 18,24,25         | 101:20          | <b>statement</b> |
| 86:1,2           | 156:18           | 104:16,          | 102:18          | 30:25            |
| 105:24           | <b>spectrum</b>  | 19               | 120:20          | 61:3             |
| <b>sourcing</b>  | 112:19           | 137:13           | 137:13          | 63:15,23         |
| 144:12           | <b>speculati</b> | 151:16           | 148:5           | 165:21           |
| <b>south</b>     | <b>on</b> 70:7,  | <b>staffs</b>    | 170:6,13        | 168:18,          |
| 13:5             | 11               | 55:12,24         | 173:7           | 23               |
| 20:18            | <b>spend</b>     | <b>stage</b>     | <b>started</b>  | <b>statement</b> |
| 27:19            | 104:10           | 33:12            | 7:7             | <b>s</b> 139:2   |
| 38:22,23         | <b>spike</b>     | 34:4             | 53:1,8          | <b>states</b>    |
| 46:9             | 93:10            | <b>stages</b>    | 57:16           | 60:16            |
| <b>Southern</b>  | <b>split</b>     | 8:16             | 68:25           | 95:17            |
| 154:22           | 62:8,10          | <b>stakehold</b> | 81:15           | 134:15,          |
| <b>space</b>     | <b>Spook</b>     | <b>er</b> 160:1  | 86:12           | 25               |
| 12:13            | 123:24           | 161:11           | 89:11,16        | 159:22,          |
| 18:4             | 124:1            | <b>stale</b>     | 92:1            | 23               |
| 85:13,16         | 131:24           | 26:24            | 148:4           | 167:16           |
| <b>spades</b>    | <b>spot</b>      | <b>stamp</b>     | 172:17          | <b>statistic</b> |
| 9:5              | 52:20            | 102:4            | <b>starting</b> | 170:20           |
| <b>speak</b>     | 122:7            | 113:13           | 10:10           | <b>statistic</b> |
| 101:25           | <b>spread</b>    | <b>standard</b>  | 20:1            | <b>ally</b>      |
| <b>speakerph</b> | 61:13            | 72:2             | 24:14,17        | 156:6            |
| <b>one</b> 53:6  | 116:21           | 84:18            | 25:7            | <b>statistic</b> |
| <b>speaking</b>  | 121:11,          | <b>standards</b> | 70:14           | <b>s</b> 5:6     |
| 3:10,11,         | 25               | 153:6,           | 82:11           | 65:2             |
| 12 94:1          | <b>sprinkle</b>  | 13,23            | 90:9            | 152:13,          |
| 101:11           | 105:3            | <b>standing</b>  | 160:8           | 20               |
| <b>special</b>   | <b>square</b>    | 58:25            | <b>starts</b>   | <b>stats</b>     |
| 4:21             | 130:8            | 155:3            | 42:20,21        | 114:11           |
| 34:22            | <b>squarely</b>  | <b>standout</b>  | <b>state</b>    | <b>status</b>    |
| 151:14           | 153:16           | 48:9             | 17:8,20         | 15:22            |
| <b>specializ</b> | <b>stabiliza</b> | <b>standouts</b> | 28:25           | 18:22            |
| <b>ed</b>        | <b>tion</b>      | 158:4            | 33:2            | <b>statutory</b> |
| 122:18           | 114:2            | <b>standpoin</b> | 56:10,13        | 32:10            |
|                  |                  | <b>t</b> 47:24   | 114:18          |                  |
|                  |                  | 91:13            | 142:24          |                  |

|                  |                  |                  |                  |                  |
|------------------|------------------|------------------|------------------|------------------|
| <b>staying</b>   | 69:22,24<br>70:8 | 97:12<br>98:3    | 67:17,19<br>84:1 | <b>strugglin</b> |
| 37:15            |                  |                  | 84:1             | <b>g</b> 83:25   |
| <b>steadily</b>  | 79:3,4           | 107:13           | 93:19            | <b>student</b>   |
| 51:9             | 83:8             | 132:9            | 113:2,3          | 131:8            |
| <b>steady</b>    | 112:16           | <b>strategy</b>  | 116:18           | <b>studied</b>   |
| 27:10            | <b>stood</b>     | 72:3             | 124:10           | 21:18            |
| 41:23            | 175:23           | 91:21            | 127:16           | <b>studies</b>   |
| 46:7             | <b>stop</b>      | 97:10,24         | 128:19           | 26:23            |
| 121:11,          | 12:4             | 98:15            | 129:8            | <b>study</b>     |
| 12,15            | <b>stopped</b>   | 114:16           | 131:1            | 14:10,           |
| <b>steal</b>     | 145:25           | 126:17           | 139:8            | 16,18            |
| 16:9             | 148:4            | 139:17           | 171:20,          | 15:19            |
| <b>steep</b>     | <b>storage</b>   | <b>street</b>    | 25 172:6         | 16:2             |
| 20:10            | 128:19           | 31:1,3           | 173:2            | 17:5             |
| <b>steering</b>  | 131:2            | <b>street's</b>  | 174:8,           | 18:13            |
| 129:10           | <b>story</b>     | 31:3             | 11,13            | 19:6,21          |
| <b>stellar</b>   | 75:11            | <b>stress</b>    | 175:1,6          | 20:9             |
| 115:4            | 76:10            | 15:13            | 176:5,8,         | 21:14            |
| <b>step</b>      | 162:7            | 43:24,25         | 9,20,22          | 26:9             |
| 115:17           | 169:7            | 44:1,2,          | 177:1            | 27:4             |
| <b>Steve</b>     | <b>strange</b>   | 10,24            | <b>strongest</b> | 35:14            |
| 123:23           | 10:11            | 45:15            | 138:2            | 40:3             |
| 124:1,5          | <b>strategic</b> | 48:12            | 171:19           | 41:12            |
| 131:23           | 12:23            | 118:10           | <b>structura</b> | 48:21            |
| <b>sticking</b>  | 40:21            | <b>stressed</b>  | <b>l</b> 10:19   | 50:15            |
| 91:20            | 60:20            | 48:16            | 69:14            | 57:11            |
| <b>stimulus</b>  | 75:9             | 132:15           | <b>structure</b> | <b>stuff</b>     |
| 8:22,23          | 132:2,6          | <b>stresses</b>  | 63:18            | 106:25           |
| 9:3,5,6,         | <b>strategie</b> | 9:25             | 65:24            | 123:20           |
| 10,17            | <b>s</b> 37:16   | 10:1             | 72:9             | 127:8            |
| <b>stochasti</b> | 62:7,12,         | <b>stressing</b> | 83:22            | 130:21           |
| <b>c</b> 27:22   | 14 65:11         | 15:8             | 160:4            | 132:18,          |
| 40:2             | 67:11,14         | <b>stricter</b>  | 166:4            | 21               |
| <b>stock</b>     | 71:18            | 153:8            | <b>structure</b> | <b>style</b>     |
| 39:4             | 73:7             | <b>strike</b>    | <b>d</b> 63:24   | 64:25            |
| 83:5             | 74:23            | 52:11            | 79:14            | 78:5             |
| 109:12,          | 75:25            | <b>strikes</b>   | 90:6,24          | 87:1             |
| 14               | 76:4             | 52:9             | <b>structuri</b> | 104:5            |
| 152:4,24         | 82:13,25         | <b>strive</b>    | <b>ng</b> 64:21  | <b>styled</b>    |
| 154:12           | 83:1,11,         | 79:15            | 87:24            | 56:11            |
| <b>stocks</b>    | 16,17            | <b>striving</b>  | <b>struggle</b>  | <b>styles</b>    |
| 61:12            | 84:16            | 129:17           | 159:17           | 89:2             |
| 62:5             | 85:10            | <b>strong</b>    | <b>struggled</b> | <b>sub-7</b>     |
| 68:24            | 96:15,17         | 66:16            | 67:11            | 52:23            |

|                  |                     |                      |                  |                  |
|------------------|---------------------|----------------------|------------------|------------------|
| <b>sub-group</b> | <b>Successfully</b> | <b>summer</b>        | <b>surplus</b>   | <b>tactical</b>  |
| 138:3            | 154:11              | 38:4                 | 80:20            |                  |
| <b>sub-</b>      | 66:11               | <b>supermajority</b> | <b>surprise</b>  | <b>tail</b>      |
| <b>strategie</b> | <b>suffer</b>       | 171:3                | 21:3             |                  |
| <b>s</b> 139:10  | 36:24               | 158:14               | 175:17           | 48:4             |
| <b>sub-</b>      | <b>suffered</b>     | 163:14               | <b>surprisin</b> | 179:25           |
| <b>strategy</b>  | 95:8                | <b>supply</b>        | <b>g</b> 134:2   | <b>tailwind</b>  |
| 139:13           | <b>sufficient</b>   | 136:10               | <b>survey</b>    | 144:2            |
| <b>Subcommit</b> | <b>t</b> 21:24      | 161:18               | 28:1             | <b>tailwinds</b> |
| <b>tee</b> 4:25  | 45:5,10,            | 164:14               | 31:2             | 164:25           |
| 177:8            | 17 48:15            | <b>support</b>       | 106:2,4          | <b>takeaway</b>  |
| <b>subject</b>   | 55:15               | 54:22                | 108:20           | 38:13            |
| <b>subjectiv</b> | <b>suggest</b>      | 59:20                | 177:25           | 48:9             |
| <b>e</b> 178:17  | 52:7                | 60:10                | <b>survival</b>  | 163:4            |
| <b>submitted</b> | 53:23               | 103:18               | 67:22            | <b>takes</b>     |
| 157:21           | <b>suggestin</b>    | 156:7,               | <b>sustain</b>   | 11:1             |
| 162:10           | <b>g</b> 57:18      | 10,12,24             | 10:23            | 51:19            |
| <b>subset</b>    | <b>suggestio</b>    | 158:1,9,             | <b>switch</b>    | 104:2            |
| 157:23           | <b>ns</b>           | 10                   | 133:8            | 125:7            |
| <b>subsidiar</b> | 112:7,9             | 159:6,8,             | 155:15           | <b>talented</b>  |
| <b>ies</b>       | <b>Sullivan</b>     | 10 160:8             | <b>switched</b>  | 70:24            |
| 168:8            | 13:23               | 162:6                | 91:25            | <b>talents</b>   |
| <b>substanti</b> | 14:7                | 163:10,              | 156:1            | 6:14             |
| <b>al</b> 10:6   | 16:21,24            | 19,23                | <b>synergist</b> | <b>tapering</b>  |
| 76:13            | 24:22               | 164:21,              | <b>ic</b>        | 9:15             |
| 92:5             | 25:5,11,            | 24                   | 143:22           | <b>target</b>    |
| <b>suburb</b>    | 17,19,24            | 165:1,4              | <b>system</b>    | 7:4 23:9         |
| 178:12,          | 26:4                | <b>supported</b>     | 3:17 7:2         | 45:3             |
| 16               | 28:7                | 160:21               | 17:6             | 61:4             |
| <b>success</b>   | 29:16,20            | 163:12,              | 63:15            | 75:19            |
| 6:17             | 31:7                | 15,18                | 135:8            | 77:5             |
| 70:23            | 49:10               | <b>supporter</b>     | 148:3            | 87:12,19         |
| 72:10            | <b>summarize</b>    | 166:14               |                  | 170:24           |
| <b>successes</b> | 7:24                | <b>supports</b>      | <b>T</b>         | 171:3            |
| 137:24           | 45:9                | 22:3                 |                  | 172:25           |
| <b>successfu</b> | 90:3                | 163:23               | <b>table</b>     | <b>target al</b> |
| <b>l</b> 84:19   | <b>summary</b>      | <b>surfaced</b>      | 24:6             | <b>location</b>  |
| 91:11            | 17:17               | 158:18               | 31:19            | 43:10            |
| 143:21           | 43:20               | <b>surge</b>         | 32:6             | <b>target al</b> |
| 176:4            | 105:15              | 137:14               | 79:23            | <b>locations</b> |
|                  | 107:4               | <b>surged</b>        | 96:11            | 42:23            |
|                  | 155:7               | 69:13                | 136:25           | <b>targeted</b>  |
|                  | 177:10              | <b>surpassed</b>     | 174:20           | 124:8            |
|                  | 178:2,22            | 137:20               |                  |                  |

|                                        |                                      |                         |                               |                                    |
|----------------------------------------|--------------------------------------|-------------------------|-------------------------------|------------------------------------|
| <b>targets</b><br>153:25               | <b>tech</b><br>159:4                 | <b>Tere</b><br>3:23     | 110:9                         | <b>theoretic</b><br><b>al</b> 71:6 |
| <b>tasked</b><br>61:5                  | <b>technical</b><br><b>ity</b> 179:9 | 53:5                    | 111:12,                       | <b>thing</b>                       |
| <b>Taylor</b><br>58:11,12              | <b>technique</b><br>96:20            | 98:20                   | 20                            | 8:5,12                             |
| 63:11                                  | <b>technolog</b><br><b>y</b> 101:7   | 73:18                   | 115:14                        | 13:13                              |
| 87:2                                   | 116:6                                | 77:14                   | 116:15                        | 69:16                              |
| 92:10                                  | 138:15                               | 85:16                   | 134:21                        | 84:22                              |
| 96:23                                  | 146:9                                | 92:13,22                | 141:23                        | 104:15                             |
| 98:24                                  | <b>tells</b><br>75:11                | 93:3,7                  | 145:19                        | 108:21                             |
| 101:16                                 | <b>ten</b> 16:1                      | 94:24                   | 169:2                         | 113:5                              |
| 3:16 5:4                               | 39:9                                 | 115:13                  | <b>territori</b><br><b>es</b> | 119:23                             |
| 6:6,10,                                | 40:18,20                             | 133:23                  | 166:23                        | 129:19                             |
| 17 11:19                               | 41:1                                 | 135:19                  | <b>test</b>                   | 147:25                             |
| 14:9                                   | 47:11                                | 137:8                   | 18:1                          | 148:16                             |
| 50:7                                   | 102:10                               | 143:10                  | 33:19                         | 157:12                             |
| 59:6,17,                               | 105:8                                | 145:17                  | <b>testing</b>                | 161:23                             |
| 24 60:3,                               | 114:21                               | 161:13                  | 43:24,25                      | 166:24                             |
| 4 62:23                                | 119:4,5                              | 164:6                   | 44:1,2,                       | 167:8                              |
| 76:3                                   | 134:8                                | <b>terming</b><br>40:10 | 11,25                         | <b>third</b>                       |
| 82:20                                  | 139:7,23                             | <b>terms</b><br>16:14   | 45:15                         | 24:6                               |
| 85:9                                   | 141:22                               | 18:19                   | 48:13                         | 50:14                              |
| 101:16                                 | 150:9,24                             | 28:21                   | 16:21                         | 102:15                             |
| 102:12,                                | 172:14                               | 29:25                   | 25:19                         | 141:18                             |
| 17,24,25                               | 174:4                                | 30:7                    | 31:7                          | 165:25                             |
| 103:10                                 | <b>ten-plus</b><br>40:18,19          | 41:4                    | 56:25                         | 174:22                             |
| 104:2                                  | <b>tenant</b><br>127:16              | 43:12                   | 86:11                         | <b>third-</b><br><b>party</b>      |
| 105:21                                 | 128:20                               | 44:19                   | 120:14                        | 102:15                             |
| 110:3,8                                | <b>Tencent</b><br>99:9               | 45:4                    | 144:21                        | 103:13                             |
| 111:13                                 | <b>tend</b><br>107:25                | 54:5                    | 146:18                        | <b>thorough</b>                    |
| 113:15                                 | 133:16                               | 69:15                   | 162:1                         | 101:17                             |
| 143:20                                 | <b>tensions</b><br>10:8              | 71:21                   | 169:25                        | 105:10                             |
| 144:12                                 | <b>tenured</b><br>14:17              | 91:1                    | <b>theme</b>                  | <b>thoughts</b>                    |
| 151:6                                  |                                      | 92:13                   | 143:19                        | 102:2,15                           |
| 167:1                                  |                                      | 93:24                   | 153:19                        | <b>three</b>                       |
| <b>team-</b><br><b>oriented</b><br>6:5 |                                      | 96:9                    | <b>themes</b>                 | 3:7 9:16                           |
| <b>teams</b><br>102:25                 |                                      | 99:21                   | 19:23                         | 32:5                               |
| 103:18                                 |                                      | 100:2                   | 22:4                          | 40:13                              |
| 151:9                                  |                                      | 103:1,20                | 113:21                        | 41:8,17                            |
|                                        |                                      | 104:25                  | 115:18                        | 42:1                               |
|                                        |                                      | 107:14                  | 117:4                         | 43:22                              |
|                                        |                                      | 108:9                   | 134:21                        | 50:16                              |
|                                        |                                      |                         |                               | 51:2                               |
|                                        |                                      |                         |                               | 67:2                               |

|                            |                          |                          |                           |                                     |
|----------------------------|--------------------------|--------------------------|---------------------------|-------------------------------------|
| 71:25                      | <b>tilted</b><br>106:21  | 35:18                    | 75:12,18                  | 81:21                               |
| 75:22                      | 108:15                   | <b>tool</b><br>14:19,20  | 76:2                      | 98:1                                |
| 76:8,15                    | <b>tilting</b><br>112:13 | <b>top</b><br>11:15      | 86:3                      | <b>trade-off</b><br>32:8            |
| 77:4,6,                    | <b>Tim</b><br>58:10      | 24:17                    | 115:7                     | <b>traders</b><br>59:24             |
| 11 82:21                   | 59:19                    | 28:12                    | 128:3                     | <b>trades</b><br>59:25              |
| 84:21                      | 60:25                    | 31:15,18                 | 138:7                     | <b>trading</b><br>59:16             |
| 88:20                      | 63:8                     | 42:3                     | 141:21                    | 71:2,7,8                            |
| 94:5                       | 75:4,15,                 | 44:16                    | 151:14                    | 96:25                               |
| 103:7                      | 25 81:20                 | 59:9                     | 157:25                    | 97:2,4                              |
| 110:21,                    | 83:10                    | 66:9                     | 171:11,                   | 98:3,14                             |
| 25 111:5                   | 86:11                    | 70:14                    | 16 172:3                  | <b>tradition</b><br><b>al</b> 122:4 |
| 114:21                     | 95:1                     | 76:20                    | 173:6,22                  | 160:6                               |
| 117:22                     | 98:20                    | 77:2                     | <b>totally</b><br>29:4    | <b>tradition</b><br><b>ally</b>     |
| 120:18                     | 101:15                   | 82:12,24                 | <b>touch</b><br>162:2     | 54:2                                |
| 128:10,                    | 102:24                   | 84:17                    | <b>touched</b><br>47:15   | 108:6                               |
| 14,16,25                   | 105:21                   | 100:2                    | 152:22                    | <b>trailing</b><br>111:5            |
| 129:3                      | 109:16                   | 108:12                   | <b>touching</b><br>174:15 | 171:21                              |
| 133:21                     | 111:3                    | 110:13                   | <b>tough</b><br>140:14    | 174:24                              |
| 134:13                     | 116:2                    | 114:22                   | <b>town</b><br>143:10     | <b>transacti</b><br><b>on</b> 13:3  |
| 140:3                      | 121:14                   | 130:2                    | <b>track</b><br>10:6      | 71:3                                |
| 147:10                     | <b>Tim's</b><br>117:17   | 141:22                   | 11:5                      | 141:10                              |
| 162:8                      | <b>times</b><br>64:15    | 164:1,2                  | <b>top-tier</b><br>153:4  | <b>transfer</b><br>114:1            |
| 164:23                     | 70:5                     | 174:4,6,                 | <b>topic</b><br>58:9      | <b>transfers</b><br>123:6           |
| 171:24                     | 87:12                    | 7,20                     | 85:8                      | <b>transitio</b><br><b>n</b> 71:5,6 |
| 175:25                     | 105:19                   | <b>top-tier</b><br>153:4 | 100:15                    | <b>translate</b><br><b>s</b> 76:7   |
| <b>three-way</b><br>154:21 | <b>timing</b><br>90:20   | <b>topic</b><br>58:9     | 158:21                    | 81:7                                |
| <b>threshold</b><br>21:14  | <b>tipped</b><br>120:11  | 69:11,16                 | 158:18                    | <b>travel</b><br>93:14              |
| 35:13                      | <b>tipping</b><br>9:23   | 77:6,19,                 | 162:11                    | 135:2                               |
| 48:9                       | 120:10                   | 20 80:14                 | <b>tossed</b><br>9:19     | 145:23                              |
| <b>thunder</b><br>16:10    | <b>tight</b><br>112:20   | 96:5,6                   | <b>total</b><br>5:11,12   |                                     |
| <b>tick</b><br>51:7        | <b>tilt</b><br>107:23    | 104:12                   | 7:1 25:3                  |                                     |
| 139:4                      | 112:23                   | 110:16                   | 41:2                      |                                     |
| <b>tied</b><br>164:2       |                          | 156:15                   | 61:25                     |                                     |
| <b>tight</b><br>112:20     |                          | 159:11                   |                           |                                     |
| <b>tilt</b><br>107:23      |                          | <b>tradable</b><br>153:9 |                           |                                     |
| 112:23                     |                          | <b>trade</b><br>62:14    |                           |                                     |
|                            |                          | 68:22                    |                           |                                     |

|                                  |                          |                           |                                    |                                             |
|----------------------------------|--------------------------|---------------------------|------------------------------------|---------------------------------------------|
| <b>travelers</b><br>135:1        | <b>TSE</b><br>152:25     | 51:2                      | 157:5                              | 159:20                                      |
| <b>Treasuries</b><br>120:5,<br>7 | <b>TUCS</b><br>174:3     | 55:12                     | 162:19                             | <b>umbrella</b><br>143:14                   |
| <b>Treasury</b><br>132:25        | <b>turn</b><br>4:23      | 57:10                     | <b>U</b>                           | <b>unanimous</b><br>158:11                  |
| <b>tremendous</b><br>8:22        | 6:11                     | 58:17                     | <b>U.S.</b>                        | <b>uncertain</b><br>101:7                   |
| 15:20                            | 14:13                    | 64:12,19                  | 10:13                              | <b>uncertain</b><br>19:7                    |
| 18:23                            | 16:20                    | 75:13                     | 28:18                              | <b>ty</b> 33:18                             |
| <b>trend</b><br>34:21            | 17:2                     | 76:10                     | 61:15,21                           | <b>ty</b> 93:9                              |
| 51:13                            | 73:5                     | 94:5                      | 62:12,25                           | 99:20                                       |
| <b>trends</b><br>20:21           | 74:25                    | 100:7                     | 63:5                               | 100:16,                                     |
| 116:12,<br>14                    | 80:25                    | 109:1                     | 69:23,24                           | 18,24                                       |
| 158:10                           | 86:8                     | 115:18                    | 72:2                               | <b>unchanged</b><br>156:6                   |
| <b>Trent</b><br>132:2            | 113:16                   | 130:8,9                   | 77:22                              | <b>unconstrained</b><br>32:4                |
| <b>triggered</b><br>72:21        | 117:9                    | 134:16                    | 79:3                               | <b>uncorrelated</b><br>63:3                 |
| <b>triggers</b><br>166:25        | 144:14                   | 141:17                    | 81:18                              | <b>under-</b><br><b>allocated</b><br>124:10 |
| 167:25                           | 146:21,<br>22            | 147:24                    | 83:23                              | <b>underfund</b><br>19:1                    |
| <b>trillion</b><br>119:15        | 165:21                   | 151:22                    | 85:6                               | <b>ed</b> 19:1                              |
| <b>troubling</b><br>43:16        | 170:3                    | 152:8                     | 87:7,15,                           | 24:9                                        |
| <b>true</b><br>30:25             | 177:9                    | 154:17                    | 21 90:16                           | <b>underlyin</b><br><b>g</b> 144:4          |
| 172:14                           | <b>turned</b><br>116:25  | 158:19                    | 102:8                              | <b>underneat</b><br><b>h</b> 141:20         |
| <b>Truly</b><br>171:13           | <b>Turner</b><br>3:25    | 159:5                     | 105:2,6                            | <b>underperf</b><br><b>ormance</b><br>78:15 |
| <b>trustees</b><br>56:13         | <b>turning</b><br>13:22  | 160:24                    | 107:22                             | 86:23                                       |
| 57:14                            | 83:23                    | 161:4                     | 108:9,13                           | <b>underperf</b><br><b>ormed</b><br>67:9    |
| 155:4                            | 115:3                    | 164:1,23                  | 109:4,7,                           | 86:21                                       |
| 169:11                           | <b>turnover</b><br>149:6 | 174:15                    | 19                                 | 89:12                                       |
| <b>truth</b><br>118:3            | <b>twice</b><br>157:6    | 175:24                    | 110:10,                            | 111:5                                       |
|                                  | <b>two</b> 20:7          | 177:22                    | 13                                 |                                             |
|                                  | 22:15,20                 | <b>tying</b><br>53:2      | 111:16                             |                                             |
|                                  | 23:25                    | <b>type</b>               | 112:13,                            |                                             |
|                                  | 25:12,25                 | 40:13                     | 16 120:4                           |                                             |
|                                  | 26:11                    | 69:15                     | 131:20                             |                                             |
|                                  | 39:9                     | 90:12                     | 152:2,3                            |                                             |
|                                  | 41:15,24                 | 129:15                    | 153:21                             |                                             |
|                                  | 44:15                    | 132:20                    | 155:6,9                            |                                             |
|                                  | 50:11                    | 158:2,15                  | 156:7                              |                                             |
|                                  |                          | <b>types</b><br>70:8      | 162:10                             |                                             |
|                                  |                          | 90:14                     | 174:4                              |                                             |
|                                  |                          | 107:13                    | <b>UK</b> 10:12                    |                                             |
|                                  |                          | 157:20                    | <b>ultimatel</b><br><b>y</b> 20:23 |                                             |
|                                  |                          | 160:21                    | 35:10                              |                                             |
|                                  |                          | <b>typically</b><br>49:23 | 37:1                               |                                             |
|                                  |                          |                           | 45:8                               |                                             |

|                                   |                              |                             |                                           |                                            |
|-----------------------------------|------------------------------|-----------------------------|-------------------------------------------|--------------------------------------------|
| <b>underperforming</b><br>68:11   | <b>universe</b><br>46:2      | 36:4                        | 66:23                                     | 178:6,9,                                   |
| 133:11                            | 51:11                        | 47:25                       | 68:11,                                    | 10,17                                      |
| <b>underrepresented</b><br>152:11 | 114:21                       | 158:23                      | 14,18,25                                  | <b>variety</b><br>78:20                    |
| <b>underweight</b><br>94:11,      | 174:2,7                      | <b>urban</b><br>129:12,     | 71:1                                      | <b>various</b><br>34:21                    |
| 12,14                             | 175:19                       | 13                          | 73:15                                     | 40:8                                       |
| 122:3                             | <b>unlevered</b><br>127:24   | <b>uses</b><br>7:18         | 79:2,8,                                   | 103:14                                     |
| 171:5                             | <b>unpredictable</b><br>82:2 |                             | 10,12                                     | 131:20                                     |
| <b>underweight</b><br>107:22      | <b>unquote</b><br>65:10      | <b>v</b>                    | 81:22                                     | 143:13                                     |
| <b>underweight</b><br>138:16      | <b>unusual</b><br>154:24     | <b>vaccinate</b><br>135:1   | 83:11,16                                  | 166:7                                      |
| <b>underwriting</b><br>130:14     | 158:16                       | <b>vaccine</b><br>81:19     | 84:1                                      | 168:20                                     |
| 141:8                             | 166:4                        | <b>vaccines</b><br>68:21    | 86:21                                     | 179:14                                     |
| <b>unfortunate</b><br>178:11      | <b>unusually</b><br>156:23   | 93:8                        | 88:9,22                                   | <b>vast</b><br>158:13                      |
| <b>Unfortunately</b><br>55:22     | <b>up-to-date</b><br>22:20   | <b>valid</b><br>112:15      | 89:10,                                    | <b>vastly</b><br>9:9                       |
| 151:8                             | <b>update</b><br>113:23      | <b>valuable</b><br>60:10    | 11,13,15                                  | <b>VC</b> 116:5                            |
| <b>Unilever</b><br>166:2,6        | 139:4                        | <b>valuation</b><br>30:24   | 90:17                                     | 144:13                                     |
| 167:3,7,<br>22                    | 177:8                        | 31:5                        | 92:5,8,                                   | <b>VCS</b><br>142:15                       |
| 168:6,8,<br>12 169:7              | <b>updated</b><br>46:11      | 96:13                       | 12 93:1,                                  | <b>veer</b><br>43:10                       |
| <b>unique</b><br>38:7             | <b>updates</b><br>26:21      | 140:14,<br>15               | 25 99:4                                   | <b>vehicles</b><br>135:21                  |
| 49:20                             | 101:19                       | <b>valuation</b><br>s 10:23 | 104:13                                    | 143:25                                     |
| <b>United</b><br>95:17            | <b>upgrade</b><br>85:25      | 29:12                       | 107:25                                    | 144:6,11                                   |
| 134:15,<br>25                     | <b>upper</b><br>22:12        | 30:5                        | 110:13,                                   | <b>venture</b><br>8:13                     |
|                                   | 41:20                        | 90:25                       | 20                                        | 11:13                                      |
|                                   | 62:8                         | 91:6                        | 112:13                                    | 125:23,<br>24                              |
|                                   | <b>upswing</b><br>116:1      | 107:22                      | 115:20                                    | 138:2,10                                   |
|                                   | <b>uptake</b><br>160:7       | <b>value</b><br>5:11,13,    | 143:16                                    | 139:12,                                    |
|                                   | <b>uptick</b><br>35:3        | 19 8:19                     | 160:16,<br>18                             | 13,15,20                                   |
|                                   |                              | 22:24                       | 174:25                                    | 140:3,12                                   |
|                                   |                              | 34:10                       | <b>value-</b><br><b>oriented</b><br>67:10 | 141:13,                                    |
|                                   |                              | 38:2,3                      | <b>value/</b><br><b>growth</b><br>91:21   | 21,25                                      |
|                                   |                              | 41:21                       | <b>values</b><br>11:9                     | 143:2                                      |
|                                   |                              | 46:15                       | 44:17                                     | 144:4                                      |
|                                   |                              | 64:25                       | 73:18,                                    | <b>Venture-</b><br><b>backed</b><br>137:19 |
|                                   |                              |                             | 24,25                                     |                                            |
|                                   |                              |                             | 74:13                                     |                                            |
|                                   |                              |                             | <b>variable</b><br>37:9                   |                                            |
|                                   |                              |                             | 38:2,7                                    |                                            |
|                                   |                              |                             | 177:22                                    |                                            |



|                 |                  |                 |                  |                  |
|-----------------|------------------|-----------------|------------------|------------------|
| <b>versa</b>    | 144:24           | <b>voted</b>    | <b>weaker</b>    | <b>well-</b>     |
| 35:22           | 177:9,10         | 151:15          | 111:8            | <b>positione</b> |
| 39:8            | 178:25           | 163:9           | <b>webcasts</b>  | <b>d</b> 85:11   |
| <b>version</b>  | <b>Vinny's</b>   | 164:19,         | 71:13            | 115:24           |
| 169:1           | 54:16            | 20              | <b>Website</b>   | 116:12,          |
| <b>versus</b>   | <b>vintages</b>  | <b>votes</b>    | 148:21           | 17,21            |
| 5:18            | 139:22           | 154:18          | <b>Webster</b>   | <b>well-</b>     |
| 28:17           | <b>violating</b> | <b>voting</b>   | 132:2,3          | <b>thought-</b>  |
| 90:16,17        | 167:5            | 151:12          | 136:10           | <b>out</b>       |
| 91:20           | <b>violation</b> | 155:6           | <b>week</b>      | 104:9            |
| 92:8            | 167:12,          | 157:22          | 4:25             | <b>Wendt</b>     |
| 106:19          | 25               | 158:10,         | 165:25           | 101:4,6,         |
| 108:8           | <b>Virginia</b>  | 14              | 177:11           | 11,12            |
| 115:20          | 128:22           | 163:14          | <b>weeks</b>     | 112:2,4          |
| <b>vertical</b> | <b>virtual</b>   | 165:5,12        | 9:11             | 113:10           |
| 31:16           | 148:17,          |                 | 49:12            | 136:4,7          |
| 38:9            | 18,20            | <b>W</b>        | 118:4            | 137:9            |
| 39:12,          | 155:16           |                 | <b>weighted</b>  | 145:4            |
| 21,24           | 156:2            | <b>wait</b>     | 129:2,6          | 177:15           |
| <b>Vice</b>     | <b>virtually</b> | 97:17           | <b>weighting</b> | <b>west</b>      |
| 35:22           | 59:1             | 98:1            | 33:4             | 38:24            |
| 39:8            | <b>volatile</b>  | 100:22          | 107:12           | <b>who've</b>    |
| <b>view</b>     | 69:10            | <b>waited</b>   | <b>weighting</b> | 103:8            |
| 7:21            | <b>volatilit</b> | 97:18           | <b>s</b> 104:5   | <b>wide</b>      |
| 17:15           | <b>y</b> 16:2    | <b>warn</b>     | <b>weights</b>   | 79:24            |
| 31:20           | 31:18,23         | 103:5           | 43:15            | <b>widesprea</b> |
| 54:8            | 69:13,18         | <b>watching</b> | <b>welcome</b>   | <b>d</b> 163:8   |
| 82:10           | 79:2             | 99:1            | 3:4              | <b>wildfires</b> |
| 98:23           | 115:25           | <b>wave</b>     | <b>well-</b>     | 135:5            |
| 145:3           | 121:20,          | 93:9            | <b>chosen</b>    | <b>Williams</b>  |
| 159:7           | 23               | <b>waves</b>    | 143:15           | 5:5              |
| 161:3,          | 132:19           | 9:16            | <b>well-</b>     | 6:13,21          |
| 11,22           | <b>volume</b>    | <b>ways</b>     | <b>diversifi</b> | 11:24            |
| <b>viewed</b>   | 137:16           | 7:24,25         | <b>ed</b> 20:3   | 13:3             |
| 113:12          | 151:17           | 23:25           | 47:18            | 53:18            |
| <b>viewing</b>  | 158:23           | 64:23           | 62:4             | 54:21,25         |
| 34:5            | 162:5            | 71:1            | 88:25            | 56:7,21          |
| <b>views</b>    | <b>volumes</b>   | 84:12           | <b>well-done</b> | 123:19           |
| 31:3            | 158:22           | 85:21           | 6:10             | 142:6,19         |
| <b>Vinny</b>    | <b>vote</b>      | 91:11           | <b>well-</b>     | 165:21,          |
| 3:19            | 151:14           | 97:2            | <b>managed</b>   | 23               |
| 4:24            | 154:25           | 98:14           | 114:25           | 179:17           |
| 5:21            | 163:1            | 112:24          |                  |                  |
| 55:3            |                  | 155:12          |                  |                  |

|                  |                  |                  |             |
|------------------|------------------|------------------|-------------|
| <b>Williams'</b> | <b>workforce</b> | <b>written</b>   | <b>Z</b>    |
| 4:20             | 152:22           | 167:2            |             |
| <b>willing</b>   | <b>working</b>   | <b>wrong</b>     | <b>zero</b> |
| 68:13            | 11:19            | 97:17            | 38:19,25    |
| <b>willingne</b> | 23:8             | <b>wrote</b>     | 146:11      |
| <b>ss</b> 64:14  | 57:2             | 49:4             | 168:14      |
| <b>Wilshire</b>  | 102:9            | 167:9            | <b>Zoom</b> |
| 26:12            | 115:6            |                  | 3:16        |
| 28:1,12,         | 151:9            | <b>Y</b>         | 24:25       |
| 17 30:6          | 172:12           | <b>year's</b>    | 131:24      |
| 33:5             | <b>workplace</b> | 15:18            |             |
| <b>Wilshire'</b> | 164:12           | 27:5             |             |
| <b>s</b> 28:6,   | <b>works</b>     | 30:18            |             |
| 14 29:4          | 68:5             | 155:9            |             |
| <b>Wilton</b>    | 102:24           | <b>year-end</b>  |             |
| 56:2,19          | <b>workshops</b> | 35:4             |             |
| <b>wind-down</b> | 148:14,          | <b>year-</b>     |             |
| 12:9             | 15,17,20         | <b>over-year</b> |             |
| <b>window</b>    | <b>world</b>     | 156:13           |             |
| 32:20            | 6:16             | <b>year-plus</b> |             |
| <b>withdrawi</b> | 8:8,13           | 8:4              |             |
| <b>ng</b>        | 61:9             | <b>year-to-</b>  |             |
| 162:25           | 79:4             | <b>date</b>      |             |
| <b>withdrawn</b> | 99:25            | 6:24             |             |
| 162:19           | 100:2            | <b>year-to-</b>  |             |
| <b>WOJCIECHO</b> | 107:12           | <b>year</b>      |             |
| <b>WSKI</b>      | 118:5            | 136:17           |             |
| 117:11           | 121:3            | <b>yelling</b>   |             |
| 120:6,           | 142:10           | 127:12           |             |
| 13,15,21         | 168:9            | <b>yield</b>     |             |
| 123:3,9,         | 169:1            | 13:4             |             |
| 14,18            | <b>worth</b>     | 29:1             |             |
| <b>women</b>     | 54:16            | 119:17           |             |
| 156:15           | 113:9            | 120:1            |             |
| <b>wonder</b>    | 114:19           | 121:5            |             |
| 8:17             | 115:14           | <b>yielding</b>  |             |
| <b>wonderful</b> | <b>wrap</b>      | 119:5,17         |             |
| 86:14            | 18:2             | <b>yields</b>    |             |
| <b>wood</b>      | 21:16            | 119:10,          |             |
| 13:1             | 47:13            | 11,12,15         |             |
| <b>worked</b>    | <b>wrapped</b>   | <b>York</b>      |             |
| 14:10            | 126:3            | 128:22           |             |
| 82:5             | <b>wrapping</b>  |                  |             |
|                  | 48:11            |                  |             |





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Date: November 29, 2021  
To: Board of Trustees  
From: Kimberly Williams, Audit Committee Chair *KW*  
Subject: Quarterly Audit Committee Report

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The State Board of Administration's Audit Committee met on November 29, 2021. Please see the attached agenda for the items discussed. Also please see the attached Office of Internal Audit Quarterly Report presented to the Audit Committee at the meeting.

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# Office of Internal Audit (OIA) Quarterly Report to the Audit Committee

November 29, 2021



# Table of Contents

|                                                                                        |                                                                         |            |
|----------------------------------------------------------------------------------------|-------------------------------------------------------------------------|------------|
| <b>Status of the FY 2021-22<br/>Annual Audit Plan</b>                                  | • Internal Audit and Advisory Engagements                               | 4          |
|                                                                                        | • External Engagement Oversight                                         | 5          |
|                                                                                        | • Special Projects, Risk Assessment, and Other Activities               | 6          |
| <b>Completed Projects &amp; Status of Management<br/>Action Plans/ Recommendations</b> | • Contract Management Continuous Monitoring                             | 8          |
|                                                                                        | • New and Closed Action Plans and Recommendations                       | 9          |
|                                                                                        | • Details of open items – Audit Projects                                | 10         |
|                                                                                        | • Details of open items – Advisory Projects                             | 11         |
| <b>OIA Quality Assessment Report</b>                                                   | • Reissuance of QA report from prior AC meeting                         | 13         |
| <b>Other OIA Activities</b>                                                            | • Status of OIA Department Goals for FY 2021-22                         | 15         |
|                                                                                        | • OIA Organizational Chart                                              | 16         |
|                                                                                        | • Other Items for Discussion                                            | 17         |
| <b>Appendices</b>                                                                      | Open Audit Recommendations and Action Plans                             | Appendix A |
|                                                                                        | OIA Report 2021-09 BDO Low-Risk Findings Follow-up Audit - Confidential | Appendix B |

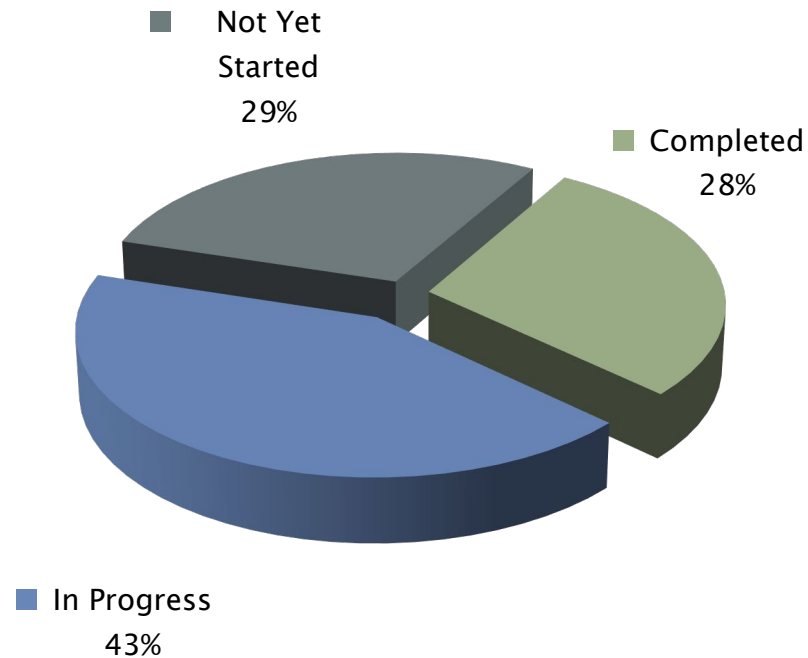


# Status of the FY 2021–22 Annual Audit Plan



# Status of the FY 2021–22 Annual Audit Plan

## Internal Audit and Advisory Engagements



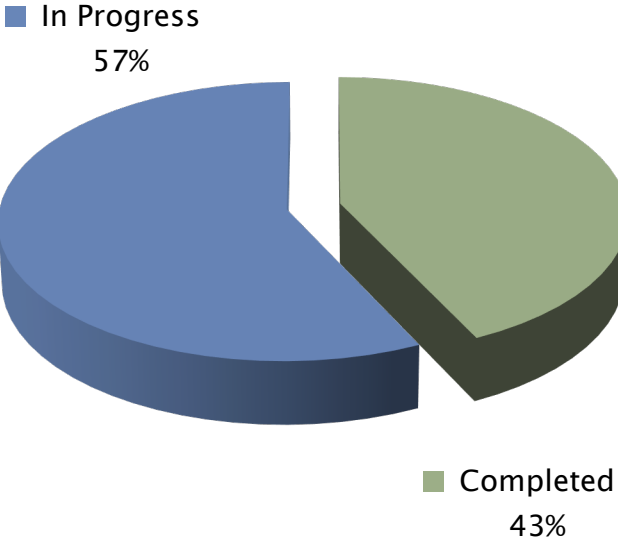
Highlighted: Completed since prior quarterly report.

| <u>Projects Status</u>                               | <u>Type</u>           | <u>Planned Timing</u> |
|------------------------------------------------------|-----------------------|-----------------------|
| <b>Completed</b>                                     |                       |                       |
| Private Equity                                       | OIA Operational Audit | Q1                    |
| Security Configuration and Vulnerability (Carryover) | OIA Advisory          | Q1                    |
| Follow-up on BDO's Low Risk Findings                 | OIA Operational Audit | Q2                    |
| Contract Management                                  | Continuous Monitoring | Q2                    |
| <b>In Progress</b>                                   |                       |                       |
| Continuous Monitoring - General                      | Continuous Monitoring | Ongoing               |
| Data Analytics - Strategy                            | Data Analytics        |                       |
| Continuous Risk Assessment                           | Data Analytics        |                       |
| Action Plan Monitoring                               | Project Management    |                       |
| Derivatives Collateral and Cash Management           | OIA Operational Audit | Q2-Q3                 |
| Performance Reports for Alternative Investments      | OIA Operational Audit | Q2-Q3                 |
| <b>Not Started</b>                                   |                       |                       |
| Periodic Follow-up Audit                             | OIA Follow-up Audit   | Q1-Q4                 |
| Identity and Privileged Access Management Advisory   | OIA Advisory          | Q3                    |
| Security Lending & Repurchases                       | OIA Operational Audit | Q4                    |
| Enterprise Risk Management                           | OIA Operational Audit | Q3/Q4                 |
| Audit logging for SBA servers & network devices      | OIA Advisory          | Q3                    |



# Status of the FY 2021–22 Annual Audit Plan

## External Engagement Oversight

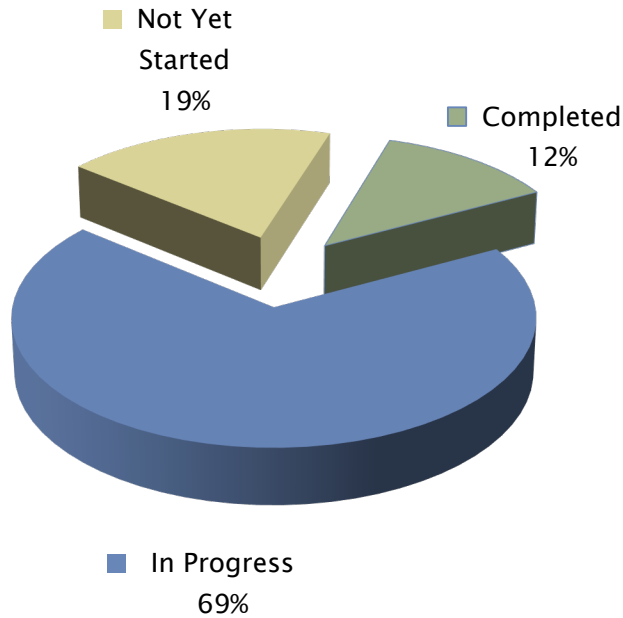


| Project Status                             | Service Provider | Type                                           | Planned Timing |
|--------------------------------------------|------------------|------------------------------------------------|----------------|
| Completed                                  |                  |                                                |                |
| Florida Retirement System (FRS) Trust Fund | Crowe            | External Financial Statement Audit for FY20-21 | Q1/Q2          |
| FRS Investment Plan Trust Fund             | Crowe            | External Financial Statement Audit for FY20-21 | Q1/Q2          |
| Florida Hurricane Catastrophe Fund         | KPMG             | External Financial Statement Audit for FY20-21 | Q1/Q2          |
| In Progress                                |                  |                                                |                |
| Florida PRIME                              | Auditor General  | External Financial Statement Audit for FY20-21 | Q1/Q2          |
| Part of the Statewide CAFR                 | Auditor General  | External Financial Statement Audit for FY20-21 | Q2/Q3          |
| Network Security, outsourced               | BDO              | External IT Assessment                         | Q1/Q3          |
| Florida Growth Fund Initiative             | OPPAGA           | External Review                                | Q1/Q2          |
| Not Started                                |                  |                                                |                |
| None                                       |                  |                                                |                |

Highlighted: Completed since prior quarterly report.

# Status of the FY 2021–22 Annual Audit Plan

## Special Projects, Risk Assessments, and Other Activities



Highlighted: Completed since prior quarterly report.

| Project Status                                                            | Type                    | Planned Timing |
|---------------------------------------------------------------------------|-------------------------|----------------|
| <b>Completed</b>                                                          |                         |                |
| RFQ for Real Estate Pool of Auditors                                      | Part of Evaluation Team | Q1             |
| ITN for FHCF Financial Statement Audit                                    | OIA Special Projects    | Q2             |
| <b>In Progress</b>                                                        |                         |                |
| Implementation of Internal Audit Solution - <b>AuditBoard</b>             | OIA Special Projects    | Q2/Q3          |
| ITN for Network Security Assessment                                       | OIA Special Projects    | Q2/Q3          |
| ITN for GRC Assessment                                                    | OIA Special Projects    | Q2/Q4          |
| Data Analytics Tools Enhancements - Tableau                               | OIA Special Projects    | Ongoing        |
| Logic Manager Enhancements                                                | OIA Special Projects    |                |
| Complimentary User Entity Control Testing Validation                      | OIA Special Projects    |                |
| Special requests from SBA management and/or Audit Committee               | OIA Special Projects    |                |
| WorkSmart Portal Enhancements                                             | OIA Special Projects    |                |
| Audit Committee Related Activities                                        | OIA Audit Committee     |                |
| OIA process improvement initiatives, including QAR identified initiatives | OIA Quality Assurance   |                |
| Robotics Process Automation                                               | OIA Special Projects    | Q1-Q4          |
| <b>Not Yet Started</b>                                                    |                         |                |
| Annual Risk Assessment                                                    | OIA Risk Assessment     | Q4             |
| Annual Audit Plan                                                         | OIA Risk Assessment     | Q4             |
| Annual Quality Assessment Review - Self-Assessment                        | OIA Quality Assurance   | Q4             |
|                                                                           |                         |                |





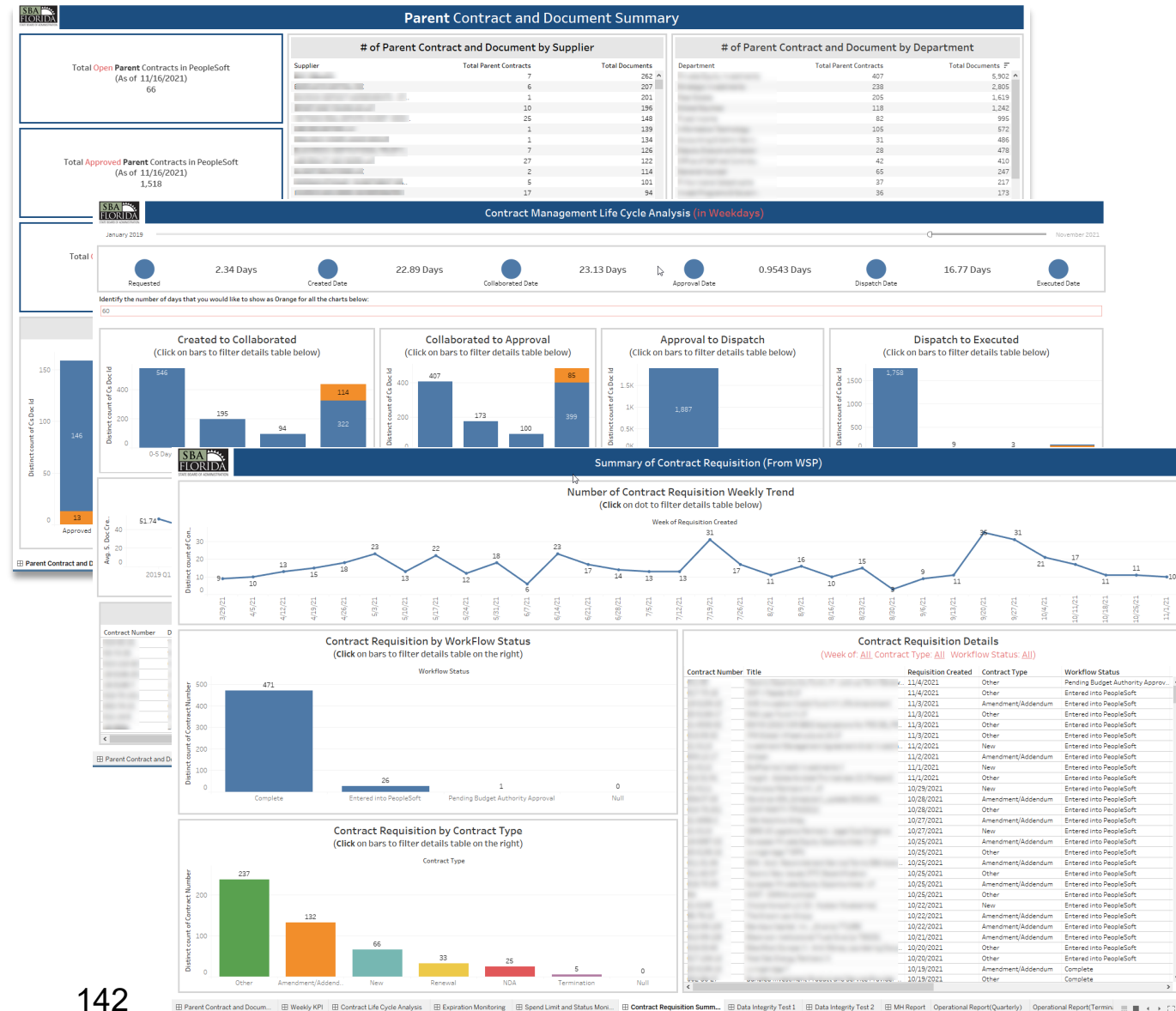
# Completed Projects & Status of Management Action Plans/Recommendations >>

# Contract Management Continuous Monitoring

This Contract Management Analytics dashboard is created to provide Vendor Management team a centralized view of workload and potential anomalies. All tests are automated to ensure the continuous monitoring of contract records. The dashboard helps optimize the process and reduce the redundancies for easy reporting.

## Results of these analytics included:

1. The Tableau dashboard is live connected to SBA financial database, and the data source is scheduled to refresh everyday at 4AM. This near to real-time dashboard enables a dynamic monitoring and provides more actionable insights.
2. This dashboard integrates more than 50 visualized graphs and data tables, including 10 rule-based exception detections.
3. By implementing the interactive and drill-down features, dashboard users can easily identify and address the root cause. The type-in parameters allow users to proactively monitor expiring contracts.



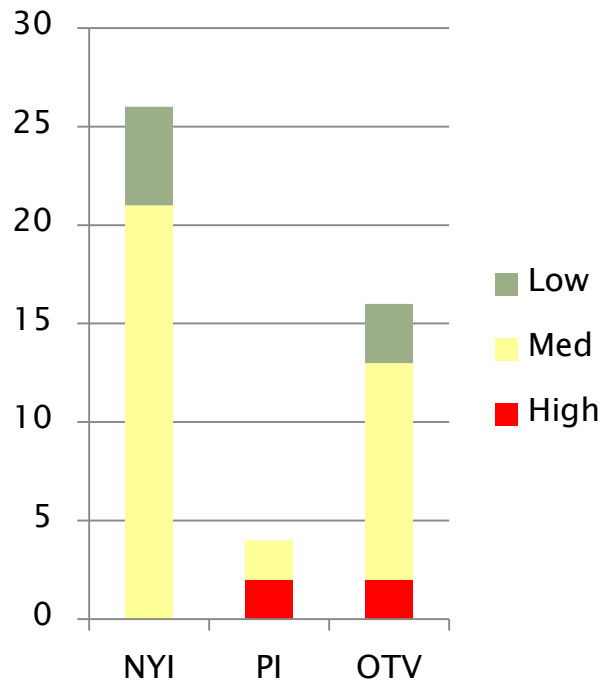


# New/Closed Action Plans & Recommendations

## Audit and Advisory Engagements

| # of Recs                                       | Source                                                                |                                                                                                                                                                                                                      |
|-------------------------------------------------|-----------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>New action plans and recommendations:</u>    |                                                                       |                                                                                                                                                                                                                      |
| 7                                               | Private Equity Operational Audit (see Tab #7)                         |                                                                                                                                                                                                                      |
| 7                                               | Total action plans/recommendations added to the database              |                                                                                                                                                                                                                      |
| <u>Closed action plans and recommendations:</u> |                                                                       |                                                                                                                                                                                                                      |
| 4                                               | BDO Network Security Assessment 2018                                  | Closed as part of the 2021-09 BDO Low-Risk Findings Follow-up Audit Report ( <b>see Appendix B</b> ) & BDO’s 2021 Previous Findings Security Assessment Report (to be presented to the AC at the subsequent meeting) |
| 42                                              | BDO Network Security Assessment 2019                                  |                                                                                                                                                                                                                      |
| 14                                              | BDO Network Security Assessment 2020                                  |                                                                                                                                                                                                                      |
| 60                                              | Total action plans/recommendations closed in the database             |                                                                                                                                                                                                                      |
| (53)                                            | Total change for both audit and advisory action plans/recommendations |                                                                                                                                                                                                                      |

# Status of Management Action Plans–Audits



For details, see [Appendix A](#).

| Report Title                                                | Report Date |
|-------------------------------------------------------------|-------------|
| Global Equity Internal Trading Operational Audit            | 1/18/2017   |
| AG - Operational Audit 2017                                 | 11/13/2017  |
| Incentive Compensation Program Operational Audit            | 4/10/2018   |
| Strategic Investments Operational Audit                     | 8/19/2019   |
| Procure to Pay Operational Audit                            | 6/30/2020   |
| Real Estate Direct Owned Operational Audit                  | 10/6/2020   |
| AG – ITGC and PRIME 2020                                    | 10/16/2020  |
| AG – ITGC and PRIME 2020 Confidential                       | 10/16/2020  |
| AG – FRS Investment Plan Operational Audit 2021             | 2/22/21     |
| IPAA Liquidity Management Operational Audit                 | 3/15/2021   |
| Business Continuity and Disaster Recovery Operational Audit | 3/19/2021   |
| Private Equity Operational Audit 2021                       | 9/9/2021    |

## Legend:

NYI - Not Yet Implemented

PIRP - Partially Implemented and the Remainder is in Progress

OTV - OIA to Verify

| Risk Rating |     |     |       | Status |      |     |       |
|-------------|-----|-----|-------|--------|------|-----|-------|
| High        | Med | Low | Total | NYI    | PIRP | OTV | Total |
| 1           |     |     | 1     |        |      | 1   | 1     |
|             |     | 1   | 1     |        |      | 1   | 1     |
|             |     | 1   | 1     | 1      |      |     | 1     |
| 2           |     |     | 2     |        | 2    |     | 2     |
|             | 7   | 2   | 9     | 4      | 2    | 3   | 9     |
|             | 1   |     | 1     | 1      |      |     | 1     |
|             | 2   |     | 2     | 2      |      |     | 2     |
|             | 5   |     | 5     | 5      |      |     | 5     |
|             | 3   |     | 3     | 3      |      |     | 3     |
|             | 1   | 1   | 2     |        |      | 2   | 2     |
|             | 11  | 1   | 12    | 4      |      | 8   | 12    |
| 1           | 4   | 2   | 7     | 6      |      | 1   | 7     |
| 4           | 34  | 8   | 46    | 26     | 4    | 16  | 46    |
| 9%          | 74% | 17% |       | 57%    | 9%   | 35% |       |

Management Action Plans relating to findings from audits performed by internal or external auditors. The OIA monitors and performs follow-up procedures on the management action plans in accordance with the IIA Standard 2500. A1. In certain cases, follow-up procedures are performed by external auditors.



# Status of Recommendations – Advisory Projects

| Report Title                                                                  | Report Date |
|-------------------------------------------------------------------------------|-------------|
| Governance, Risk Management, and Compliance Assessment (Funston) <sup>1</sup> | 1/15/2018   |
| Network Security Assessment 2018 (BDO) <sup>2</sup>                           | 11/15/2018  |
| Network Security Assessment 2019 (BDO) <sup>2</sup>                           | 11/21/2019  |
| CIS CSC Framework Gap Assessment Advisory <sup>1</sup>                        | 3/19/2020   |
| Network Security Assessment 2020 (BDO) <sup>2</sup>                           | 1/5/2021    |
| Security Configuration and Vulnerability Management Advisory <sup>1</sup>     | 8/3/2021    |

## Status

| NYI | PI | IMP | PIRN | Total |
|-----|----|-----|------|-------|
| 1   | 5  | 12  | 7    | 25    |
| 1   |    |     |      | 1     |
| 3   | 1  | 2   |      | 6     |
| 14  | 3  |     |      | 17    |
| 12  |    | 2   |      | 14    |
| 24  |    |     |      | 24    |
| 55  | 9  | 16  | 7    | 87    |

### Legend:

- NYI - Not yet implemented
- PI - Partially Implemented, as represented by SBA management
- IMP - Implemented, as represented by SBA management
- PIRN - Partially Implemented, as represented by SBA management, and the remainder will not be implemented (*not yet closed in the system when listed here*)
- NA - Not accepted by SBA management (*not yet closed in the system when listed here*)

*Advisory Recommendations made by OIA or external consultants resulting from an assessment of a program or activity such as governance, risk management, compliance, ethics, disaster recovery preparedness program, etc. The OIA monitors the disposition of these recommendations in accordance with the IIA Standard 2500.C1.*

<sup>1</sup>At the advice of the Audit Committee, the OIA closes Advisory Recommendations that management represented as “complete” once the OIA has considered those in the annual risk assessment.

<sup>2</sup>Recommendations will be reviewed for remediation and closure as part of the subsequent Network Security Assessment.



# Quality Assurance and Improvement Program (QAIP) >>

# OIA's Quality Assessment Results

|                              |                                                                                                                               | GC | PC | DNC | NA |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------|----|----|-----|----|
| <b>OVERALL</b>               |                                                                                                                               | X  |    |     |    |
| <b>ATTRIBUTE STANDARDS</b>   |                                                                                                                               | X  |    |     |    |
| <b>1000</b>                  | <b>Purpose, Authority, and Responsibility</b>                                                                                 | X  |    |     |    |
| 1010                         | Recognition of the Definition of Internal Auditing, the Code of Ethics and the <i>Standards</i> in the Internal Audit Charter | X  |    |     |    |
| <b>1100</b>                  | <b>Independence and Objectivity</b>                                                                                           | X  |    |     |    |
| 1110                         | Organizational Independence                                                                                                   | X  |    |     |    |
| 1111                         | Direct Interaction with the Board                                                                                             | X  |    |     |    |
| 1120                         | Individual Objectivity                                                                                                        | X  |    |     |    |
| 1130                         | Impairments to Independence or Objectivity                                                                                    | X  |    |     |    |
| <b>1200</b>                  | <b>Proficiency and Due Professional Care</b>                                                                                  | X  |    |     |    |
| 1210                         | Proficiency                                                                                                                   | X  |    |     |    |
| 1220                         | Due Professional Care                                                                                                         | X  |    |     |    |
| 1230                         | Continuing Professional Development                                                                                           | X  |    |     |    |
| <b>1300</b>                  | <b>Quality Assurance and Improvement Program</b>                                                                              | X  |    |     |    |
| 1310                         | Requirements of the Quality Assurance and Improvement Program                                                                 | X  |    |     |    |
| 1311                         | Internal Assessments                                                                                                          | X  |    |     |    |
| 1312                         | External Assessments                                                                                                          | X  |    |     |    |
| 1320                         | Reporting on the Quality Assurance and Improvement Program                                                                    | X  |    |     |    |
| 1321                         | Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "                 | X  |    |     |    |
| 1322                         | Disclosure of Nonconformance                                                                                                  |    |    |     | X  |
| <b>PERFORMANCE STANDARDS</b> |                                                                                                                               | X  |    |     |    |
| <b>2000</b>                  | <b>Managing the Internal Audit Activity</b>                                                                                   | X  |    |     |    |
| 2010                         | Planning                                                                                                                      | X  |    |     |    |
| 2020                         | Communication and Approval                                                                                                    | X  |    |     |    |
| 2030                         | Resource Management                                                                                                           | X  |    |     |    |
| 2040                         | Policies and Procedures                                                                                                       | X  |    |     |    |
| 2050                         | Coordination                                                                                                                  | X  |    |     |    |

|                                        |                                                                                                                               | GC | PC | DNC | NA |
|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|----|----|-----|----|
| 2060                                   | Reporting to Senior Management and the Board                                                                                  | X  |    |     |    |
| 2070                                   | External Service Provider and Organizational Responsibility for Internal Auditing                                             | X  |    |     |    |
| <b>2100</b>                            | <b>Nature of Work</b>                                                                                                         | X  |    |     |    |
| 2110                                   | Governance                                                                                                                    | X  |    |     |    |
| 2120                                   | Risk Management                                                                                                               | X  |    |     |    |
| 2130                                   | Control                                                                                                                       | X  |    |     |    |
| <b>2200</b>                            | <b>Engagement Planning</b>                                                                                                    | X  |    |     |    |
| 2201                                   | Planning Considerations                                                                                                       | X  |    |     |    |
| 2210                                   | Engagement Objectives                                                                                                         | X  |    |     |    |
| 2220                                   | Engagement Scope                                                                                                              | X  |    |     |    |
| 2230                                   | Engagement Resource Allocation                                                                                                | X  |    |     |    |
| 2240                                   | Engagement Work Programs                                                                                                      | X  |    |     |    |
|                                        | <b>Performing the Engagement</b>                                                                                              | X  |    |     |    |
| 2310                                   | Identifying Information                                                                                                       | X  |    |     |    |
| 2320                                   | Analysis and Evaluation                                                                                                       | X  |    |     |    |
| 2330                                   | Documenting Information                                                                                                       | X  |    |     |    |
| 2340                                   | Engagement Supervision                                                                                                        | X  |    |     |    |
| <b>2400</b>                            | <b>Communicating Results</b>                                                                                                  | X  |    |     |    |
| 2410                                   | Criteria for Communicating                                                                                                    | X  |    |     |    |
| 2420                                   | Quality of Communications                                                                                                     | X  |    |     |    |
| 2421                                   | Errors and Omissions                                                                                                          |    |    |     | X  |
| 2430                                   | Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> " | X  |    |     |    |
| 2431                                   | Engagement Disclosure of Nonconformance                                                                                       |    |    |     | X  |
| 2440                                   | Disseminating Results                                                                                                         | X  |    |     |    |
| 2450                                   | Overall Opinions                                                                                                              | X  |    |     |    |
| <b>2500</b>                            | <b>Monitoring Progress</b>                                                                                                    | X  |    |     |    |
| <b>2600</b>                            | <b>Communicating the Acceptance of Risks</b>                                                                                  | X  |    |     |    |
| <b>IIA CODE OF ETHICS</b>              |                                                                                                                               | X  |    |     |    |
| <b>DEFINITION OF INTERNAL AUDITING</b> |                                                                                                                               | X  |    |     |    |

Note: Reissuing the results of the QA as OIA did review for Standard 2070 and the results in the previous Audit Committee report indicated NA.



# Other OIA Activities >>

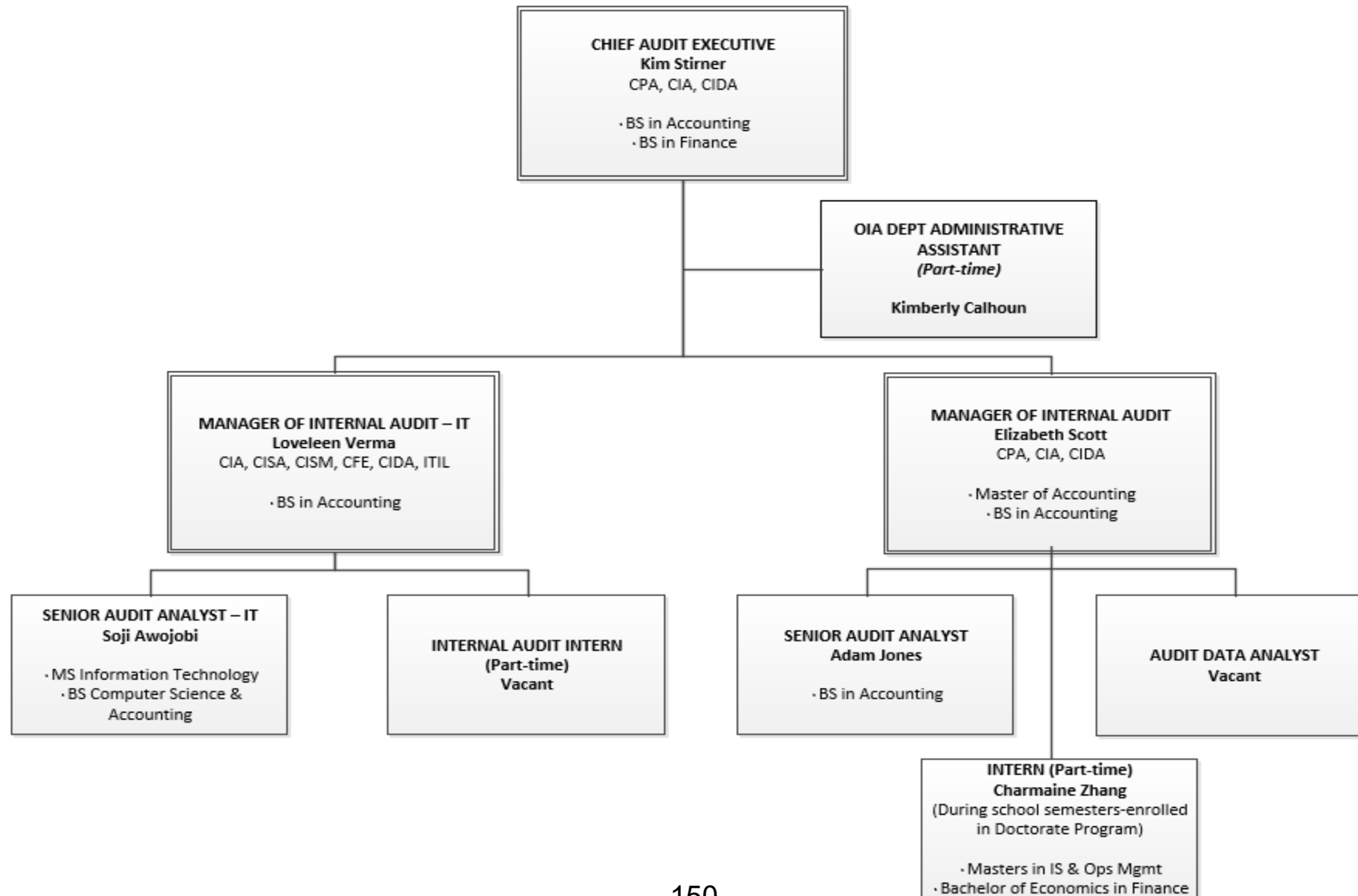




# Status of OIA Department Goals FY 2021–22

| TOPIC                    | ACTIVITIES                                                                                                                                                                                      | IMPLEMENTATION EFFORTS                                                                                                                                                                                                                  | STATUS      |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| INTERNAL AUDIT PROCESSES | Data Analytics: Use for continuous risk assessment, engagement planning, continuous monitoring and auditing, and evaluate the potential use of robotics process automation for audit projects.  | The use of data analytics is underway for engagement planning, continuous monitoring and auditing. Also an RPA is in the queue to assist with the dashboards for continuous monitoring. The CRA development is in the beginning stages. | In progress |
|                          | Engage consultants (co-source or outsource) to assist with high risk areas relating to investments and IT audits. For investments engage ITCI on a retainer basis instead of full-scope audits. | BDO is engaged to conduct the network security assessment which is scheduled to begin in August 2021. ITCI is engaged on a retainer basis to assist with investment-related audits throughout the fiscal year. Contracting complete.    | Complete    |
|                          | Identify and discuss with management potential areas where we may add value either as advisory/consulting projects or informal initiatives.                                                     | The current annual audit plan includes IT/IS related advisory projects.                                                                                                                                                                 | In progress |
|                          | Update the pipeline of projects on at least a quarterly basis. Consider agile focused audits and advisory projects.                                                                             | Set up a tab in our Risk Channel in Teams to document and review pipeline as needed.                                                                                                                                                    | In progress |
| USE OF TECHNOLOGY        | Continue to increase automation of continuous data analytics where possible and support the SBA's use of Tableau Server and data governance.                                                    | Continue to do this in conjunction with the data analytics activity mentioned above under internal audit processes.                                                                                                                     | In progress |
|                          | Implement a new automated workpaper solution.                                                                                                                                                   | Issued an RFQ and hope to have a new tool in place by November/December 2021.                                                                                                                                                           | In progress |
| PEOPLE                   | Develop a training plan based on knowledge gaps for each member of the OIA to close those gaps, including training on the new automated workpaper solution                                      | Used a Gartner tool to determine competency needs and we are updating the team members' training plans based on the results from that tool and project/annual evaluations.                                                              | Complete    |
|                          | Have at least one team building event during the fiscal year to enhance the team.                                                                                                               | Planning for a holiday gathering on Friday, December 3 <sup>rd</sup>                                                                                                                                                                    | In progress |
|                          | Continue to participate in the internship program.                                                                                                                                              | In communication with HR as our intern left February 2021 to work with JP Morgan.                                                                                                                                                       | In progress |

# OIA Organizational Chart





# Other Items for Discussion

- ▶ Selected AuditBoard as our automated workpaper solution
- ▶ Audit Committee meeting dates in 2022
  - February 21, 2022
  - May 23, 2022
  - August 29, 2022
  - November 21, 2022
- ▶ Upcoming GRC Assessment Proposed timeline
  - February 21, 2022: AC appoint member to Evaluation Team
  - May 23, 2022: Request AC approval of ITN for issuance
  - May 24, 2022: ITN issued
  - August 29, 2022: Request AC approval of Evaluation Team Recommendation

# Questions/Comments





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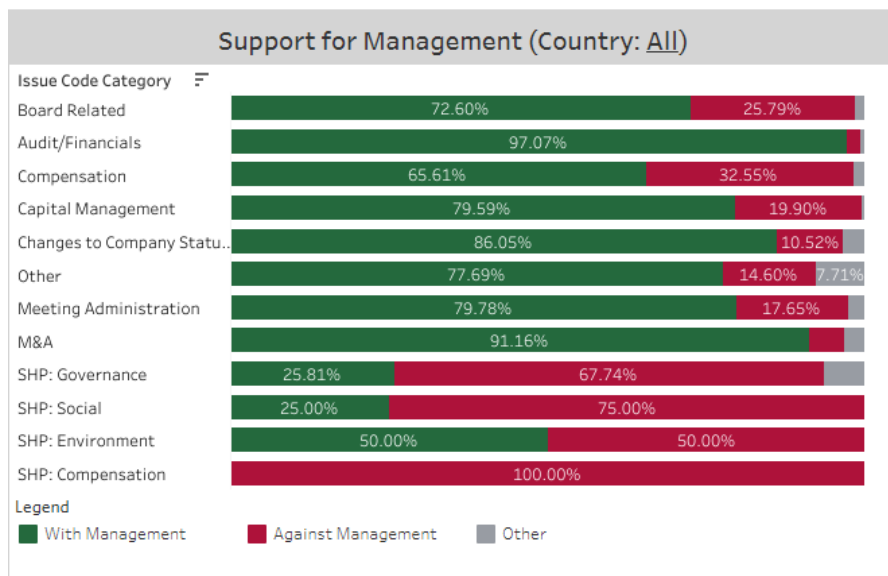
LAMAR TAYLOR  
INTERIM EXECUTIVE DIRECTOR &  
CHIEF INVESTMENT OFFICER

## MEMORANDUM

**To:** Lamar Taylor  
**From:** Michael McCauley  
**Date:** November 30, 2021  
**Subject:** Quarterly Standing Report - Investment Programs & Governance

### GLOBAL PROXY VOTING & OPERATIONS

During the third quarter of 2021, SBA staff cast votes at 1,295 companies worldwide, voting on ballot items including director elections, audit firm ratification, executive compensation plans, mergers & acquisitions, and a variety of other management and shareowner proposals. These votes involved 9,328 distinct voting items—voting 78.8% “For” and 19.2% “Against/Withheld,” with the remaining 2.0% involving abstentions. Of all votes cast, 19.9% percent were “Against” the management-recommended vote. SBA proxy voting occurred in 58 countries, with the top five countries comprised of India (308), China (259), United States (251), United Kingdom (75), and the Cayman Islands (39). The table below provides the SBA’s global voting breakdown with the management-recommended-vote (MRV) across all major proposal categories during Q32021.



### CORPORATE GOVERNANCE & PROXY VOTING OVERSIGHT GROUP

The most recent meeting of the Corporate Governance & Proxy Voting Oversight Group (Proxy Committee) occurred on October 4, 2021, and the Committee will meet next on December 7, 2021. The Proxy Committee continues to review ongoing governance issues including the volume and trends for recent SBA proxy votes, company-specific voting scenarios, corporate governance policies, governance-

related investment factors, major regulatory developments and individual company research related to the Protecting Florida's Investments Act (PFIA), and other statutory investment requirements related to Israel and Venezuela.

### **LEADERSHIP & SPEAKING EVENTS**

Staff periodically participates in investor and corporate governance conferences. Typically, these events include significant involvement by corporate directors, senior members of management, and other key investor or regulatory stakeholders. The following items detail involvement at events that occurred recently:

- In August, SBA staff participated in a meeting of the Board of Directors of the Council of Institutional Investors (CII), discussing a range of topics affecting the organization.
- In September, SBA staff participated in a meeting of the Board of Directors of the Investor Stewardship Group (ISG), discussing a range of topics affecting the organization.
- In September, SBA staff participated in CII's Fall Conference, participating in a number of sessions and speaking on a panel covering executive compensation practices.
- In October, SBA staff participated in the annual Open Stakeholder Forum of the Best Practice Principles Group (BPPG), discussing a number of issues affecting the proxy advisory industry.
- In October, SBA staff participated in a quarterly meeting of the Independent Steering Committee of Broadridge Financial, discussing a range of operational proxy voting and issuer topics.
- In November, SBA staff participated as a speaker on a panel of the Southeast Audit Committee Network, discussing a number of corporate governance issues with corporate directors.
- In November, SBA staff participated in CII-NYU's 2021 Corporate Governance Bootcamp Program, which covered a variety of corporate governance topics and included faculty from NYU as well as seasoned practitioners.

### **ACTIVE OWNERSHIP & CORPORATE ENGAGEMENT**

The SBA actively engages portfolio companies throughout the year, addressing corporate governance concerns and seeking opportunities to improve alignment with the interests of our beneficiaries. From September 2021 through late November 2021, SBA staff conducted engagement meetings with several companies owned within Florida Retirement System (FRS) portfolios, including RioCan REIT, Caterpillar, Athersys, Monmouth Real Estate Investment Corporation, and White Mountains Capital.

### **HIGHLIGHTED PROXY VOTES**

**Electronic Arts**—EA held its annual shareowner meeting on August 21, 2021. In total, SBA staff withheld support for three directors. Two of the directors (Coleman and Ubinas) received against votes in alignment with the SBA policy on over-boarding. Both directors serve on four public company boards while being fully employed. SBA staff also voted against the company's advisory vote on executive compensation due to several issues. In this instance, compensation practices were of sufficient concern to warrant votes against the three members of the compensation committee as well (Coleman, Ubinas, and Ueberroth). While company performance has trailed peers, Electronic Arts CEO received enhanced equity awards that exceeded (even before accounting for base pay) the median total pay for CEOs in the company-defined peer group. In addition, the CEO received a maximum annual incentive payout. Longer term compensation, based on performance stock units, also utilized relatively short performance periods

with additional vesting opportunities, which reduced the long-term nature of the program. EA's total shareowner return, relative to peers, was 9<sup>th</sup> percentile on a three-year basis and 35% percentile on a five-year basis. Annual meeting vote results showed only 42% of shareowners supported EA's executive compensation program, with the company receiving less than majority support for the second year in a row.

**Monmouth Real Estate Investment Corporation**—As noted last quarter, Monmouth proposed a merger with Equity Commonwealth (EQC) at its August 31, 2021 contested special meeting. SBA staff voted against all proposals, including the aforementioned merger as the transaction was not in the best interests of the shareholders. On November 5, 2021, Monmouth announced that it entered into a definitive merger agreement with Industrial Logistics Properties Trust (ILPT) under which ILPT will acquire all of the outstanding shares of Monmouth for \$21.00 per share in an all-cash transaction valued at approximately \$4.0 billion including the assumption of debt and the committed acquisition and expansion pipeline. The merger is expected to close in the first half of 2022, subject to approval by Monmouth's shareholders and the satisfaction of other customary closing conditions.

**NextGen Healthcare, Inc.**—For its October 13, 2021 contested annual shareholder meeting, NextGen Healthcare, Inc. was the subject of a proxy contest lodged by the company's founder, Sheldon Razin and fellow board member, Lance Rosenweig. The pair of dissidents hold a combined 15.2% stake and were seeking their own re-election along with two new appointments. Their campaign failed to win support from Glass, Lewis & Co. (GLC) and Institutional Shareholder Services (ISS), both of which recommended shareholder support for all nine management candidates. The SBA supported management by voting for all nine director candidates nominated by management and all nine were ultimately elected by NextGen shareholders. GLC and ISS noted that the NextGen management was performing well and commended the recent appointment of former Teladoc Health top executive David Sides as CEO. ISS said the additions of David Sides and Sri Velamoor to the executive team "have expressed a vision for how the company will execute the next stage of its strategy, and further disruption in the boardroom may jeopardize the potential for success." Shareholders also approved the elimination of cumulative voting in the election of directors and the reincorporation of NextGen into Delaware. Both measures were opposed by Razin and Rosenzweig.

## **REGULATORY AND MARKET DEVELOPMENTS**

### **Declining Proxy Advisors' Support for Management at Contested Meetings**

According to data from Insightia, the two major proxy advisers, GLC and ISS, have become less likely to support dissident director candidates in US proxy fights over the past five years. Year to date as of August 15<sup>th</sup>, ISS and GLC have sided with management in 73% and 64% of contests, respectively. In 2016, ISS and GLC backed management only 50% and 46% of the time, respectively. Additionally, the two proxy advisers have become less likely to support the entire slate of nominees put forth by activists. When these advisers have endorsed dissident nominees, they are becoming less willing to support their entire slates. ISS backed all dissident candidates in one-third of 2016 proxy contests, and GLC supported one-fifth. Year to date 2021, both advisers have supported only 9% of dissident's entire slates. The figures for ISS are based on Insightia's proprietary "synthetic" model, which uses investor voting to accurately derive ISS recommendations. GLC recommendations were provided by the adviser directly. The change in support levels is attributed to a declining number of proxy fights actually going to a vote (due to a

higher number of settlements), as well as more proactive and sophisticated tactics by targeted companies.

### **SEC Proposes New Disclosures for Proxy Voting Information (Amendments to Form NP-X)**

In late September, the Securities & Exchange Commission (SEC) proposed numerous significant changes to disclosures of proxy voting information aimed at supplying more background for investors on how investment managers, mutual funds, and exchange-traded-funds (ETFs) report their proxy voting activities. Funds will be required to tie the description of each voting matter and categorize each matter by type. Funds' reports are currently filed in plain-text or HTML format—the proposal would require reporting using an Extensible Markup Language (XML) structured data language. The SEC said this would make the filings easier to analyze and help investors identify votes of interest and compare voting records. Proposed rule 14Ad-1 would require investment managers to report annually on Form N-PX each say-on-pay (SOP) vote over which the manager exercised voting power.

The proposal will also require funds to disclose how their securities lending activity impacted their voting, disclosing the number of shares voted (or instructed to be cast), as well as the number of shares loaned but not recalled. This requirement would allow investors to understand the magnitude of split votes (i.e., when a reporting person votes in multiple ways on the same matter). When a fund lends its portfolio securities and thus transfers beneficial ownership, it also gives up its proxy voting rights for the duration of the loan. As a result, the fund can't vote the proxies of such securities. If a fund decides an issue is important enough to vote on, it can recall the securities and vote as long as they receive the securities before the record date for the vote. The proposed amendments also seek to require disclosure of the number of shares that were loaned but not recalled. The decision to recall a security on loan in order to vote it is not currently disclosed on Form N-PX. The SEC will also require funds to provide their voting records or a link to the records on their websites.

### **DOL Proposes Changes to ERISA on ESG Matters**

Last year, U.S. Department of Labor (DOL) issued two rules, despite opposition from many investors, that made it harder for retirement plan fiduciaries to consider ESG factors in their investment decisions and to vote their proxies. In March 2021, the DOL announced that it was re-examining the rules, and that, pending its review, it would not enforce them. On October 13, 2021, the DOL proposed changes to eliminate and revise the most problematic elements of those rules. On October 13, 2021, the DOL announced a proposed rulemaking to amend the investment duties regulation under Title I of the Employee Retirement Income Security Act of 1974 (ERISA) that would clarify the application of ERISA's plan fiduciary duties of prudence and loyalty to selecting investments and investment courses of action, including selecting qualified default investment alternatives (QDIAs), and exercising shareholder rights, including proxy voting.

The proposal retains the core principle that the duties of prudence and loyalty require ERISA fiduciaries to focus on material risk-return factors; however, it clarifies, "that climate change and other ESG factors are often material and that in many instances fiduciaries...should consider climate change and other ESG factors in the assessment of investment risks and returns." The proposed amendments included examples that a fiduciary may consider in the evaluation of an investment course of action, if material, including such issues as a corporation's exposure to the real and potential economic effects of climate



change, board composition, executive compensation, compliance with industry regulations, and progress on workforce diversity. The proposal also aims to improve and clarify application of the “tie-breaker” test, which permits fiduciaries to consider collateral benefits as tie-breakers in some circumstances. The proposal also changes several areas of the current regulation tied to shareholder rights and proxy voting, including the requirement to vote every shareholder right, duty to monitor under delegated voting scenarios, and the removal of two safe harbors that limited the exercise of proxy voting under certain circumstances. Comments on the proposed rule are due by December 13, 2021.

### **SEC Clarifies Process for Treatment of Shareowner Resolutions**

On November 3<sup>rd</sup>, the SEC released an updated staff legal bulletin (SLB) marking a shift in how staff will review shareowner submitted ballot resolutions. The new SLB is expected to make it easier for investors to submit a variety of resolutions on corporate business activities, notably those concerning environmental and social topics. The SEC's Division of Corporation Finance rescinded its last three legal bulletins related to Exchange Act Rule 14a-8, which covers shareowner proposals. The new SLB outlined changes in the division's views on what constitutes "ordinary business" and "economic relevance" when it determines whether a shareowner proposal should be excluded. The new SLB also clarifies the ability of shareowner proponents to use graphics to convey information about their proposals, subject to compliance with other provisions of SEC Rule 14a-8 that may render graphics inappropriate. It also updates guidance on the form of proof of ownership letters submitted by proponents to establish their eligibility to submit proposals.

### **SEC Adopts Final Rules Requiring Universal Proxy Cards**

On November 17<sup>th</sup>, the SEC voted to adopt final rules requiring parties in a contested board election to use “universal” proxy cards that include all director nominees presented for election at a shareowner meeting. Currently, shareholders voting by proxy in contested director elections are unable to vote for a combination of director nominees from competing slates unless they vote their shares in person at the shareholder meeting. Under new Rule 14a-19, the universal proxy card must include all director nominees presented by management and shareholders for election at the upcoming shareholder meeting. The new rules establish new notice and filing requirements for all soliciting parties, as well as formatting and presentation requirements for universal proxy cards. In addition, the final rules would require shareholders presenting their own director candidates in the contest to solicit holders of a minimum of 67 percent of the voting power of shares entitled to vote in the election. Registered investment companies and business development companies would not be subject to the universal proxy rules.

"These amendments address concerns that shareholders voting by proxy cannot vote for a mix of dissident and registrant nominees in an election contest, as they could if voted in person," said SEC Chair Gary Gensler. "Today's amendments will put these candidates on the same ballot. They will put investors voting in person and by proxy on equal footing. This is an important aspect of shareholder democracy." The universal proxy rule has been under consideration for several years, with the SBA serving as a long-term advocate, along with the Council of Institutional Investors (CII), the CFA Institute, the International Corporate Governance Network (ICGN), and other large asset owners. The new regulation will allow for much more efficient and informed voting on director nominees within contested board elections. The

rule amendments regarding voting options would be applicable to all shareholder meetings involving director elections held after August 31, 2022.

### **SEC Proposes Amendments to Proxy Voting Advice Rules**

On November 17, 2021, the SEC proposed amendments to the federal proxy rules that would partially roll back final rules regarding proxy voting advice adopted in July 2020. In July 2020, the Commission adopted final rules establishing new requirements for proxy advisory firms. Since their adoption, investors and others have continued to express strong concerns about the 2020 rules' impact on proxy advisory firms' ability to deliver independent proxy voting advice to their clients in a timely manner. The proposed amendments would address those concerns by rescinding two portions of the 2020 rules. First, and most notably, the proposed amendments would eliminate the requirements that proxy advisors adopt policies and procedures for engagement with companies that are the subject of their proxy voting advice and no longer need to allow companies to access proxy advice prior to or at the same time as the advice is disseminated to clients. According to the SEC's release, both ISS and GLC have already adopted policies and procedures that provide their clients and registrants with some of the opportunities and access to information that would have been required previously.

Second, the SEC reaffirmed its position that proxy voting advice is a "solicitation" and subject to the prohibition against material misstatements and omissions. Rule 14a-9 "prohibits any solicitation from containing any statement which, at the time and in the light of the circumstances under which it is made, is false or misleading with respect to any material fact." According to the release, the proposed amendments are intended to address the misperception that a proxy advisor could be liable under Rule 14a-9 solely because of a difference in opinion regarding proxy voting advice. The Commission clarified its view that a proxy advisor would not face liability under Rule 14a-9 for exercising its discretion to rely on a particular analysis, methodology, or set of information when formulating its voting recommendations. The goal of the proposed amendments is to avoid burdens on proxy advisory firms that may impede and impair the timeliness and independence of proxy voting advice and subject them to undue litigation risks and compliance costs.



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& CHIEF INVESTMENT OFFICER

## MEMORANDUM

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**To:** Lamar Taylor, Interim Executive Director & CIO  
**From:** Maureen M. Hazen, General Counsel *Maureen M. Hazen*  
**Date:** November 30, 2021  
**Subject:** Office of General Counsel: Standing Report  
For Period September 1, 2021 – November 19, 2021

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### SBA Agreements.

During the period covered by this report, the General Counsel's Office drafted, reviewed and negotiated: (i) 20 new agreements – including 2 new Investment Management Agreements for the Global Equity asset class; 2 new Investment Management Agreements for the FRS Investment Plan; 4 Private Equity transactions; 2 Strategic Investments; and 1 new investments or manager relationship for Real Estate; (ii) 259 contract amendments, addenda or renewals; and (iii) 2 contract terminations.

### SBA Litigation.

(a) Passive. As of October 31, 2021, the SBA was monitoring (as an actual or putative passive member of the class) 594 securities class actions. During the period covered by this report, the SBA collected recoveries in the amount of \$2,298,407.27 as a passive member in 20 securities class actions.

(b) Active.

In re Tribune Litigation. On January 24, 2012, the SBA was served a complaint (along with other defendants) now pending in the U.S. Bankruptcy Court, Southern District of New York by the Official Committee of Unsecured Creditors of the Tribune Company alleging damages for fraudulent conveyance and requesting the return of proceeds received by all defendant investors in a leveraged buy-out of the Tribune Company (which subsequently declared bankruptcy). Pursuant to a plan approved in the bankruptcy proceeding, the claim was transferred to the U.S.

District Court, Southern District of New York (the “Court”) and consolidated with additional parallel cases for multi-district litigation. The SBA received approximately \$11 million in connection with this leveraged buy-out. Several amended complaints have been filed in the action in which the SBA was originally served in January, 2012 (the “FitzSimons Action”). In early 2017, the Court dismissed the intentional fraudulent transfer count (the only claim applicable to the SBA), and the SBA (and other defendants), and this has recently been affirmed on the appeal. The SBA awaits a decision by Plaintiffs whether to file a Writ of Certiorari with the Supreme Court of the United States.

(c) FRS Investment Plan. During the period covered by this report, the General Counsel’s Office monitored and/or managed the following cases for the Florida Retirement System Investment Plan (the “Investment Plan”). The SBA issued 2 Final Orders, received notice of filing of 4 new cases, and continued to litigate 8 cases that were pending during the periods covered by previous reports.

#### **Other Matters.**

(a) Public Records. During the period covered by this report, the General Counsel’s Office received 34 new public records requests and provided responses to 36 requests. As of November 19, 2021, the General Counsel’s Office continues to work on 4 open requests.

(b) SBA Rule Activities. During the period covered by this report, the SBA engaged in the following.

(i) As required pursuant to Section 120.74(2), Florida Statutes, a copy of the SBA’s 2021-2022 Annual Regulatory Plan was timely filed on September 30, 2021 with JAPC. The plan includes the Florida Hurricane Catastrophe Fund. There were no legislative changes that needed to be reflected by rule amendments. The Annual Regulatory Plan identified several new/amended laws that are applicable to all Florida governmental entities but that do not need to be implemented by rulemaking. The SBA indicated that it recognizes the existence of such laws and stated that it may revise, or already has revised, the SBA’s internal policies, procedures and contracts in view of the changes.

(ii) The SBA prepared draft amendments to Rule 19-9.001, F.A.C., various rules in Rule Chapter 19-11, F.A.C., and Rules 19-13.002 and 19-13.004, F.A.C. (as set forth below) and sent such to the Office of Fiscal Accountability and Regulatory Reform (“OFARR”). No comments were received, so Notices of Development of Rulemaking were submitted to the Bureau of Administrative Code and published in Florida Administrative Register on November 19, 2021. These changes are expected to be submitted to the Trustees Meeting on December 14, 2021 for approval. The proposed changes are as follows:

A. Rule Chapter 19-9, F.A.C: Rule 19-9.001, F.A.C.:

Rule 19-9.001, F.A.C., (Investment Policy Statement) is being amended to adopt the most recent revised Investment Policy Statement approved by the Trustees on May 4, 2021 for the FRS Investment Plan.

B. Rule Chapter 19-11, F.A.C: Revisions have been drafted for the following rules:

|                     |                                                                         |
|---------------------|-------------------------------------------------------------------------|
| 19-11.001           | Definitions                                                             |
| 19-11.002           | Beneficiary Designations and Distributions for FRS Investment Plan      |
| 19-11.003           | Distributions from FRS Investment Plan Accounts                         |
| 19-11.004           | Excessive Trading in the FRS Investment Plan                            |
| 19-11.005           | Florida Retirement System (FRS) State Board of Administration Complaint |
| Procedures          |                                                                         |
| 19-11.006           | Enrollment Procedures for New Hires                                     |
| 19-11.007           | Second Election Enrollment Procedures for the Florida Retirement System |
| Retirement Programs |                                                                         |
| 19-11.008           | Forfeitures                                                             |
| 19-11.009           | Reemployment with an FRS-Participating Employer after Retirement        |
| 19-11.011           | Employer and Employee Contributions and ABO or Present Value Transfer   |
| Procedures          |                                                                         |
| 19-11.012           | Rollovers or Plan to Plan Transfers to or from the FRS Investment Plan  |
| 19-11.013           | FRS Investment Plan Self-Directed Brokerage Account                     |

- Rule 19-11.001, F.A.C. is being amended to correct some typographical errors and to add definitions that are used for federal SECURE Act purposes as applied to after-death distributions of members' FRS Investment Plan accounts.

- Rule 19-11.002, F.A.C. is being amended to incorporate the latest version of the on-line beneficiary designation form; to specify when a beneficiary designation form is considered "incomplete;" and to indicate how distributions of account assets will be made to beneficiaries of members dying after January 1, 2022, the effective date of the federal SECURE Act for governmental retirement plans.

- Rule 19-11.003, F.A.C. is being amended to clarify when a member has terminated all employment for purposes of distributions of benefits; and to adopt the latest version of the Employment Termination form.

- Rule 19-11.004, F.A.C. is being amended to adopt the latest version of the transfer request form that must be filed by excessive fund trading violators.

- Rule 19-11.005, F.A.C., is being amended to clarify how a member can obtain a blank petition for hearing form.

- Rule 19-11.006 is being amended to adopt the latest versions of the applicable enrollment forms and to make some editorial revisions.

- Rule 19-11.007, F.A.C. is being amended to adopt the latest versions of the Second Election enrollment forms.

- Rule 19-11.008, F.A.C. is being amended to indicate that funds placed in a suspense account will be invested in the FRS Core Plus Bond Fund.
- Rule 19-11.009, F.A.C., is being amended to adopt the latest version of the Certification Form.
- Rule 19-11.011, F.A.C., is being amended to clarify that FRS participating employers are required to file monthly retirement reports instead of monthly payroll files with the Division of Retirement.
- Rule 19-11.012, F.A.C., is being amended to adopt the latest versions of the rollover forms.
- Rule 19-11.013, F.A.C. is being amended to eliminate the annual administrative fee for FRS members participating in the Self-Directed Brokerage Account.

The changes are not controversial and simply serve as updates to forms and general information; and to set forth the provisions of the Federal SECURE Act that will be effective for governmental plans on and after January 1, 2022. Before the enactment of the SECURE Act, beneficiaries of defined contribution plans (such as the FRS Investment Plan) fell into two broad categories: designated beneficiaries and non-designated beneficiaries (non-person entities such as estates and charities). The SECURE Act has now split designated beneficiaries into two subcategories: eligible designated beneficiaries (such as a member's spouse) and non-eligible designated beneficiaries. The distinction between the three categories of beneficiaries matters because only one group, non-eligible designated beneficiaries must comply with the new 10-year Required Minimum Distribution rule. For the other two categories of beneficiaries (non-designated beneficiaries and eligible designated beneficiaries) little has changed. The impact of the SECURE Act is that adult children and grandchildren of deceased Investment Plan members (who are non-eligible designated beneficiaries) now will have to receive the inherited Investment Plan account balance over a 10-year period, instead of over their lifetimes. Hence, they will experience a greater Federal income tax burden than if they could just take minimum distributions over their lifetimes.

C. Rule Chapter 19-13, F.A.C.:

Rule 19-13.002 Roles and Responsibilities of Division of Retirement within the Department of Management Services

Rule 19-13.004 Role and Responsibilities of Third Party Vendors

These rules are being amended to make editorial revisions for clarification; to update the services provided by the Division of Management Services and Third Party Vendors. Specifically, the changes will indicate that the Division of Retirement will handle the collection and processing of employee retirement contributions and data, instead of payroll contributions and data; will indicate third party vendors will re-balance retirement date funds and multi-manager funds; will indicate that third party vendors also will provide a read-only website so that Investment Plan members can access check advices and print copies of their IRS Forms 1099-R; and to state that third party vendors will provide data breach response services.



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## **MEMORANDUM**

**DATE:** November 29, 2021  
**TO:** Board of Trustees  
**FROM:** Ken Chambers, Inspector General  
**SUBJECT:** Quarterly Report on SBA Inspector General Activities

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The SBA Inspector General (IG) is responsible for serving as the organization's ethics officer; conducting internal investigations; overseeing Investment Protection Principles (IPPs) compliance; and handling special projects as directed by the Executive Director & CIO.

### Ethics and Training

- Mandatory ethics training and certification of compliance are required for all SBA employees on an annual basis. The on-line training covers gifts, conflicts of interest, financial disclosure, outside employment, lobbyist/principal restrictions, honorarium related events, etc. In addition to ethics training, mandatory training is required annually for all employees in the areas of harassment prevention, personal investment activity, insider trading, incident management framework, and use of information technology resources. Employees are also required to complete training courses for public records, confidential information and the Sunshine Law every other year (these were required in 2020). The deadline for completing the courses was June 30, 2021, and all SBA employees are in compliance. New employees are required to take all of the mandatory training courses (which also includes a fiduciary responsibility course) within 30 days of their start date. In addition to the annual mandatory training classes, employees are also required to complete quarterly on-line training courses concerning cyber security awareness.
- During the period from September 8, 2021 to November 29, 2021, no instances were reported to the Inspector General concerning non-compliance with the SBA gift policy.

### Investment Protection Principles Compliance

In September 2002, the Trustees of the SBA adopted IPPs for broker-dealers and investment managers in the wake of Wall Street scandals involving tainted equity research and conflicts of interest. The IPPs are geared toward promoting independence, transparency and regulatory compliance, and adherence to the highest standards of ethics and professionalism. On an annual basis, written certification is required from equity, fixed income and real estate investment managers, and broker-dealers. Additionally, annual certifications have been developed for the investment services related

consulting firms engaged by the SBA. These consulting firms are required to certify their compliance with certain independence and disclosure principles.

An analysis of the 2020 certifications indicated either full compliance with the IPPs, or explanations were provided supporting that the firms were in compliance with the spirit of the IPPs. In early January 2022, the certification process will begin for the 2021 reporting period, beginning with the investment consultants.

#### SBA Fraud Hotline

Since July 2006, the SBA has utilized an independent provider for its Fraud Hotline services. Through an 800 number, SBA employees, service providers, and others may anonymously report tips or information related to fraud, theft, or financial misconduct. The telephone number and information is prominently displayed on the SBA intranet home page. Online reporting is also available. Additionally, the hotline information is available on the SBA internet site as part of the SBA contact page. In late September, the SBA transitioned to a new hotline service provider, EthicsGlobal.

During the quarter, seven complaints were received by the Hotline. All of these complaints concerned an issue that was not applicable to the SBA.

cc: Lamar Taylor





**STATE BOARD OF ADMINISTRATION  
OF FLORIDA**

**1801 HERMITAGE BOULEVARD, SUITE 100  
TALLAHASSEE, FLORIDA 32308  
(850) 488-4406**

**POST OFFICE BOX 13300  
32317-3300**

**RON DESANTIS  
GOVERNOR  
CHAIR**

**JIMMY PATRONIS  
CHIEF FINANCIAL OFFICER**

**ASHLEY MOODY  
ATTORNEY GENERAL**

**LAMAR TAYLOR  
INTERIM-EXECUTIVE DIRECTOR &  
CHIEF INVESTMENT OFFICER**

**MEMORANDUM**

**DATE:** November 12, 2021

**TO:** Lamar Taylor, Interim Executive Director & CIO

**FROM:** Sooni Raymaker, Chief Risk & Compliance Officer *SR*

**SUBJECT:** Trustee and Audit Committee Report – November 2021

---

The following is a summary report of Risk Management and Compliance (RMC) activities and initiatives completed or in progress since the last dated report of August 2021 to the current period. All RMC activities, reviews, controls and processes are continuing to operate effectively and as expected during this reporting period.

The role of the RMC unit is to assist the Executive Director & CIO in maintaining an appropriate and effective risk management and compliance program to identify, monitor and mitigate key investment and operational risks. RMC plays a critical role in developing and enhancing the enterprise-wide system of internal controls. RMC proactively works with the Executive Director & CIO and designees to ensure issues are promptly and thoroughly addressed by management.

SBA senior management has created a culture of risk management and compliance through the governance structure, allocation of budgetary resources, policies and associated training and awareness. Management is committed to ethical practices and to serving the best interests of the SBA's clients.

**Compliance Exceptions**

No material compliance exceptions were reported during the period.

**Enterprise Risk Management (ERM)**

The Risk & Compliance Committee (RCC) held a hybrid quarterly meeting November 4, 2021. With recent changes in personnel due to retirements and transitions, discussion focused on the potential for increasing management execution and operational risk. In considering emerging risk and the effectiveness of ongoing risk mitigation efforts, the RCC reviewed key takeaways from the SBA Organizational Health Survey and prior risk assessments that highlighted organizational strengths, lessons learned and improvements made. The RCC reaffirmed its commitment to ensuring consistent cross-functional communication, effective process training, and excellence in executing the mission. The RCC also reviewed a Gartner presentation of emerging risk in Q3 of 2021. ERM presented an update on management plans and key risk indicators, particularly as they related to meeting discussion topics.

### **External Manager Operational Due Diligence (ODD)**

During the period, the ODD team reviewed and commented on seventeen consultant operational due diligence reports on investment managers as part of the investment approval process, which represents approximately \$1.9 billion in potential investments. The ODD team participated in the Global Equity Emerging Markets Small Cap manager search in August 2021 and also participated in the Global Equity US Small Cap manager search in October 2021.

The ODD team conducted a virtual quarterly collaboration meeting with all asset classes and provided an update on the ODD risk assessment and discussions were held regarding considerations follow-up, workflow changes, secondary sales policy and workflow, FX trades over \$10 million, trading authorization, future ODD reviews, and collaboration with Accounting and Asset Allocation regarding common manager issues. The team also presented to the RCC on November 4<sup>th</sup>, highlighting results from the collaboration meetings. The ODD team discussed that the SBA ODD Team would be conducting several virtual ODD review meetings in the spring of 2022. Mercer will be retained to conduct some ODD reviews as well in 2022. Forty-two new consultant ODD reports were added to the Manager Operational Risk Oversight page for use by the asset classes since the last meeting. The team will be conducting a preliminary review of a Fixed Income manager in November 2021.

### **Public Market Compliance (PMC)**

On June 3, 2021, President Biden expanded the scope of the national emergency declared in Executive Order 13959. While the expansion falls under E.O. 14032, OFAC refers to it as “E.O. 13959, as amended”. Noteworthy changes are as follows: (1) Effective June 3, 2021, the Non-SDN Chinese Military-Industrial Complex Companies List (CMIC) replaced and superseded in its entirety the Non-SDN Communist Chinese Military Companies List (CCMC). (2) The CMIC List prohibitions are effective August 2, 2021. Securities held prior to August 2 have a required divestment date of June 3, 2022. (3) Only entities whose names exactly match the names of the entities on the CMIC List are subject to the prohibition in E.O. 13959, as amended. As a result of these changes, PMC updated all related compliance rules to run against the new prohibited list (CMIC) beginning August 2, 2021. In addition, PMC continued to use the conservative rules that monitored for any security that has China as a country of incorporation, country of domicile or country of risk for an additional quarter. No issues were discovered, therefore, effective November 1, 2021 the conservative rules were deactivated. PMC will continue to monitor for the June 2, 2022 divestment requirement of any currently held prohibited holding.

### **Performance Reporting & Analytics (PRA)**

The PRA database management team welcomed Vani Kumar as a new Senior Investment Performance Analyst. The team continues working with an Eagle consultant on the new DataMart Schema developed to increase efficiency and speed of the system as well as automate data entry points to reduce human error.

PRA is working to get additional reports automated for reconciliation purposes. The automation will reduce analyst time on a monthly basis to reconcile Private Market Asset Classes with BNYM.

The PRA team continues to work with SBA Center of Excellence to implement a robotic process automation of daily reconciliation files as well as other areas within PRA. Daily Performance Reports have already been automated and the process seems to be working well. The automation of refreshing

over 20 files frees analysts' time for higher level analytics required for daily performance reports and reconciliation.

### **Policy Activity and Regulatory Monitoring**

Since the last report, revisions were implemented to five internal policies. The majority of these changes were related to the temporary delegation of certain duties for the Chief Operating/Financial Officer, which resulted from the transition to Interim Executive Director & CIO. Several permanent changes were also made to the roles and responsibilities of the Deputy Executive Director and Deputy Chief Investment Officer.

Revisions were made to three investment guidelines for the Florida Hurricane Catastrophe Fund and the SBA Finance Corporation, to update signatories and remove references to expired benchmarks and discontinued processes.

In October, RMC completed the Securities and Exchange Commission Form 13H-Q Large Trader filing for the 3<sup>rd</sup> Quarter 2021, as well as Form 40, Statement of Reporting Trader for reportable futures positions, which is filed at the request of the Commodity Futures Trading Commission.

The SBA Regulatory and Collateral Management Working Group (RWG) continued to review developments regarding the transition of the financial markets away from LIBOR and other IBOR reference rates. The SBA Office of the General Counsel (OGC) completed a review of SBA contracts for IBOR references and is in the process of amending terms as necessary. Exposures to LIBOR-based securities, which will be addressed through the ISDA 2020 IBOR Fallbacks Protocol, continued to be routinely monitored. The RWG also continued to follow the phased-in implementation of regulatory margin requirements for non-centrally cleared derivatives, discussing how the evaluation of Phase 5 impacts could potentially improve process efficiencies for smaller firms, which will come into scope with the commencement of Phase 6 in September 2022. In other developments, the 2021 ISDA Interest Rate Derivatives Definitions, which are a recent update to the 2006 Definitions and provide the basic framework for the documentation of privately negotiated interest rate and currency derivative transactions, are also under review by the OGC for impacts to the SBA.

### **Personal Investment Activity (PIA)**

During the period, there were 102 requests for pre-clearance by SBA employees, with no request requiring additional analysis due to the \$20,000k/5% ownership threshold reporting requirement. All requests were approved. There were two new employees with accounts to report during the period. There was one minor violation which was reviewed by the CRCO, Inspector General, SOO-Human Resources, and the ED & CIO.

Implementation of StarCompliance, the automated personal investment activity system, continues. The team completed user acceptance testing and worked on developing training and user guides in anticipation of system Go Live which is currently scheduled for December 1, 2021. There were two training sessions held in November 2021. The PIA policy has also been reviewed and revised to incorporate the system and other policy updates and the anticipated effective date will be December 1, 2021, in conjunction with system Go Live.

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# State Board of Administration

## **Strategic Investments Asset Class Review**

Trent Webster

*Senior Investment Officer – Strategic Investments*

Investment Advisory Council Meeting

December 14, 2021

# Policy Objectives

- Generate a 4% real return over the long-term
- Dampen the volatility and improve the risk-adjusted return of the FRS
- Outperform the FRS during periods of significant market declines
- Increase portfolio flexibility by investing in new strategies and opportunistically across current strategies

## Other Roles

- Repository for strategies that may not be a good fit in other asset classes
- Home for cross-asset class strategies
- Act as an incubator for potential new asset classes

# Portfolio

- Net asset value of \$18.5 billion
- Net asset value plus unfunded commitments of \$25.4 billion
- 112 relationships managing 188 funds
- Private market strategies 62% of NAV, liquid strategies 38% of NAV
- Currently 9.3% of Total Fund, target 12%



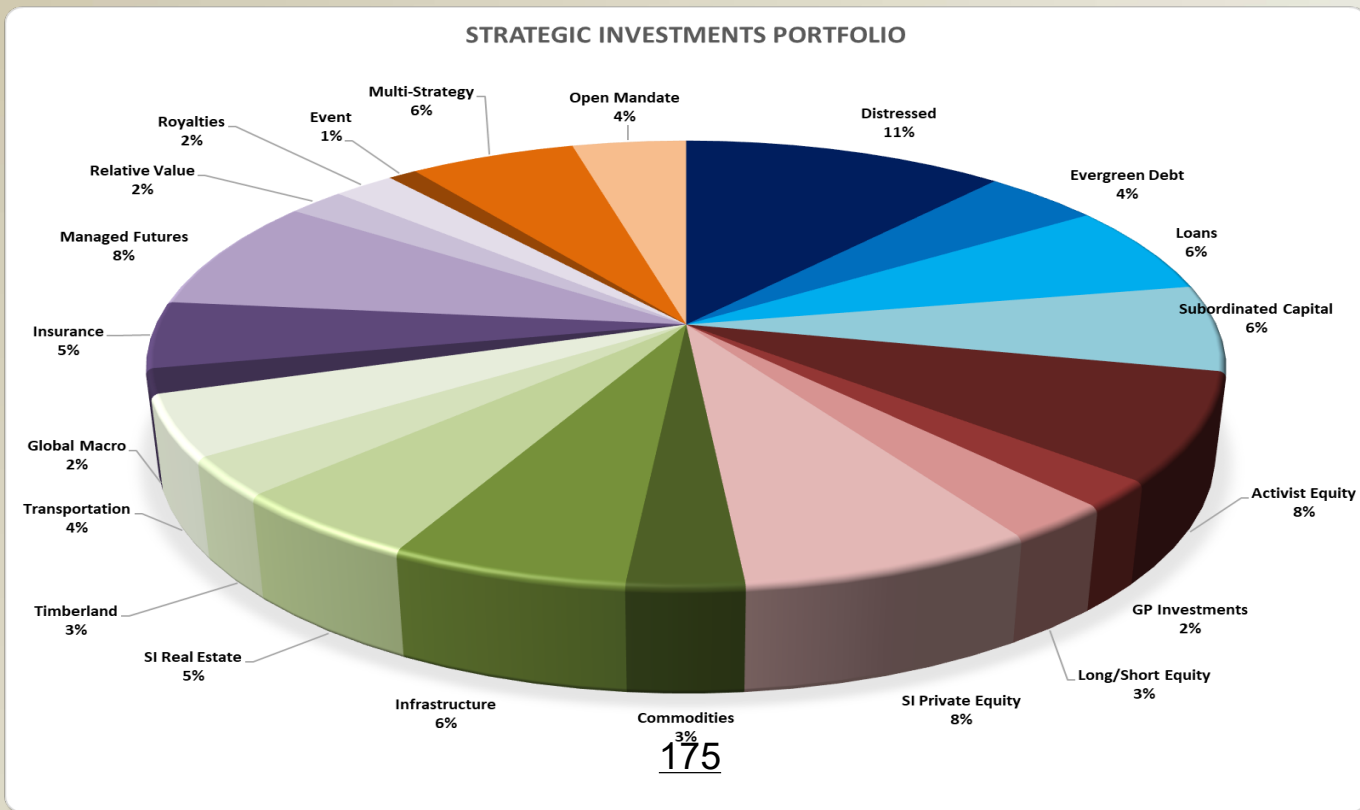
## Recent Activity

- Quarterly cash outflow was \$460 million
- Cash outflow for the calendar year has been \$1.1 billion
- Eleven funds totaling \$1.85 billion were closed this calendar year
- No funds were closed in the most recent quarter
- Two funds totaling \$350 million have been closed this quarter
- Eight funds totaling \$1.375 billion in the Pipeline

# Pipeline

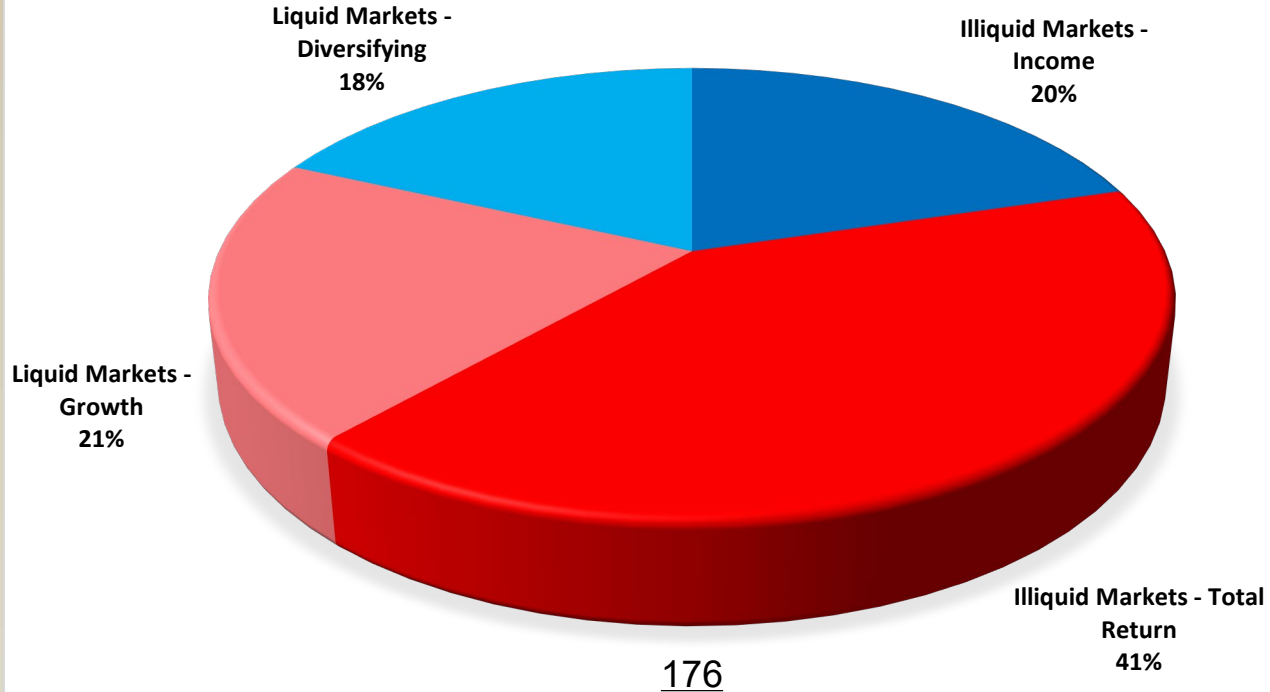
- Four Debt funds – Three Loan, one Subordinated Capital
- Three Real Asset funds – One each in Infrastructure, Real Estate and Transportation
- One Flexible Mandates fund – One Open Mandate
- Three new relationship
- Eight private markets strategies
- No hedge funds

# Portfolio

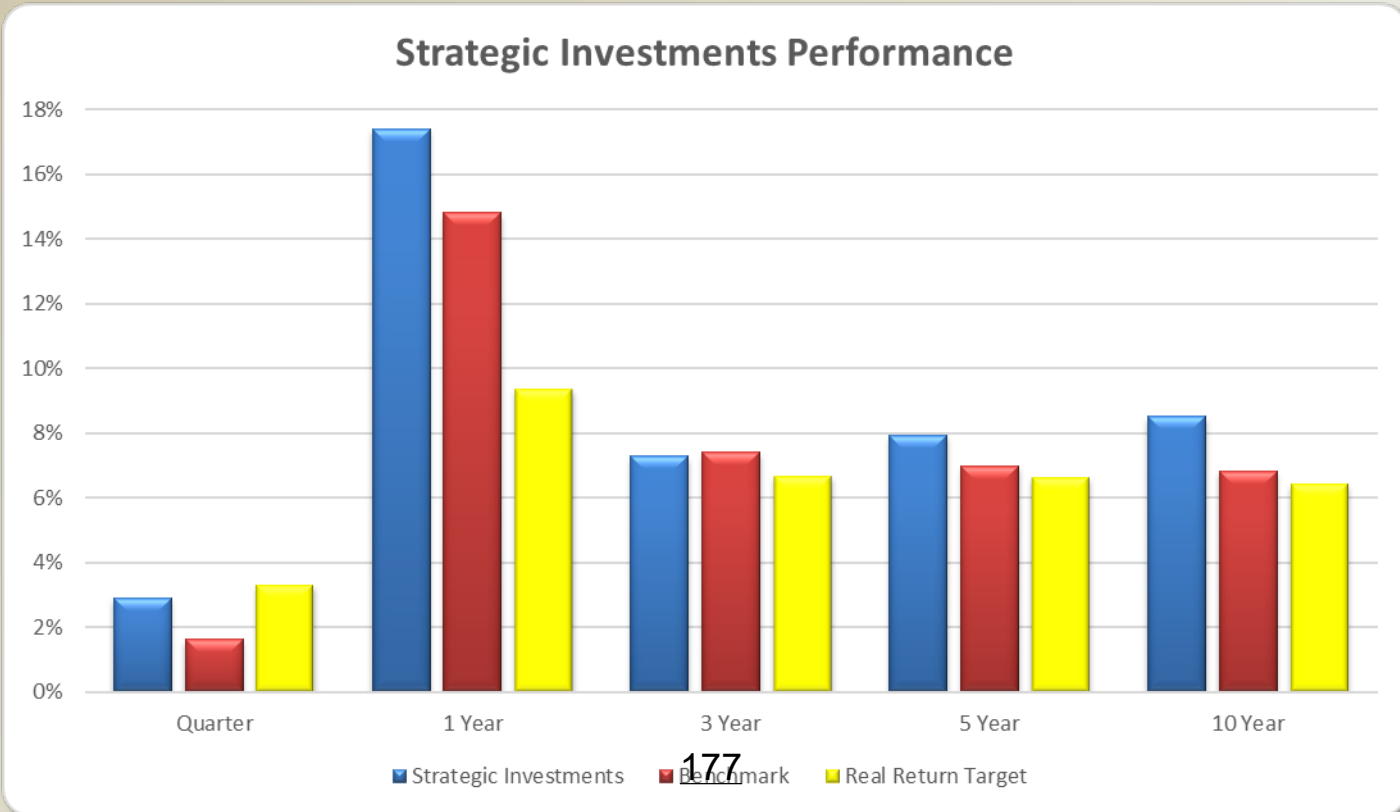


# Portfolio

## STRATEGIC INVESTMENTS PORTFOLIO



# Performance Versus Benchmarks

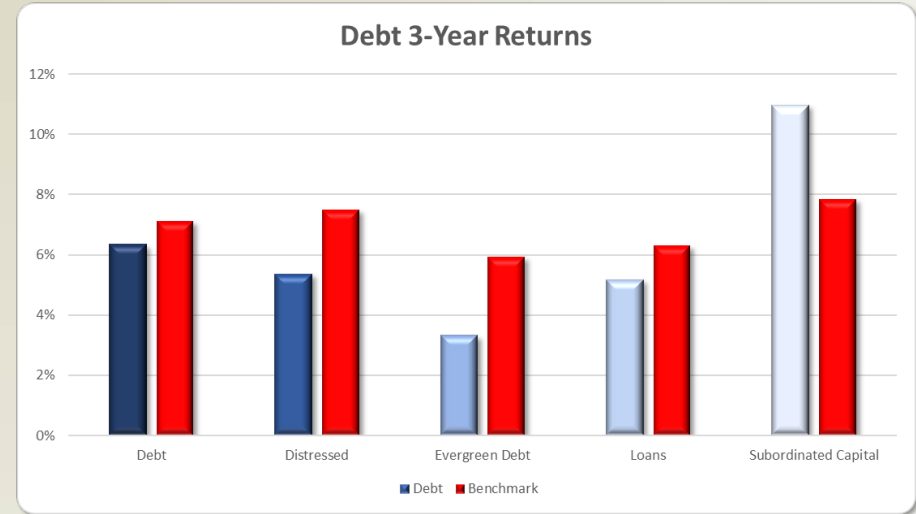


# Debt

- 28% of Strategic Investments NAV
- 44 relationships, 80 funds
- Closed on five funds at \$950 million this calendar year
- Sub-strategies
  - Distressed
  - Evergreen Debt
  - Loans
  - Subordinated Capital

# Debt

- Performance v benchmark
  - 1 Year – 20.7% v 9.9%
  - 3 Year – 6.4% v 7.1%
  - 5 Year – 7.5% v 7.1%
- Distressed recovering from big underperformance during pandemic
- Too much beta in Evergreen Debt funds
- Leverage hurt Loans during pandemic
- Technology overweight in Subordinated Capital drove outperformance



# Debt

- Private credit market back to pre-pandemic levels
- *A lot* of debt in the system
- Reaction function of the Federal Open Market Committee will drive credit markets
- Stressed/distressed market quiet
  - “Distressed” funds have morphed into “Credit Opportunities” funds
  - Will likely trim number of relationships if markets remain benign
- Fund selection episodic and niche-focused
- Looking for diversifying credit hedge funds that are not just long beta

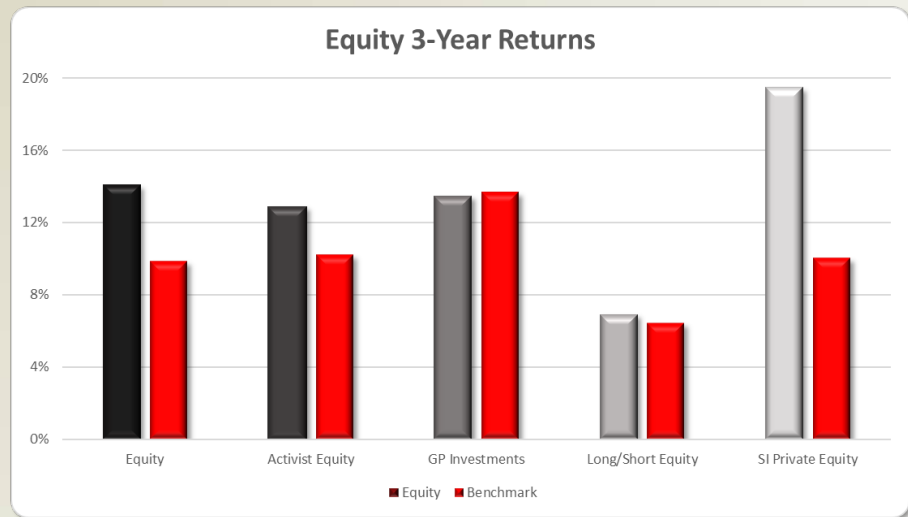


# Equity

- 20% of Strategic Investments NAV
- 16 relationships, 22 funds
- Closed on one fund at \$150 million this calendar year
- Sub-strategies
  - Activist Equity
  - GP Investments
  - Long Equity
  - Long/Short Equity
  - SI Private Equity

# Equity

- Performance v benchmark
  - 1 Year – 35.6% v 27.7%
  - 3 Year – 14.1% v 9.9%
  - 5 Year – 13.7% v 10.2%
- Activists lagged off Q1/20 bottom but are performing well
- GP Investments also hit hard but recovered since
- Long/Short Equity portfolio outperforming peers
- Private Equity on fire
- No Long Only funds to date



# Equity

- Equity markets expensive by historical standards, but ...
  - Interest rates low
  - Profitability high
  - Value stocks not expensive
- Activist funds in Japan present long runway of opportunity
- Lack of growth in local economies present tailwinds for European activists
- Very high bar for Long/Short Equity funds
- GP Investments expensive

# Real Assets

- 22% of Strategic Investments NAV
- 29 relationships, 49 funds
- Closed on three funds at \$450 million this calendar year
- Sub-strategies
  - Commodities
  - Infrastructure
  - SI Real Estate
  - Timberland
  - Transportation

# Real Assets

- Performance
  - 1 Year – 9.4% v 12.8%
  - 3 Year – 5.5% v 7.6%
  - 5 Year – 7.8% v 7.0%
- Commodities lagged but expect better performance going forward
- Expect infrastructure to catch-up
- Real Estate debt performance expected to improve
- Timberland returns below target but may be strong going forward
- Transportation surprisingly held up fairly well



# Real Assets

- Bullish on commodities
  - On oil and gas over the intermediate term
  - On metals over the longer term
- Focused on niche opportunities in Infrastructure
- Real estate debt markets have lagged but are improving
- Timberland may benefit from ESG
- Tailwinds in Transportation
  - Aircraft hit hard but travel improving
  - Shipping soaring after decade-long bear market

# Diversifying Strategies

- 19% of Strategic Investments NAV
- 16 relationships, 19 funds
- Closed on one fund at \$200 million this calendar year
- Sub-strategies
  - Global Macro
  - Insurance
  - Managed Futures
  - Relative Value
  - Royalties

# Diversifying Strategies

- Performance v benchmark
  - 1 Year – 6.3% v 11.2%
  - 3 Year – 2.8% v 5.6%
  - 5 Year – 2.2% v 4.0%
- Restructuring Global Macro
- Insurance only negative sub-strategy
- Managed Futures in-line
- Relative Value performance has turned positive
- Royalties lagging





# Diversifying Strategies

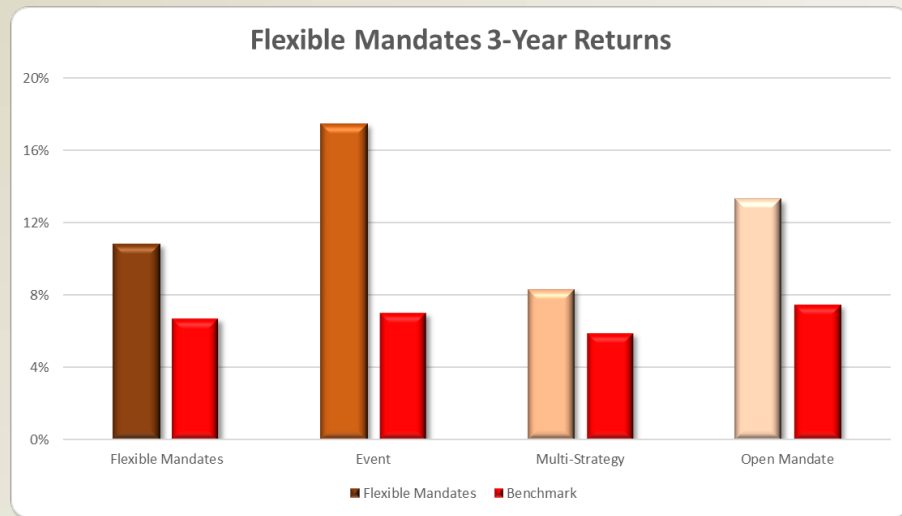
- Unsure if Developed Markets Global Macro offers excess returns
  - Central bank actions
  - Technology
- Insurance markets continue hardening as 2021 has been one of the biggest loss years on record
- Longer-term trend-following dead?
- Searching for attractive relative value managers
- Disruption in media has affected media royalties funds

# Flexible Mandates

- 11% of Strategic Investments NAV
- 9 relationships, 11 funds
- Closed on one fund at \$100 million this calendar year
- Sub-strategies
  - Event
  - Multi-Strategy
  - Open Mandate

# Flexible Mandates

- Performance v benchmark
  - 1 Year – 28.5% v 10.0%
  - 3 Year – 13.3% v 7.5%
  - 5 Year – 11.9% v 7.4%
- Good performance from Event funds
- Multi-Strategy outperforming
- Open Mandate funds aggressive during pandemic



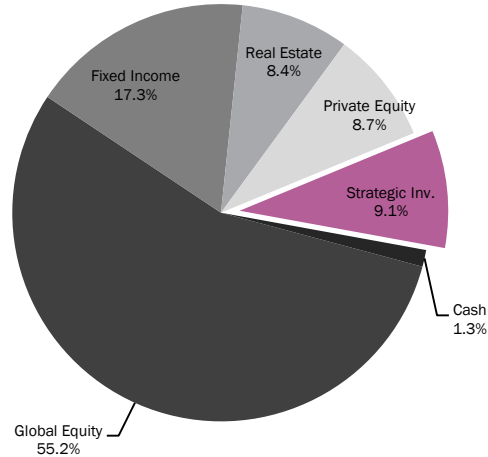
# Flexible Mandates

- Event funds correlation to risk markets have generally been high
- Multi-Strategy funds have been additive to the portfolio on a risk-adjusted basis
- Open Mandate funds interesting episodically

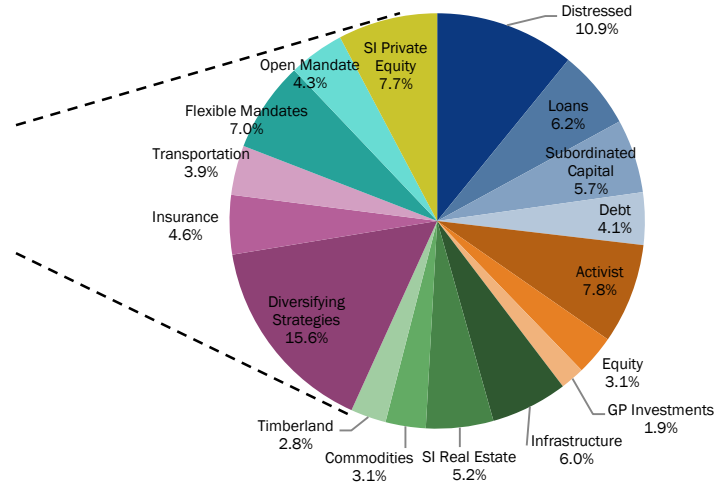
## Overview of FSBA's Strategic Investments

As of June 30, 2021 • USD

### FLORIDA STATE BOARD OF ADMINISTRATION ALLOCATION \$199.6 BILLION



### Strategic Investments Allocation \$18.2 billion



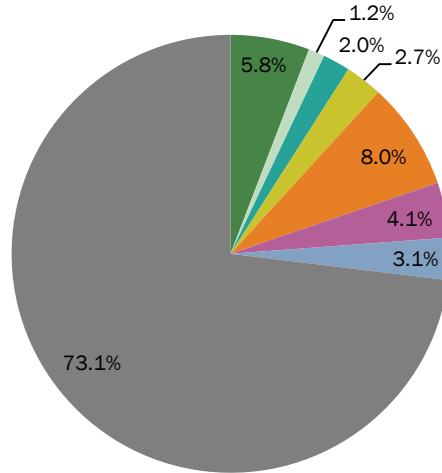
| Color      | Asset Class             | % Of NAV |
|------------|-------------------------|----------|
| Blue       | Debt Strategies         | 26.9%    |
| Orange     | Equity Strategies       | 12.8%    |
| Green      | Real Assets             | 17.1%    |
| Purple     | Diversifying Strategies | 24.1%    |
| Light Blue | Flexible Mandates       | 11.4%    |
| Yellow     | Special Situations      | 7.7%     |

# HEDGE FUNDS



## Hedge Fund Allocation

**Hedge Fund Allocation**  
\$5.0 Billion, 2.5% of FRS Pension Plan



- Multi-Strategy      ■ Event Driven      ■ Relative Value
- Global Macro      ■ Managed Futures      ■ Evergreen Debt
- Long/Short Equity      ■ Other Strategies

### Multi-Strategy/Event Driven

- Flexible mandate across various equity, credit, and arbitrage strategies—mostly in a well-hedged portfolio
- Event Driven typically determined by company specific events rather than broad market movements
- Aim is for positive returns regardless of market environment

### Evergreen Debt

- Long and short credit investments, typically with focus on total return rather than income
- Opportunistic investments in distressed as spreads widen and defaults increase

### Relative Value

- Invests in financial instruments that are the same or similar to take advantage of price discrepancies—across both sovereign and corporate investments
- Tendency to be tightly risk managed to limit downside
- Performance tends to be higher in periods of higher interest rate volatility
- Judicious use of leverage inherent in the strategy

### Global Macro

- Investing with a focus on large-scale events and market trends—typically across rates, currencies, commodities and equities
- Flexible strategy. Utilizes long and short positions. Often includes a portfolio allocation to relative value strategies
- Tend to have stringent risk management and focused on capital preservation in down markets
- Judicious use of leverage inherent in the strategy

### Managed Futures

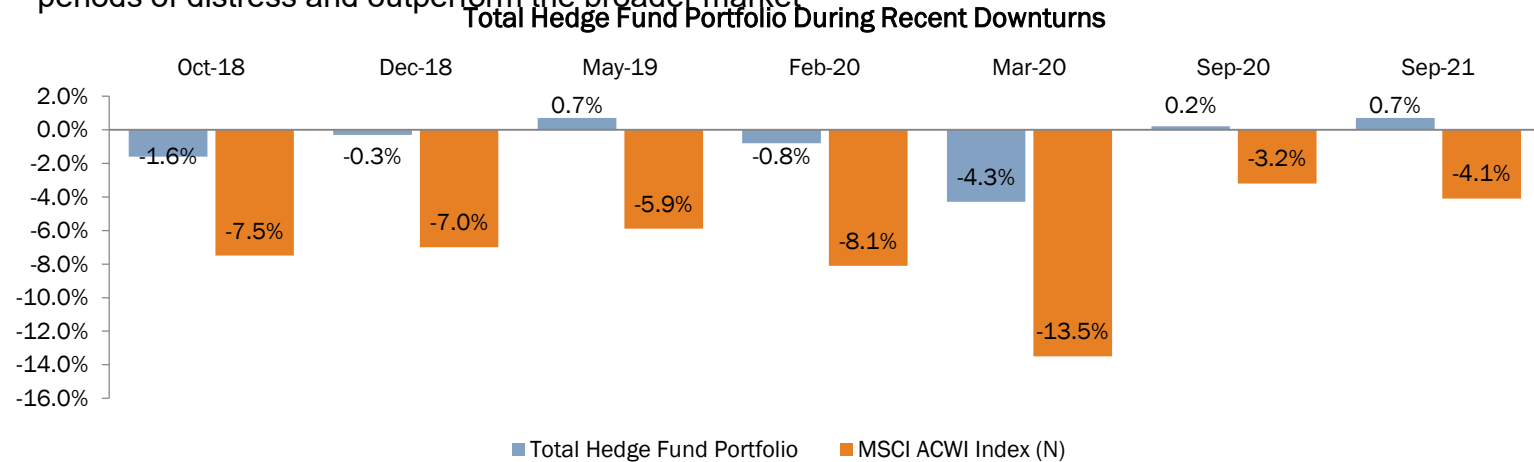
- Managers build a diversified portfolio of futures contracts where they take both long and short positions
- Some CTAs may manage their portfolio by employing proprietary trading systems, utilizing systematic, computer-driven mechanical strategies, and or other discretionary methods.
- CTAs will trade highly liquid, regulated, exchange-traded instruments and foreign exchange markets.

### Long/Short Equity

- Bottom-up investing strategy taking long and short positions in individual equities
- Manages portfolios with net equity exposure that is a fraction of the market (by balancing longs against shorts) with an aim to create a positive long/short spread
- Returns are driven by idiosyncratic positions yet tends to have some equity market dependency

## Hedge Fund Program: Prioritizing Diversification

- Efforts in recent years to prioritize diversification have resulted in a portfolio that has little equity market dependency.
- On a rolling 24-month basis, the SBA hedge fund allocation has a 0.2 beta to the MSCI ACWI, signaling an idiosyncratic return profile rather than one that is dependent on the performance of equities
- As a result of this low equity risk profile, the hedge fund allocation has been able to successfully navigate periods of distress and outperform the broader market

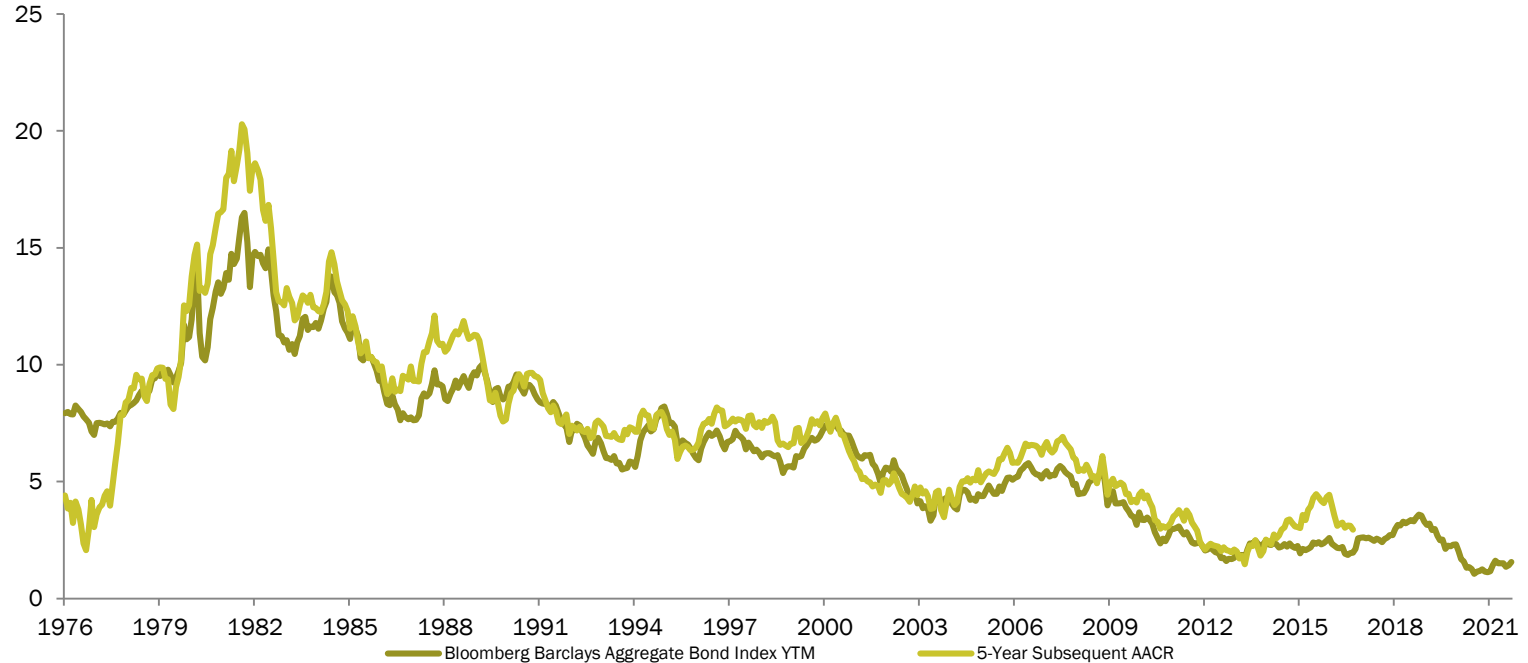




## Over time, bonds return their yields

### US AGGREGATE BOND INDEX

January 1, 1976 - September 30, 2021 • Percent (%)



Sources: Bloomberg Index Services Limited, and Thomson Reuters Datastream.

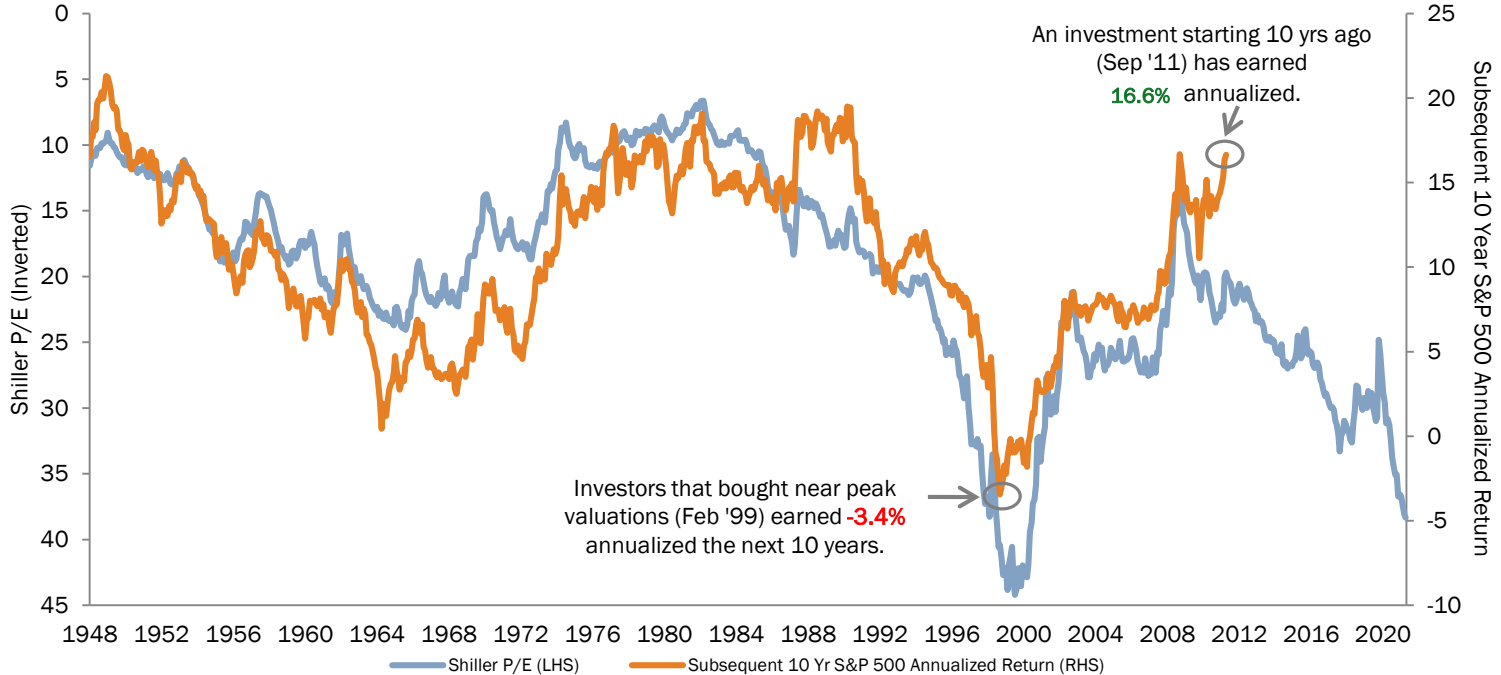
Notes: Data are monthly. The last full five-year period was October 1, 2016 to September 30, 2021. The September 30, 2021 yield-to-maturity of 1.56% on the Bloomberg Barclays Aggregate Bond Index implies low nominal returns at best.

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## Starting valuations have an enormous impact on prospective returns

### SHILLER (CYCLICALLY ADJUSTED 10-YR) P/E VS. SUBSEQUENT S&P 10-YR NOMINAL RETURNS

June 30, 1948 - September 30, 2021



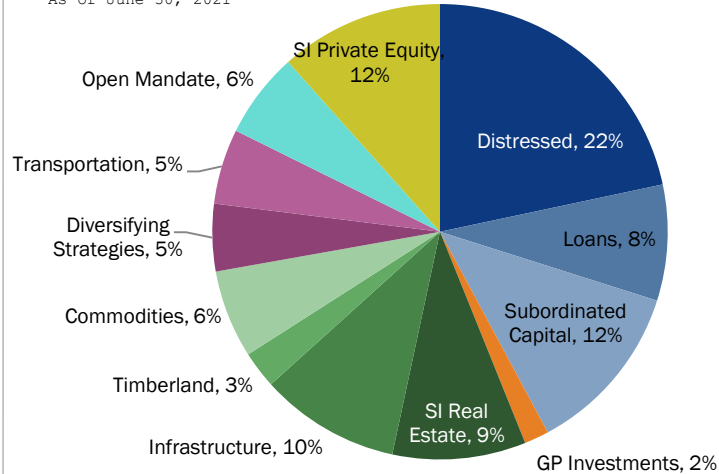
# PRIVATE CREDIT MARKET ENVIRONMENT



## Private Strategic Investments Overview

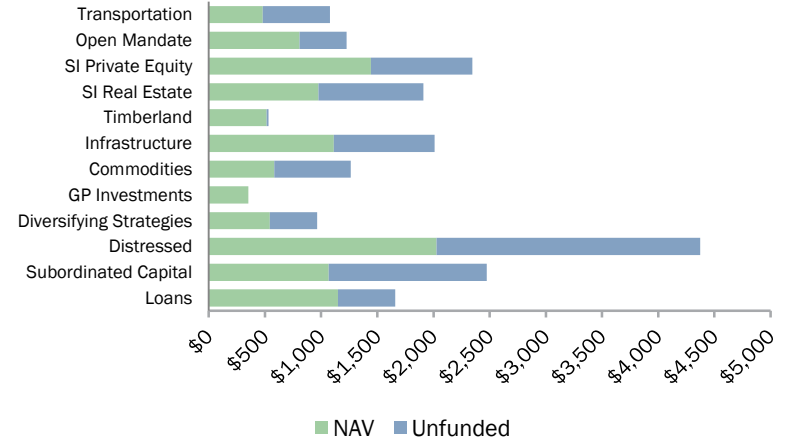
### TOTAL EXPOSURE (NAV + UNFUNDED)

As of June 30, 2021



### ASSET CLASS EXPOSURE (\$ MILLIONS)

As of June 30, 2021

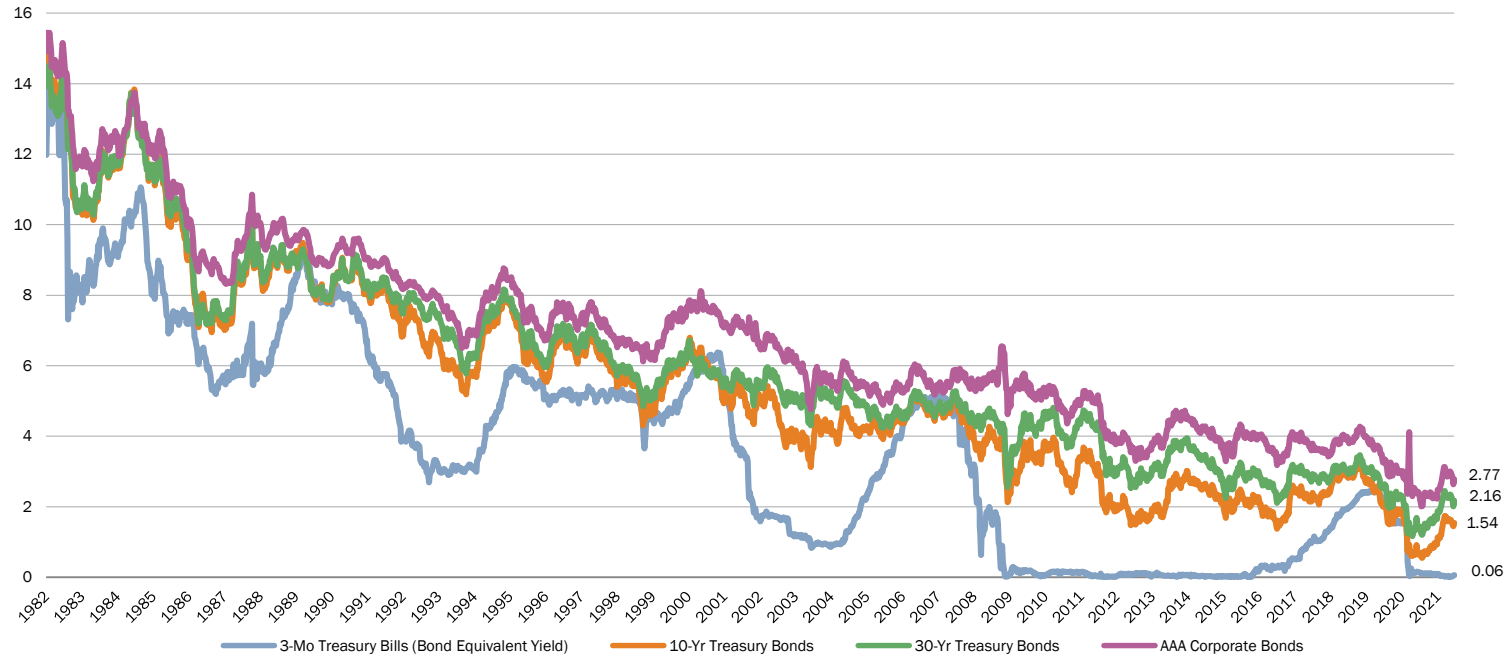


- As of June 30, 2021, total exposure of the FSBA's private strategic investments program was \$20.2 billion (10.1% of FRS Pension Plan), with \$9.1 billion (4.6% of FRS Pension Plan) of unrealized value (NAV).
- The program is diversified across strategies and geographies and is well positioned to take advantage of current trends in the credit markets.
- The overall program is performing well, generating a net IRR of 10.1% and net TVPI of 1.4x since inception.

## After the Spread-Widening Events of 2020, US Fixed Income Yields Have Continued Their March Lower

### US FIXED INCOME YIELDS

January 8, 1982 - June 30, 2021 • Percent (%)

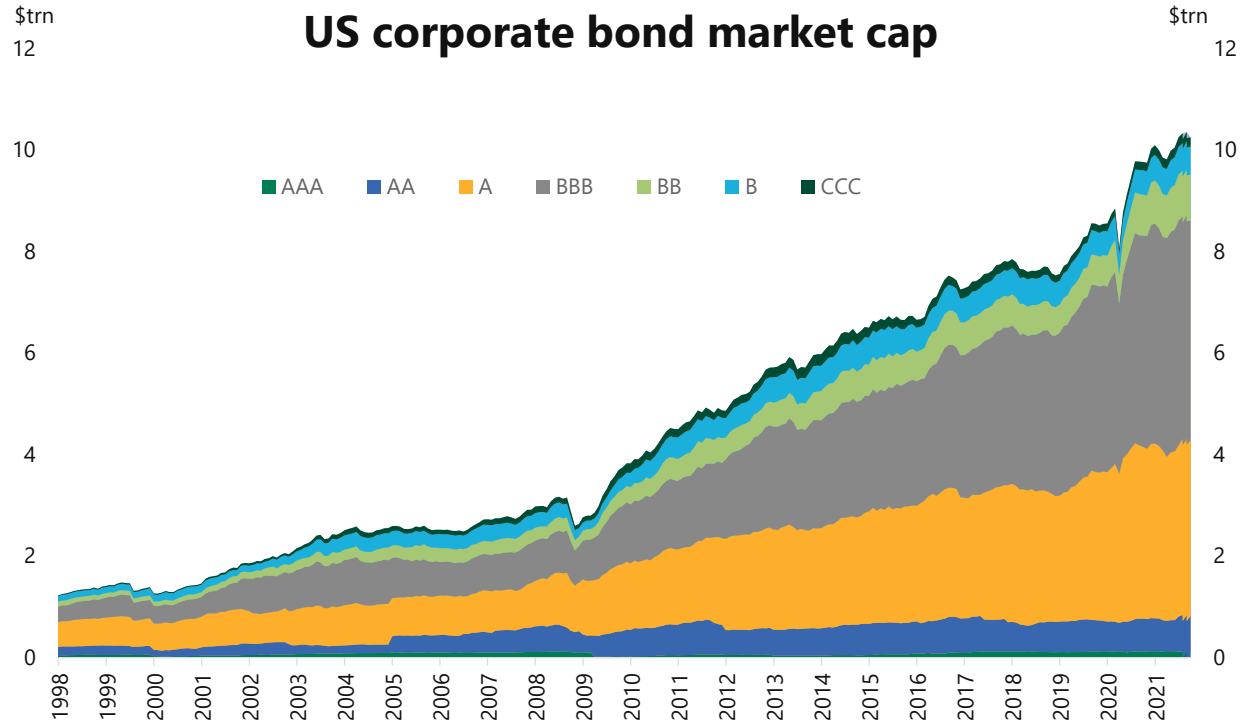


Sources: Federal Reserve, Moody's Investor Service, and Thomson Reuters Datastream.

Notes: The Federal Reserve ceased publication of the 30-year constant maturity series on February 18, 2002, and reintroduced it on February 9, 2006. During that period, the 30-year Treasury yield is an extrapolation of the Long-Term Average Rate series. Data are based on weekly yields and through week end on June 25, 2021.

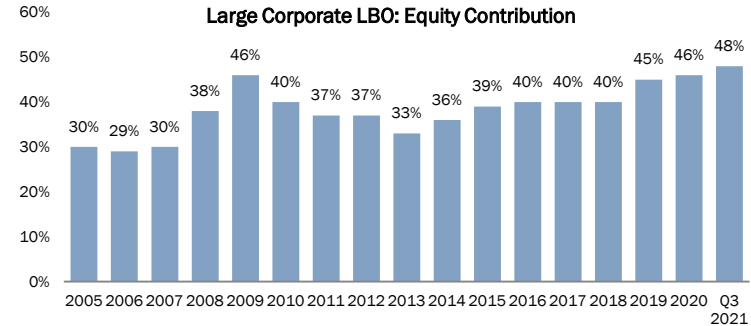
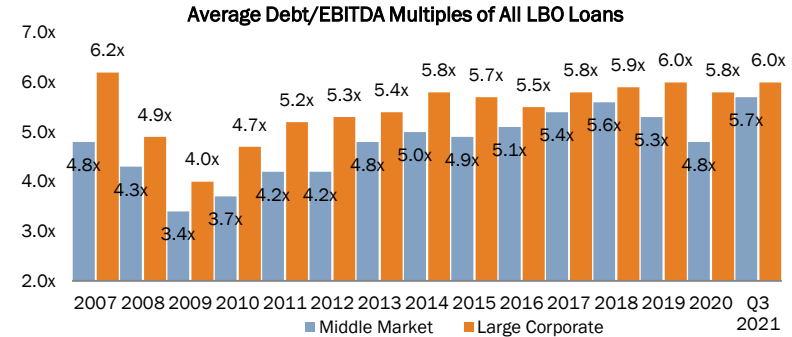
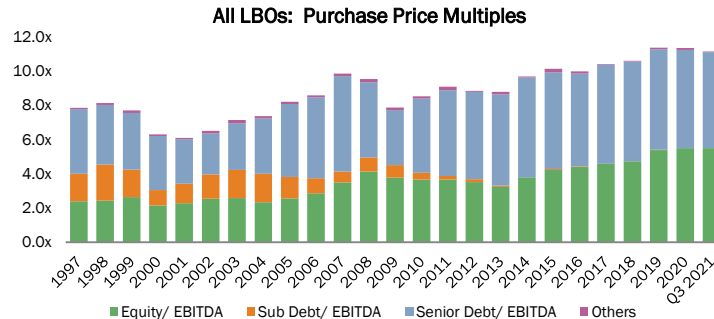
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Market Cap of US Credit Markets is now above \$10 Trillion, up from \$4 Trillion in 2010



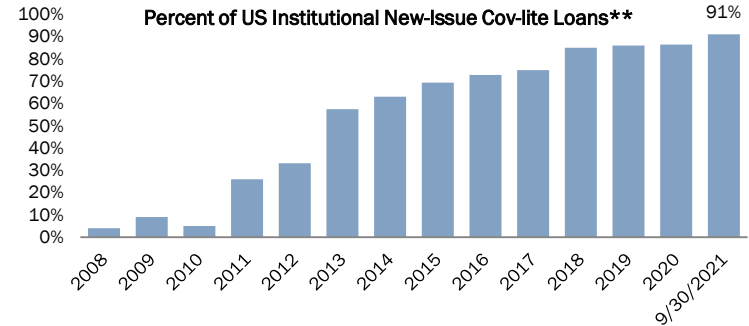
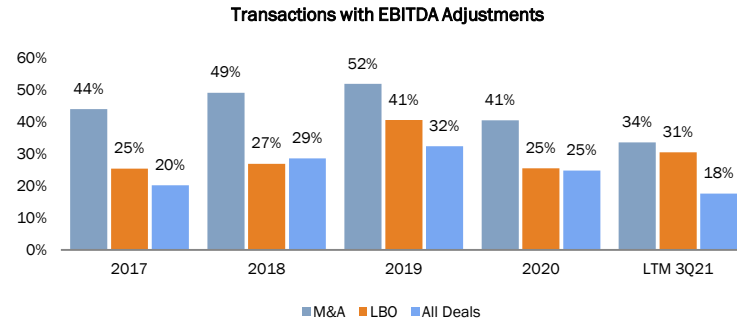
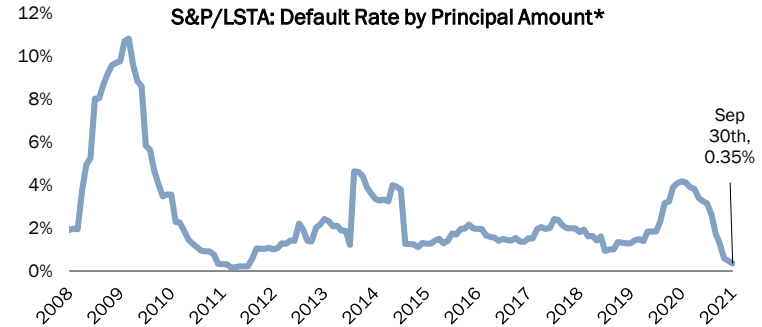
## Sponsor Backed Transactions – Back to Pre-Pandemic Highs

- LBO purchase prices remain elevated as sponsors continue to transact competitively through the pandemic
- All-in spreads of LBO loans tightening by 176 bps since YE 2020 to 3.58%, lowest since 2007
- Use of subordinated debt decreasing in LBOs; replaced by unitranche
- Sponsor equity contributions better than pre-GFC, marginally improved through the pandemic



## Default Rate Near Record Lows; EBITDA Adjustments Trending Lower, Cov-Lite Continuing to Increase

- Default rates down from 4% in November 2020 to 0.35% in Sept 2021.
- EBITDA adjustments reduced significantly since pre-COVID era, from 32% of all deals in 2019 to 18% in LTM 3Q 2021
- Prevalence of Cov-Lite unimpeded by COVID

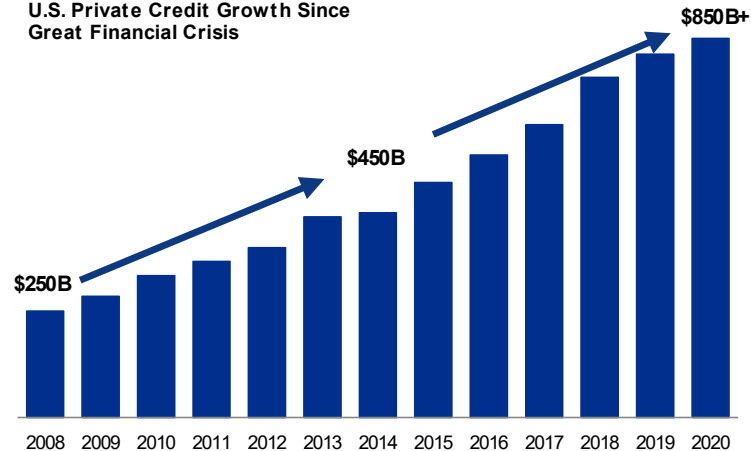




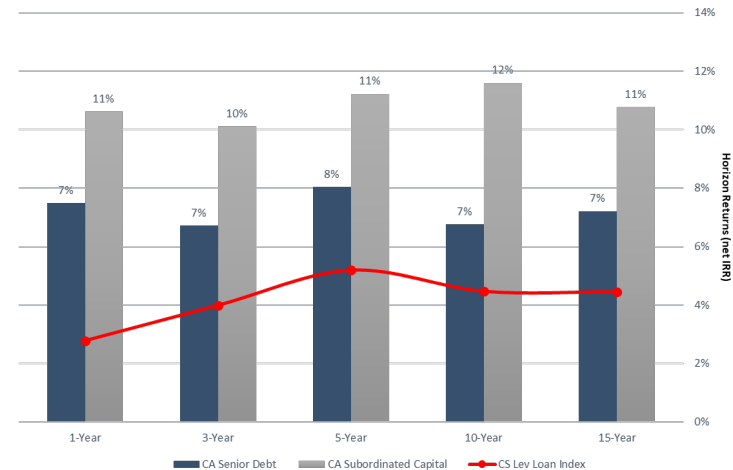
## U.S. Corporate Credit Growth and Yield Trends Continuing to Add Fuel to Private Credit Growth Trends

- U.S. private credit markets approaching \$1 trillion in 2021;
- Historical outperformance and structural advantages likely to lead to continued substantial growth.

U.S. Private Credit Growth Since Great Financial Crisis



HISTORICAL PERFORMANCE – CAPITAL PRESERVATION STRATEGIES COMPARED TO LEVERAGED LOAN INDEX



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# The State Board of Administration of Florida (“SBAF”)

December 2021

## Strategic Investments: Real Estate Structured Debt and Timber Report



## Table of Contents

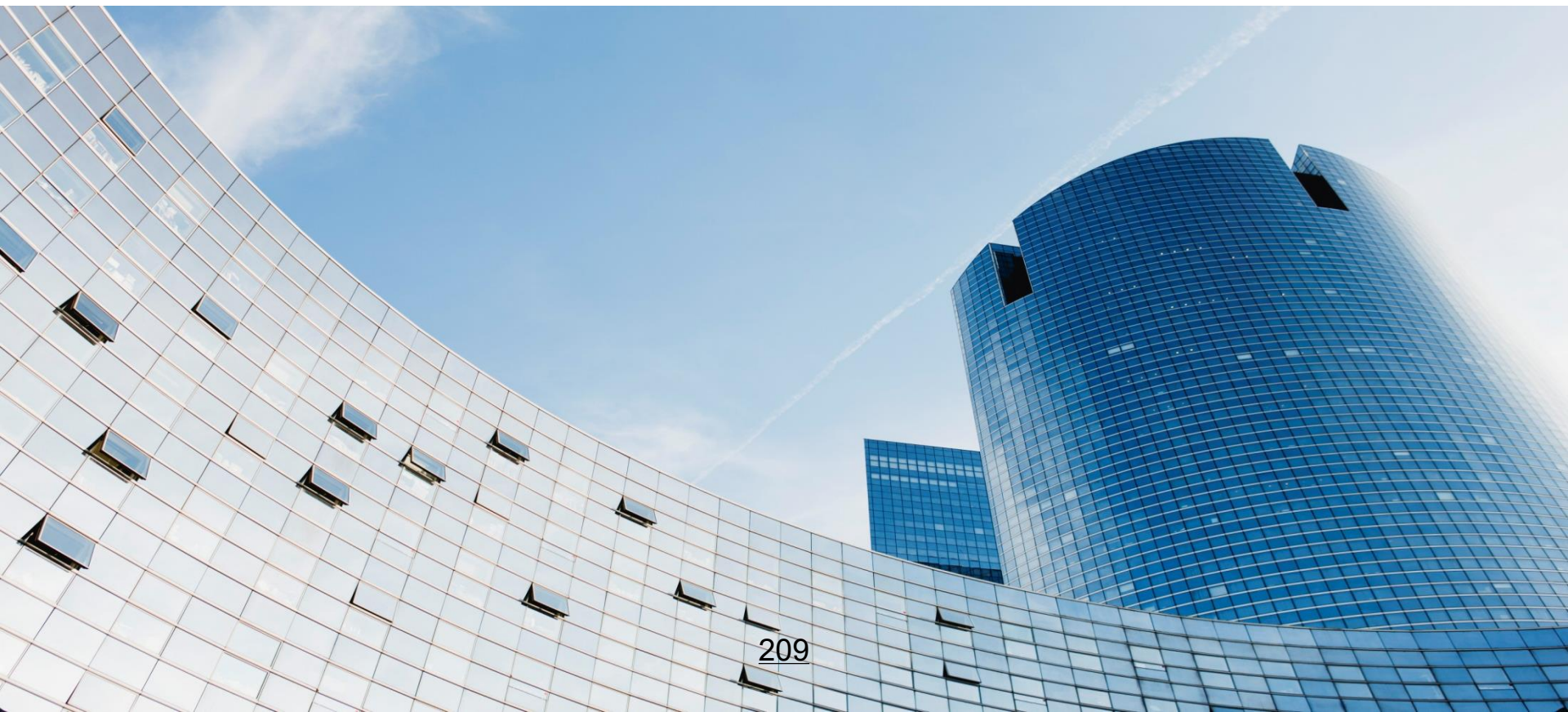
STRATEGIC INVESTMENTS – REAL ESTATE STRUCTURED DEBT AND TIMBER PORTFOLIO

MARKET UPDATE – REAL ESTATE AND TIMBER

APPENDIX

- DEFINITIONS AND DISCLOSURES

## Strategic Investments – Real Estate Structured Debt and Timber Performance



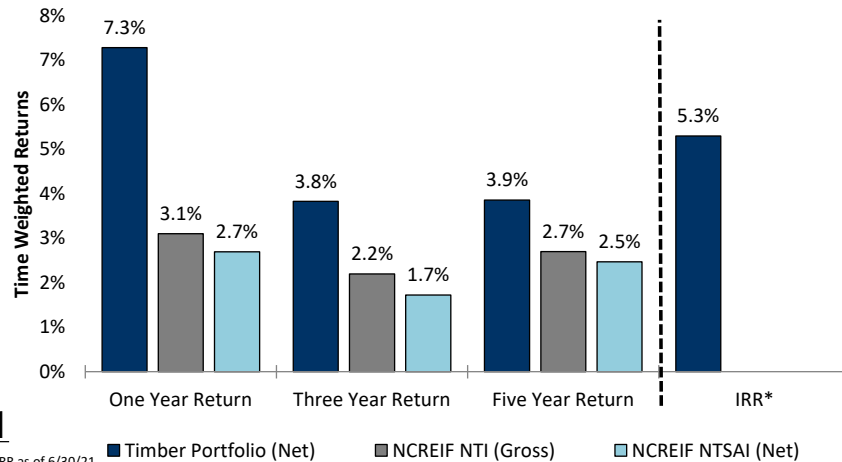
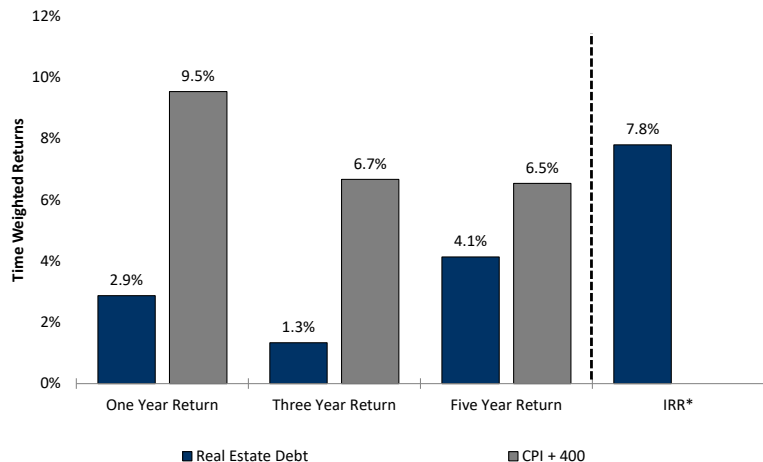


# SBAF Strategic Portfolio and Townsend Relationship

|                                 | TIMELINE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2007-2010                       | <ul style="list-style-type: none"> <li>SBAF established a dedicated Real Estate Structured Debt allocation within the Strategic Investments Portfolio</li> <li>Initial investment made in 2007 with four commingled fund commitments made over the next three years primarily targeting higher risk/return strategies</li> <li>In 2010, a Real Estate Structured Debt separate account was established to balance the portfolio's risk/return metrics</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| LAST 14+ YEARS                  | <ul style="list-style-type: none"> <li>Increased allocation and portfolio size with a peak market value of approximately \$1.7 billion in 2016</li> <li>Created a stabilized and mature portfolio across core and non-core investments</li> <li>In 2012, established two Timber separate accounts totaling \$500 million of combined commitments with a US only strategy and US/ex-US strategy. Nearly fully invested with a small amount of unfunded capital targeting ex-US investments.</li> <li>On approximately \$3.9 billion of committed capital, the portfolio has returned approximately \$2.8 billion of capital to SBAF, has an NAV of \$1.4 billion and \$806 million of unfunded commitments. The portfolio has generated a combined since inception net IRR of 7.1%, exceeding CPI +400 bps objective (as of 6/30/21).</li> <li>The Real Estate Structured Debt portfolio has generated a since inception net IRR of 7.8% (as of 6/30/21)</li> <li>The Timber portfolio has generated a since inception net IRR of 5.3% (as of 6/30/21)</li> </ul> |
| RECENT EVENTS / FORWARD LOOKING | <ul style="list-style-type: none"> <li>Real Estate Structured Debt and Timber investments represent approximately \$1.4 billion of market value, or 7.6% of the Strategic Investments Portfolio, or 0.7% of total plan assets (as of 6/30/21)</li> <li>Between 2016-2019, no new investments were made in the portfolio, creating a lack of vintage year diversification and declining market value given closed end investment structures. However, since 2019, the portfolio made four fund commitments (three follow-on and one new investment) as well as an additional allocation to a separate account.</li> <li>Four investments are fully realized with three additional realizations anticipated over the next 12 months</li> <li>Continue active oversight of investments and asset management</li> <li>Enhance portfolio through unique investment opportunities (e.g., new funds, distressed situations, etc...)</li> </ul>                                                                                                                          |

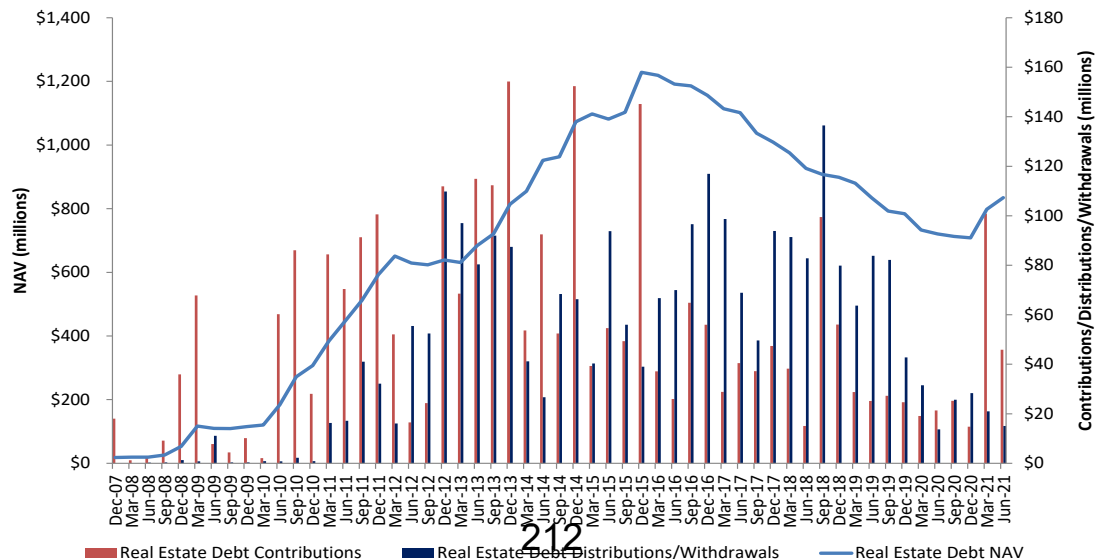
## Real Estate Structured Debt and Timber Performance

- Performance below is broken out by the Real Estate Structured Debt and Timber investments compared to their respective objectives/benchmarks. Portfolio consists of 18 active Real Estate Structured Debt investments and two Timber investments (four additional Structured Debt Funds have been fully realized).
- After considerable write-downs in the first half of 2020, the Structured Debt portfolio underperforms the portfolio objective of CPI +400 bps. This underperformance is attributable to the following:
  - With no new commitments between 2016 and 4Q2019, many existing investments have previously generated gains and are now in the disposition stage
  - New investments are in their investment periods and experience j-curve
- The Timber portfolio outperforms the comparable indices over all measured time periods below.
- Considering the commitment amounts and performance from both Real Estate Structured Debt and Timber investments, the combined net IRR since inception is return is 7.1%.



## Real Estate Structured Debt Portfolio

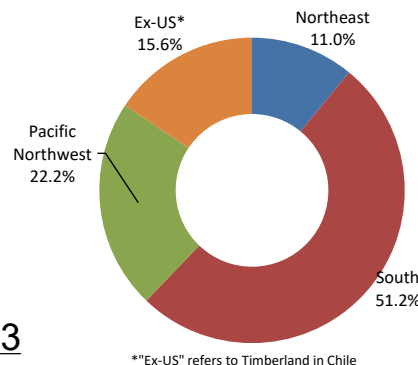
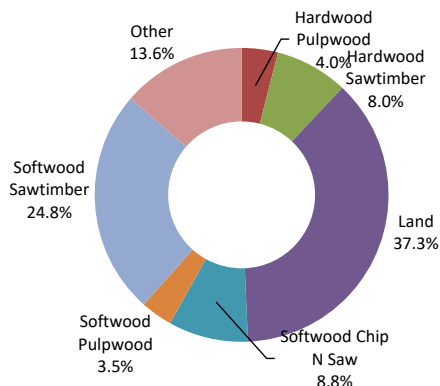
- Within the Strategic Asset Class portfolio, SBAF has committed approximately \$3.6 billion to nine Real Estate Structured Debt focused managers across 21 funds and one separate account. The debt portfolio targets opportunities throughout the capital stack and across property types as well as regions.
- Starting in 2008, the portfolio has invested across 12 vintage years and is seeing realizations and distributions from early commitments. Before 2019, no commitments were made since 2016. Therefore, in the last three years the portfolio has seen more capital distributions than contributions. However, thus far in 2021 this trend reversed with more capital invested and less distributions as new commitments begin to call and invest capital. Going forward, we anticipate contributions to continue to outpace distributions due to four commitments throughout 2019-2020 totaling \$925 million.



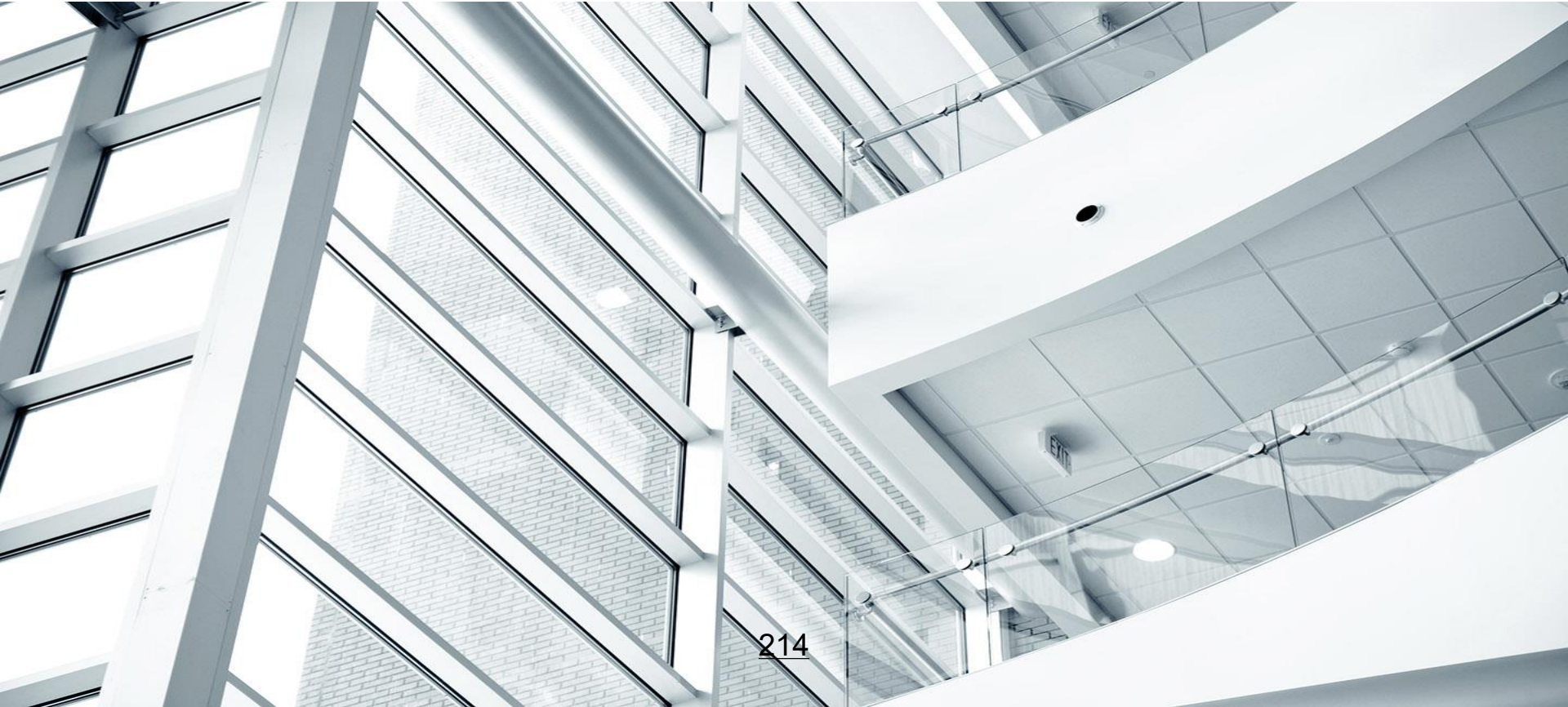


## Timber Portfolio

- The Timber Portfolio currently consists of two separate accounts established in 2012 totaling \$500 million of commitments. Approximately, \$481 million has been funded as of June 2021.
- The portfolio is well diversified with exposure to the Pacific Northwest, South, Northeast, and Chile. In addition, the portfolio is diversified by age, class, and species.
- Both managers started making cash distributions in the second quarter 2013 and since inception have distributed approximately \$132 million.
- The two timber mandates are appraised annually (one in June and one in December). After a negative impact on performance in 2020, we saw an increase in valuation in June 2021.
  - U.S. housing starts have continued their strong recovery from recent lows reached in 2Q20, driven by strong new home construction and repair and remodeling activity. However, the recent pace of residential construction slightly eased from peaks due to limits on the availability of materials and labor.
  - Framing lumber and structural panel pricing continued to increase reaching an all-time high in May 2021, as a result of high-capacity utilization at mills and log exports increasing substantially. Lumber pricing has regressed following the highs reached in May, though still elevated 214% from the same period this time a year ago.
  - Despite ongoing COVID interruptions, forest product export volumes and prices continued to increase through the first half of 2021, driven in large part by demand from the Asian markets.



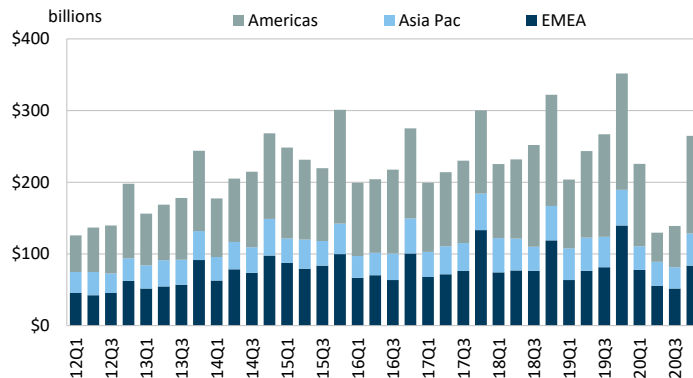
## Real Estate Market Update



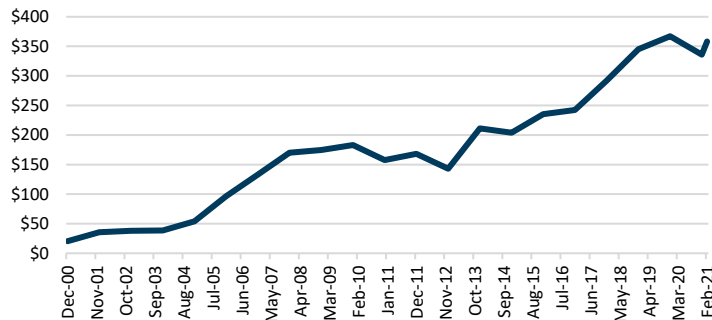
# The New Normal In A Vaccinated World

- Potential for “roaring twenties 2.0,” but with higher inflation. Historic fiscal stimulus/monetary policy, and high household savings; however, stressed supply chain unlikely to keep up with demand.
- Real estate transactions rebounded after COVID pause, with 60% of volume in apartment and industrial sectors.
- Material, land, and labor costs drive construction costs higher, which moderates potential new property supply.
- Liquidity and an abundance of cheap debt means less distress, plus GP led recapitalization of funds have become a growing avenue for liquidity.
  - Capital available for real estate near 20-year peak
  - Over \$80 billion of capital raised in 2020 by non-core real estate funds
  - Some potential for more distressed assets coming to market with foreclosure moratoriums rolling off
- Flexible work arrangements are here to stay, with high employee acceptance and a tight labor market.
- Watch hotel sector recovery. Cooped up individuals seek leisure travel, but business travel is replaced by “Zoom.”

**Regional Transaction Volume  
(Excluding Development Sites)**

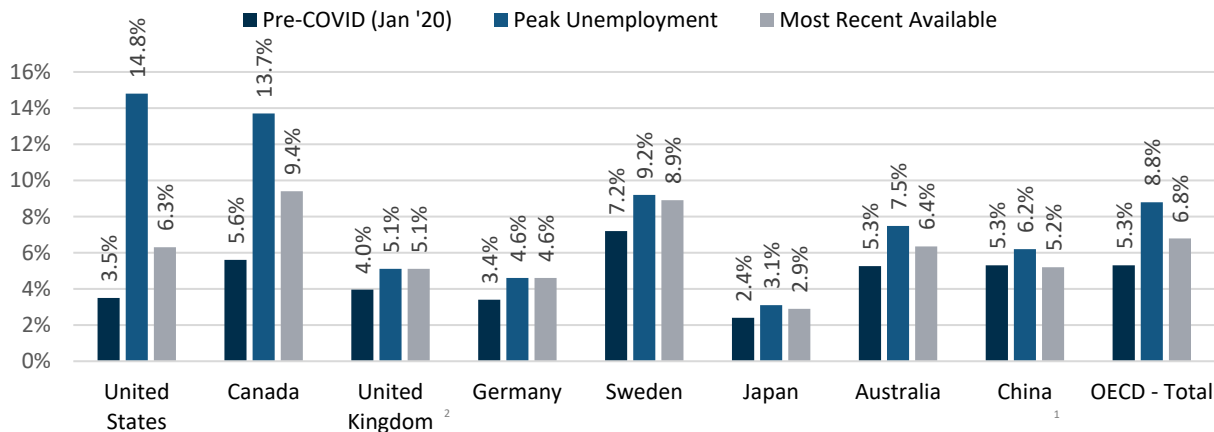


**Dry Powder in Private Real Estate Funds  
(\$ Billions)**



# Labor Markets Are Generally Improving But Recovery Is Uneven

Harmonized Unemployment Rate By Country

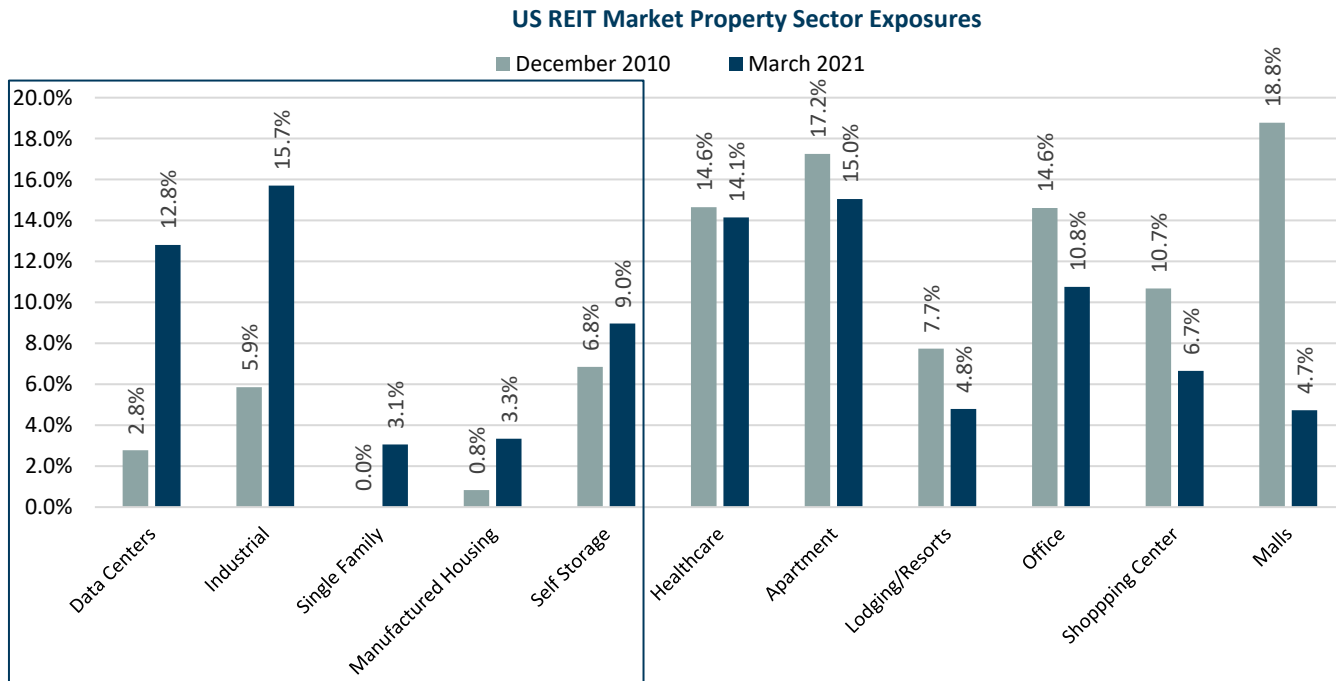


- COVID-19 ripped through the labor markets, particularly damaging service sector jobs in retail, restaurant, and leisure, but now labor markets are recovering across developed economies in conjunction with vaccine roll outs
- Different labor laws and social safety nets resulted in substantially different near-term outcomes in employment levels
- Rates are forecasted to stay lower and accommodative for longer. The Federal Reserve ramped up its expectations for economic growth but indicated that no interest rate hikes are likely through 2023 despite an improving outlook and higher inflation expectations in the near term
- The IFM has projected the global economy to grow 5.5% in 2021 and 4.2% in 2022, reflecting expectations of a strong rebound fueled by an accelerated vaccine roll out and fiscal and monetary stimulus

# Evolution Of The Real Estate Market

## Growing Allocations to Non-Traditional Sectors

- Over the last decade, significant capital has been reallocated to property sectors that are positioned to benefit from the shift towards a knowledge-based economy.

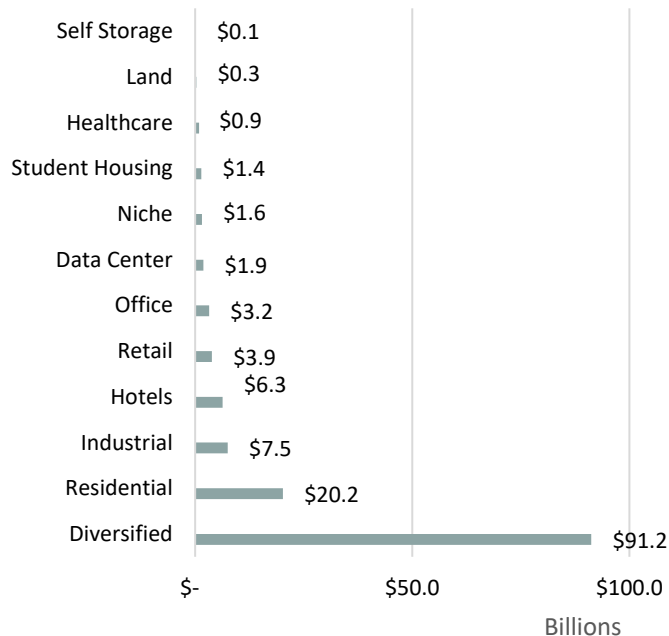


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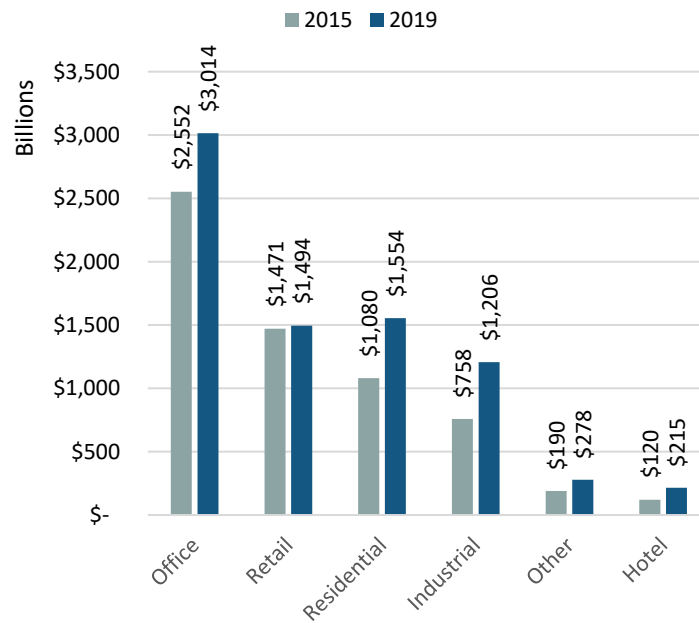
# Size Of The Investment Opportunity

Non-Traditional Sectors Remains A Small Component Of Total Real Estate Market

**Active Close-End Fund Target Raise by Property Sector**

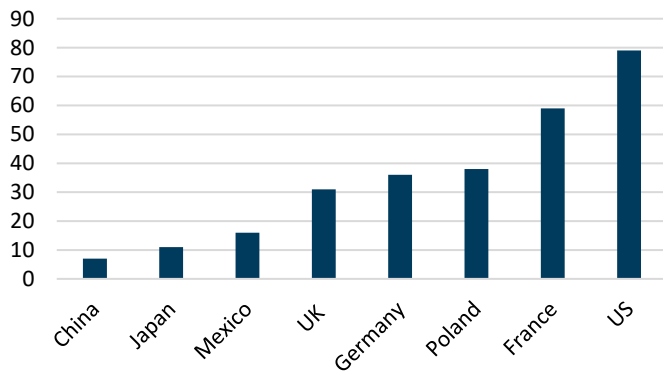


**Investable Universe by Property Sector (USD Billions)**

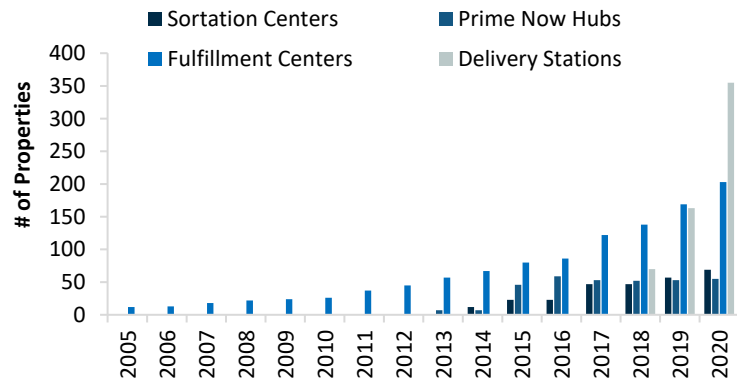


# Evolution Of The Modern Supply Chain

**Modern Logistics SF Per Consumer Household  
As of December 2020<sup>1</sup>**

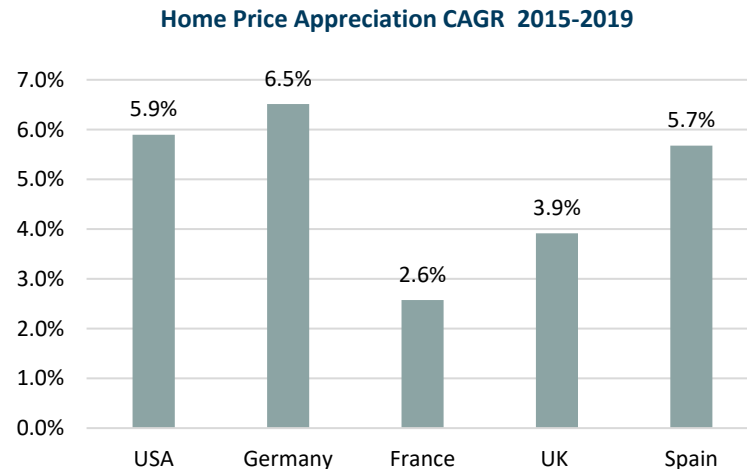
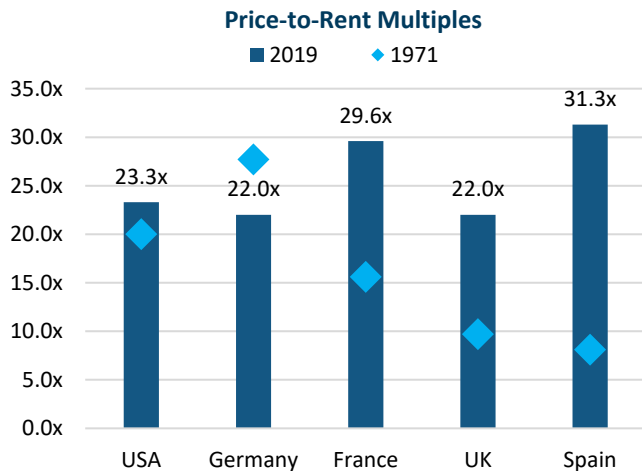


**Amazon's Warehouse Network<sup>2</sup>**



- The COVID-19 pandemic has accelerated a shift in consumption from physical retail outlets to e-commerce, e-commerce utilization in the US increased from 15% at YE 2019 to a projected 20% at YE 2020
  - US e-commerce is forecasted to grow by 13% p.a. over the next decade and fulfillment requires 2-3x more space than traditional retail
- The entitlement process is becoming more challenging, as communities weigh the nuisance of additional large trucks and smaller parcel trucks impact on traffic
- Townsend believes the warehouse supply/demand mismatch created by e-commerce demand continues to create one of the most compelling real estate investment opportunities today

# Global Housing Shortage & Affordability Crisis

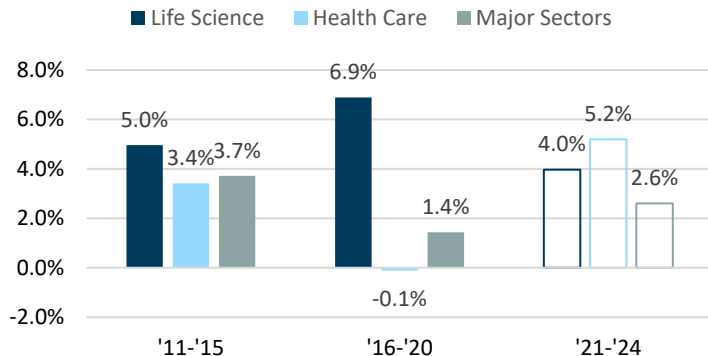


- Home ownership affordability is a global issue which continues to drive demand for rentals.
  - Home price appreciation outpacing wage growth.
  - COVID created boom in single family housing demand, accelerating price appreciation
- The sector remains fragmented based on estimates of institutional ownership: US – 37%, UK – 2%, and Germany – 15%
- Affordable and workforce housing is growing in importance and focus.
- Political pressures and the growing risk of regulation are tail risks for certain regions/product types

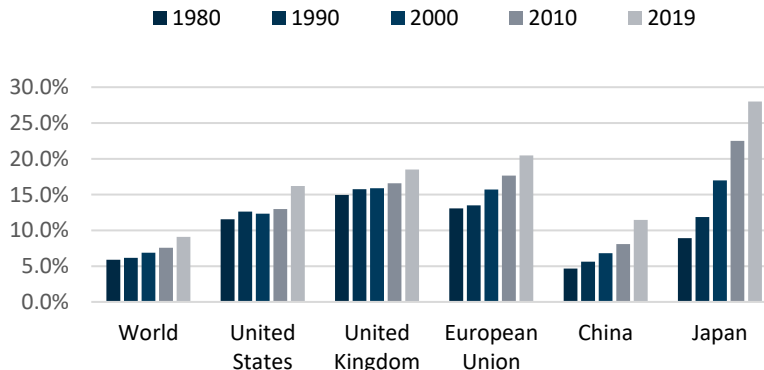


# Healthcare: Accommodating The Aging Population

**US Same-Store NOI Growth**



**% Of Population Over 65 by Country**

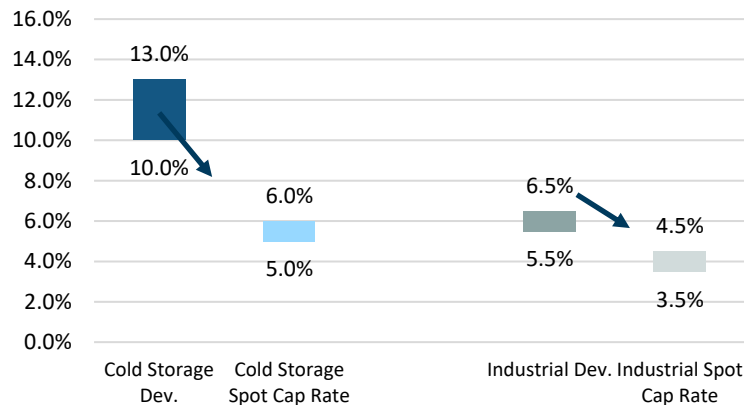


- An aging population drives demand for additional and improved healthcare
  - US healthcare accounted for 17.7% of GDP (\$3.7 trillion in 2018)
  - By 2028, healthcare expenditures are forecasted to reach \$6.2 trillion (~5% CAGR).
  - Chronic disease is exceedingly common with 6 in 10 adults having one and 4 in 10 adults having at least two
- Global pharma R&D spending has grown by ~7% per year over the last 20 years
- Such trends are forecasted to create strong secular demand growth for Life Science, Medical Office, and Senior Housing

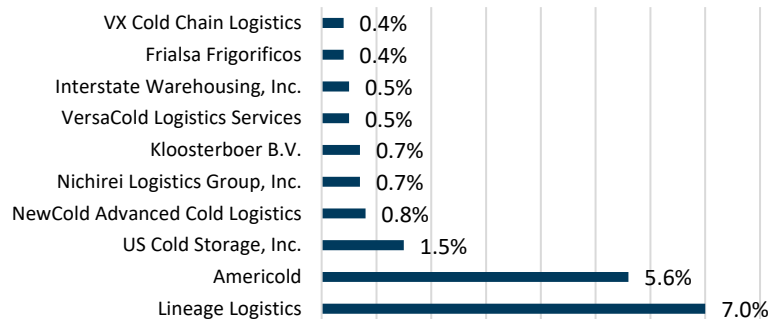
## Evolution Of The Modern Cold Chain: An Emerging Niche Sector

- With the supply chain garnering increased attention, investors are looking beyond traditional logistics assets to the cold storage market
- Cold storage is operationally intensive, more expensive to build, and requires a substantial rent premium to traditional industrial assets
  - This has created a natural barrier to new supply, with speculative development being unusual
  - The cold chain is outdated by modern standards, with the average asset age in the US of c.34 years
- Cold storage demand is directly linked with fresh and frozen food consumption which has historically experienced steady growth
  - Recent shifts in consumption towards perishable items and away from preservatives has buoyed demand
- Cold storage offers diversification via differentiated demand drivers and an attractive overall return profile, which is driven by natural barriers to entry via specialized asset requirements and operational intensity

**Illustrative Development Yields<sup>1</sup>**



**Top 10 Global Cold Storage Platforms<sup>2</sup>**



## Office Sector: A New Relationship With Office

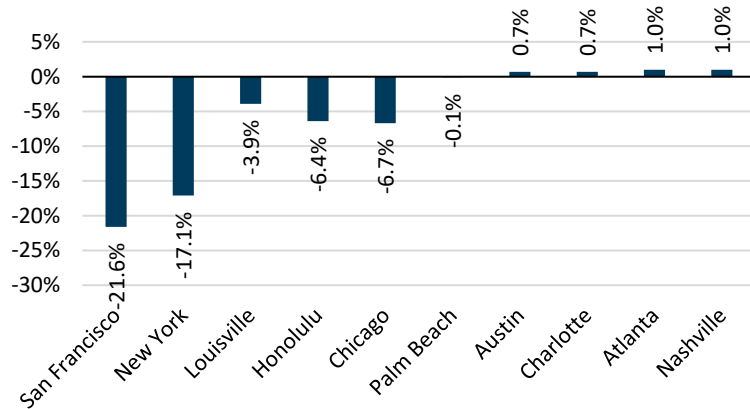
- Increased flexible work arrangements are forecasted to disrupt the correlation between office space demand and economic growth
- Average number of days in the office is more impactful on total office demand than potential de-densification
- Due to typical lease structures and the credit quality of underlying tenants, most high-quality office assets will continue to generate cash flow in the medium-term, but investors need to re-evaluate the long-term prospects
- Office space will be utilized to build the intangible human elements of business and facilitate collaboration, socialization, mentorship, culture building, etc.
- The death of the office market appears exaggerated, but there will need to be meaningful repricing of the sector for it to become attractive on a relative basis
- Townsend seeking office in tech and innovation-oriented markets but only at a meaningful discount to pre-COVID-19 pricing

### Aggregate Demand

(Estimated Pre-COVID baseline of 200 square feet / employee and 4.6 days in the office per week)

|                         |         | Space Per Employee In The Office |        |        |        |        |        |
|-------------------------|---------|----------------------------------|--------|--------|--------|--------|--------|
| Avg. Days In The Office | Avg. SF | 195                              | 200    | 205    | 210    | 215    | 220    |
|                         | +/- %   | -2.5%                            | 0.0%   | 2.5%   | 5.0%   | 7.5%   | 10.0%  |
|                         | 4.60    | -2.5%                            | 0.0%   | 2.5%   | 5.0%   | 7.5%   | 10.0%  |
|                         | 4.40    | -6.7%                            | -4.3%  | -2.0%  | 0.4%   | 2.8%   | 5.2%   |
|                         | 4.20    | -11.0%                           | -8.7%  | -6.4%  | -4.1%  | -1.8%  | 0.4%   |
|                         | 4.00    | -15.2%                           | -13.0% | -10.9% | -8.7%  | -6.5%  | -4.3%  |
|                         | 3.80    | -19.5%                           | -17.4% | -15.3% | -13.3% | -11.2% | -9.1%  |
|                         | 3.60    | -23.7%                           | -21.7% | -19.8% | -17.8% | -15.9% | -13.9% |

### 2021 Office Market Forecasted M-RevPaf<sup>1</sup> Growth



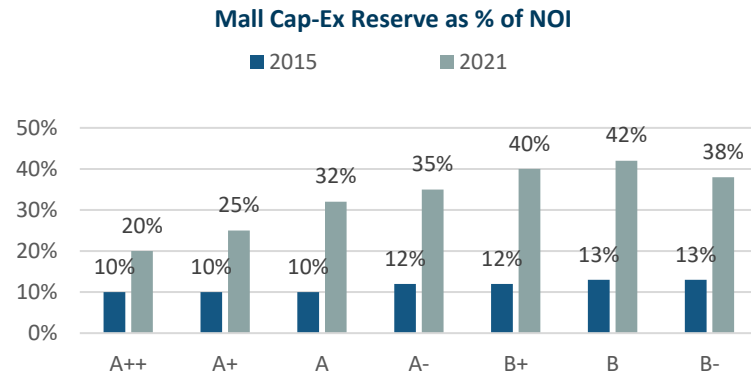
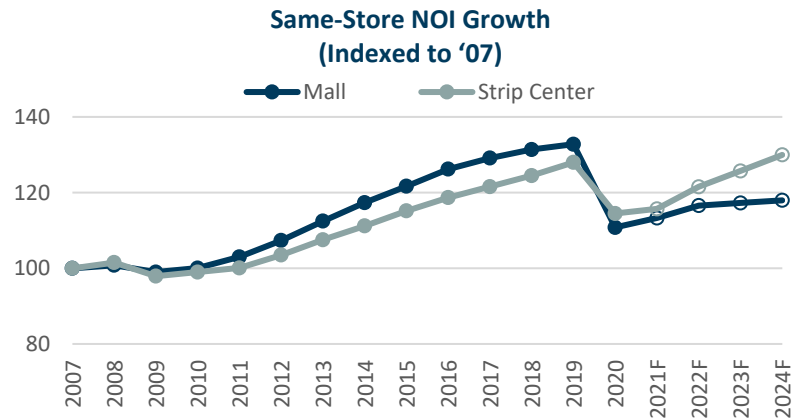
Source: The Townsend Group, Green Street (2021 Office Outlook).

<sup>1</sup>A measure of the health of a market (or sector) that combines two key operating metrics (effective market rents and occupancy) into a single value. Although same-store NOI growth is a more widely used performance benchmark, this metric is heavily influenced by the length of leases in each sector and does not serve as a timely proxy for market-level operating fundamentals.

Townsend's views are as of the date of this publication and may be changed or modified at any time and without notice. Past performance is not indicative of future results.

## Retail: The Challenges Continue

- Total retail sales growth is not anticipated to translate to brick & mortar sales to the extent it has historically. E-commerce has structurally changed the relationship
  - Near-term rebound likely with a return to normal, but long-term growth outlook still low
- The US is a case study for the long-term implications of ecommerce for physical retail outlets. Consolidation is occurring to the most productive locations, but even then, growth comes at the cost of rising capital expenditures
  - Redeveloping anchor space is costly, time consuming, and a primary driver of the growing cap-ex reserves
- Underlying tenant financial strength was deteriorating prior to COVID-19, bankruptcies and store closures forecasted to accelerate
- Green Street's Commercial Property Price Index has estimated mall values are down 24% and strip centers 13% from pre-COVID-19 prices
- Going forward, the retail sector will face a challenging period of price discovery as rents rebase and occupancy rates broadly decline



## Timberland Market Update



# Timberland – Second Quarter 2021 Market Update

## TIMBERLAND MARKETS

- The extent of the COVID-19 impact on forest products continued to remain subdued during the quarter, as the U.S. sector was bolstered by continued strength in the housing market along with repair and remodel activity.
- Lumber and panel prices reached new all-time highs during in May 2021, up 160% and 280%, respectively year-over-year but then fell by 40% relative to the May peak by quarter-end. There has also been a slight uptick in timber prices, but nowhere near the levels seen in the lumber markets.
- In the US South, timber prices were uniformly stronger across the board in 2Q2021, with mixed pine sawtimber increasing 3.0% from 1Q21. **(FIGURE 1)** Pacific Northwest demand from domestic and Asian markets remained strong, keeping prices for sawlogs elevated.
- Housing activity during the quarter continued strong after a notably strong 1Q21; In June, housing starts were at a seasonally adjusted annual rate (SAAR) of 1.6M units, down 4.8% from March 2021 but up by almost 30% compared to June 2020's 1.3M units. **(FIGURE 2)**
- Australian softwood and hardwood roundwood prices increased along with softwood and hardwood chip prices, while export log prices in New Zealand increased by 13% during the quarter.

**FIGURE 1: U.S. South Timber Prices**

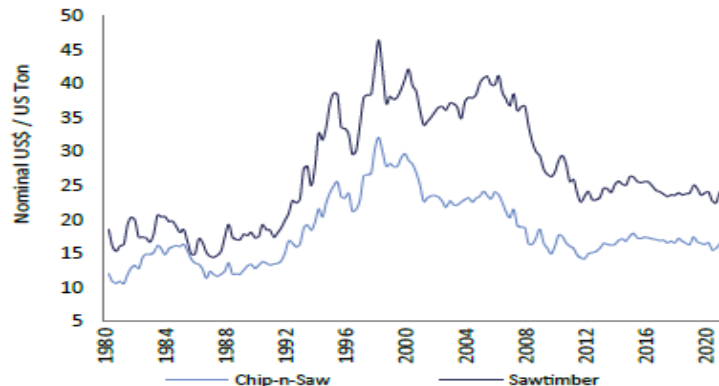
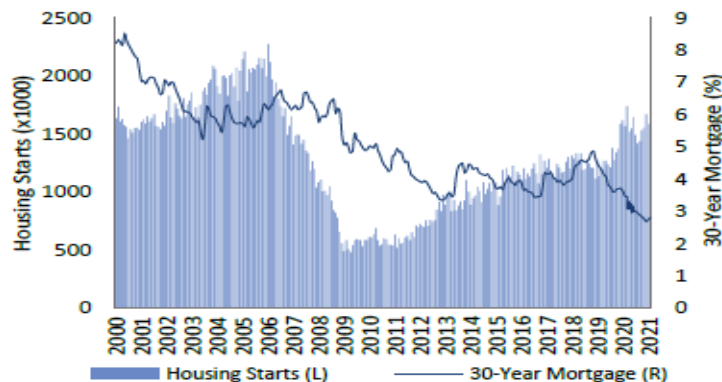


**FIGURE 2: U.S. Housing Starts SAAR<sup>1</sup> and 30-year Mortgage Rates**

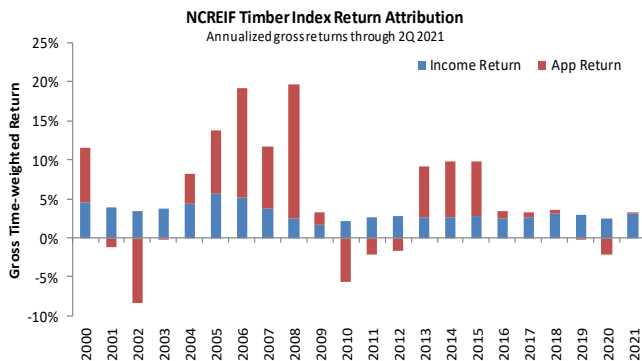




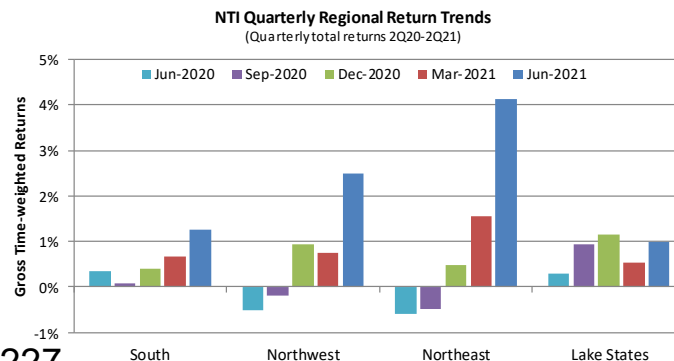
# Timberland – Second Quarter 2021 Market Update

## TIMBERLAND PERFORMANCE

- The NCREIF Timberland Index (“NTI”) returned 1.7% for the quarter, up over last quarter’s 0.76% return and 2Q20’s 0.08% return - comprised of a 0.79% income return and a 0.91% appreciation return. The positive quarterly appreciation breaks the seven-quarter streak of value declines. The quarterly performance also marks the fourth consecutive quarter-over-quarter improvement in total return.
- The NFI’s largest timberland region - the U.S. South – returned 1.25% for the quarter consisting of a 0.70% income return and a 0.54% appreciation return as land values continue a modest recovery post COVID pandemic restrictions as forestry activity has continued to increase driven by increased demands from the housing industry and transaction activity.
- The South continues to remain relatively resilient with only one negative quarterly return since 2011 coupled with consistent income returns averaging 2.5% per year over the last ten years.
- The Northwest returned 2.49% for the quarter, up significantly from the previous quarter’s return of 0.76%. The return consisted of 1.09% income and 1.39% appreciation. This marks the third straight quarter of positive returns after five quarters of negative total returns.
- Timberland per acre values improved by a modest 57 bps, with all but the Lake States region posting an increase in land values.

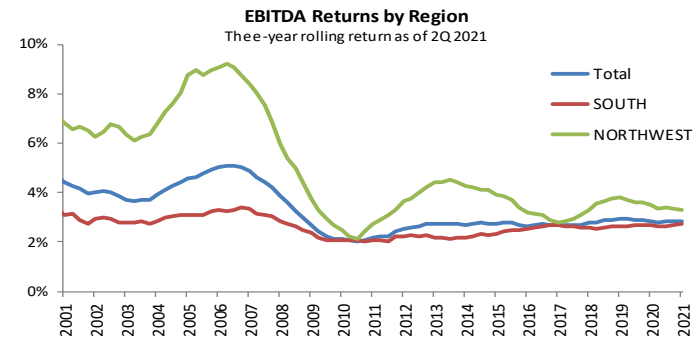
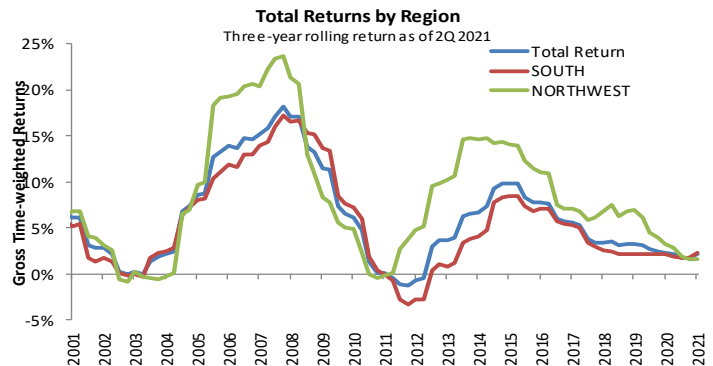
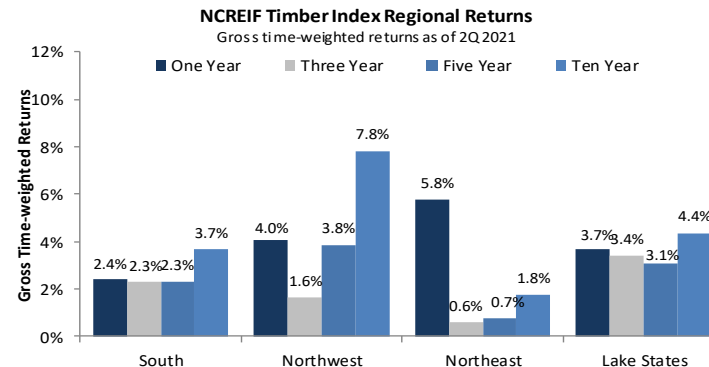
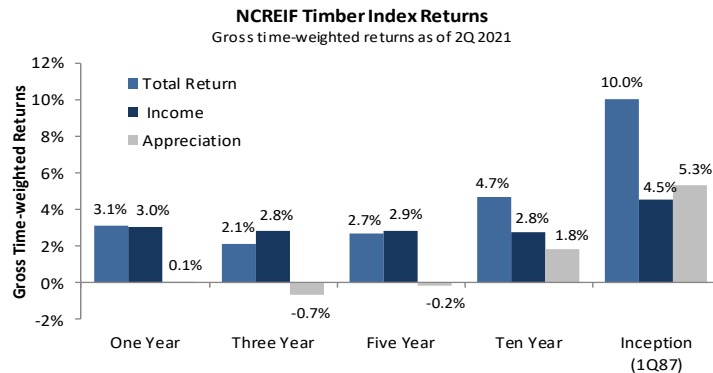


227



# Timberland – Second Quarter 2021 Market Update

## TIMBERLAND PERFORMANCE



228



## Definitions and Disclosures



## Definitions

The NCREIF Timberland Property Index (NTI) – The NCREIF Timberland Property Index represents data collected from the Voting Members of the National Council of Real Estate Investment Fiduciaries (NCREIF). The NTI is an unlevered domestic index, gross of fees, that aggregates the returns of approximately 464 privately owned institutional investment properties valued at \$23 billion. All properties have been acquired, at least in part, on behalf of tax-exempt institutions and held in a fiduciary environment. The properties are wholly owned and joint venture investments consisting of Timberland properties only. Note that the NTI is not an investable or duplicable universe. Also, the NTI may not fully illustrate the performance of the institutional property universe.

The NCREIF Timberland Fund and Separate Account Index (NTSAI) – The NCREIF Timberland Fund and Separate Account Index is a levered domestic capitalization-weighted index based on each Funds' Net Asset Value (\$17.8 billion), which represents data collected from the Voting Members of the National Council of Real Estate Investment Fiduciaries (NCREIF). The NTSAI is a gross and net of fees time-weighted return index consisting of 94 commingled funds and individually managed accounts held in a fiduciary environment for taxable and tax-exempt investors, and mostly comprised of Timber, Timberland and cash equivalent assets, which are invested at 95% or more in the United States. The Funds comprised in the index may change if (i) existing Funds are removed from the index due to recurring underperformance, (ii) liquidation or termination, as well as (iii) entry of new Funds or new members of NCREIF. The NTSAI may not fully illustrate the performance of the institutional property universe.

The Consumer Price Index (CPI) – The Consumer Price Index illustrates monthly changes in the weighted average of prices of consumers' good and services, excluding income taxes, financial instruments, and other saving-related items. Data is collected on a monthly basis by the Bureau of Labor Statistics (BSL economic assistants) in 87 urban areas nationwide and from approximately 80,000 items regrouped in more than 200 categories, which includes 23,000 retail and service establishments, as well as 50,000 landlords or tenants. The Consumer Expenditure Survey derives each item's weight from their reported expenditures.

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**NOTE REGARDING PROJECTIONS AND FORWARD-LOOKING STATEMENTS:** The information provided in this report contains estimates, return data and valuations that are based upon assumptions and projections. Such estimates and assumptions involve judgments with respect to, among other things, future economic and competitive conditions; real estate market conditions; occupancy and rental rates; and the like, which may not be realized and are inherently subject to significant uncertainties and changes, all of which are difficult to predict and many of which are beyond the control of the General Partner and Townsend Holdings LLC d/b/a The Townsend Group (“Townsend”) and the investment managers of any indirect fund investments. Accordingly, no assurance can be given that such projections will be realized, and actual conditions, operations and results may vary materially from those set forth herein. The Limited Partner is cautioned that the predictions and other forward-looking statements reflected in this report involve risks and uncertainty, including without limitation, risks incident to investment in real estate and to investment in “non-core” real estate funds. In light of the foregoing factors, actual returns and results are likely to differ substantially from the forward-looking statements contained in this report, and the Limited Partner is cautioned not to place undue reliance on such forward-looking statements and projections. The words “estimate,” “anticipate,” “expect,” “predict,” “believe” and like expressions are intended to identify forward-looking statements. Investors should make their own investment decisions without relying on this document. Only investors with sufficient knowledge and experience in financial matters to evaluate the merits and risks should consider an investment in any issuer or market discussed herein and other persons should not take any action on the basis of this document.



# State Board of Administration

## Fixed Income Update

Katy Wojciechowski: Senior Investment Officer Fixed Income

Kevin Moose: Senior Portfolio Manager – Fixed Income External Management

Jon Yeatman: Senior Portfolio Manager

## Investment Advisory Council

December 14, 2021

# Agenda

## **Program Overview**

- **Fixed Income Investment Objectives**
- **Benchmark Makeup**
- **Investment Allocation and Risk Parameters**
- **Structure and Characteristics of FI Allocation**

## **Performance Review**

- **Periodic Returns**
- **Contribution**

## **Investment Process Review**

- **Internal Active and Passive Management**
- **External Manager Oversight**

## **Program Review and Outlook**

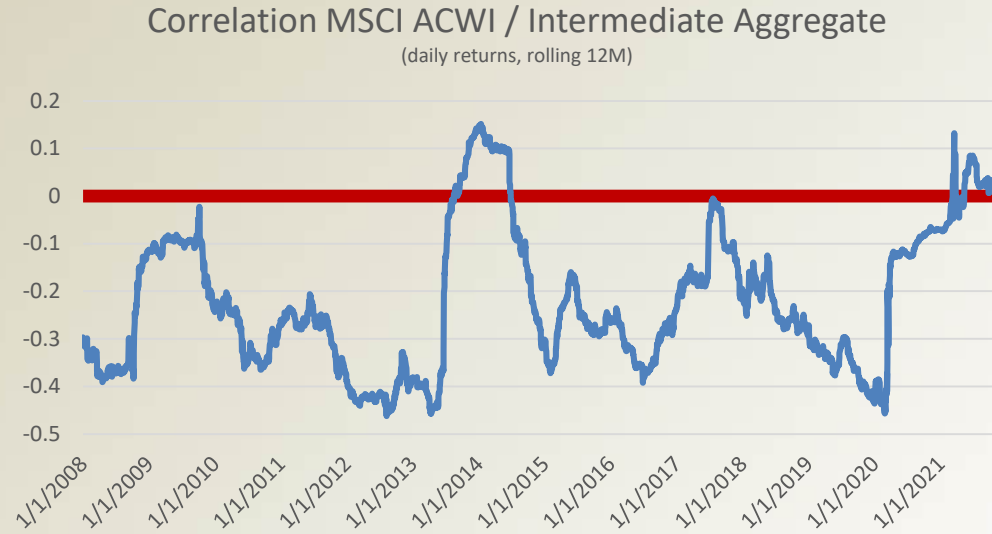
- **Accomplishments and Initiatives**
- **Outlook**

# Fixed Income Investment Objectives

- Provide Stable Fixed Income Returns with Low Risk Budget that Exceed Benchmark over Long Horizon
- Provide Liquidity on Demand
- Serve as Diversification for Equity Allocation

# Fixed Income + Equities Correlation

- Historically, Fixed Income and Equities exhibit negative correlation.
- Intermediate aggregate typically provides stable and negatively correlated returns to equities.
- On a rolling 12-month basis, the correlation between Fixed Income and Equity daily returns turned positive earlier in the calendar year.



Source: Bloomberg



# Fixed Income Benchmark

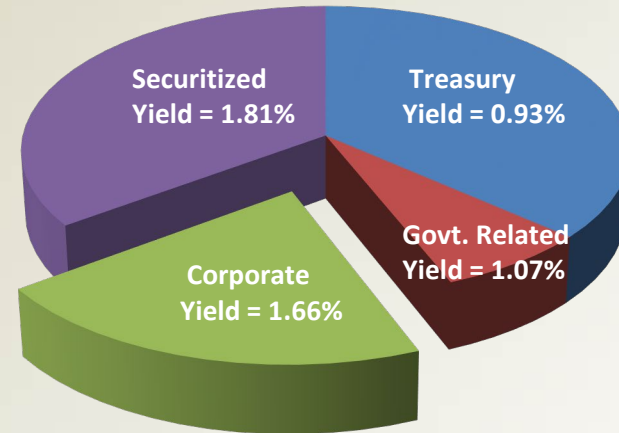
## Key Benchmark Risk Metrics

As of 10/31/2021

|                                 |         |
|---------------------------------|---------|
| Duration                        | 4.30    |
| Maturity                        | 5.03    |
| Yield                           | 1.47%   |
| Coupon                          | 2.22%   |
| Option Adjusted Spread (to UST) | 0.24%   |
| Average Quality/Rating          | AA      |
| Size (\$)                       | 21.126T |
| Members                         | 9,234   |

Source: BlackRock's Aladdin

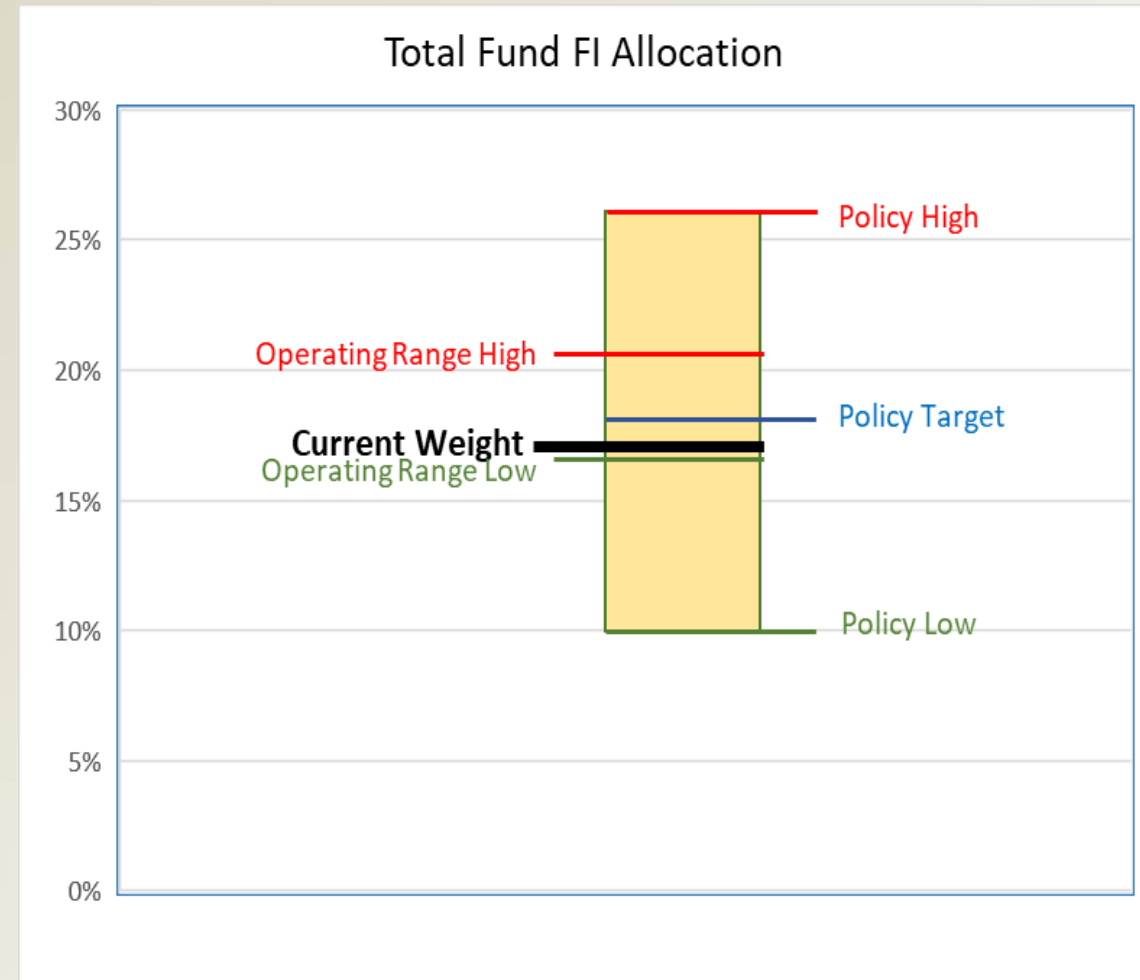
## Bloomberg Barclays US Intermediate Aggregate Bond Index



# Fixed Income Allocation Overview

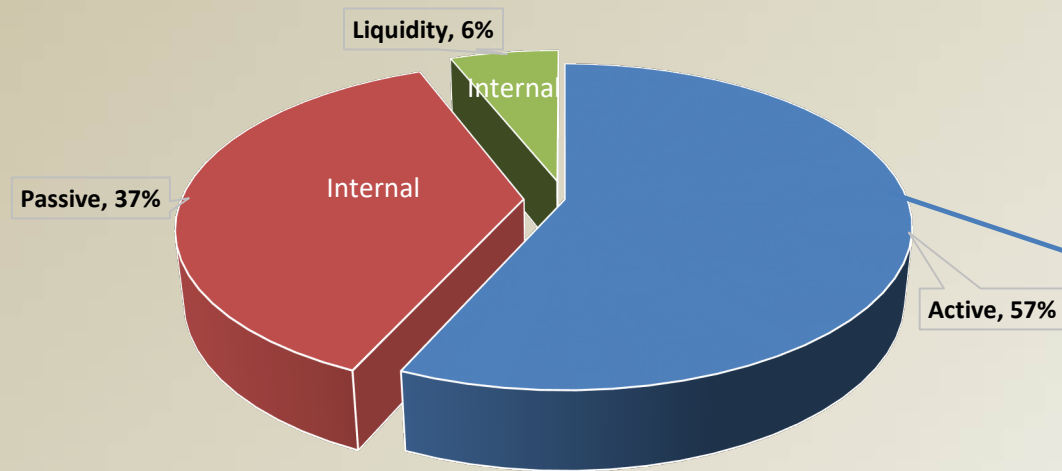
## Total Fund Investment Policy Allocation:

- Policy High 26.00%
- Current Operating Range High 20.82%
- **Current Weight (12/10/2021) 17.35%  
(+1.39% Cash)**
- Current Operating Range Low 16.82%
- Policy Target Weight 18%  
(+1% Cash)
- Policy Low 10.0%
- Active Risk Budget 0.75% monitoring standard  
(Tracking Error vs. Benchmark) 1.10% escalation



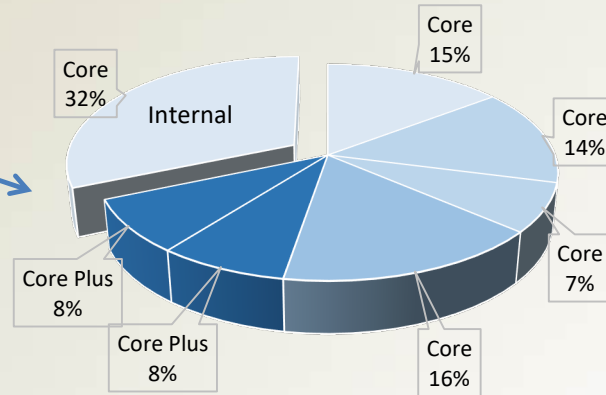
# Structure + Characteristics of FI Allocation

Active/Passive/Liquidity Split  
\$36,000,918,088



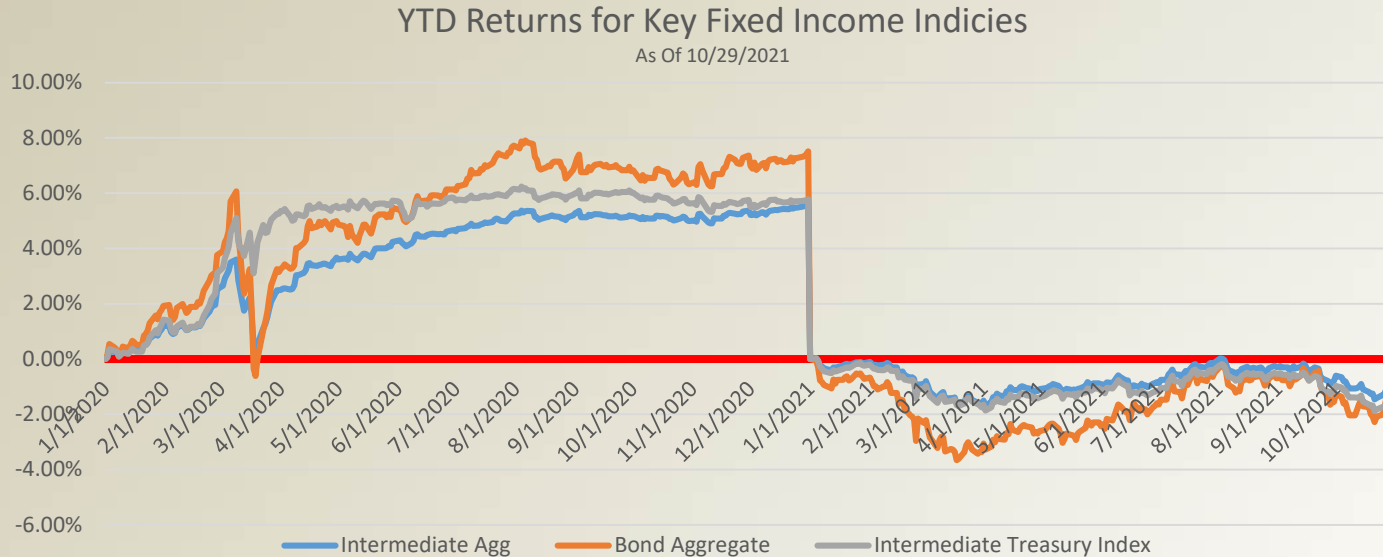
■ Active ■ Passive ■ Liquidity

Active Management Diversification  
\$20,388,245,051



# Modestly Negative Fixed Income Returns:

The anomalously high positive returns from the past two calendar years will likely not be repeated in 2021.  
Most key fixed income indices will close the year with negative total return.



Source: Bloomberg

# Asset Class Performance Drivers

- Absolute fixed income returns have suffered in 2021.
- Numerous factors contributing to negative Fixed Income returns:
  - Federal Reserve tapering its asset purchase program
  - High inflation + a strong labor market
  - More hawkish FOMC
  - Strong equity market returns
  - Continued strong growth and positive outlook

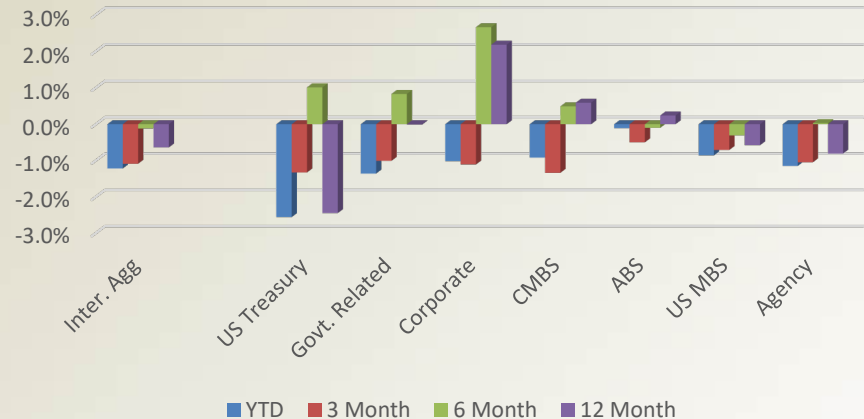
# Fixed Income Benchmark Total Returns

Twelve-month total returns for the Fixed Income benchmark – Barclays Intermediate Aggregate through 10/31/2021 were -0.64%.

- Yields rose over most measurement periods during the last 12 months. The 6 month measurement period is the exception.
- The large back-up in yields during the first quarter, then again in the third quarter, outweighed carry. The benchmark failed to post positive returns for any measurement period.
- Risk assets, particularly investment grade credit, outperformed treasuries in the broad US Bloomberg Bond Aggregate.

Benchmark Periodic Total Returns

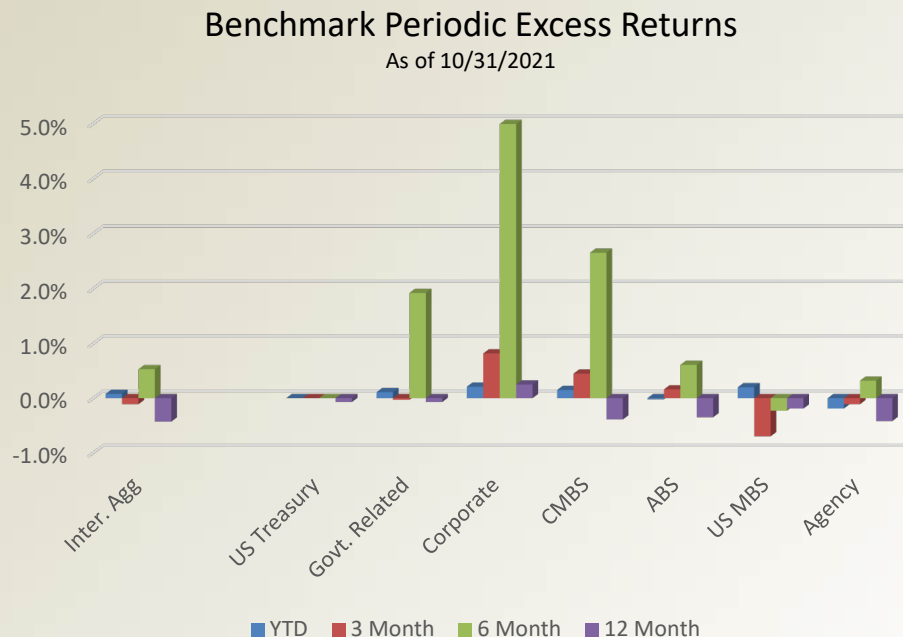
As of 10/31/2021



Source: Bloomberg

# Fixed Income Benchmark Excess Returns

- Excess returns for risk assets were positive for most sectors and measurement periods.
- Corporates, particularly long maturities, performed exceptionally well.
- CMBS also performed well; certain structures and collateral experienced a delayed recovery from 2020.



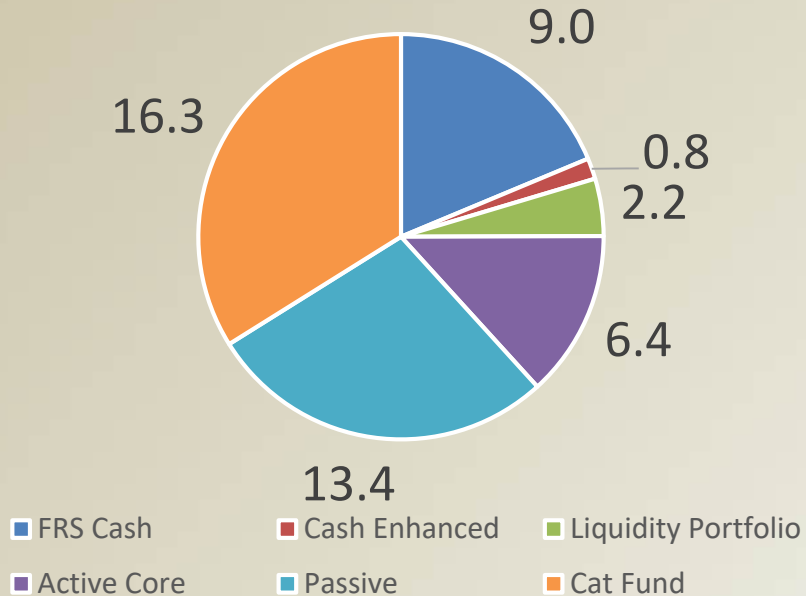
Source: Bloomberg

# Internal Fixed Income Overview



# Internal Fixed Income

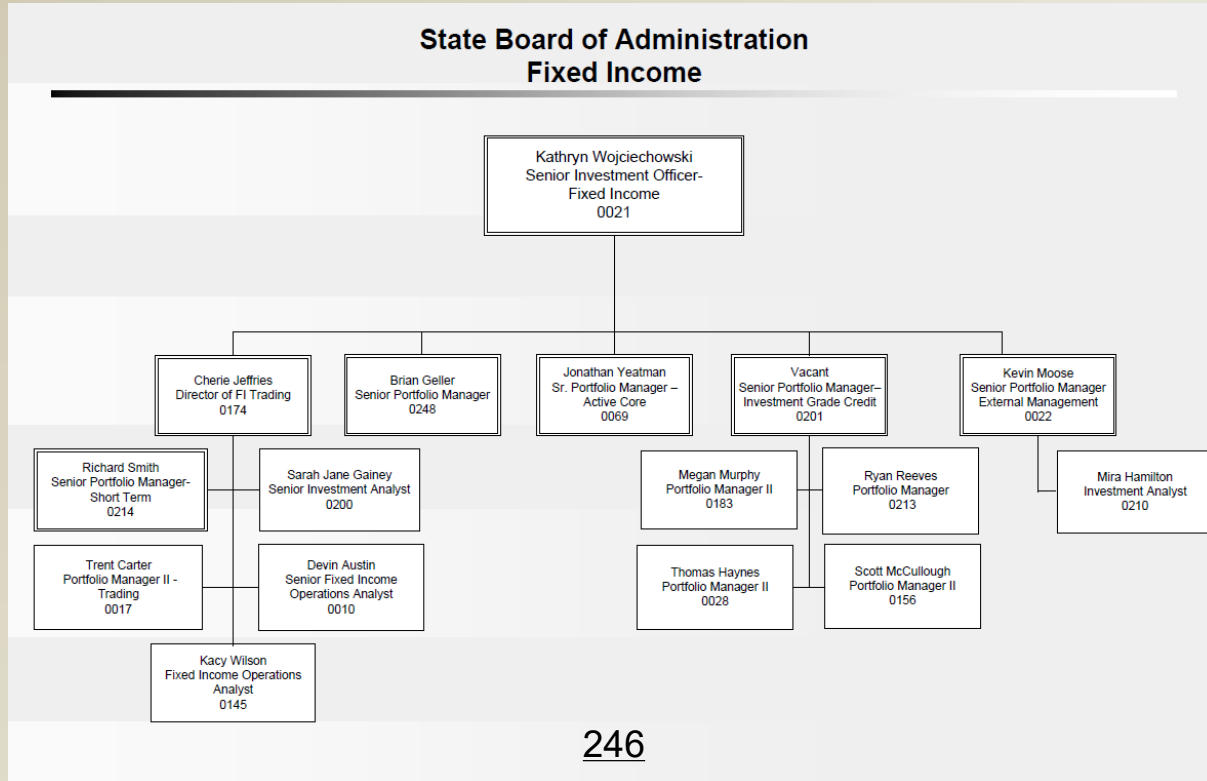
Assets Under Management (\$48.1 bn)



Other responsibilities include:

- Lottery
- Debt Service
- Securities Lending

# Internal Fixed Income Org. Chart

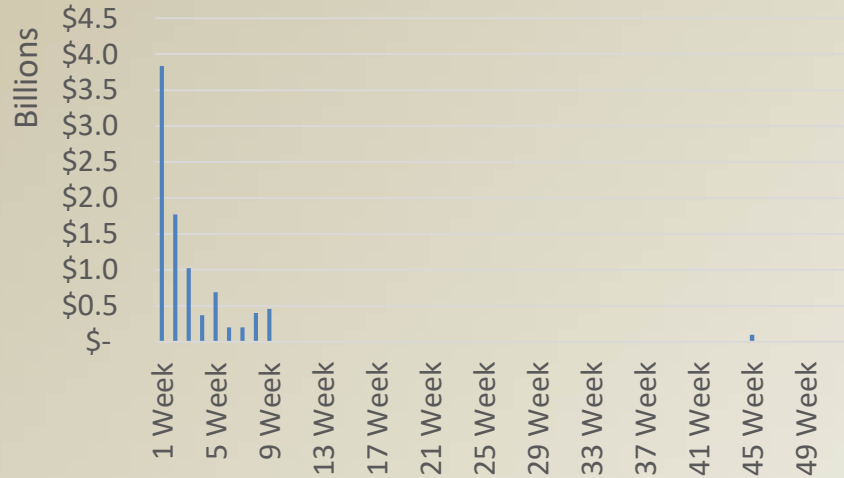


# FRS Cash Portfolio

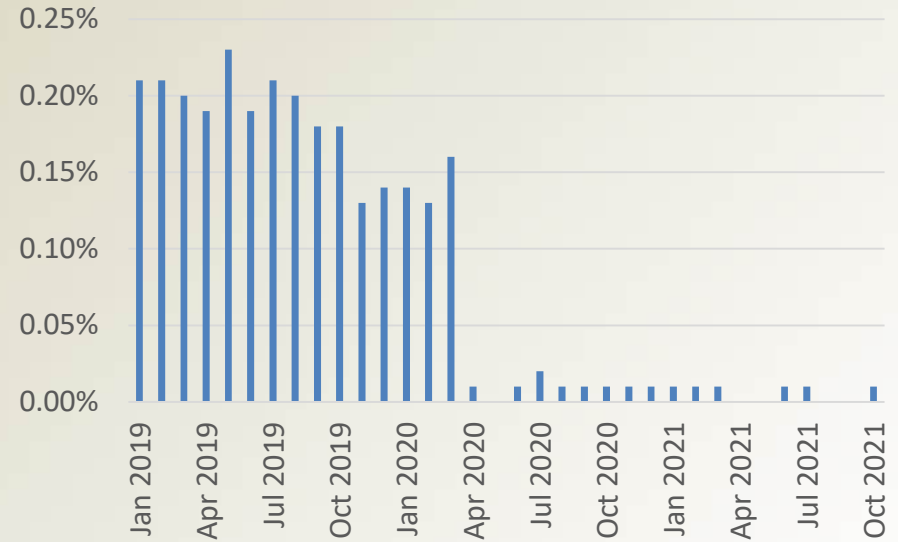
## Liquidity on Demand

### Maturities

*As of 10/31/2021*

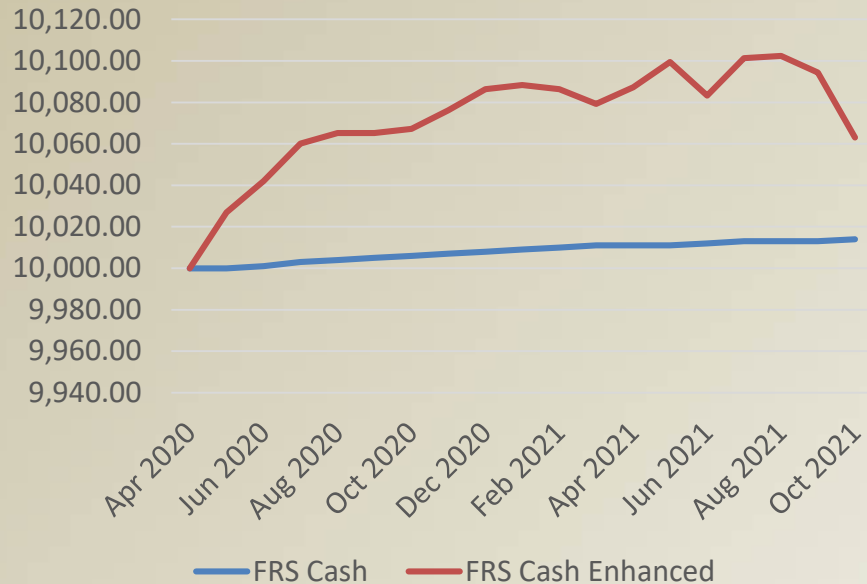


### Monthly Returns



# FRS Cash Enhanced

Growth of \$10,000



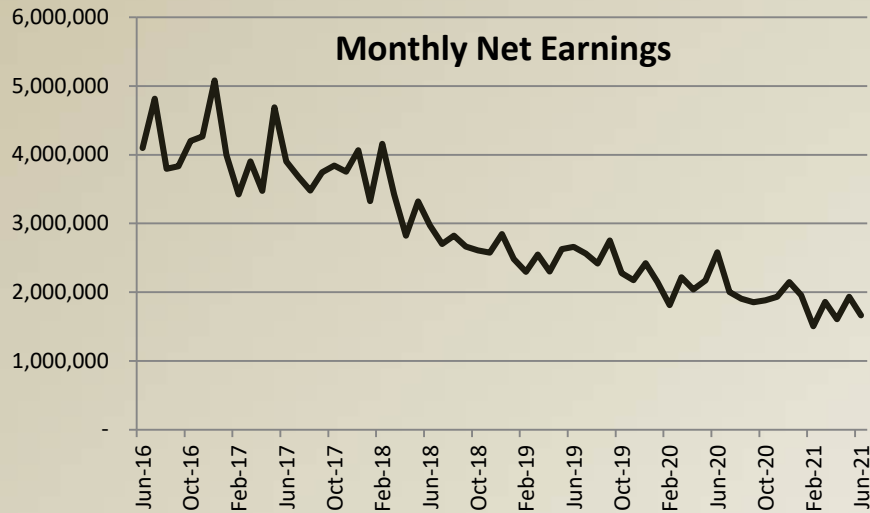
- Funded May 2020
- Picked up incremental yield and return to strategic cash allocation by adding modest duration and credit risk.

# Securities Lending

## Current Program Requirements

- Policy 15-018, Securities Lending Policy sets the requirements for the program:
  - Securities Lending should generate income from fees on loans, and minimize credit, interest rate and other investment risks in the cash collateral reinvestment portfolio
  - Agent must indemnify against borrower default except for commingled funds
  - Loan securities with simultaneous or earlier receipt of collateral
  - Loans must be collateralized and maintained at no less than 100%
  - Cash collateral must be reinvested in a Repo, 3-month US Treasury or 2a7 Money Market fund except for commingled funds and Non-FRS funds where the investments should focus on liquidity, preservation of principal and portfolio yield
  - Vendor selection must follow Policy 15-010, *Public Market Asset External Investment Manager Selection*
  - Evaluation
    - Effectiveness of lending activities (New contract with DataLend) for FRS accounts
    - Non-Commingled – set forth in the investment guidelines
    - Commingled – evaluated and monitored by the applicable SIO
  - Compliance
    - Fixed Income SIO required to meet compliance to policy and SLA
    - Compliance Officer will review compliance to policy at least monthly and repo at least weekly, except for comingled funds

# Securities Lending



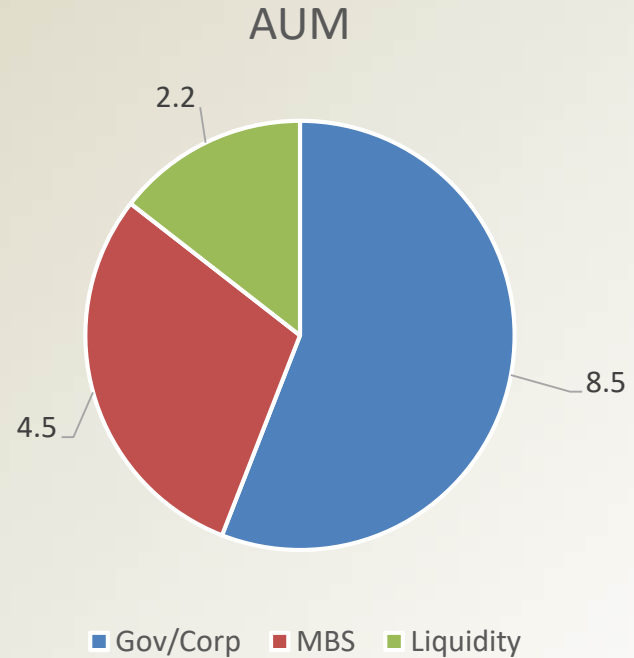
## Annual Net Earnings

|                | FRS           |
|----------------|---------------|
| 2016           | \$49,084,712  |
| 2017           | \$45,948,125  |
| 2018           | \$36,242,476  |
| 2019           | \$29,521,705  |
| 2020           | \$ 24,687,080 |
| YTD: 9/30/2021 | \$16,538,297  |

# Passive Portfolios

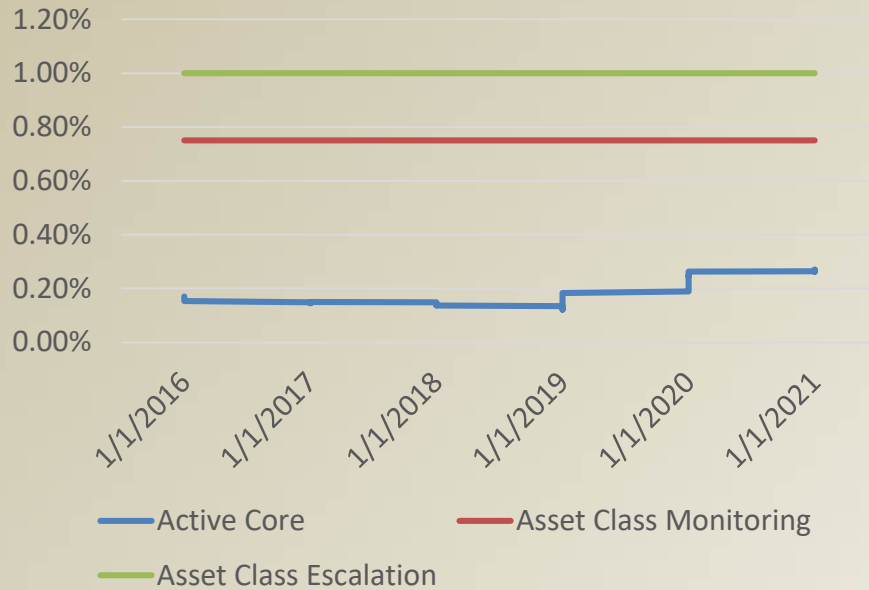
## Purpose:

- Cost-effective Beta Fixed Income Exposure
- Provide liquidity as needed

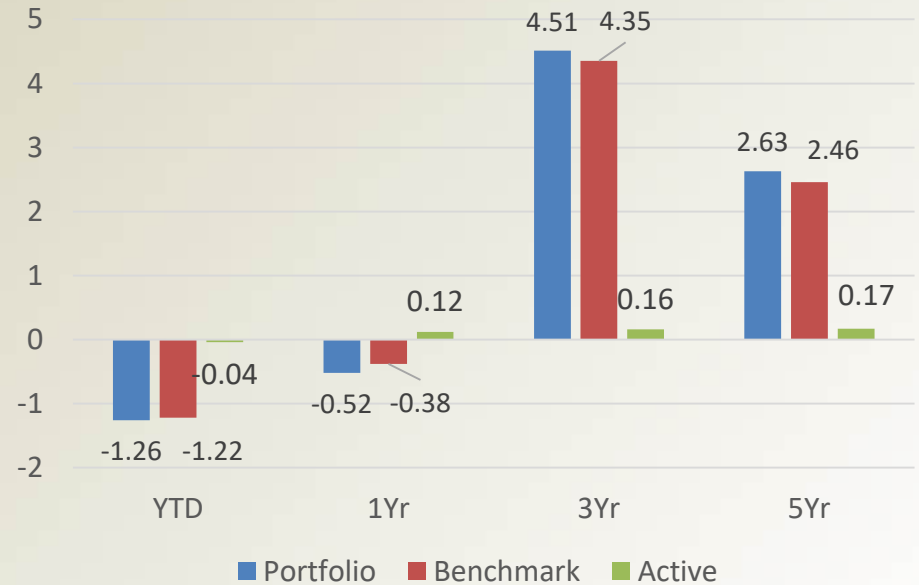


# Active Core

## 3 Yr. Rolling Tracking Error



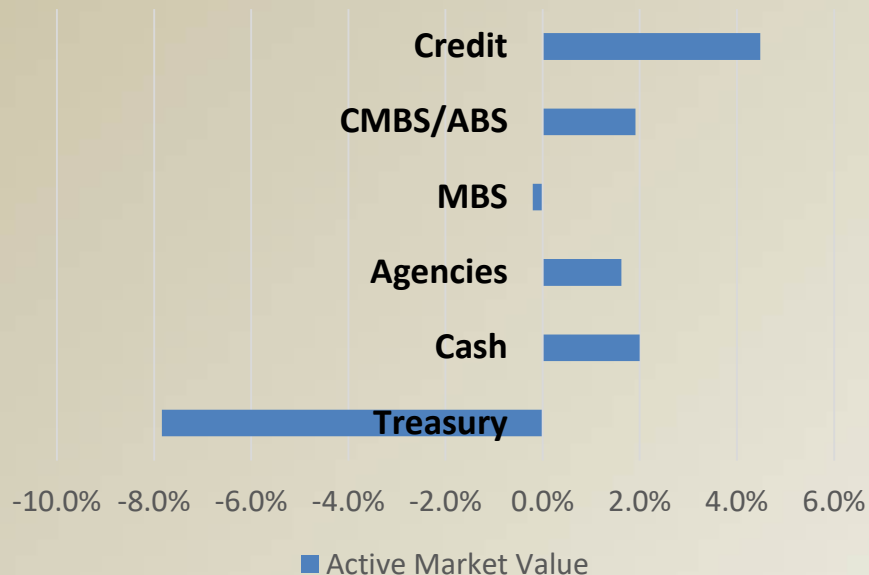
## Performance





# Active Core

## Positioning



|                   | Portfolio | Index | Active |
|-------------------|-----------|-------|--------|
| Coupon (%)        | 2.63      | 2.25  | 0.38   |
| Yield to Worst(%) | 1.72      | 1.42  | 0.30   |
| OAS (bps)         | 45        | 22    | 23     |
| OAD (Yr)          | 4.35      | 4.31  | 0.04   |
| OASD (Yr)         | 4.49      | 4.41  | 0.08   |
| Average Quality   | AA        | AA+   |        |

# External Management Overview

# External Manager Oversight

Fixed Income maintains a small stable of external managers. Their main purpose is to:

- Diversify and expand the core bond strategy managed internally
- Expand the fixed income opportunity set by investing with Core Plus managers in:
  - High Yield
  - Emerging Markets
  - Structured Credit
- Provide research, market color, strategic outlook & scenario analysis

# External Manager Ranking Criteria

We rank our managers on numerous factors, some of which include:

- Overall performance
- Volatility of active returns
- Adherence to stated investment objectives and strategy
- Ability and willingness to take appropriate risk
- Consistency of investment team and organization as a whole

# External Manager Risk Positioning and Key Metrics

The external manager portfolio is positioned to outperform the benchmark in a continued growth environment with:

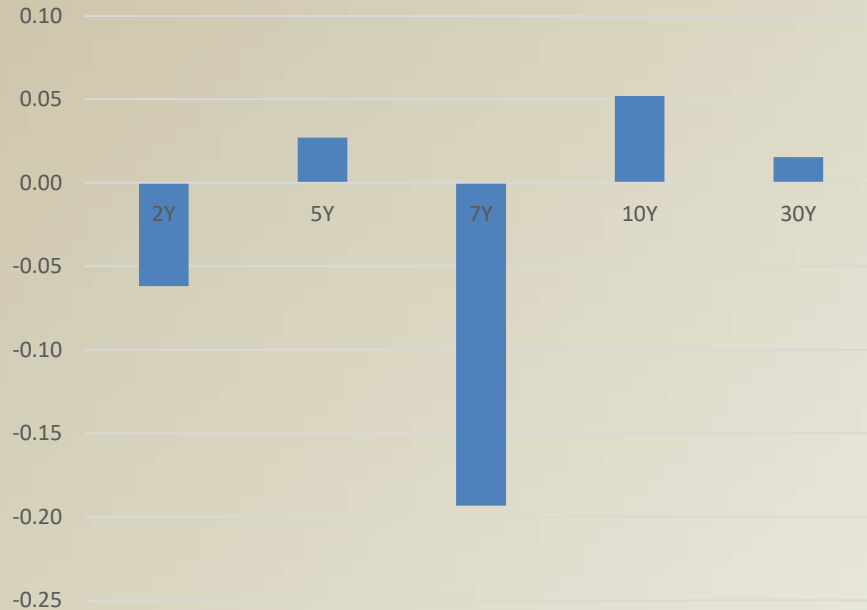
- Measured monetary policy tightening
- Moderating inflation
- No disruption in market liquidity
- Businesses and consumer balance sheets will remain strong in the near-term.

Current portfolio positioning:

- Underweight interest rate risk in the intermediate part of the US Treasury curve
- Significantly reduced TIPS position
- Underweight US Treasuries
- Overweight to corporates, securitized, and Plus sectors (EM, HY)

# External Manager Risk Metrics

Key Rate Exposures

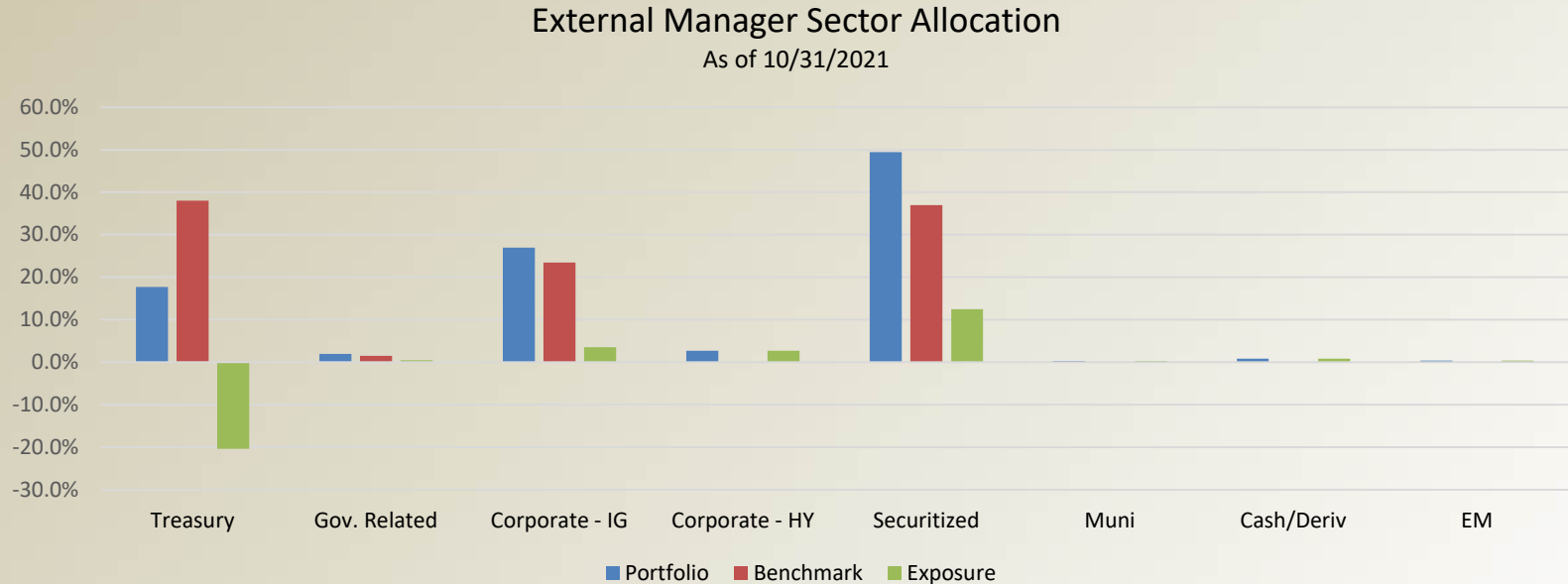


Key Risk Metrics

|                              | Portfolio        | Active    |
|------------------------------|------------------|-----------|
| Duration                     | 4.16             | -0.17     |
| Maturity                     | 9.95             | -0.85     |
| Yield                        | 1.62%            | 0.42%     |
| Coupon                       | 2.549            | 0.313     |
| Option Adjusted Spread (UST) | 0.59%            | 0.40%     |
|                              | Portfolio        | Benchmark |
| Average Quality/Rating       | AA-              | AA        |
| Size                         | \$13,922,842,828 |           |

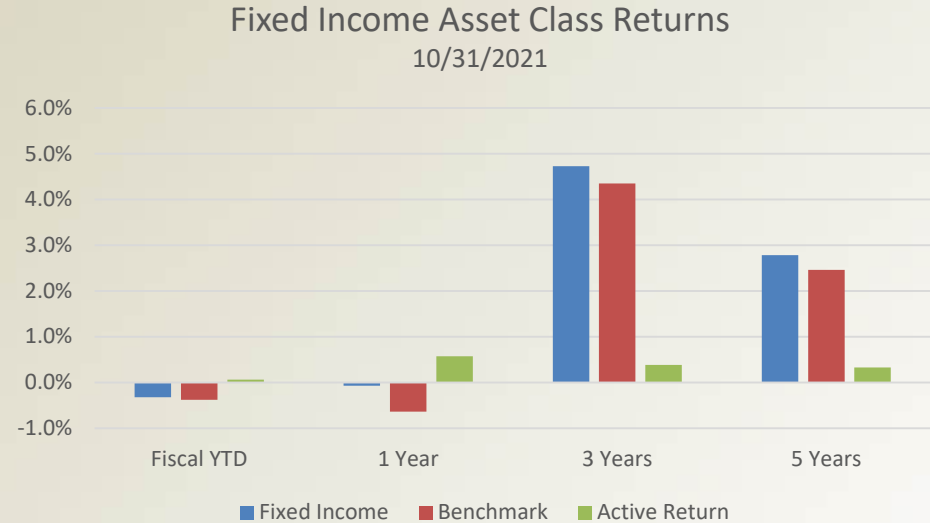
# External Manager Sector Allocation

- Large overweights in Core spread sectors with underweights in US Treasuries



# Total Fixed Income Portfolio Performance

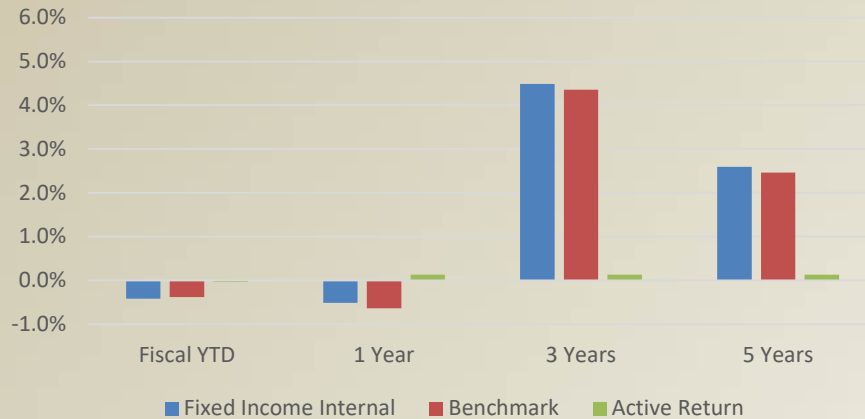
The Fixed Income asset class outperformed the benchmark over ALL time periods, however total returns for the year are negative.



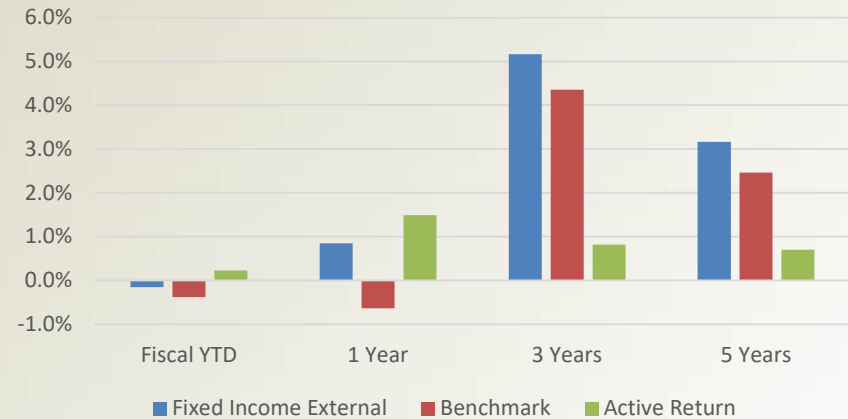


# Performance Breakdown: Internal vs. External

Fixed Income **Internal**  
Returns  
10/31/2021



Fixed Income **External**  
Returns  
10/31/2021

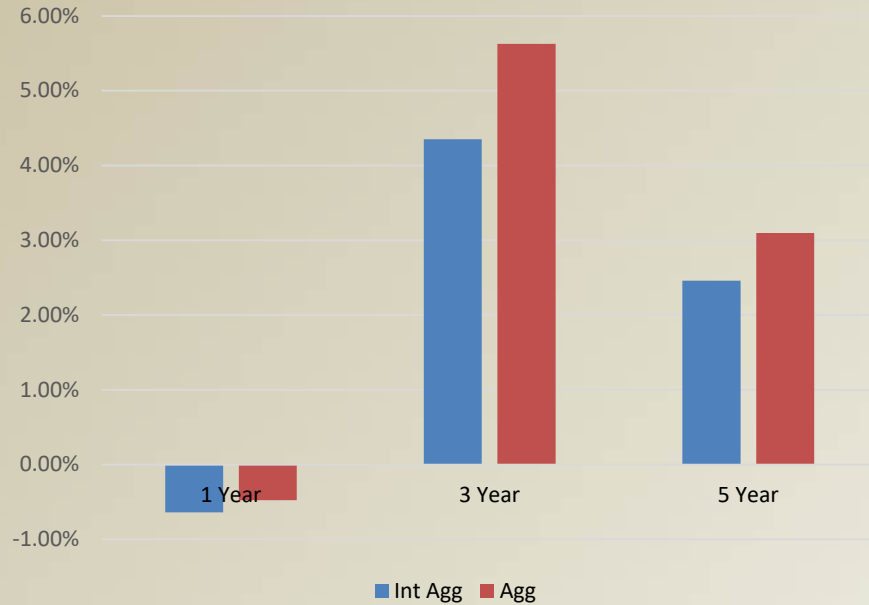


- *Passive portfolios account for approximately 2/3 of internally managed Fixed Income*

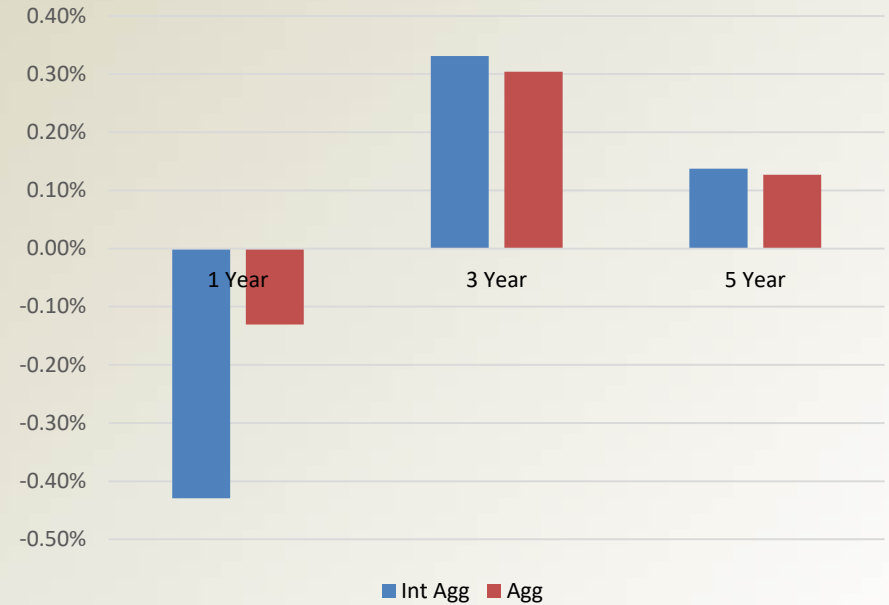
# Program Review and Outlook

# Benchmark Comparison

## Benchmark Total Returns



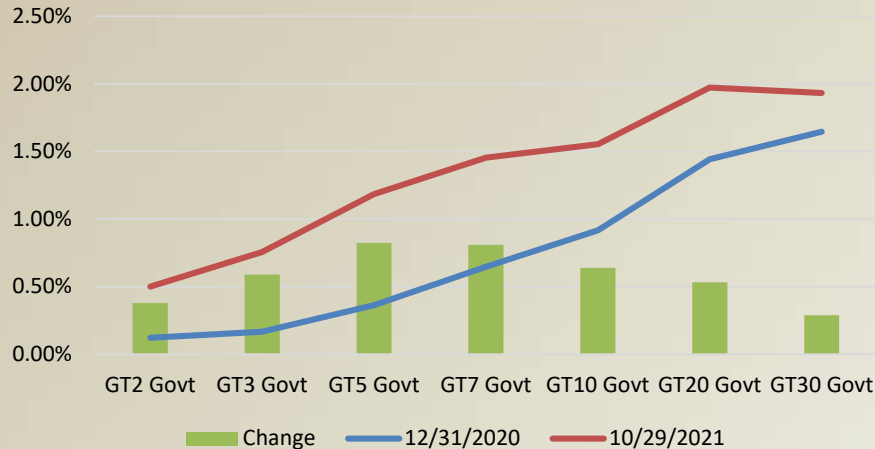
## Benchmark Risk Adjusted Returns



# Fixed Income Review: December 2021

The stimulus-boosted recovery and global growth pushed Risk-On trades at the expense of US Treasuries for most of the year.

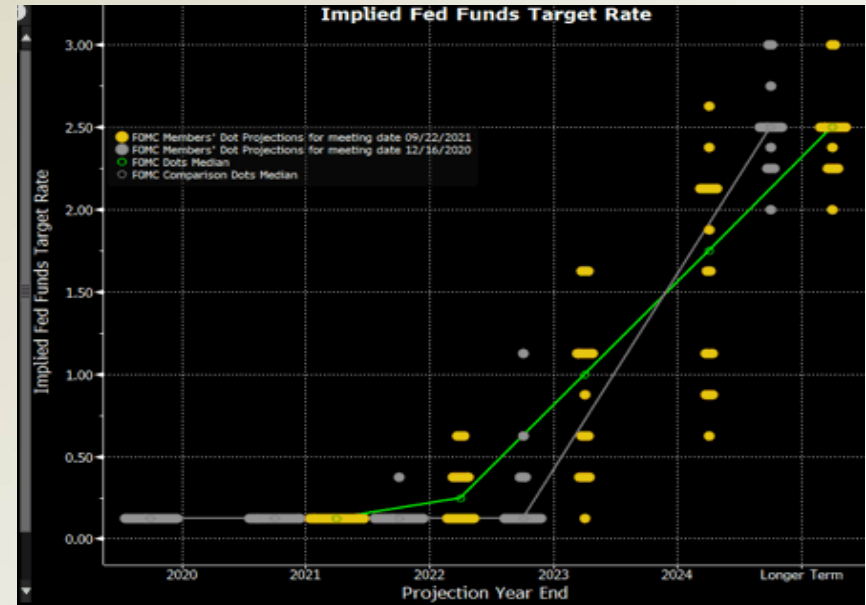
Year To Date Yield Curve Change  
as of 10/29/2021



Evolution of US Treasury yield curve through 10/29/2021

Source: Bloomberg

A strong labor recovery and increasingly strong inflation pushed the FOMC to a more hawkish stance and an increasing number of members moved rate hikes forward during the year.



Dot plot changes from beginning of year through 9/22/2021

Source: Bloomberg

# Fixed Income Review

Inflation Has Eroded Developed Market Real Yields:

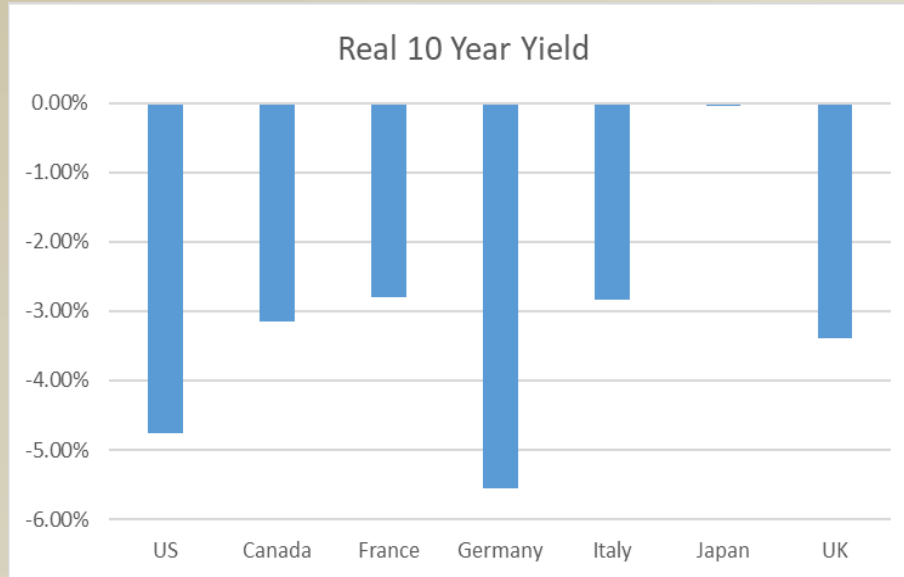


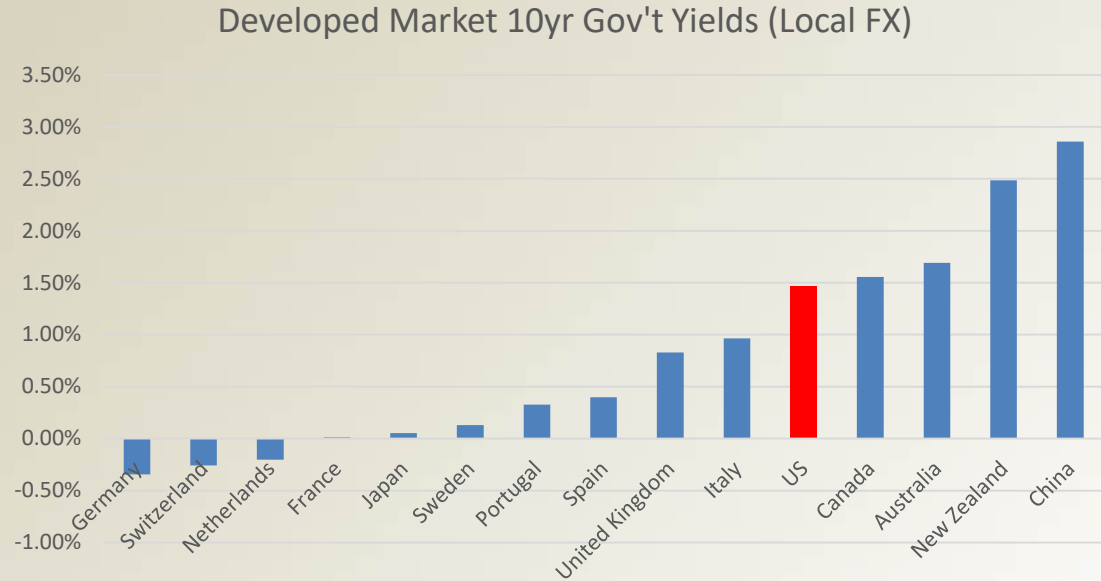
Chart displays nominal yields minus the current headline inflation reading.

Global Aggregate Negative Yielding Debt Remains Historically Elevated:



# Fixed Income Review

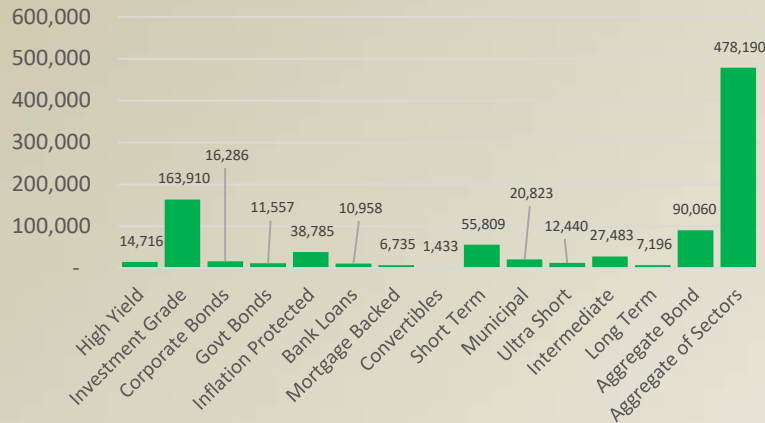
Developed Market  
Government  
Yields Remain Low:



# Fixed Income Review

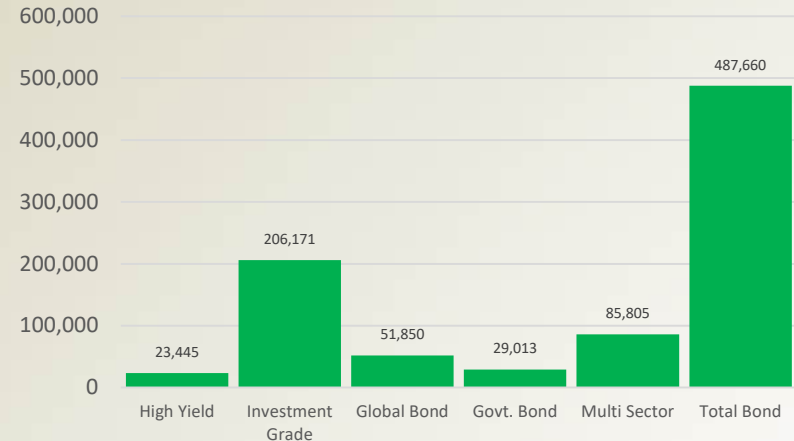
Steady flows into fixed income funds supported demand for spread product even with strong net corporate issuance.

Cumulative 12 - Month ETF Net Flows by Investment Mandate (\$Millions)



Source: Bloomberg

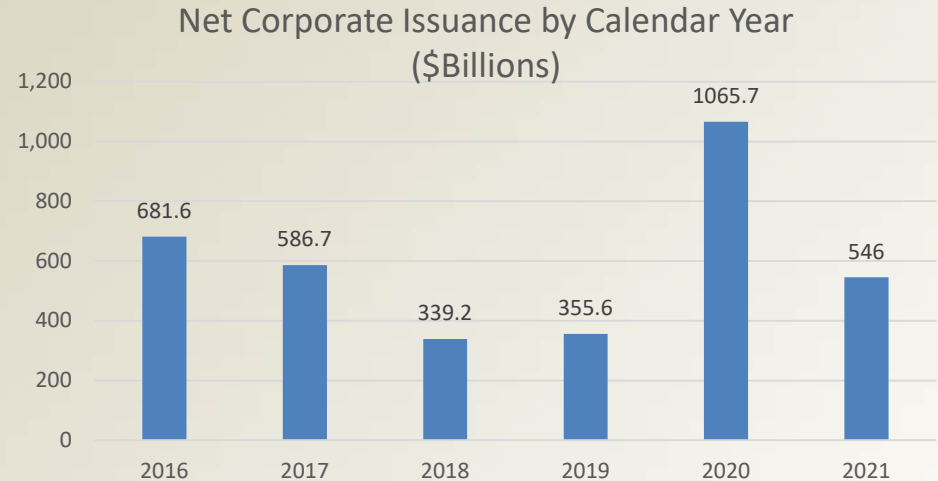
Cumulative 12 – Month Mutual Fund Net Flows by Investment Mandate (\$Millions)



Source: Bloomberg

# Fixed Income Review

- While not record setting like 2020, net corporate issuance is on pace for a very strong year.
- Through October, YTD issuance is well above total issuance of 2018 and 2019.

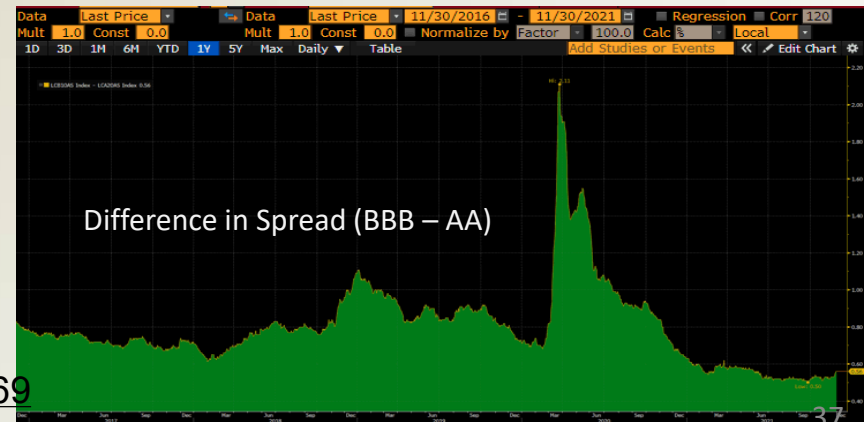


Source: Barclay's Credit Research



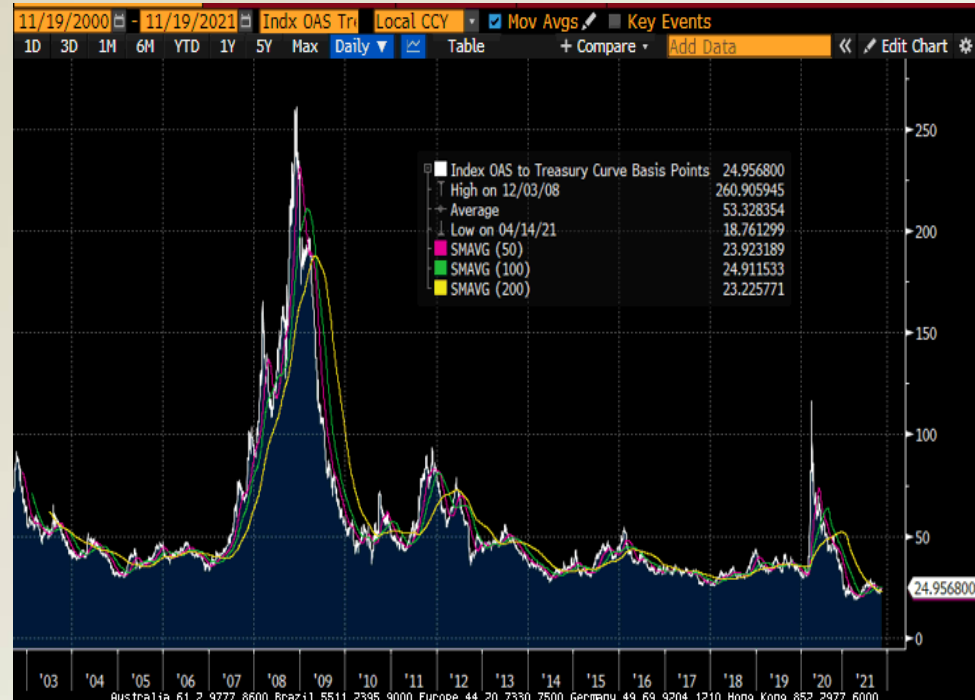
# Fixed Income Review

- Corporate bond spreads remained tight through most of this year through high issuance.
- Lower quality credit tightened more than higher quality.



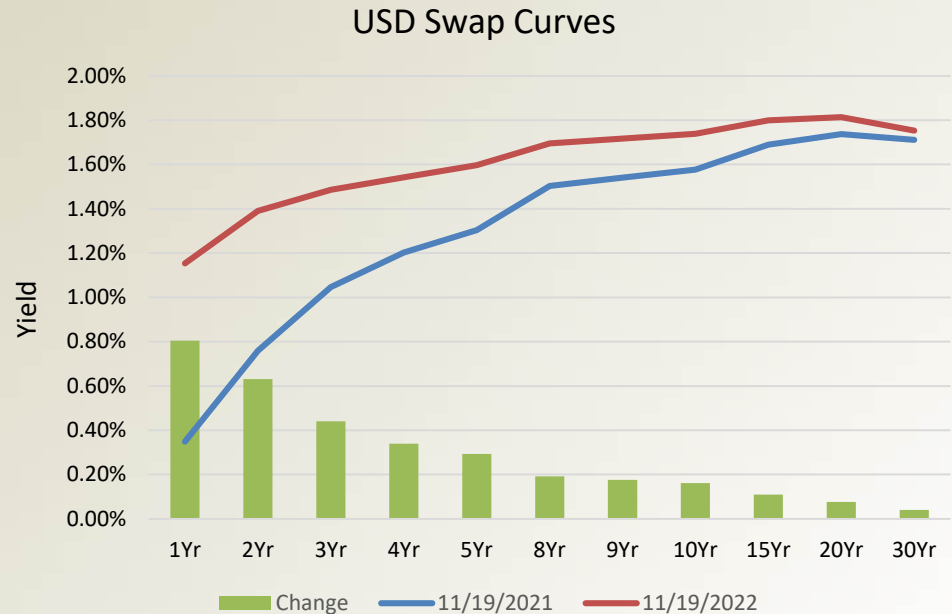
# Fixed Income Outlook

- Bloomberg US Bond Aggregate OAS is already near historically tight levels.



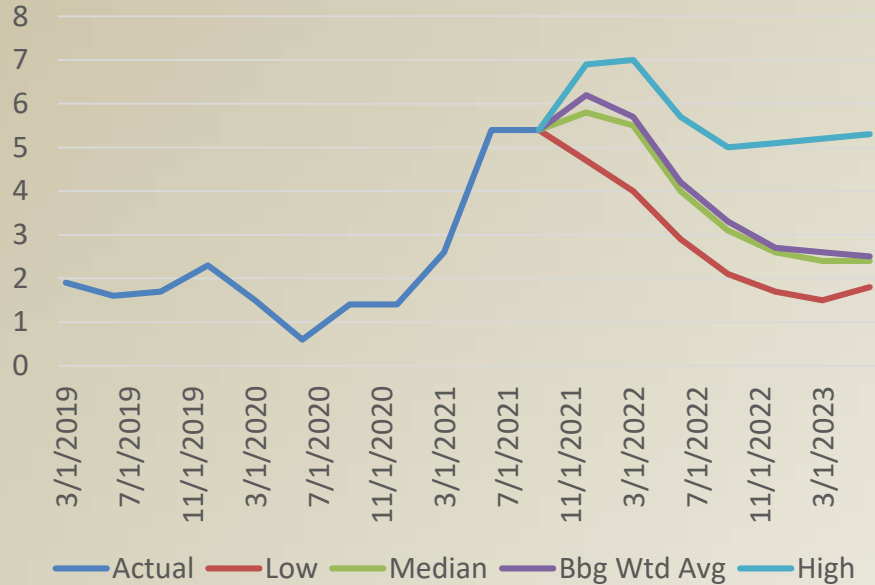
# Fixed Income Outlook

The USD Swap curve 1-YR forward is pricing in a large sell-off in front-end and intermediate yields:



# Market Outlook

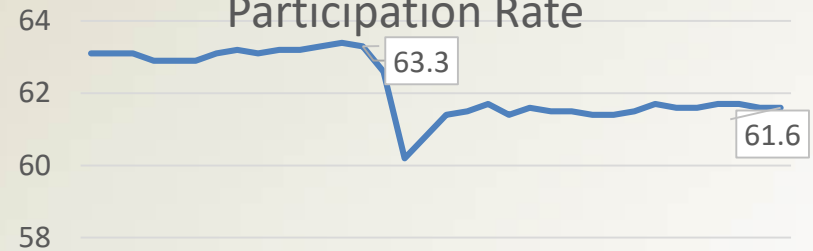
## CPI Forecasts



## U-6 Unemployment



## Participation Rate

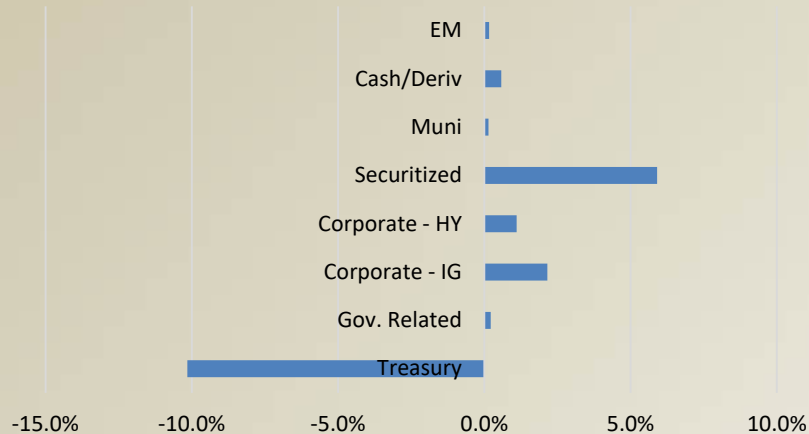


Source: Bloomberg, BLS

# Fixed Income Review: December 2021

## Portfolio Continues to Overweight Spread Product

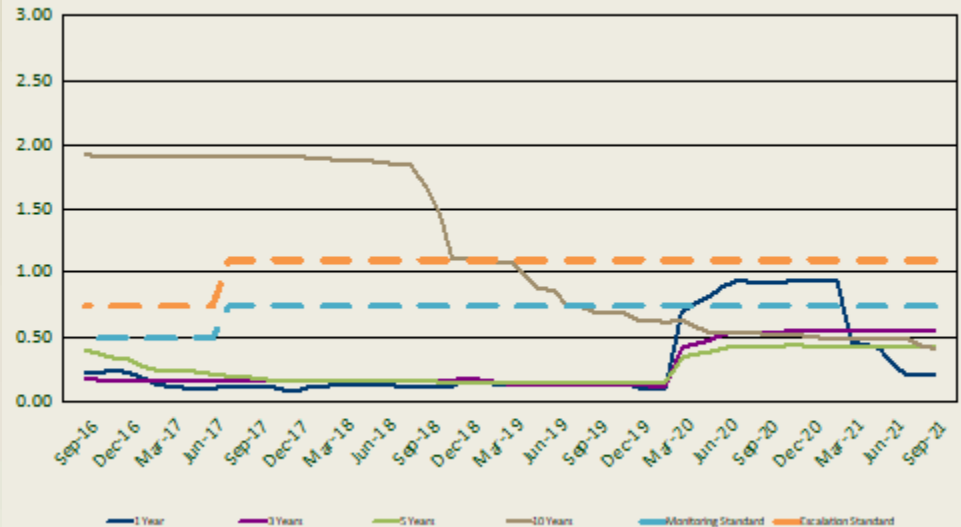
FRS Fixed Income Sector Exposures



As of 10/29/2021

## Overall Active Risk Has Levelled Off Following Spring Panic – Below Escalation Standard

Annualized Active Risk



273

# Fixed Income Review

## December 2021

### Looking Forward: Pockets of Value

- Continue to increase active allocation:
  - **Currently near the high end of our budget for active allocation**
  - **Giving skilled managers as many levers as possible, within our risk budget, has produced durable excess returns**
- Add exposure to out of benchmark structured products or other in a dedicated strategy:
  - **Maintain barbell with Short Duration/Full Aggregate Core Plus manager**
  - **Expand Core Plus capacity + Expand existing portfolio guidelines to include new opportunities**
- Execute on tactical opportunities, especially in shorter duration credit securities:
  - **Continue to take opportunities in our Active internal portfolio**

# Florida State Board of Administration

# **Review of Public Fixed Income Markets**

December 2021

# Agenda

- SBA's Public Fixed Income Markets Investment Program
- Review of Fixed Income
- Recent Activity



# **SBA's Public Fixed Income Markets Investment Program**

# SBA's Public Markets Investment Programs

## Guiding Principles

- All asset classes shall be invested to achieve or exceed the return of their respective benchmarks over a long period of time. To obtain appropriate compensation for associated performance risks:
  - Public market asset classes shall be well diversified with respect to their benchmarks and have a reliance on low cost passive strategies scaled according to the degree of efficiency in underlying securities markets, capacity in effective active strategies, and ongoing total fund liquidity requirements (Investment Policy Statement).
- Investing Guidelines:
  - The primary benchmark index was formally changed from the Bloomberg US Bond Aggregate Index to the Bloomberg US Bond Intermediate Aggregate Index in 4Q13 in order to decrease the overall interest rate sensitivity of the fixed income program.

# SBA's Public Markets Investment Programs

## Mercer's General Observations

- FRS Pension Plan
  - All public market investment portfolios are managed in a prudent, risk-controlled fashion
  - Appropriate levels of delegation are given to the staff
  - FRS is a significant user of passive management (42% of Portfolio vs. 18% of Peers' Portfolios)<sup>1</sup>
  - Active risk levels are monitored against predetermined ranges

<sup>1</sup> Represents percentage of total fund assets as of 12/31/19. Source: CEM 2020 Survey.

# Review of Fixed Income

# Review of Fixed Income

## Asset Allocation: Fixed Income

- Within Fixed Income, the SBA utilizes more passive management relative to peers

| Product <sup>1</sup> | FRS   | Peers |
|----------------------|-------|-------|
| US Fixed Income      |       |       |
| Passive              | 41.5% | 18.2% |
| Active               | 58.5% | 81.8% |

Source: CEM 2020 Survey

<sup>1</sup> May not add to 100% due to rounding.

# Review of Fixed Income

## Performance: Fixed Income

- Over the 3- and 5-year period, the FRS Fixed Income Portfolio has ranked in the bottom half of its universe for performance but has outperformed its custom benchmark. The universe rank can be attributed to the SBA using a shorter duration benchmark than many peers, as well as the SBA having limited exposure to high yield fixed income.
- The information ratios, a measure of return per unit of risk taken, are strong over the trailing 3- and 5-year periods.

| Periods Ending<br>9/30/2021            | Year to Date<br>Return (Rank) | 1 Year<br>Return (Rank) | 3 Years<br>Return (Rank) | 5 Years<br>Return (Rank) | Inception (April 1988)<br>Return (Rank) |
|----------------------------------------|-------------------------------|-------------------------|--------------------------|--------------------------|-----------------------------------------|
| <b>FRS Fixed Income<sup>1, 2</sup></b> | -0.49% (60)                   | 0.30% (80)              | 4.80% (93)               | 2.84% (92)               | 6.25%                                   |
| <b>Benchmark</b>                       | -0.79%                        | -0.38%                  | 4.39%                    | 2.47%                    | 6.05%                                   |
| <b>Value Added</b>                     | 0.30%                         | 0.68%                   | 0.41%                    | 0.37%                    | 0.20%                                   |
| <b>Information Ratio</b>               | --                            | --                      | 0.63 (34)                | 0.73 (19)                | --                                      |

<sup>1</sup> Compared to the Public Funds >\$1B - US Fixed Income universe; rankings are based on gross-of-fees FRS performance.

<sup>2</sup> Comprised of both active and passive strategies.

# Review of Fixed Income

## Performance: Fixed Income

- The FRS Fixed Income Internal Active Portfolio has outperformed its benchmark but trailed its universe median over the time periods examined. However, its information ratio ranked in the top quartile of the universe over the trailing 3-year period and in the second quartile over the 5-year period.
- The FRS Fixed Income Internal Passive Portfolio has exceeded its benchmark over all periods examined.

| Periods Ending<br>9/30/2021                           | Year to Date<br>Return (Rank) | 1 Year<br>Return (Rank) | 3 Years<br>Return (Rank) | 5 Years<br>Return (Rank) | Inception (January 2000)<br>Return (Rank) |
|-------------------------------------------------------|-------------------------------|-------------------------|--------------------------|--------------------------|-------------------------------------------|
| <b>Fixed Income Internal<br/>Active<sup>1,2</sup></b> | -0.76% (73)                   | -0.21% (79)             | 4.61% (72)               | 2.66% (80)               | 4.68% (60)                                |
| <b>Benchmark</b>                                      | -0.79%                        | -0.38%                  | 4.39%                    | 2.47%                    | 4.64%                                     |
| <b>Value Added</b>                                    | 0.03%                         | 0.17%                   | 0.22%                    | 0.19%                    | 0.04%                                     |
| <b>Information Ratio</b>                              | --                            | --                      | 0.58 (22)                | 0.61 (27)                | 0.01 (62)                                 |
|                                                       |                               |                         |                          |                          | Inception (Sept 2010)<br>Return           |
| <b>Fixed Income Internal<br/>Passive</b>              | -0.71%                        | -0.29%                  | 4.54%                    | 2.57%                    | 2.83%                                     |
| <b>Benchmark</b>                                      | -0.79%                        | -0.38%                  | 4.39%                    | 2.47%                    | 2.75%                                     |
| <b>Value Added</b>                                    | 0.08%                         | 0.09%                   | 0.15%                    | 0.10%                    | 0.08%                                     |
| <b>Information Ratio</b>                              | --                            | --                      | --                       | --                       | --                                        |

<sup>1</sup> Compared to the SBA Intermediate Core Fixed Income Custom Universe; rankings are based on gross-of-fees FRS performance.

<sup>2</sup> Excludes the AA Investment Grade account.

# Review of Fixed Income

## Performance: Fixed Income

- The FRS Fixed Income External Portfolio has outperformed its benchmark and universe median over all periods examined. Additionally, its information ratio ranked in the top half of the universe over the trailing 3- and 5-year periods as well as since inception.

| Periods Ending<br>9/30/2021 | Year to Date<br>Return (Rank) | 1 Year<br>Return (Rank) | 3 Years<br>Return (Rank) | 5 Years<br>Return (Rank) | Inception (January 2002)<br>Return (Rank) |
|-----------------------------|-------------------------------|-------------------------|--------------------------|--------------------------|-------------------------------------------|
| External <sup>1</sup>       | -0.16% (12)                   | 1.15% (13)              | 5.15% (36)               | 3.18% (21)               | 4.71% (3)                                 |
| Benchmark                   | -0.73%                        | -0.27%                  | 4.42%                    | 2.49%                    | 4.19%                                     |
| Value Added                 | 0.57%                         | 1.42%                   | 0.73%                    | 0.69%                    | 0.52%                                     |
| Information Ratio           | --                            | --                      | 0.39 (44)                | 0.49 (47)                | 0.33 (2)                                  |

<sup>1</sup> Compared to the SBA Intermediate Core Fixed Income Custom Universe; rankings are based on gross-of-fees FRS performance.

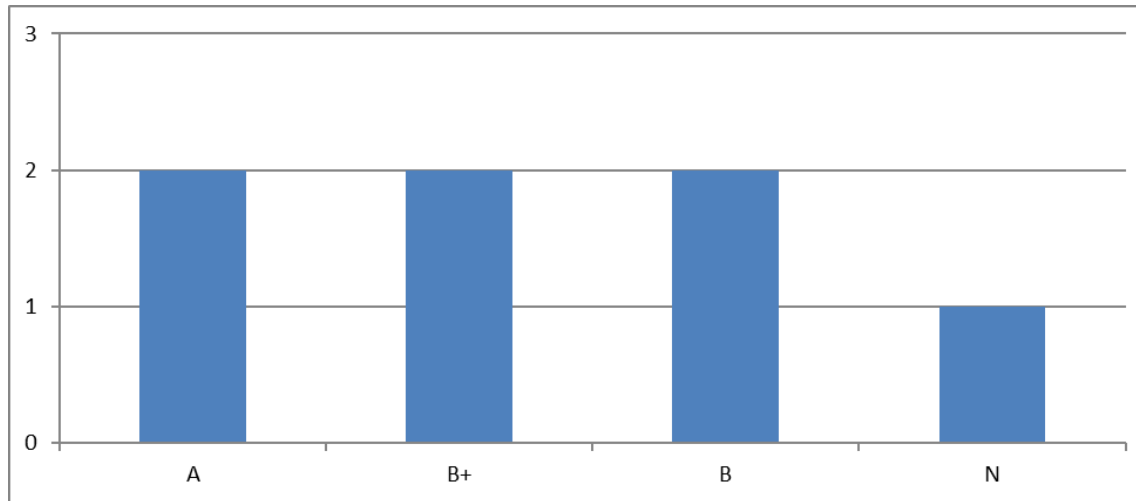


# Recent Activity

# Mercer Research Rating Review

## Breakdown of Strategies by Rating

- Of the 7 FRS active fixed income strategies in the Plan, 4 strategies are rated “B+” and above.
- The graph below shows the breakdown of the strategies by their Mercer Rating.
- The assets managed by PGIM represent a core plus mandate and are managed against the full Bloomberg US Bond Aggregate Index.
- SBA will consider expanding the Plan’s opportunity set beyond the benchmark.



### Mercer Ratings:

**A** = "above average" prospects of outperformance

**B+** = "above average" prospects of outperformance, but there are strategies in which Mercer has greater conviction

**B** = "average" prospects of outperformance

**C** = "below average" prospects of outperformance

**N** = not rated

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Returns for periods greater than one year are annualized. Returns are calculated gross of investment management fees, unless noted as net of fees.



Services provided by Mercer Investment Consulting LLC.

# State Board of Administration

## **Real Estate Update**

Steve Spook  
Senior Investment Officer

Investment Advisory Council Meeting  
December 14, 2021

# Quarterly Highlights: Real Estate

## Market Overview

- Appreciation continues to accelerate with BM's posting historically high returns due to:
  - Increase in transaction volume
  - Declining cap rates
  - Investors pricing for improving economic growth
- Appreciation is bifurcated with industrial multifamily and alternatives accounting for much of the improvement

## Performance Summary

- Total Asset class
  - 1 year: 13.5% (BM 9.8%)
  - 3 years: 6.8% (BM 5.2%)
- Contributors - 1 year
  - Principal Investments Selection: Office/Retail/Multifamily/Industrial
  - Principal Investments Allocation: Retail Underweight/Alternatives Overweight
  - Externally Managed Drivers: Core Industrial/Core Diversified/Asia
- Detractors - 1 year
  - Principal Investments Allocation: Office Overweight/Industrial Underweight
  - Externally Managed Detractors: Europe retail

## Opportunities and Priorities

- Increase industrial/living/alternatives allocation
- Decrease office/retail exposure
- Portfolio leverage
- Co-Investments

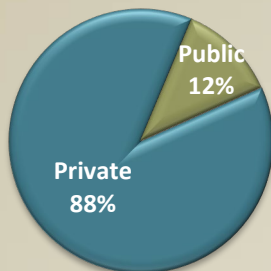
## Risks and Issues to Consider

- Inflation
- Increase in interest rates
- Remote work
- Ecommerce influence
- Regulatory risk

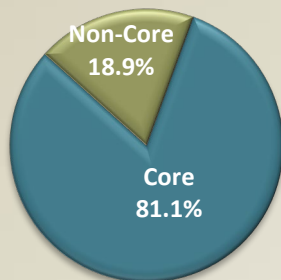
# Real Estate Portfolio Sector Allocation

## as of 06/30/2021

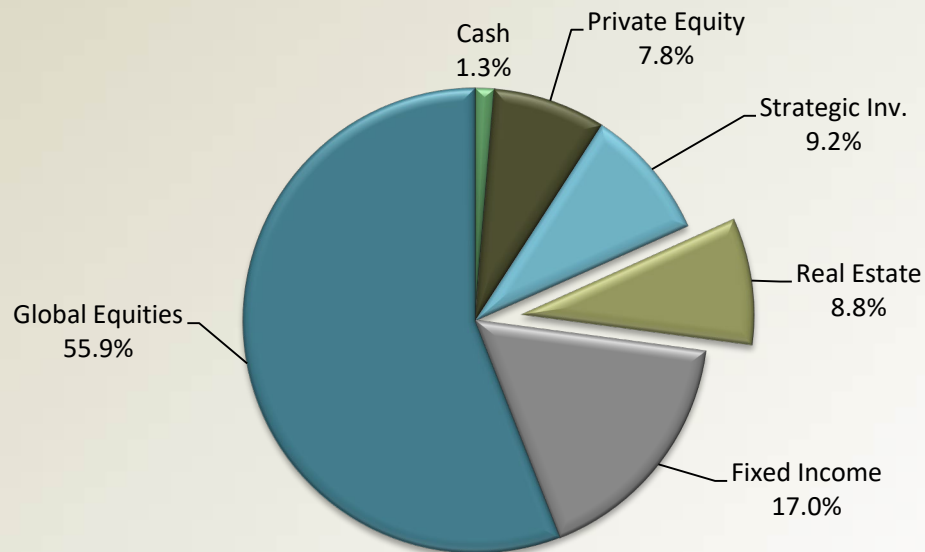
### Total RE Portfolio



### Private Market



### Florida Retirement System Defined Benefit Fund



# Private Market Leverage

## as of 6/30/2021

Private Portfolio  
Market Value \$21,534 M

Private Market Leverage  
29.6%

Principal  
Investments  
25.5%

Pooled Funds  
38.7%

### Pooled Funds Leverage

Closed-End Funds

54.2%

Open-End Funds

26.3%

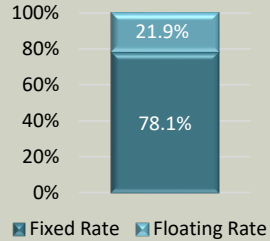
#### Investment Portfolio Guidelines:

- Private Market Portfolio leverage limited to 40% Loan to Value (LTV).
- Principal Investments Portfolio leverage limited to 30% Loan to Value (LTV).

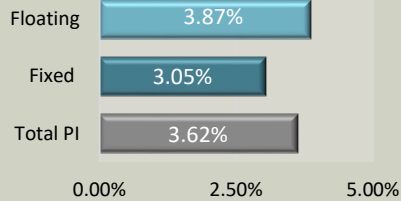


# Principal Investments Leverage

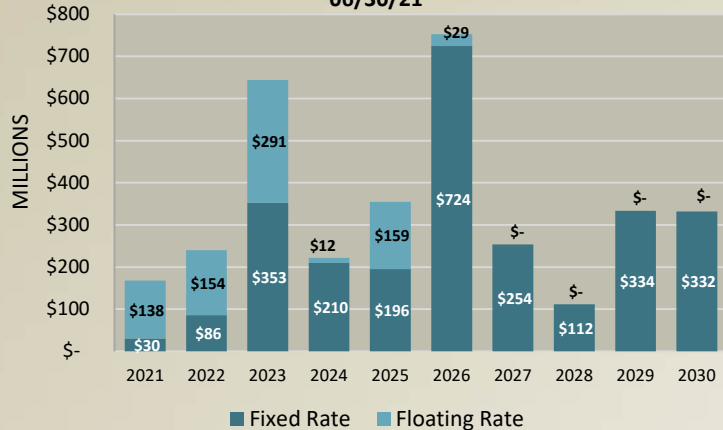
**DEBT TYPE  
06/30/21**



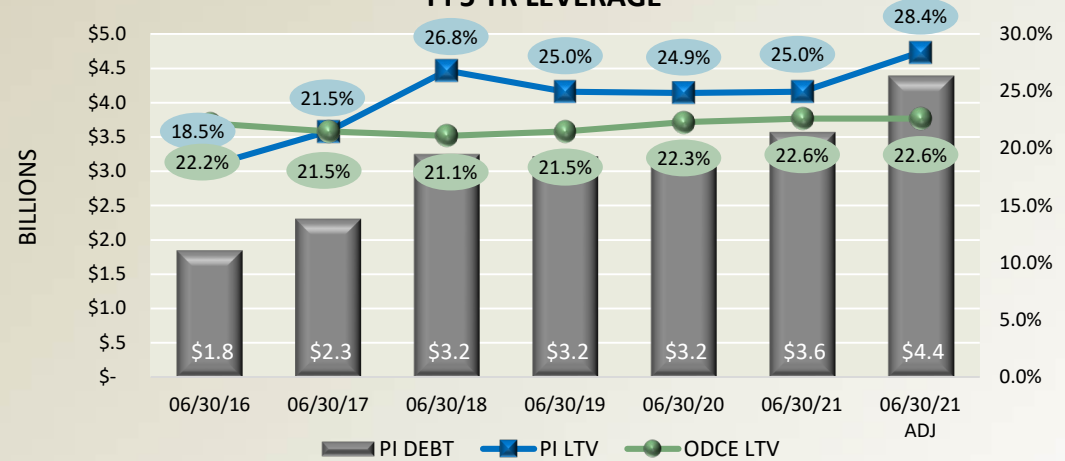
**WEIGHTED AVG COST OF DEBT  
06/30/21**



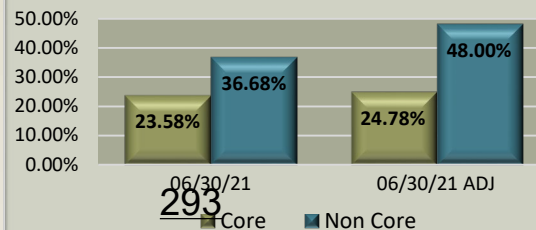
**DEBT MATURITIES  
06/30/21**



**PI 5 YR LEVERAGE**



**PI CORE AND NON CORE LEVERAGE**

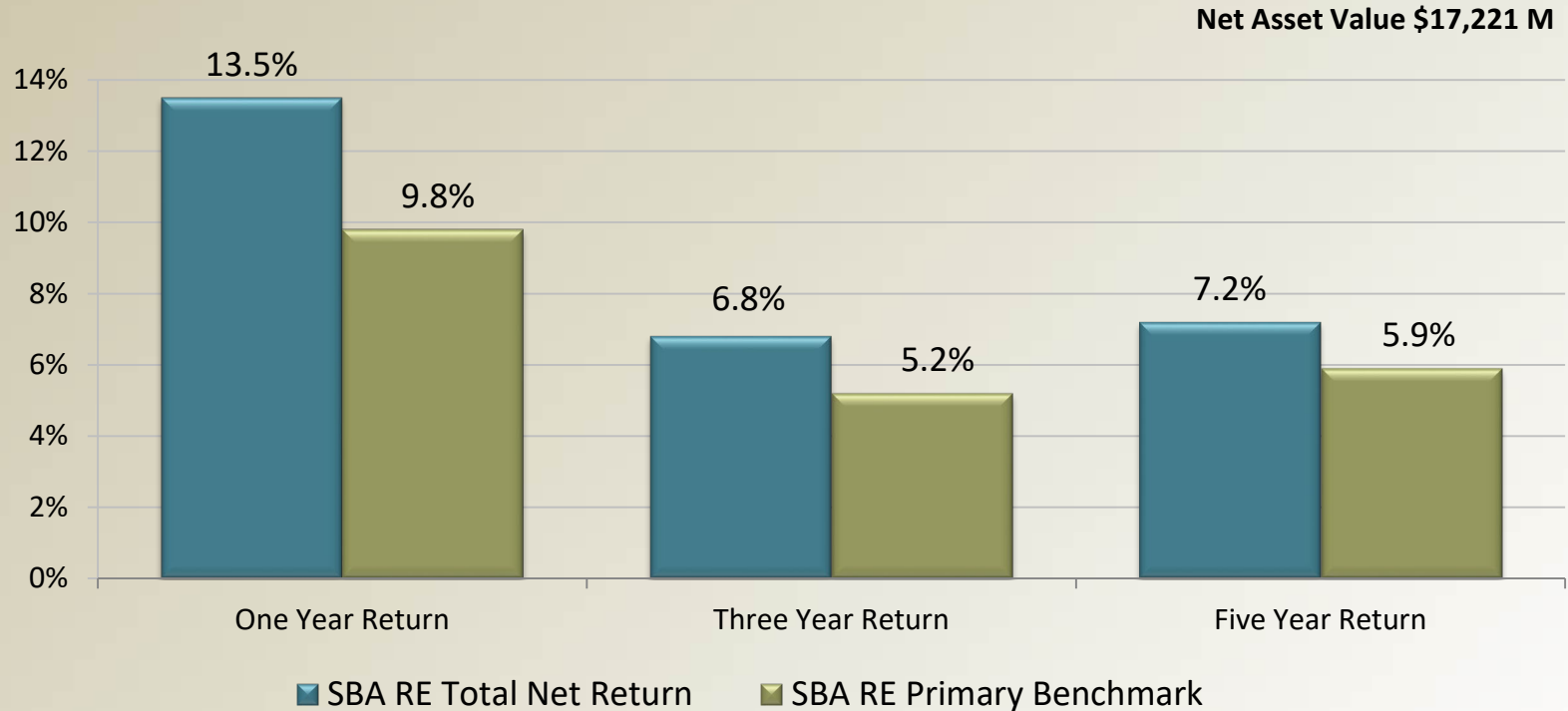


**Investment Portfolio Guidelines**

- Portfolio Leverage limited to 30% Loan To Value (LTV)
- Individual Asset Level limited to 50% LTV
- JV Individual Asset limited to 70% LTV
- Nonrecourse to the SBA

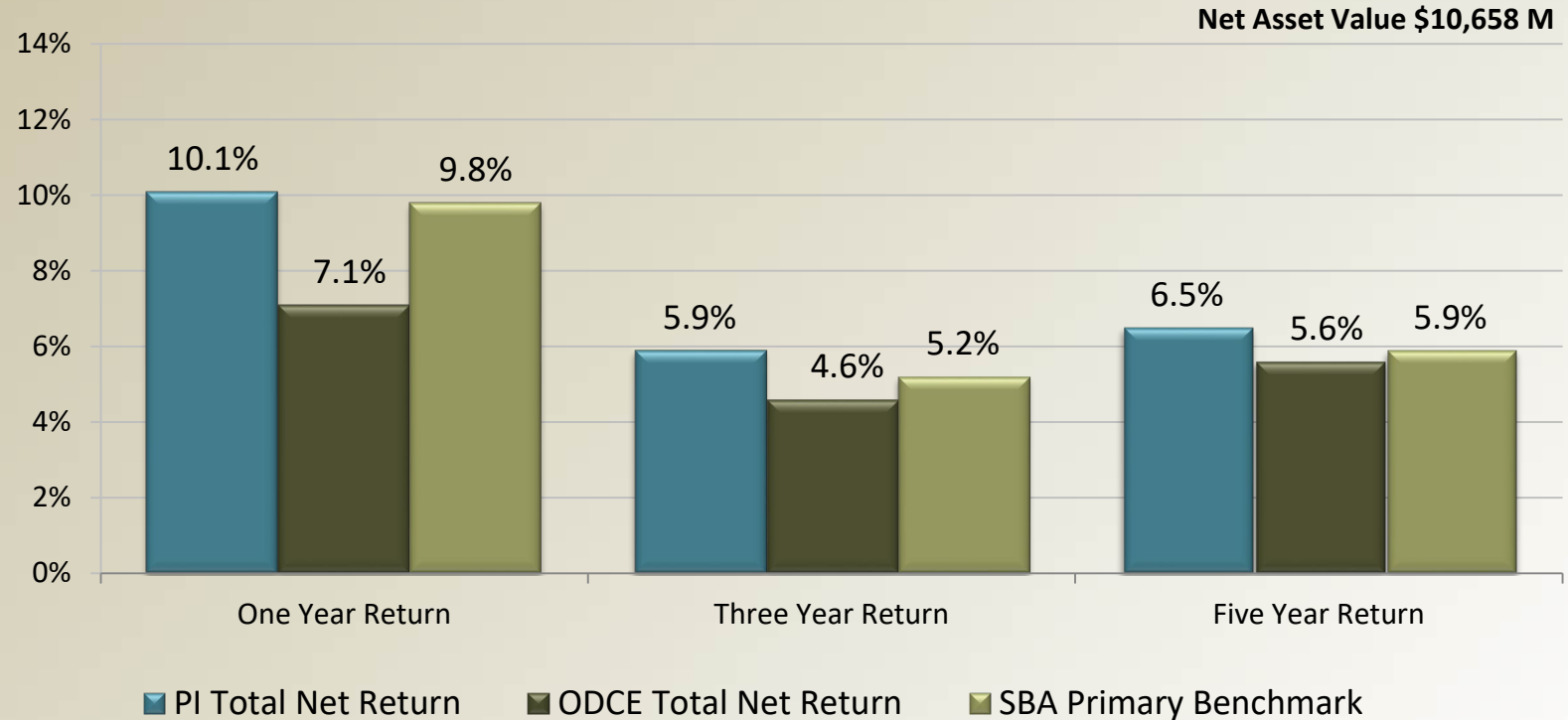
# Total Real Estate Portfolio Performance

Data Through 06/30/2021



# Principal Investments Performance

Data Through 06/30/2021

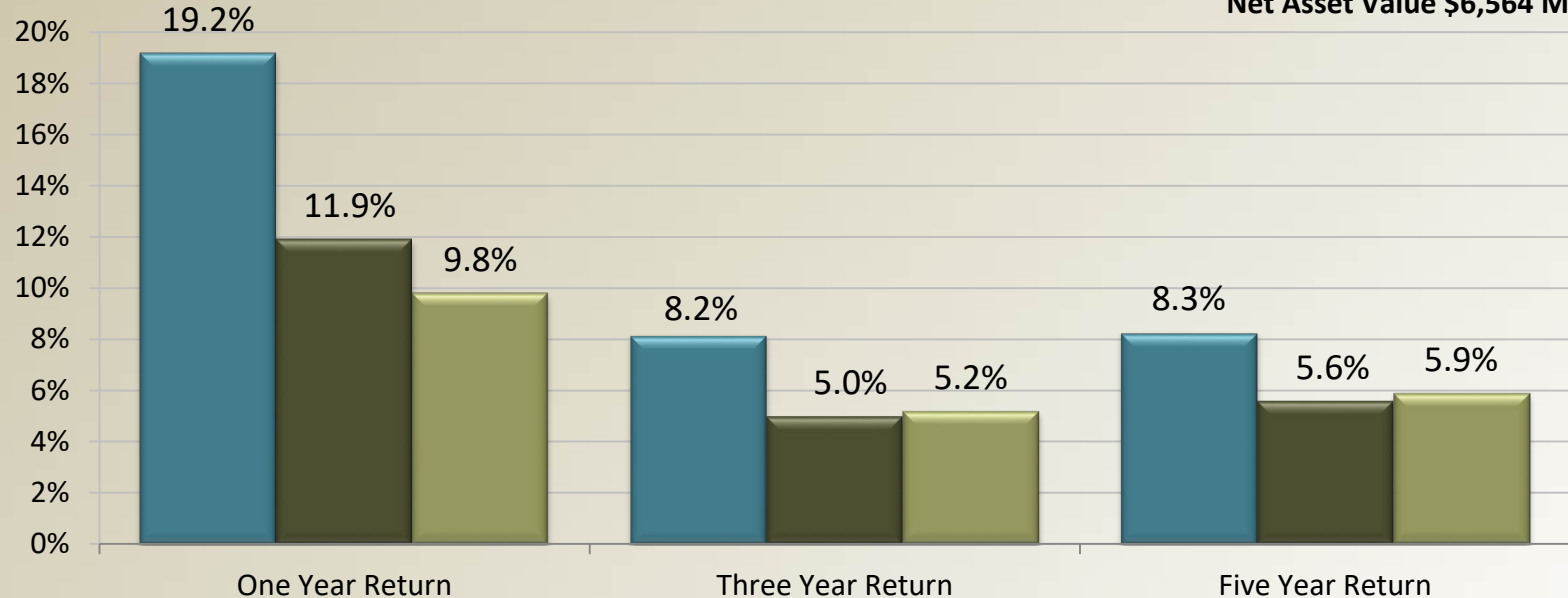


295

# Externally Managed Portfolio Performance

Data Through 06/30/2021

Net Asset Value \$6,564 M



■ EMP Total Net Return

■ External Custom Benchmark Net Return

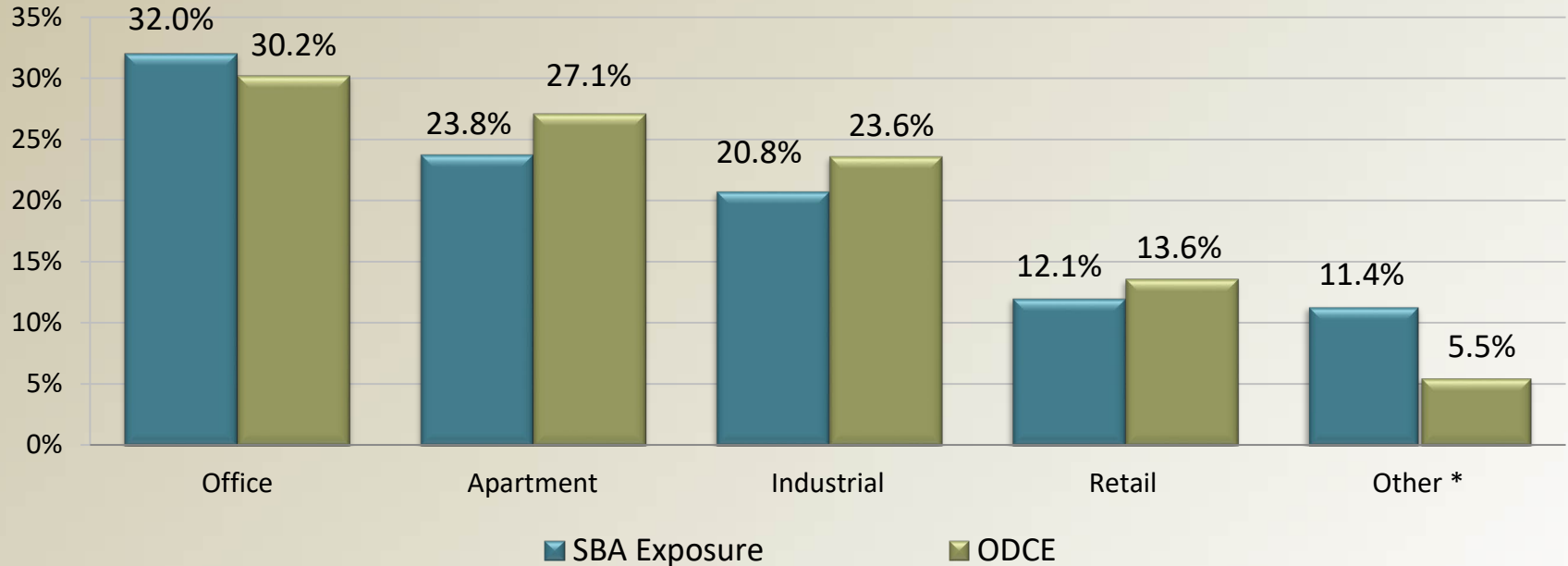
■ SBAF Primary Benchmark

296

# Private Market Property Type Diversification

as of 06/30/2021

Target NFI-ODCE +/- 15%

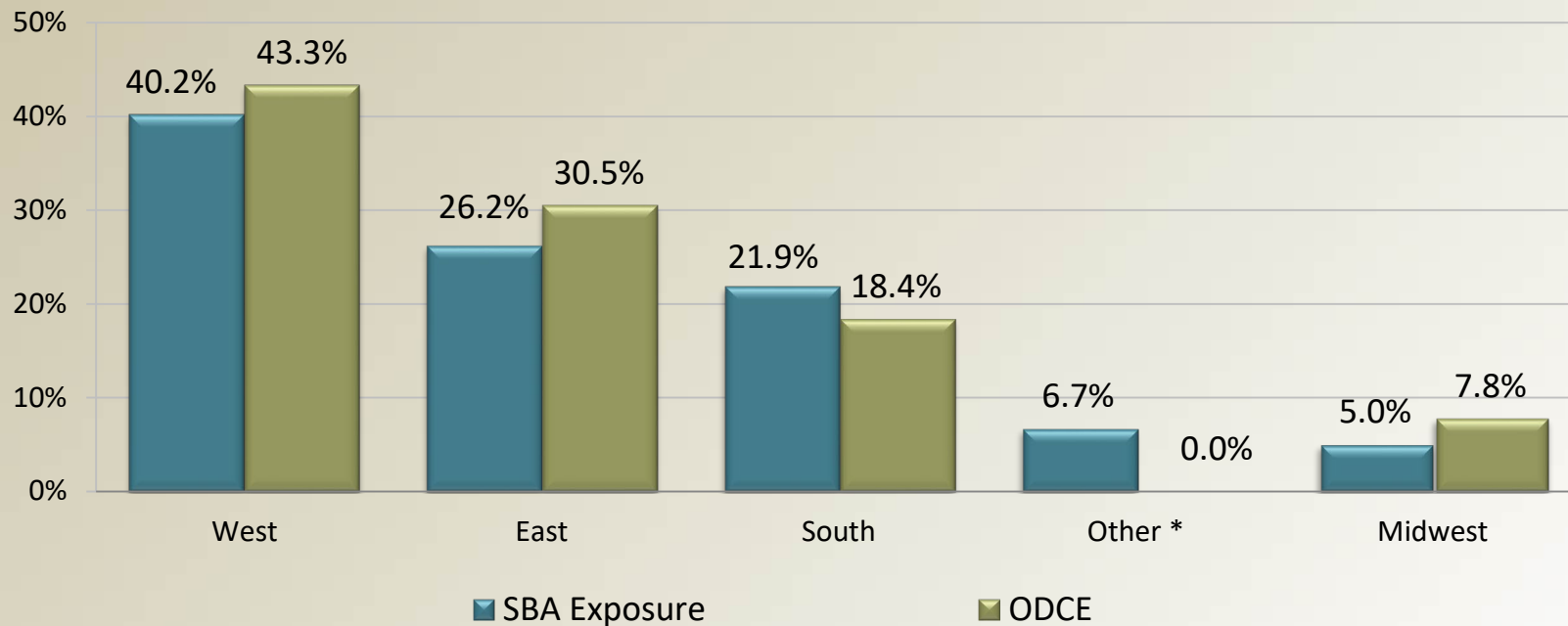


\* Other includes Agriculture, Senior Housing, Self-Storage, Hotel, Land

# Private Market Geographic Diversification

as of 06/30/2021

Target NFI-ODCE +/- 15%



\* Other includes International Investments

# Recent Activity

(Since Last IAC Report)

## Principal Investments

### **Acquisitions (Price/Equity)**

- |                                 |                            |
|---------------------------------|----------------------------|
| - Medical Office (8 Properties) | \$59 million/\$30 million  |
| - Industrial                    | \$122 million/\$79 million |

## Externally Managed:

### **New Commitments**

- |                        |               |
|------------------------|---------------|
| - U.S. Closed-End Fund | \$100 million |
| - Asia Closed-End Fund | \$100 million |

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# Global Equity Update

*Tim Taylor, Senior Investment Officer*

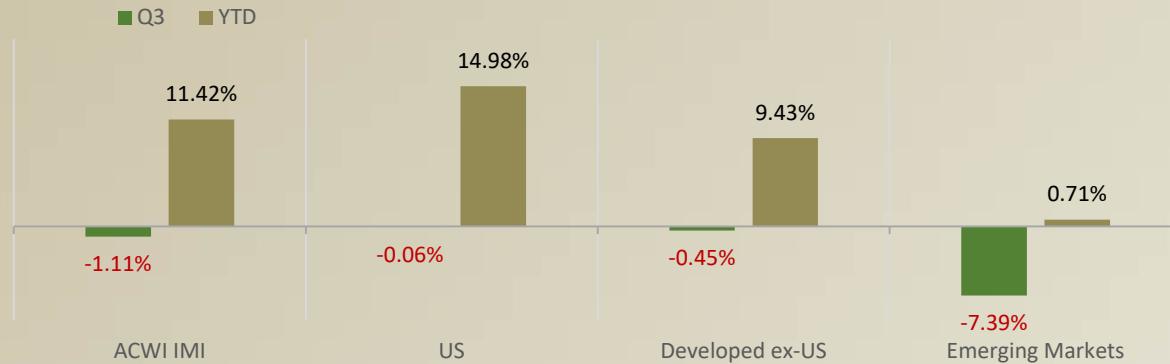
Investment Advisory Council

December 14, 2021

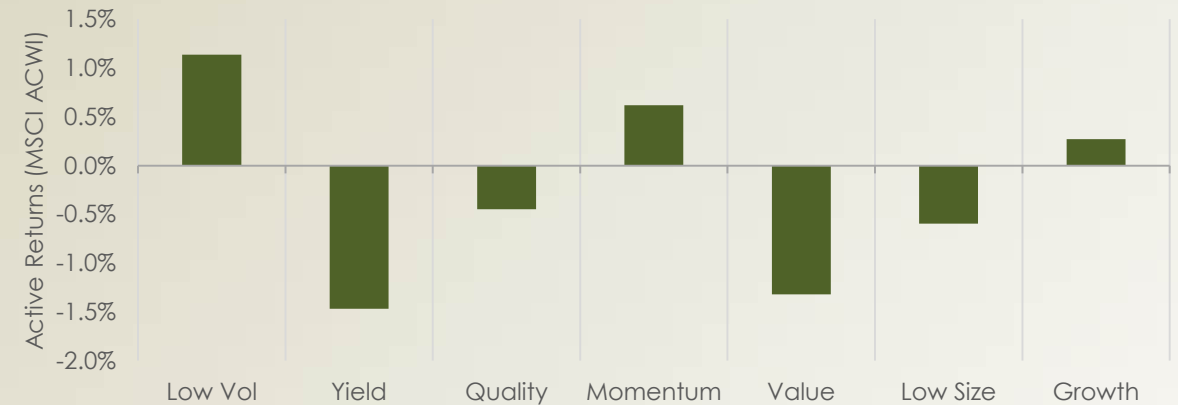


# Q3 2021 Market Environment

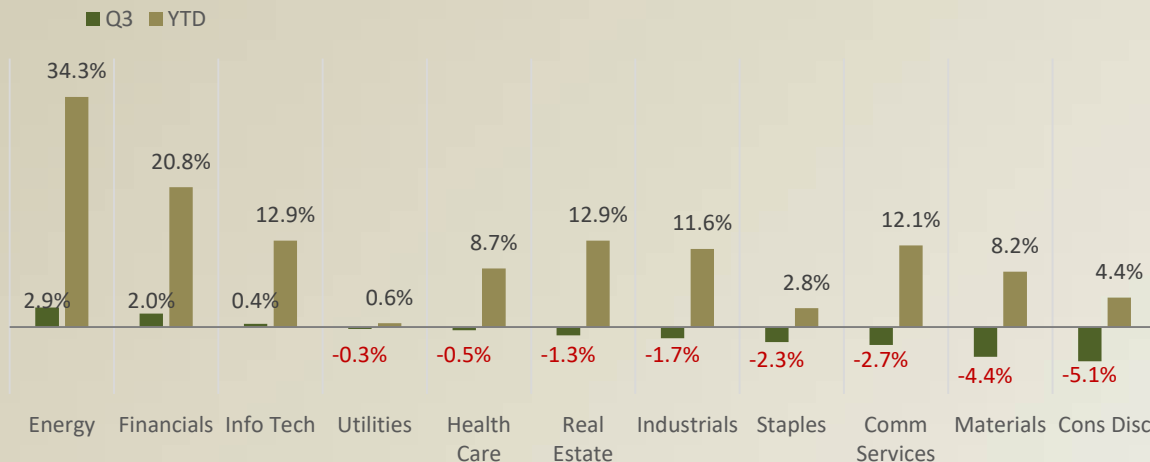
## Global Markets Decline



## Q3 2021: Market Favored Low Vol and Momentum



## Energy and Financial Sectors Outperformed



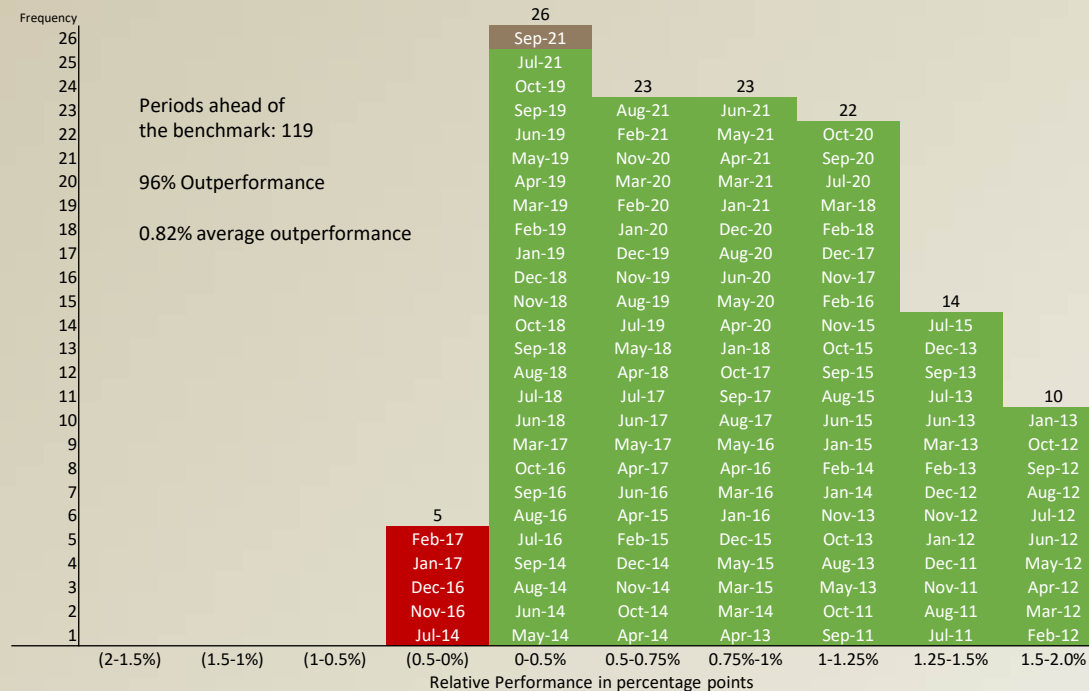
## Q3 2021 Global Market Dynamics

- Equity markets fell worldwide during Q3, led by Emerging Markets. However returns remained strong YTD 2021.
- In Q3 Energy and Financials were the top performing sectors, with Consumer Discretionary and Materials lagging.
- YTD 2021 Energy and Financials are the clear leaders.
- Among other topics investors continued to debate whether sharply increasing inflation measures were "transitory" or would endure for an extended period.

# Aggregate Performance Summary

|                          | Q3 21  | CYTD   | 1 Yr   | 3 Yr   | 5 Yr   | Incept |
|--------------------------|--------|--------|--------|--------|--------|--------|
| Total Asset Class Return | -1.21% | 11.87% | 29.04% | 13.04% | 13.69% | 12.06% |
| Benchmark                | -1.14% | 11.37% | 28.86% | 12.40% | 13.07% | 11.26% |
| Excess Return            | -0.07% | 0.49%  | 0.19%  | 0.63%  | 0.62%  | 0.81%  |
| Tracking Error           |        |        |        | 0.55   | 0.49   | 0.52   |
| Return / Risk (IR)       |        |        |        | 0.96   | 1.06   | 1.36   |

Distribution of Rolling 1 Year Excess Returns



Global Equity Active Risk



# Active Strategy Performance Summary

| Excess Returns by Aggregate   |                           |               |              |              |              | What Happened                                                                                                                                                                                                                         |
|-------------------------------|---------------------------|---------------|--------------|--------------|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Active Strategy Group         | Weight (% of Asset Class) | Q3 2021       | 1 Year       | 3 Year       | 5 Year       | Q3 Performance Drivers                                                                                                                                                                                                                |
| Foreign Developed Large Cap   | 20%                       | -1.03%        | -1.09%       | 2.02%        | 2.09%        | The aggregate lagged primarily due to underweights to the top performing Energy and Financials sectors, which generally do not possess companies with quality and/or secular growth characteristics.                                  |
| Emerging Markets              | 11%                       | -0.48%        | 1.60%        | 2.54%        | 0.78%        | Positive contributions from an underweight to China were offset by underweights to five of the six best performing, and mostly cyclical, sectors. An underweight to Middle Eastern markets also proved detrimental to active returns. |
| Dedicated Global              | 10%                       | -0.61%        | -4.81%       | -2.08%       | -1.56%       | Returns were negatively impacted by exposures to quality stocks, dividend yielding securities and value factors.                                                                                                                      |
| Foreign Developed Small Cap   | 5%                        | 0.12%         | 1.87%        | 0.15%        | 0.04%        | Managers focusing on "quality growth" stocks lifted the aggregate above the benchmark. Exposure to relative-value securities also proved beneficial.                                                                                  |
| Currency                      | 3%                        | 0.49%         | 1.47%        | 0.38%        | 0.07%        | Exposure to the strengthening USD contributed, as investors bid up the currency in anticipation of rising interest rates.                                                                                                             |
| US Small Cap                  | 2%                        | 2.51%         | 4.26%        | 0.84%        | 0.84%        | This aggregate experienced its third best active performance on record driven by strong stock selection within sectors. Exposure to profitable small companies finally boosted returns.                                               |
| US Large Cap                  | 2%                        | 1.07%         | 11.95%       | -2.12%       | -0.82%       | Strong active performance continued in this restructured aggregate on the back of positive stock selection in the IT, Communication Services and Industrials sectors.                                                                 |
| <b>Total Active Aggregate</b> | <b>51%</b>                | <b>-0.23%</b> | <b>0.43%</b> | <b>0.87%</b> | <b>0.73%</b> |                                                                                                                                                                                                                                       |

Note: All returns through 9/30/2021. Excess returns are relative to strategy group benchmark. Currency weight reflects passively managed equity notional. Weights are relative to total equity assets under management.

# Update on Initiatives

## **Provide Alpha**

- Continued to implement aggregate structural enhancements
  - Funded three dedicated Global strategies in Q3 2021
- Ongoing monitoring & analysis of active aggregates
- Enhanced focus on opportunistic, differentiated strategies that add alpha and/or diversification to the Global Equity asset class

## **Provide Liquidity**

- Global Equity continues to be a significant provider of liquidity to support beneficiary payments
  - Raised \$1 billion in Q3 2021 and \$7.2 billion year-to-date.

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# State Board of Administration

## Private Equity Asset Class Update

John Bradley, SIO Private Equity

Investment Advisory Council

December 14, 2021

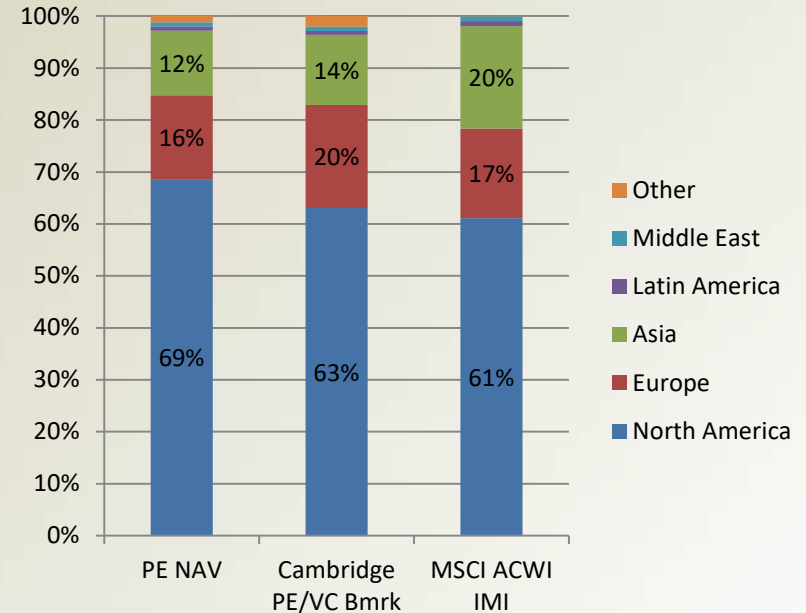
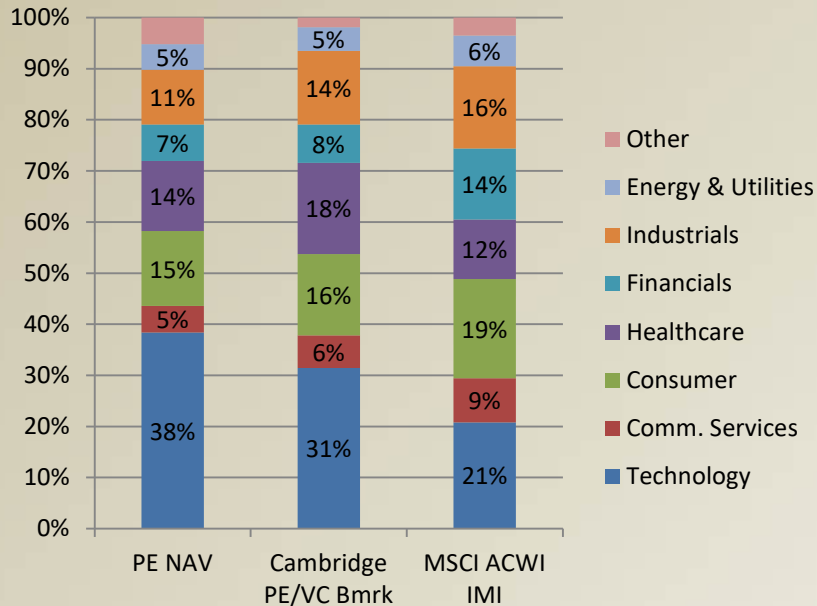
# Market/Portfolio Update

- Market/Portfolio Update:
  - Market
    - PE market activity remains strong - deal flow, volume, exits and fundraisings are all set to reach record highs
    - Tech and healthcare continue to receive the most attention from sponsors, accounting for 57% of U.S. buyout transaction value in 2021 (through Q3)
  - Portfolio
    - PE portfolio up 64.4% for the 1 year-ended 6/30/21
    - Growth equity, venture capital, energy, healthcare and technology were value drivers
    - 2021 net cash flow through 11/30/21: \$3.0 billion



# Sector and Geographic Exposure

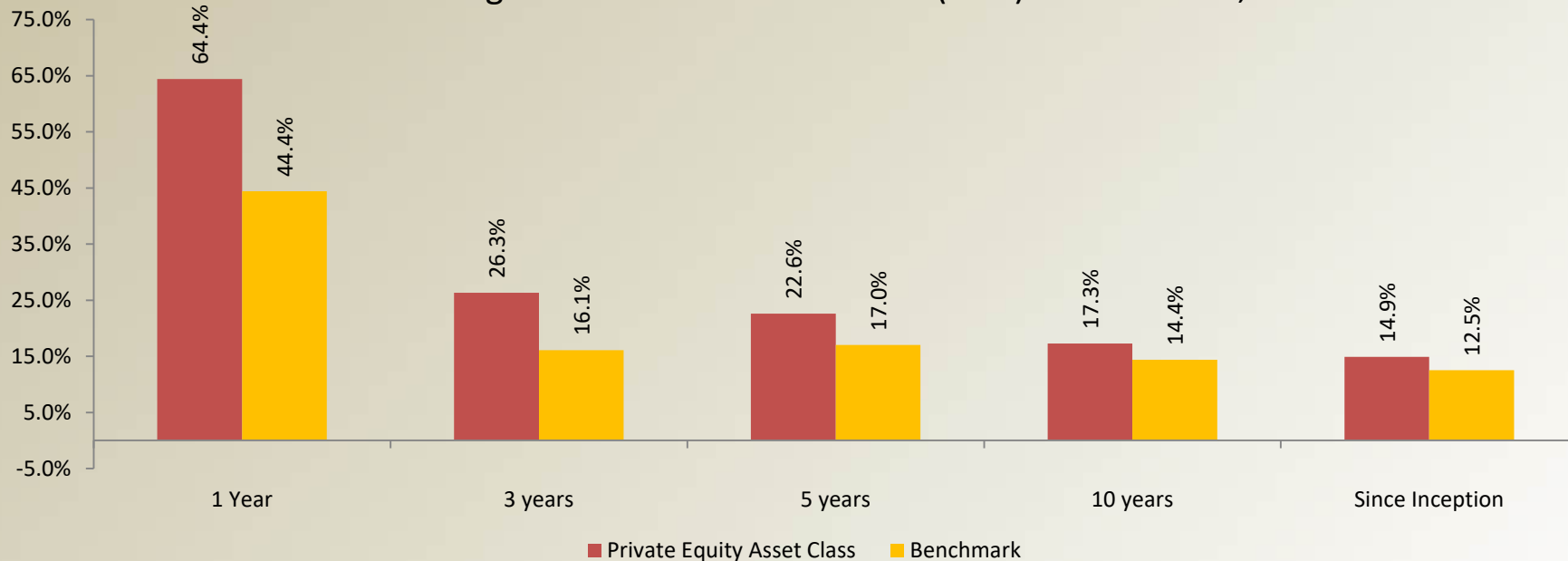
As of June 30, 2021



Source: Cambridge Associates

# Private Equity Asset Class Performance

Asset Class - Net Managed and Benchmark Returns (IRRs) as of June 30, 2021



Note: Asset class IRR performance data is provided by Cambridge Associates. The PE benchmark is currently the Custom Iran- and Sudan-free ACWI IMI + 300bps. From July 2010 through June 2014 the benchmark was the Russell 3000 + 300 bps. Prior to July 2010, the benchmark was the Russell 3000 + 450 bps.

# Sub-strategy Performance

As of June 30, 2021

|                               | <u>1yr</u> | <u>3yr</u> | <u>5yr</u> | <u>10yr</u> | <u>Since Inception</u> | <u>Cambridge Median</u> |
|-------------------------------|------------|------------|------------|-------------|------------------------|-------------------------|
| <b>U.S. Buyouts</b>           | 47.4%      | 20.7%      | 20.4%      | 16.3%       | 13.3%                  | 13.7%                   |
| <b>Non-U.S. Buyouts</b>       | 55.5%      | 23.5%      | 21.9%      | 17.0%       | 14.4%                  | 17.3%                   |
| <b>U.S. Venture</b>           | 110.2%     | 44.0%      | 30.2%      | 22.3%       | 18.2%                  | 18.3%                   |
| <b>U.S. Growth Equity</b>     | 68.0%      | 26.3%      | 23.4%      | 18.9%       | 16.5%                  | 18.5%                   |
| <b>Non-U.S. Growth Equity</b> | 38.5%      | 18.3%      | 16.4%      | 12.4%       | 12.3%                  | 16.3%                   |
| <b>Distressed/Turnaround</b>  | 47.1%      | 17.3%      | 16.6%      | 14.3%       | 19.8%                  | 10.4%                   |
| <b>Secondaries</b>            | 53.8%      | 15.7%      | 16.3%      | 13.0%       | 15.9%                  | 21.2%                   |
| <b>Total PE Asset Class</b>   | 64.4%      | 26.3%      | 22.6%      | 17.3%       | 14.9%                  | 14.4%                   |

Sub-strategy returns and benchmark returns provided by Cambridge Associates and are calculated net of all fees and expenses. The Cambridge benchmark is the weighted average median return for the respective sub-strategy.

# 2021 Commitment Activity

- Commitments totaling \$1.6 billion to 18 funds through November 30, 2021
  - \$953 million to 9 buyout funds
    - Small 39%, Middle-Market 35%, Large 26%
  - \$235 million to 3 venture funds
  - \$350 million to 4 distressed funds
  - \$51 million to 2 secondary funds
  - Geographic Focus
    - US 68%, Europe 3%, Asia 13%, Global 16%

# Appendix

# Private Equity Aggregates

## Dollar-Weighted Performance (IRRs) as of June 30, 2021

|                                              | <u>Inception Date</u> | <u>Market Value<br/>(in Millions)</u> | <u>1yr</u> | <u>3yr</u> | <u>5yr</u> | <u>10yr</u> | <u>Since<br/>Inception</u> |
|----------------------------------------------|-----------------------|---------------------------------------|------------|------------|------------|-------------|----------------------------|
| Total Private Equity                         | 1/27/1989             | \$19,082.2                            | 64.4%      | 26.3%      | 22.6%      | 16.7%       | 11.3%                      |
| Custom Iran- and Sudan-free ACWI IMI +300bps |                       |                                       | 44.4%      | 16.1%      | 17.0%      | 14.4%       | 11.3%                      |
| Private Equity Legacy Portfolio              | 1/27/1989             | \$2.6                                 | 0.0%       | -3.5%      | -4.8%      | -18.0%      | 3.7%                       |
| Custom Iran- and Sudan-free ACWI IMI +300bps |                       |                                       | 43.9%      | 14.3%      | 16.9%      | 14.7%       | 10.2%                      |
| Private Equity Asset Class Portfolio         | 8/31/2000             | \$19,084.8                            | 64.4%      | 26.3%      | 22.6%      | 17.3%       | 14.9%                      |
| Custom Iran- and Sudan-free ACWI IMI +300bps |                       |                                       | 44.4%      | 16.1%      | 17.0%      | 14.4%       | 12.5%                      |

Note: Asset class IRR performance data is provided by Cambridge Associates. The PE benchmark is currently the Custom Iran- and Sudan-free ACWI IMI + 300bps. From July 2010 through June 2014 the benchmark was the Russell 3000 + 300 bps. Prior to July 2010, the benchmark was the Russell 3000 + 450 bps. Prior to November 1999, Private Equity was part of the Domestic Equity asset class and its benchmark was the Domestic Equity target index + 750 bps.

# FRS INVESTMENT PLAN

# FRS Investment Plan Snapshot

(as of September 30, 2021)

## Assets

**\$14.8 B**

21% Increase since 9/30/2020

- -0.14% - 3rd Quarter 2021 Return
- 9.07% - Calendar Year 2021 (Jan – Sept)
- -0.14% - Fiscal Year (July 21 – Sept 21)

## Members

**266,313**

7.3% increase since 9/30/2020

- 179,048 - Active or currently working members (28% of active FRS membership)
- 87,265 - Inactive (terminated with a balance)
- \$55,454 - Average account balance (13% increase since 9/30/20)
- 46 - Average age
- 5 - Average Years of Service for active members

## Retirees

**165,928**

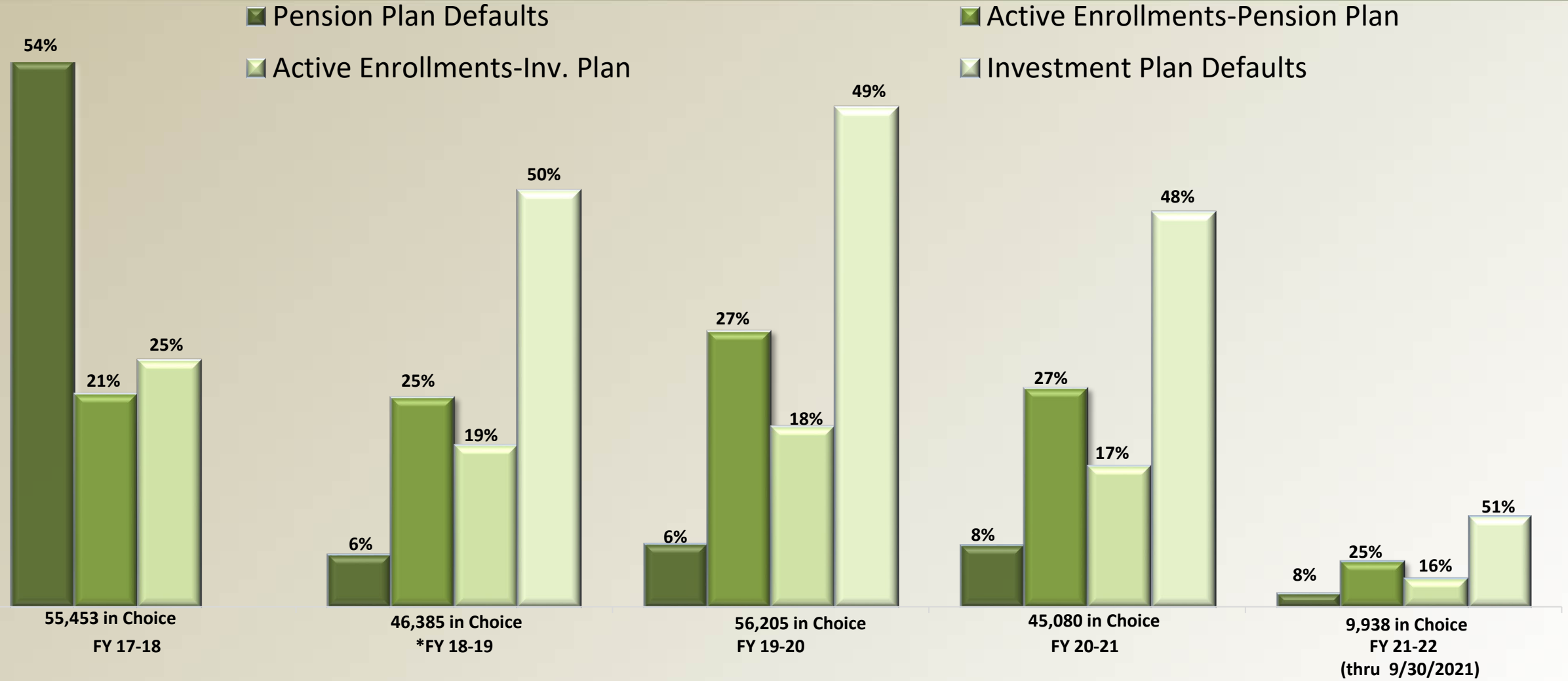
8% increase since 9/30/2020

- \$15.8 B – Total distributions
  - \$6.3 B – Lump sum payments (40%)
  - \$9.4 B – Rollovers (60%)



# FRS CHOICE STATISTICS

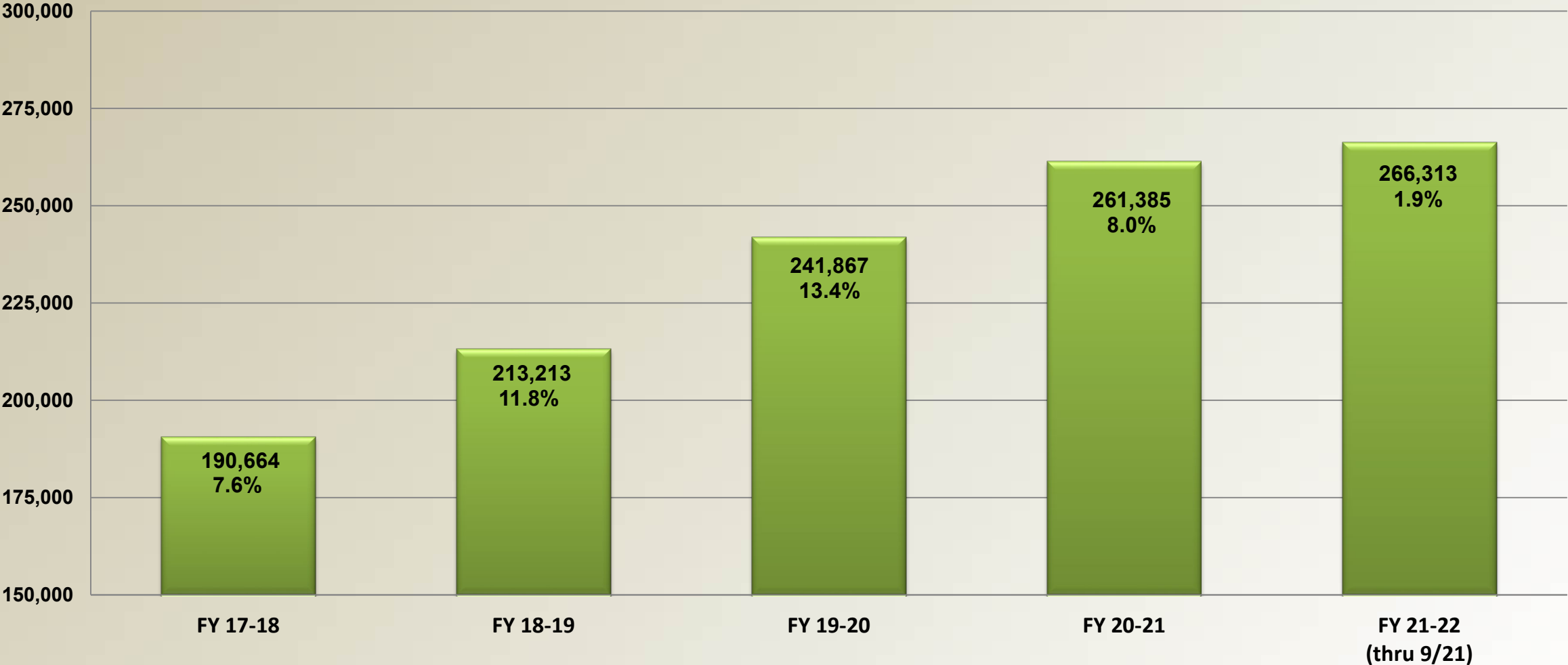
(as of September 30, 2021)



\*Default Change to Investment Plan (except for Special Risk)

# FRS Investment Plan Membership Growth

## Percent Membership Growth Year to Year



# FRS Investment Plan Performance by Asset Class

(as of September 30, 2021)

|                                                          | QTD           | FYTD          | 1 Year        | 3 Years       | 5 Years       | Inception     |
|----------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total Fund</b>                                        | <b>-0.14%</b> | <b>-0.14%</b> | <b>21.21%</b> | <b>10.29%</b> | <b>10.60%</b> | <b>7.64%</b>  |
| <b>Stable Value<sup>1</sup></b>                          | <b>0.42%</b>  | <b>0.42%</b>  | <b>N/A</b>    | <b>N/A</b>    | <b>N/A</b>    | <b>0.42%</b>  |
| <b>Inflation Protected Assets &amp; TIPS<sup>2</sup></b> | <b>1.63%</b>  | <b>1.63%</b>  | <b>15.37%</b> | <b>7.35%</b>  | <b>5.53%</b>  | <b>4.76%</b>  |
| <b>Fixed Income</b>                                      | <b>0.23%</b>  | <b>0.23%</b>  | <b>1.43%</b>  | <b>5.99%</b>  | <b>3.82%</b>  | <b>4.81%</b>  |
| <b>Domestic Equities</b>                                 | <b>-0.22%</b> | <b>-0.22%</b> | <b>33.99%</b> | <b>14.95%</b> | <b>16.46%</b> | <b>11.29%</b> |
| <b>Global &amp; International Equities</b>               | <b>-2.21%</b> | <b>-2.21%</b> | <b>25.88%</b> | <b>10.25%</b> | <b>10.78%</b> | <b>8.62%</b>  |
| <b>Real Estate</b>                                       | <b>6.57%</b>  | <b>6.57%</b>  | <b>18.43%</b> | <b>8.03%</b>  | <b>N/A</b>    | <b>7.96%</b>  |
| <b>Retirement Date Funds</b>                             | <b>-0.07%</b> | <b>-0.07%</b> | <b>20.43%</b> | <b>10.23%</b> | <b>10.08%</b> | <b>7.46%</b>  |
| <b>TF x RDFs</b>                                         | <b>-0.22%</b> | <b>-0.22%</b> | <b>21.96%</b> | <b>10.37%</b> | <b>11.06%</b> | <b>8.49%</b>  |

<sup>1</sup>Stable Value inception July 1, 2021

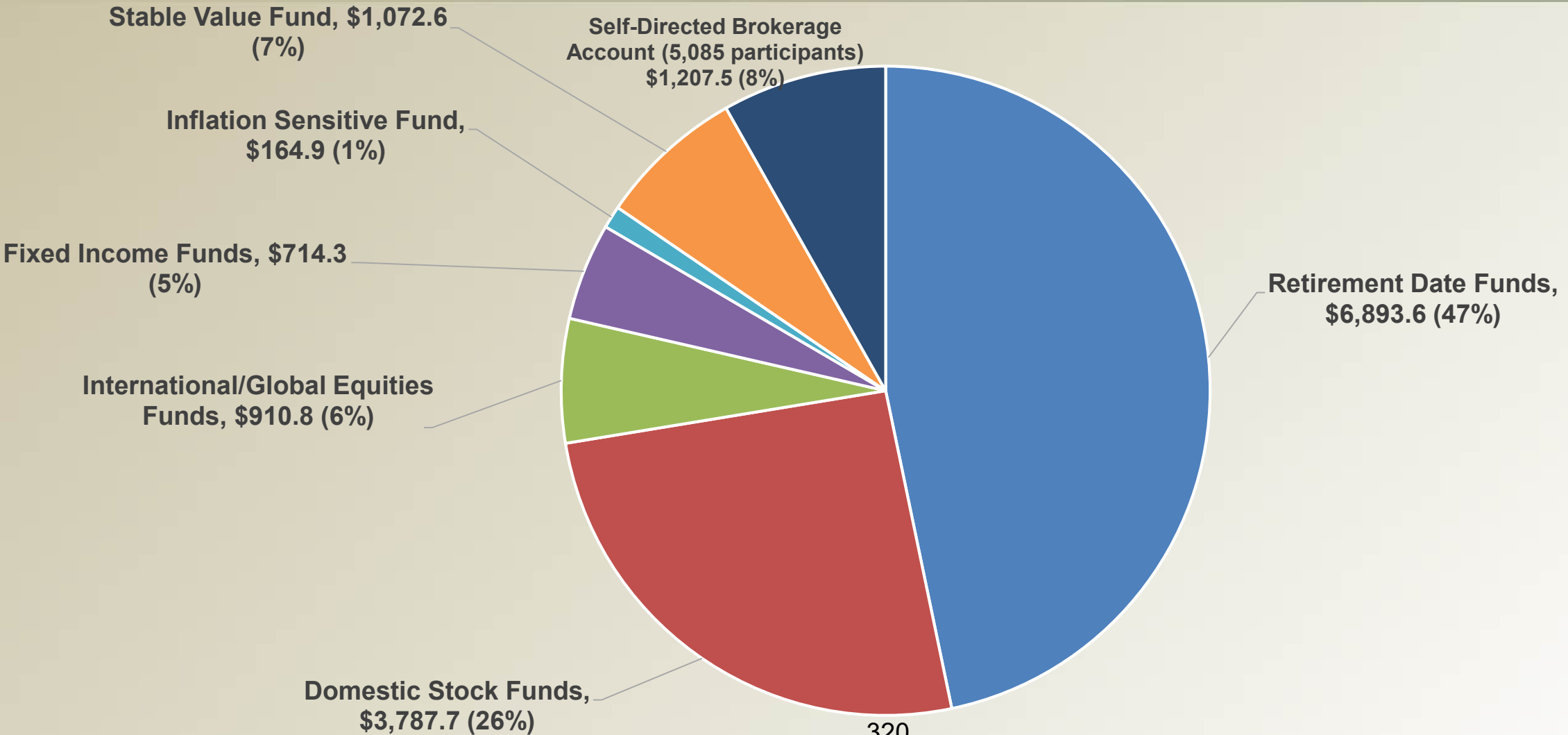
<sup>2</sup>Prior to 2014, TIPS only

Retirement Date Funds Inception July 1, 2014

TF x RDFs Inception July 1, 2014

# FRS Investment Plan AUM by Asset Class

(as of September 30, 2021 in \$ millions)

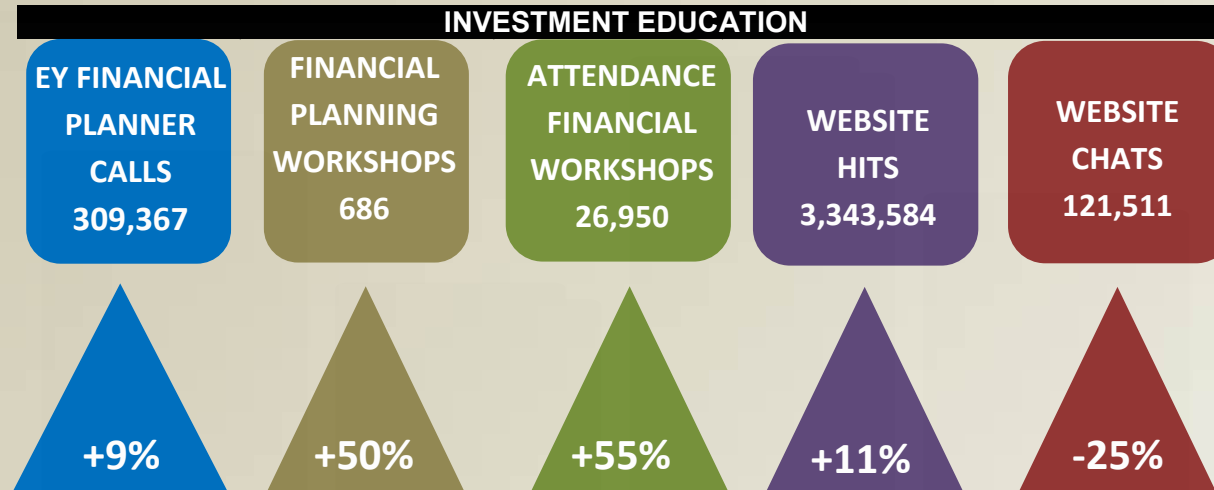


320

Asset allocation is a result of member investment selection

# MyFRS Financial Guidance Program

(as of September 30, 2021)



(% change from previous 12 months)

**25 Annuities purchased last 12 months (\$1.7 M)**  
**179 Total Annuities purchased inception to date (\$22.5 M)**

Questions?

# Investment Programs & Governance (IP&G)

**Michael McCauley**  
**Senior Officer**

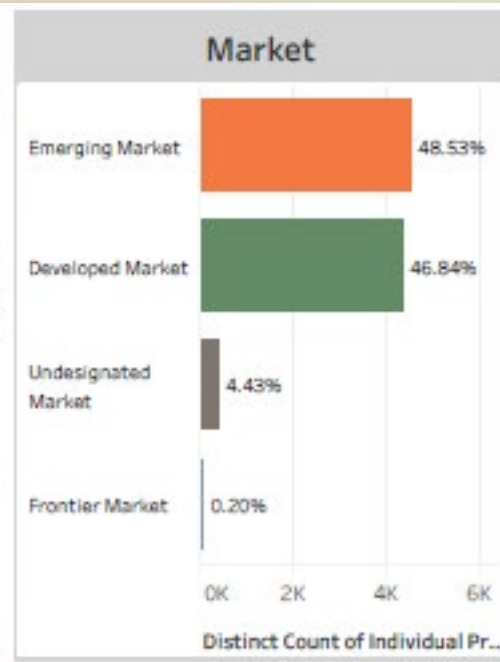
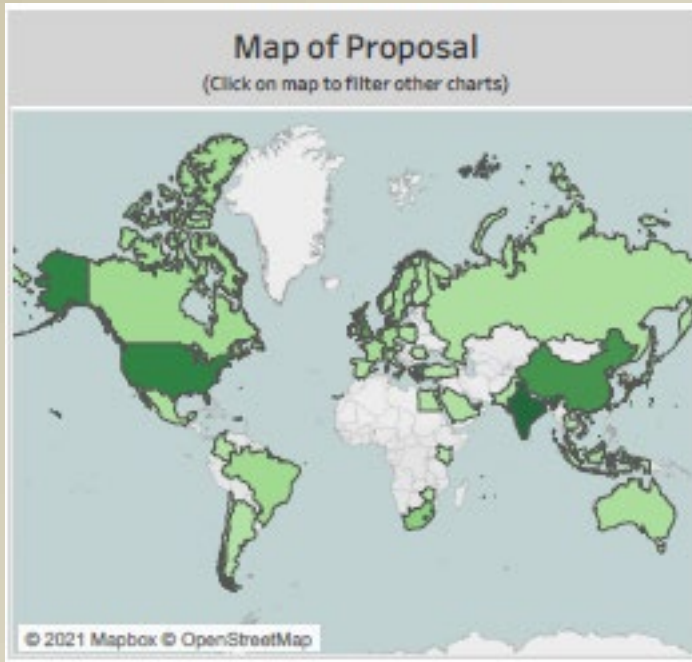
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Investment Advisory Council Meeting – December 14, 2021

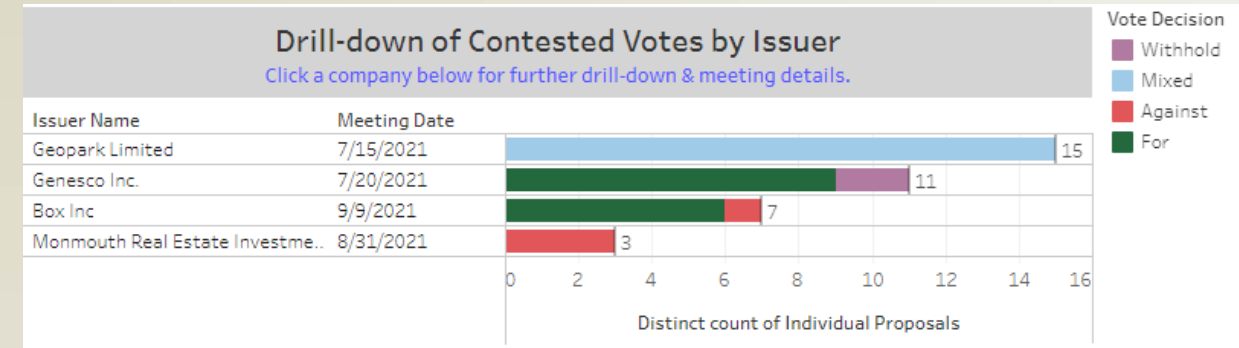
# Quarterly Corporate Governance/Proxy Voting Summary

## Significant Activities

- SEC proposal(s) (Universal Proxy, 14a-8, Proxy Advisors)
- DOL proposal(s) (ERISA)
- Delegated Proxy Voting
- PFIA / Divestment



## Contested Board Elections



## SBA Proxy Voting – Major Statistics

- 1,295 meetings / 2,771 ballots / 9,328 individual proposals / 58 markets
- 78.8% For / 19.2% Against / 2% Abstain or did-not-vote (DNV)
- 19.9% Against management-recommended-vote (MRV)
- Director elections: 73.5% For / Auditor ratification: 98.9% For
- Compensation items: 65.3% For / Merger-Acquisition items: 92.5%
- All shareowner resolutions: 61.5% For (39 proposals)
  - Governance issues: 61.3% For (31 proposals)
  - Environmental issues: 50% For (2 proposals)
  - Social issues: 75% For (4 proposals)
  - Compensation issues: 50% For (2 proposals)



## Statistics and Overview

|                                                    |       |
|----------------------------------------------------|-------|
| Individual Meetings                                | 1,295 |
| Individual Ballots                                 | 2,771 |
| Individual Proposals                               | 9,328 |
| Percent Votes "For"                                | 78.8% |
| Percent Votes "Against"/"Withhold"                 | 19.2% |
| Percent Votes Not Voted                            | 0.7%  |
| Percent Ballots Not Voted                          | 1.5%  |
| Proxy Paper ID                                     | 1,241 |
| Issue Descriptions                                 | 168   |
| Companies                                          | 1,163 |
| Portfolios                                         | 66    |
| Country of Origin                                  | 58    |
| Percent Votes Against Management Recommendat..     | 19.9% |
| Percent Votes in Favor of Directors                | 73.5% |
| Percent Votes in Favor of Auditors                 | 98.9% |
| Percent Votes in Favor of Merger/Acquisition Items | 94.2% |
| Percent Votes in Favor of Compensation Items       | 65.3% |
| Percent Votes in Favor of SHP Governance Issues    | 61.3% |
| Percent Votes in Favor of SHP Environmental Issues | 50.0% |
| Percent Votes in Favor of SHP Social Issues        | 75.0% |
| Percent Votes in Favor of All SHP Issues           | 61.5% |

### Top 5 Countries by # of Individual Proposals

|                   |       |
|-------------------|-------|
| Country of Origin |       |
| United States     | 1,696 |
| China             | 1,405 |
| United Kingdom    | 1,101 |
| Japan             | 279   |
| Canada            | 148   |

#### Select a Measure

# of Individual Proposals

#### Top N Countries

5

### Proxy Voting Summary

| Issue Code Category         | For                  |                               | Against & Withhold   |                               | Abstain              |                               | Other Votes          |                               |
|-----------------------------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|
|                             | Individual Proposals | % of Total Distinct count o.. | Individual Proposals | % of Total Distinct count o.. | Individual Proposals | % of Total Distinct count o.. | Individual Proposals | % of Total Distinct count o.. |
| Audit/Financials            | 1,690                | 97.2%                         | 34                   | 2.0%                          | 5                    | 0.3%                          | 10                   | 0.6%                          |
| Board Related               | 2,938                | 72.7%                         | 1,034                | 25.6%                         | 34                   | 0.8%                          | 34                   | 0.8%                          |
| Capital Management          | 769                  | 79.7%                         | 183                  | 19.0%                         | 9                    | 0.9%                          | 4                    | 0.4%                          |
| Changes to Company Statutes | 403                  | 86.5%                         | 41                   | 8.8%                          | 7                    | 1.5%                          | 15                   | 3.2%                          |
| Compensation                | 780                  | 65.3%                         | 380                  | 31.8%                         | 6                    | 0.5%                          | 29                   | 2.4%                          |
| M&A                         | 227                  | 91.2%                         | 12                   | 4.8%                          | 2                    | 0.8%                          | 8                    | 3.2%                          |
| Meeting Administration      | 218                  | 80.1%                         | 46                   | 16.9%                         | 2                    | 0.7%                          | 6                    | 2.2%                          |
| Other                       | 304                  | 83.7%                         | 45                   | 12.4%                         | 8                    | 2.2%                          | 6                    | 1.7%                          |
| SHP: Compensation           | 1                    | 50.0%                         |                      |                               | 1                    | 50.0%                         |                      |                               |
| SHP: Environment            | 1                    | 50.0%                         | 1                    | 50.0%                         |                      |                               |                      |                               |
| SHP: Governance             | 19                   | 61.3%                         | 11                   | 35.5%                         | 1                    | 3.2%                          |                      |                               |
| SHP: Social                 | 3                    | 75.0%                         | 1                    | 25.0%                         |                      |                               |                      |                               |
| Grand Total                 | 7,353                | 78.8%                         | 1,788                | 19.2%                         | 75                   | 0.8%                          | 112                  | 1.2%                          |

#### Vote Decision

- ☒ Null
- ☒ 1 Year
- ☒ 3 Years
- ☒ Abstain
- ☒ Against
- ☒ For
- ☒ Mixed
- ☒ Take No Action
- ☒ Unvoted
- ☒ Withhold

#### Meeting Date

7/1/2021 to 9/30/2021

#### Fiscal Year

- ☐ FY 2017
- ☒ FY 2018
- ☒ FY 2019
- ☒ FY 2020
- ☒ FY 2021
- ☒ FY 2022

#### Ballot Vote Status

All

#### Region

All

#### Country of Origin

All

#### Meeting Level

All

#### Meeting Type

All

### Percent Changes from Previous Fiscal Year

Note: The calculation for change since previous fiscal year uses the most recent date and compares to prior fiscal year.  
The last fiscal year displayed may not yet include all quarters.

|                                                                                 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|---------------------------------------------------------------------------------|---------|---------|---------|---------|---------|
| % Difference in Proxies from the Previous FY                                    |         | 3.55%   | -9.12%  | -3.00%  | -87.23% |
| % Difference in Individual Meetings from the Previous FY                        |         | 3.25%   | -8.73%  | -2.29%  | -87.27% |
| % Difference in Individual Proposals from the Previous FY                       |         | 5.09%   | -5.60%  | -2.95%  | -90.56% |
| % Difference in Votes in Favor of Directors from the Previous FY                |         | -0.28%  | 2.39%   | -0.58%  | -7.03%  |
| % Difference in Votes in Favor of Auditors from the Previous FY                 |         | 0.31%   | 0.23%   | -0.02%  | 0.19%   |
| % Difference in Votes in Favor of Merger/Acquisition Items from the Previous FY |         | 15.94%  | -1.42%  | 0.40%   | -1.01%  |
| % Difference in Votes in Favor of Compensation Items from the Previous FY       |         | 0.05%   | 1.31%   | -1.45%  | -0.43%  |
| % Difference in Votes in Favor of SHP Governance Issues from the Previous FY    |         | 2.19%   | -8.70%  | 13.21%  | 13.33%  |
| % Difference in Votes in Favor of SHP Environmental Issues from the Previous FY |         | -20.83% | -9.34%  | -14.15% | 60.61%  |
| % Difference in Votes in Favor of SHP Social Issues from the Previous FY        |         | 26.07%  | 0.22%   | -5.91%  | 30.22%  |
| % Difference in Votes in Favor of All SHP Issues from the Previous FY           |         | 4.57%   | -5.86%  | 3.38%   | 20.01%  |
| % Difference in Votes "For" from the Previous FY                                |         | -0.39%  | 1.97%   | 0.16%   | -1.89%  |
| % Difference in Votes "Against"/"Withhold" from the Previous FY                 |         | -1.61%  | -6.07%  | -3.43%  | 15.65%  |
| % Difference in Votes Against Management from the Previous FY                   |         | -0.96%  | -6.67%  | -1.83%  | 13.29%  |

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# State Board of Administration of Florida

## Major Mandate Review Third Quarter 2021

# Table of Contents

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1. Executive Summary
2. Pension Plan Review
3. Investment Plan Review
4. CAT Fund Review
5. Florida PRIME Review
6. Appendix

# Executive Summary

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- The major mandates each produced generally strong returns relative to their respective benchmarks over both short- and long-term time periods ending September 30, 2021.
- The Pension Plan outperformed its Performance Benchmark over the trailing quarter, one-, three-, five-, ten-, and fifteen-year periods.
  - Over the trailing five-year period, Global Equity is the leading source of value added, followed by Private Equity.
  - Over the trailing one, three, five and ten-year periods, the Pension Plan's return ranked above the median plan in the TUCS Top Ten Defined Benefit Plan universe.
- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over the trailing quarter, one-, three-, five-, and ten-year periods.
- The CAT Funds' performance is strong over long-term periods, outperforming the benchmark over the trailing five- and ten-year periods.
- Florida PRIME has continued to outperform its benchmark over both short- and long-term time periods.

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# Pension Plan: Executive Summary

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- The Pension Plan assets totaled \$199.0 billion as of September 30, 2021, which represents a \$559.9 million increase since last quarter.
- The Pension Plan, when measured against the Performance Benchmark, outperformed over the trailing quarter, one-, three-, five-, ten-, and fifteen- year periods.
- Relative to the Absolute Nominal Target Rate of Return, the Pension Plan outperformed over all trailing time periods shown.
- The Pension Plan is well-diversified across six broad asset classes, and each asset class is also well-diversified.
  - Public market asset class investments do not significantly deviate from their broad market-based benchmarks, e.g., sectors, market capitalizations, global regions, credit quality, duration, and security types.
  - Private market asset classes are well-diversified by vintage year, geography, property type, sectors, investment vehicle/asset type, and investment strategy.
  - Asset allocation is monitored on a daily basis to ensure that the actual asset allocation of the Pension Plan remains close to the long-term policy targets set forth in the Investment Policy Statement.
- Aon Investment Consulting and SBA staff revisit the plan design annually through informal and formal asset allocation and asset liability reviews.
- Adequate liquidity exists within the asset allocation to pay the monthly obligations of the Pension Plan consistently and on a timely basis.

# FRS Pension Plan Change in Market Value

## Periods Ending 9/30/2021

| Summary of Cash Flows                      |                   |                   |
|--------------------------------------------|-------------------|-------------------|
|                                            | Third Quarter     | Fiscal YTD*       |
| <b>Beginning Market Value</b>              | \$199,600,498,385 | \$199,600,498,385 |
| <b>+/- Net Contributions/(Withdrawals)</b> | \$(2,214,635,138) | \$(2,214,635,138) |
| <b>Investment Earnings</b>                 | \$1,654,746,405   | \$1,654,746,405   |
| <b>= Ending Market Value</b>               | \$199,040,609,652 | \$199,040,609,652 |
| <b>Net Change</b>                          | \$(559,888,733)   | \$(559,888,733)   |

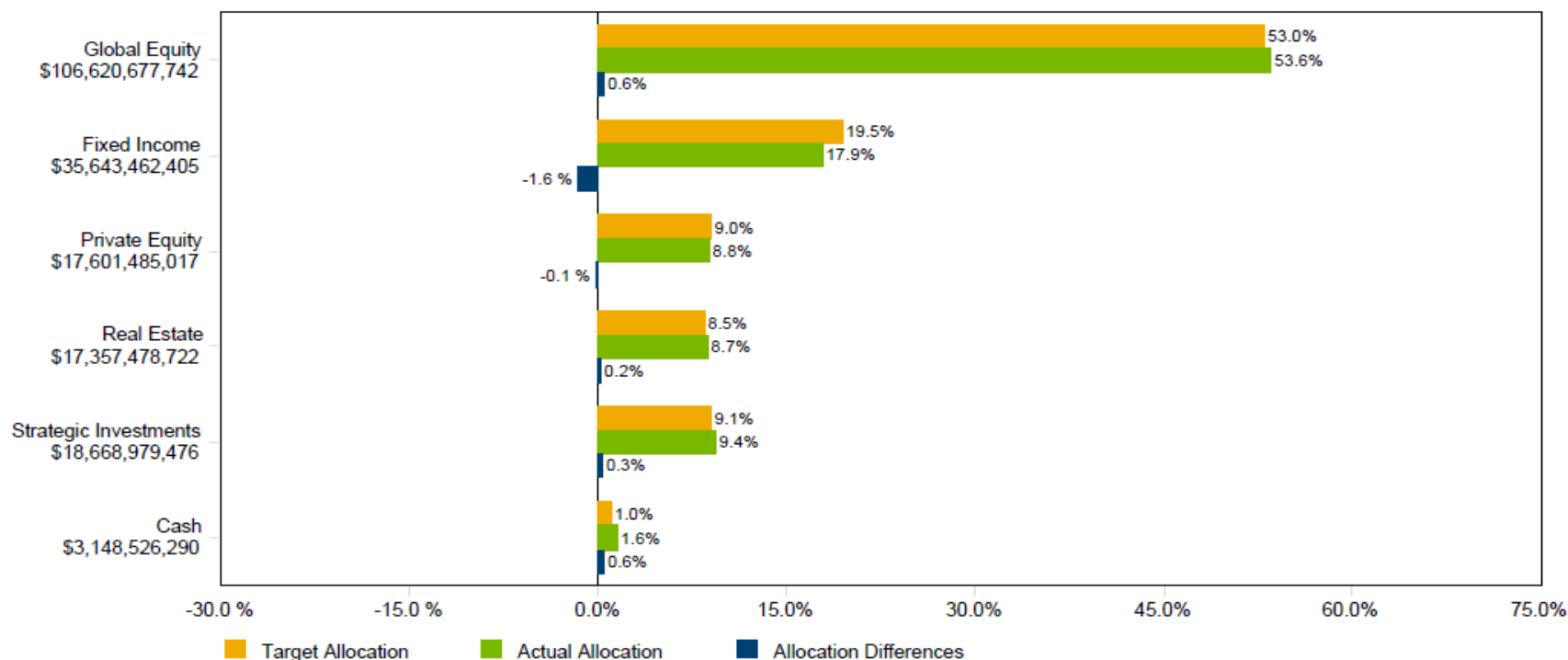
\*Period July 2021 – September 2021



# Asset Allocation as of 9/30/2021

## Total Fund Assets = \$199.0 Billion

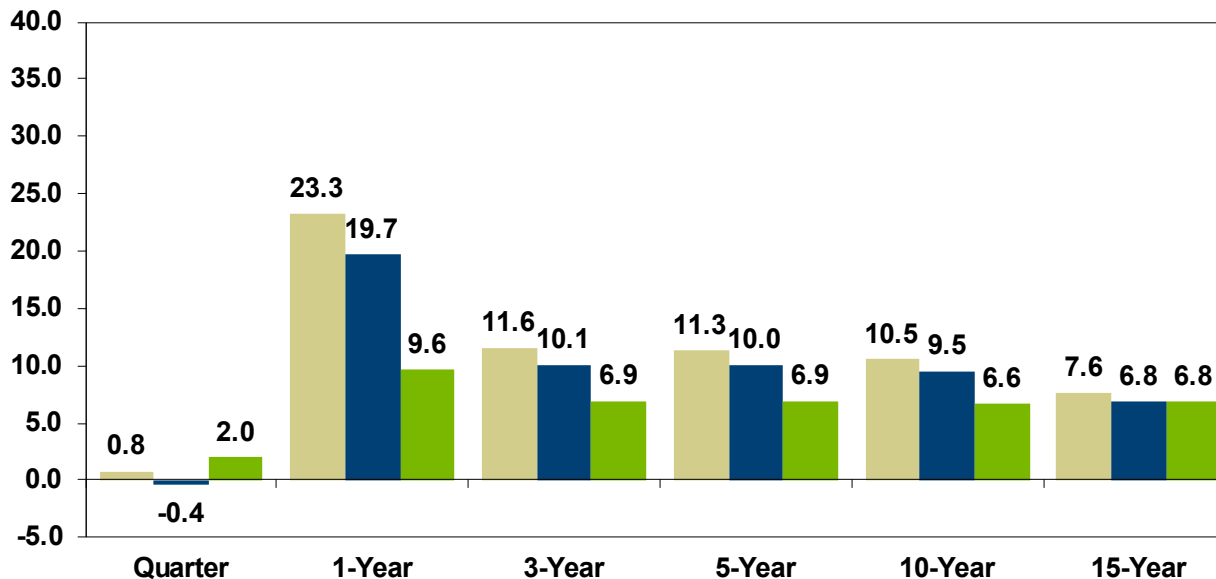
|                       | Market Value (\$) | Current Allocation (%) | Target Allocation (%) | Minimum Allocation (%) | Maximum Allocation (%) |
|-----------------------|-------------------|------------------------|-----------------------|------------------------|------------------------|
| Total Fund            | 199,040,609,652   | 100.0                  | 100.0                 |                        |                        |
| Global Equity         | 106,620,677,742   | 53.6                   | 53.0                  | 45.0                   | 70.0                   |
| Fixed Income          | 35,643,462,405    | 17.9                   | 19.5                  | 10.0                   | 26.0                   |
| Private Equity        | 17,601,485,017    | 8.8                    | 9.0                   | 2.0                    | 9.0                    |
| Real Estate           | 17,357,478,722    | 8.7                    | 8.5                   | 4.0                    | 16.0                   |
| Strategic Investments | 18,668,979,476    | 9.4                    | 9.1                   | 0.0                    | 16.0                   |
| Cash                  | 3,148,526,290     | 1.6                    | 1.0                   | 0.3                    | 5.0                    |



# FRS Pension Plan Investment Results

## Periods Ending 9/30/2021

■ Total FRS Pension Plan ■ Performance Benchmark ■ Absolute Nominal Target Rate of Return

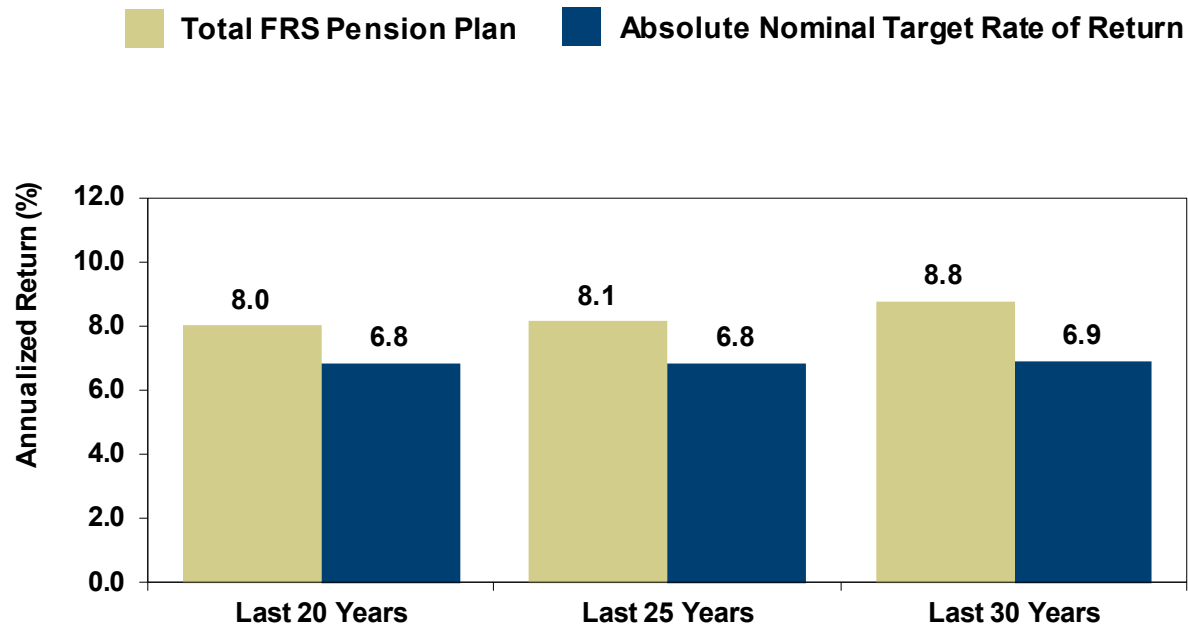


# FRS Pension Plan Investment Results

## Periods Ending 9/30/2021

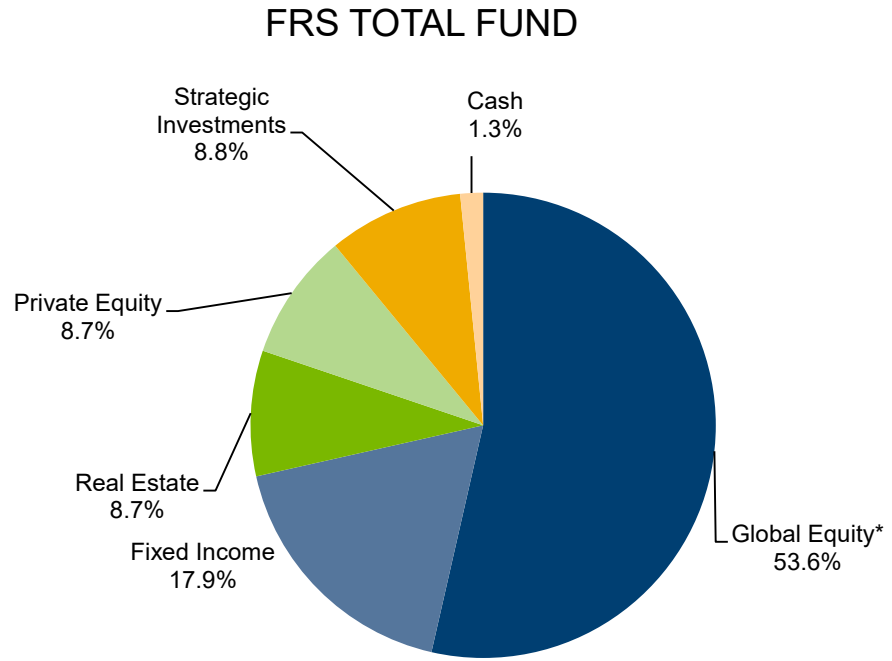
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### Long-Term FRS Pension Plan Performance Results vs. SBA's Long-Term Investment Objective

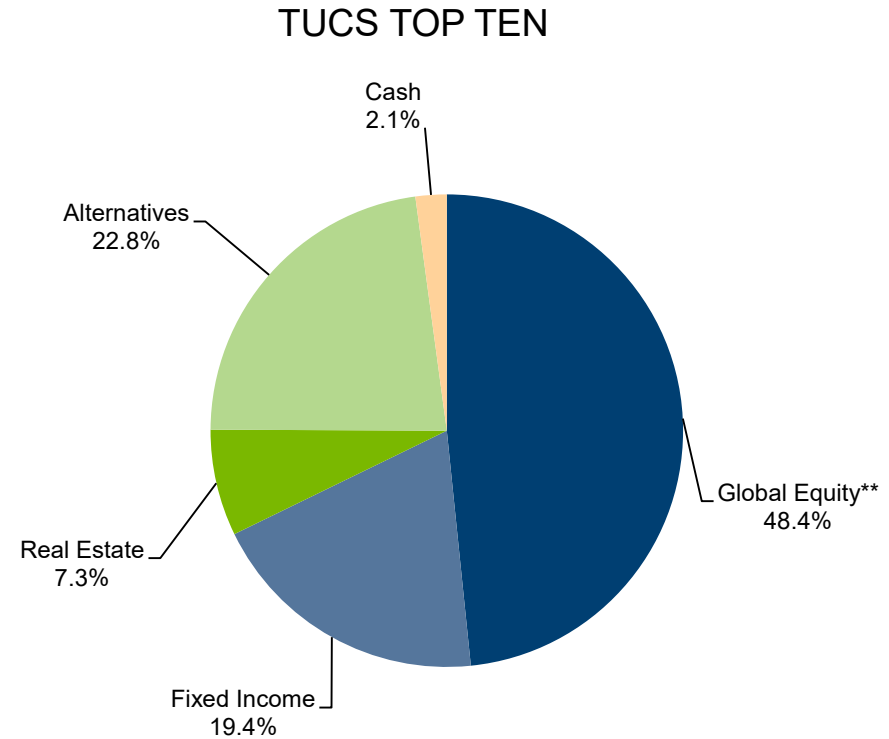


# Comparison of Asset Allocation (TUCS Top Ten) As of 9/30/2021

## FRS Pension Plan vs. Top Ten Defined Benefit Plans



\*Global Equity Allocation: 26.7% Domestic Equities; 19.3% Foreign Equities; 6.4% Global Equities; 1.2% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.



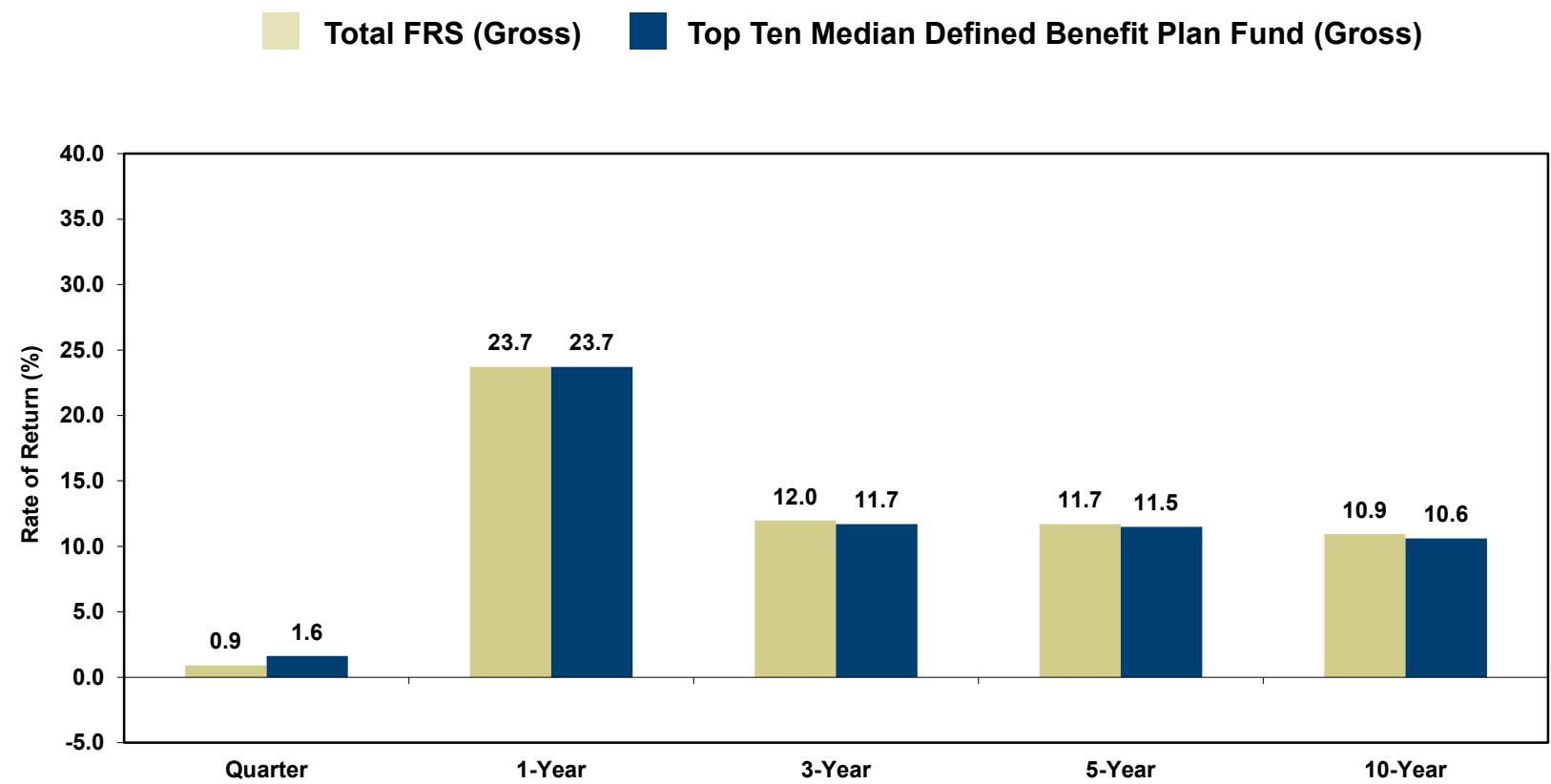
\*\*Global Equity Allocation: 30.6% Domestic Equities; 17.8% Foreign Equities.

Note: The TUCS Top Ten Universe includes \$2,042.4 billion in total assets. The median fund size was \$196.7 billion and the average fund size was \$204.2 billion.

Note: Due to rounding, percentage totals displayed may not sum perfectly.

# FRS Results Relative to TUCS Top Ten Defined Benefit Plans

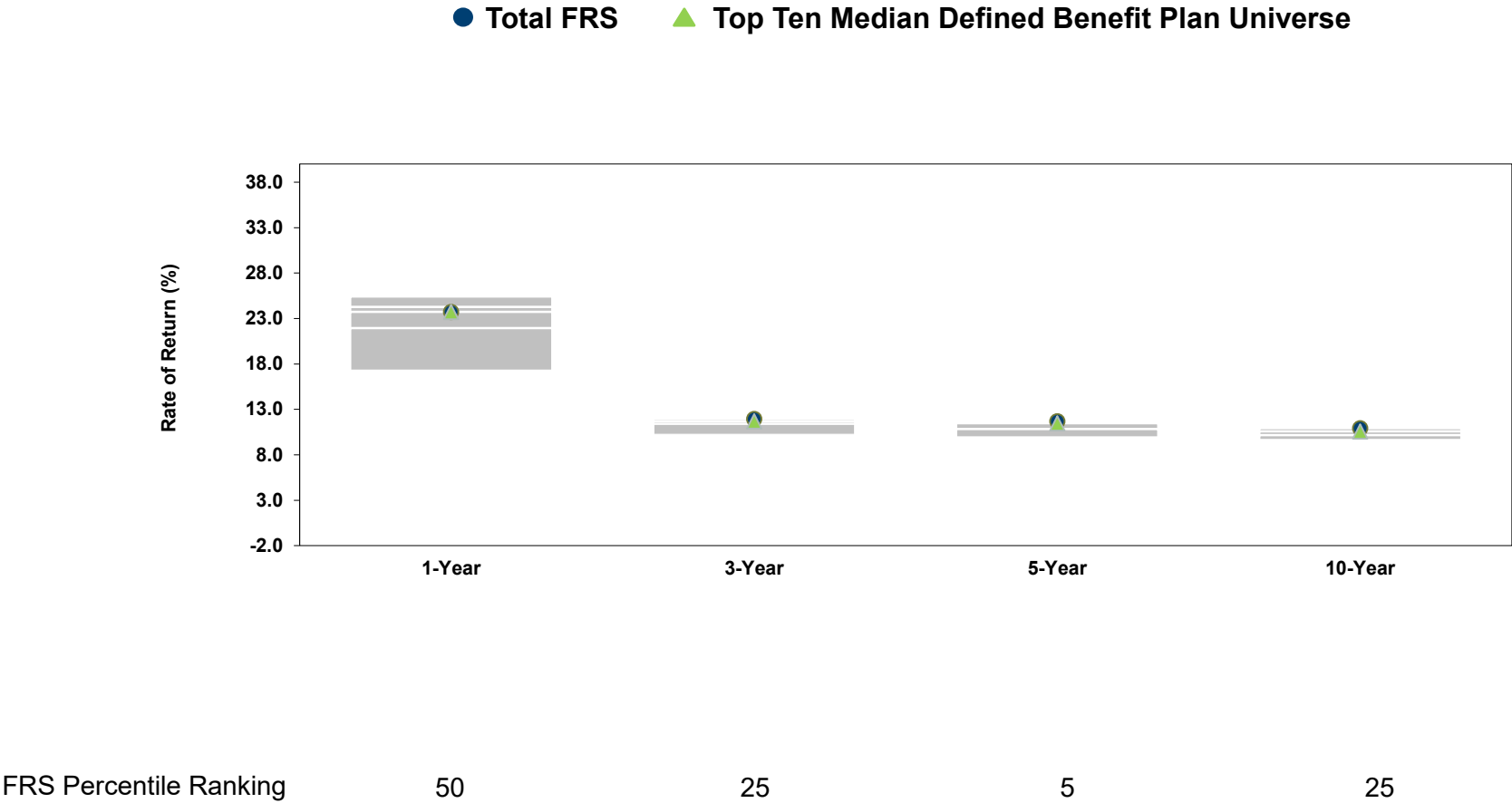
## Periods Ending 9/30/2021



Note: The TUCS Top Ten Universe includes \$2,042.4 billion in total assets. The median fund size was \$196.7 billion and the average fund size was \$204.2 billion.

# Top Ten Defined Benefit Plans FRS Universe Comparison (TUCS)

## Periods Ending 9/30/2021



Note: The TUCS Top Ten Universe includes \$2,042.4 billion in total assets. The median fund size was \$196.7 billion and the average fund size was \$204.2 billion.

## Investment Plan: Executive Summary

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- The FRS Investment Plan outperformed the Total Plan Aggregate Benchmark over the trailing quarter, one-, three-, five-, and ten-year periods. This suggests strong relative performance of the underlying fund options in which participants are investing.
- The FRS Investment Plan's total expense ratio is slightly higher, on average, when compared to a defined contribution peer group and is lower than the average corporate and public defined benefit plan, based on year-end 2020 data. The total FRS Investment Plan expense ratio includes investment management fees, as well as administration, communication and education costs. Communication and education costs are not charged to FRS Investment Plan members; however, these and similar costs may be charged to members of plans within the peer group.
- Management fees are lower than the median as represented by Morningstar's mutual fund universe for every investment category.
- The FRS Investment Plan offers an appropriate number of fund options that span the risk and return spectrum.
- The Investment Policy Statement is revisited periodically to ensure that the structure and guidelines of the FRS Investment Plan are appropriate, taking into consideration the FRS Investment Plan's goals and objectives.

# Total Investment Plan Returns & Cost

## Periods Ending 9/30/2021\*

|                                                        | One-Year     | Three-Year   | Five-Year    | Ten-Year    |
|--------------------------------------------------------|--------------|--------------|--------------|-------------|
| <b>FRS Investment Plan</b>                             | <b>21.2%</b> | <b>10.3%</b> | <b>10.6%</b> | <b>9.4%</b> |
| <i>Total Plan Aggregate Benchmark**</i>                | <i>20.5%</i> | <i>9.7%</i>  | <i>10.0%</i> | <i>8.9%</i> |
| FRS Investment Plan vs. Total Plan Aggregate Benchmark | 0.7          | 0.6          | 0.6          | 0.5         |

## Periods Ending 12/31/2019\*\*\*

|                                    | Five-Year Average Return**** | Five-Year Net Value Added | Expense Ratio     |
|------------------------------------|------------------------------|---------------------------|-------------------|
| <b>FRS Investment Plan</b>         | <b>7.1%</b>                  | <b>0.2%</b>               | <b>0.32%*****</b> |
| <i>Peer Group</i>                  | <i>7.2</i>                   | <i>0.1</i>                | <i>0.26</i>       |
| FRS Investment Plan vs. Peer Group | -0.1                         | 0.1                       | 0.06              |

\*Returns shown are net of fees.

\*\*Aggregate benchmark returns are an average of the individual portfolio benchmark returns at their actual weights.

\*\*\*Source: 2020 CEM Benchmarking Report. Peer group for the Five-Year Average Return and Value Added represents the U.S. Median plan return based on the CEM 2020 Survey that included 119 U.S. defined contribution plans with assets ranging from \$112 million to \$67.2 billion. Peer group for the Expense Ratio represents a custom peer group for FSBA of 17 DC plans including corporate and public plans with assets between \$3.1 - \$25.3 billion.

\*\*\*\*Returns shown are gross of fees.

\*\*\*\*\*The total FRS Investment Plan expense ratio includes investment management fees, as well as administration, communication and education costs. These latter costs are not charged to FRS Investment Plan members; however, these and similar costs may be charged to members of plans within the peer group utilized above.



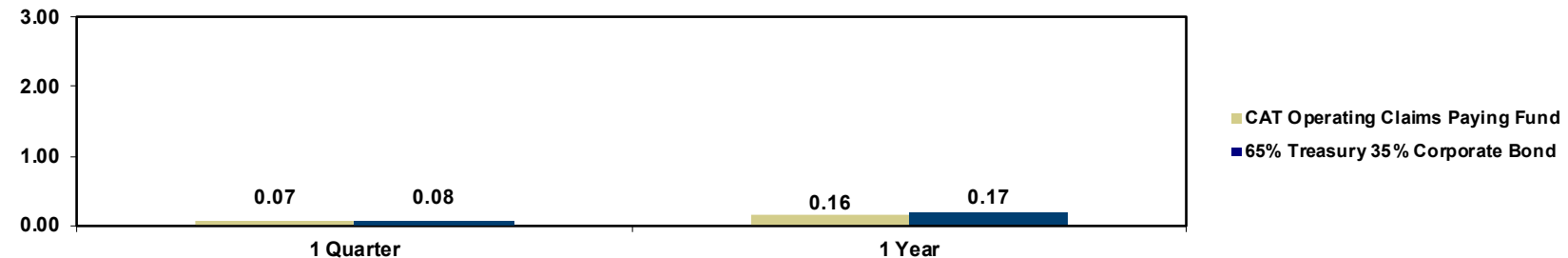
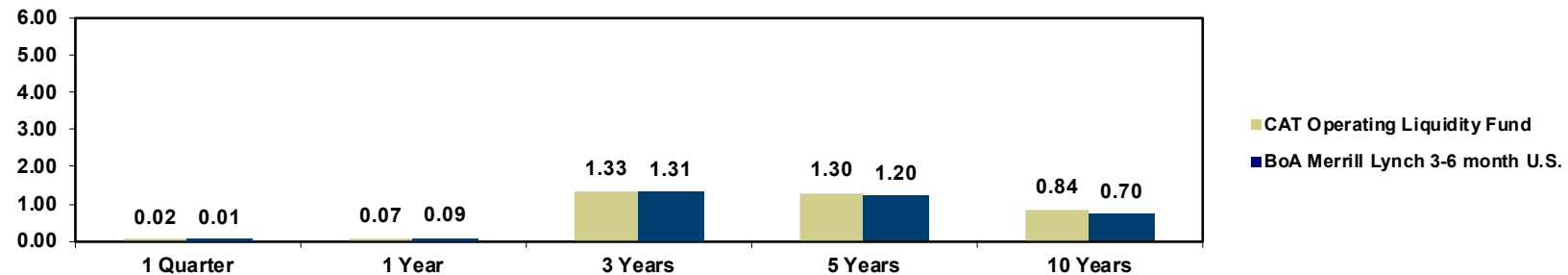
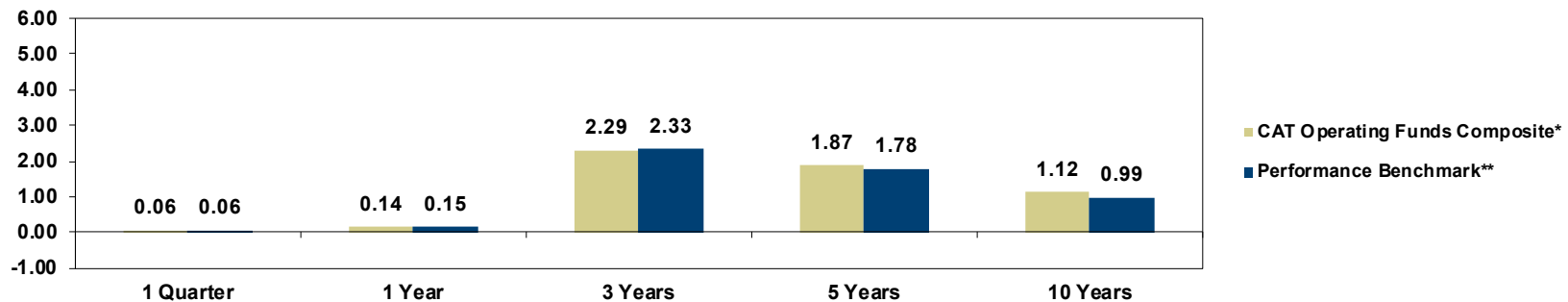
## CAT Fund: Executive Summary

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- Returns on an absolute basis continue to be modest given the current low interest rate environment.
- All CAT Funds are adequately diversified across issuers within the short-term bond market.
- The Investment Portfolio Guidelines appropriately constrain the CAT Funds to invest in short-term and high-quality bonds to minimize both interest rate and credit risk.
- Adequate liquidity exists to address the cash flow obligations of the CAT Funds.
- The Investment Portfolio Guidelines are revisited periodically to ensure that the structure and guidelines of the CAT Funds are appropriate, taking into consideration the CAT Funds' goals and objectives.
- Over long-term periods, the relative performance of the CAT Operating Funds has been favorable as they have outperformed the Performance Benchmark over the trailing five- and ten-year time periods.

# CAT Operating Funds Investment Results

## Periods Ending 9/30/2021



\*CAT Operating Funds: Beginning March 2008, the returns for the CAT Operating Funds reflect marked-to-market returns. Prior to that time, cost-based returns are used. Beginning February 2018, the CAT Operating Funds were split into two different sub funds, the CAT Fund Operating Liquidity Fund and the CAT Fund Operating Claims Paying Fund. Performance for each sub fund is shown below.

\*\*Performance Benchmark: Effective January 1, 2021, the CAT Fund Operating Liquidity Fund is benchmarked to the Bloomberg U.S. Treasury Bills 3-6 Months & U.S. Treasury Bills 6-9 Months Custom Blend Index. This benchmark is comprised of 60% of 3-6 month U.S. Treasury Bills and 40% 6-9 month U.S. Treasury Bills. Beginning February 2018, the CAT Fund Operating Liquidity Fund was benchmarked to the B of A Merrill Lynch 3-6 Month U.S. Treasury Bill Index. Effective January 1, 2021, the CAT Operating Claims Paying Fund is benchmarked to the Bloomberg U.S. Treasury 1-3 Years & Corporate AA+ ex 144A with Reg S Custom Blend Index. This benchmark is comprised of 65% 1-3 year U.S. Treasury and 35% of 1-3 year Corporate AA or better excluding 144A and Reg S securities. Beginning February 2018, the CAT Fund Operating Claims Paying Fund benchmark is a blend of 35% of the Bank of America Merrill Lynch 1-3 Year AA U.S. Corporate Bond Index and 65% of Bank of America Merrill Lynch 1-3 Year U.S. Treasury Index. Additional benchmark history can be found in the appendix.

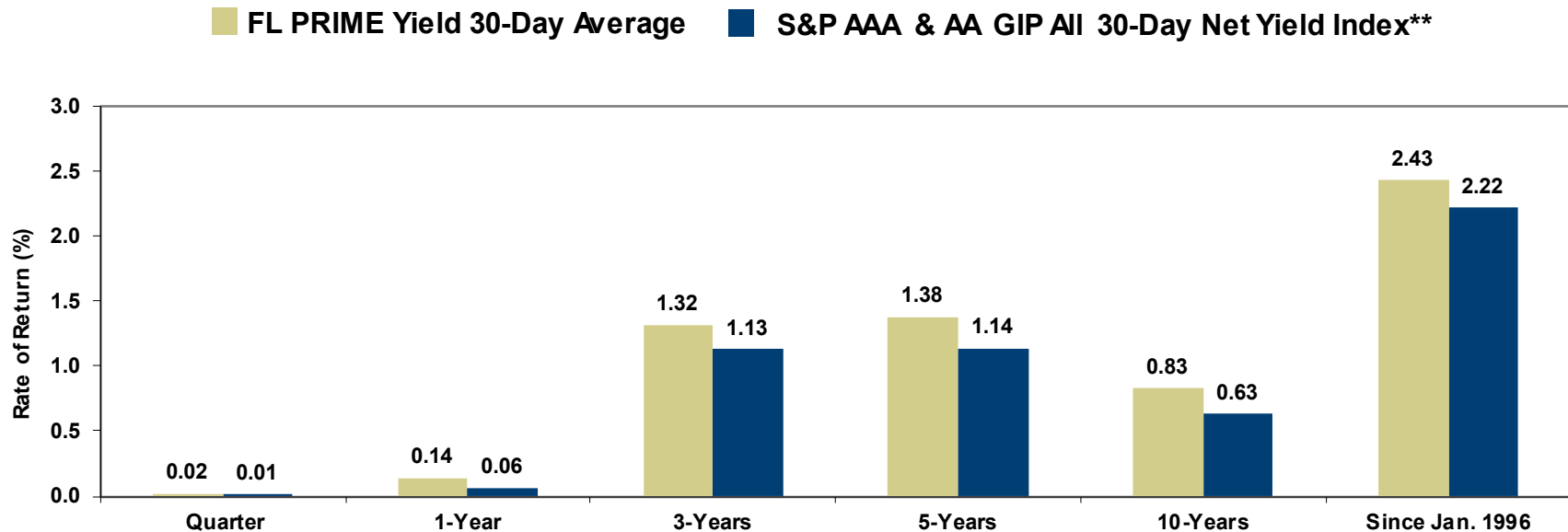
## Florida PRIME: Executive Summary

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- The purpose of Florida PRIME is safety, liquidity, and competitive returns with minimal risk for participants.
- The Investment Policy Statement appropriately constrains Florida PRIME to invest in short-term and high quality bonds to minimize both interest rate and credit risk.
- Florida PRIME is adequately diversified across issuers within the short-term bond market, and adequate liquidity exists to address the cash flow obligations of Florida PRIME.
- Performance of Florida PRIME has been strong over short- and long-term time periods, outperforming its performance benchmark during the quarter and over the trailing one-, three-, five-, and ten-year time periods.
- As of September 30, 2021, the total market value of Florida PRIME was \$15.5 billion.
- Aon Investments USA Inc., in conjunction with SBA staff, compiles an annual best practices report that includes a full review of the Investment Policy Statement, operational items, and investment structure for Florida PRIME.

# Florida PRIME Investment Results

## Periods Ending 9/30/2021

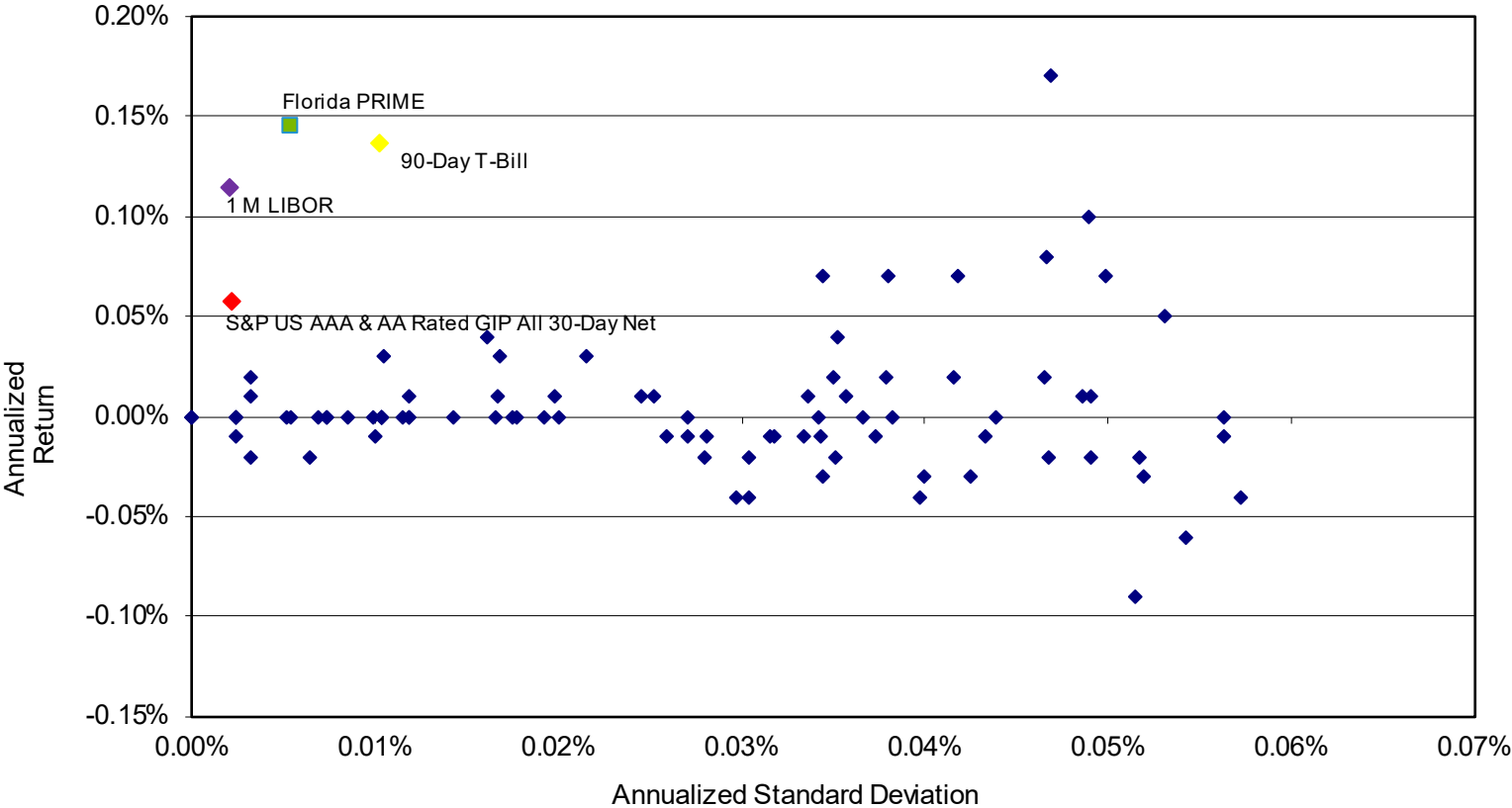


\*Returns less than one year are not annualized.

\*\*S&P AAA & AA GIP All 30-Day Net Yield Index for all time periods shown.

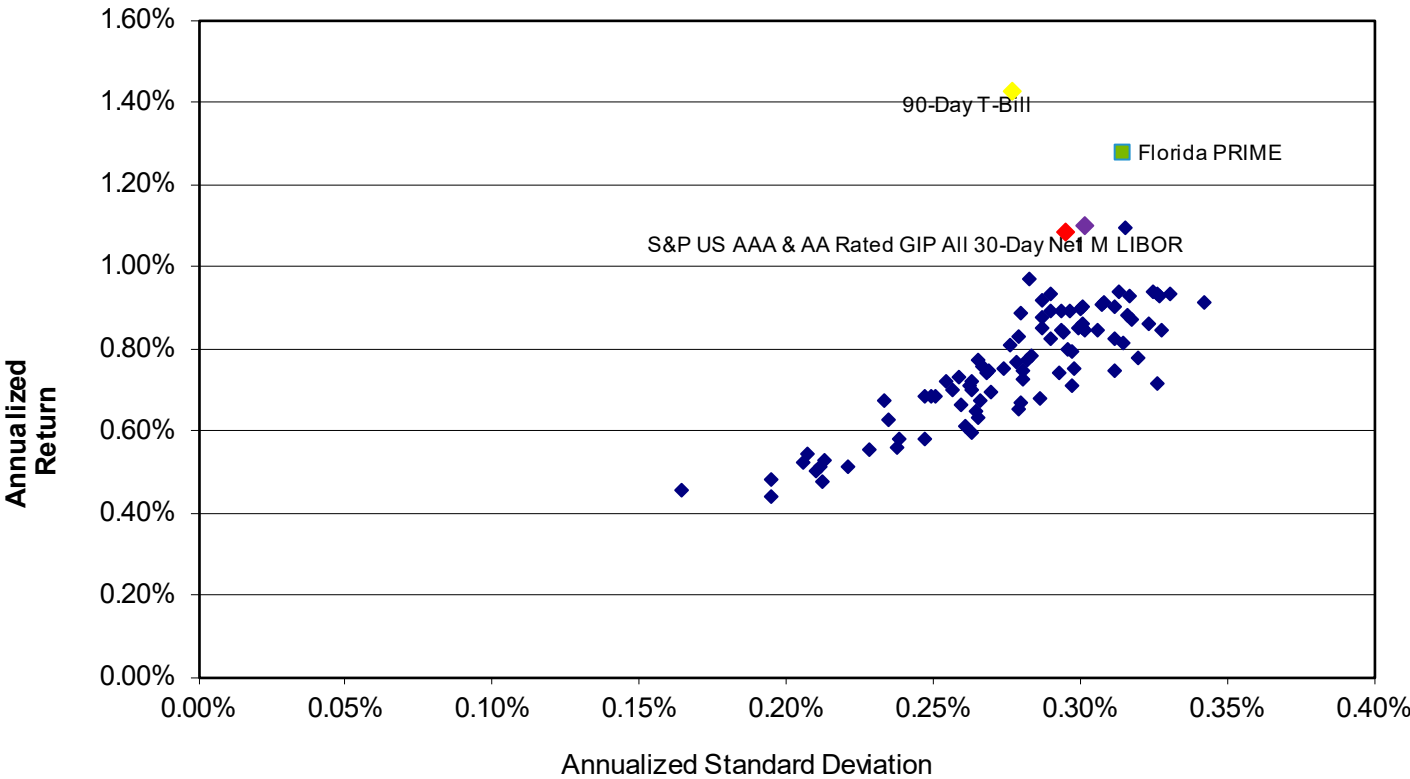
# Florida PRIME Risk vs. Return

## 1 Years Ending 9/30/2021

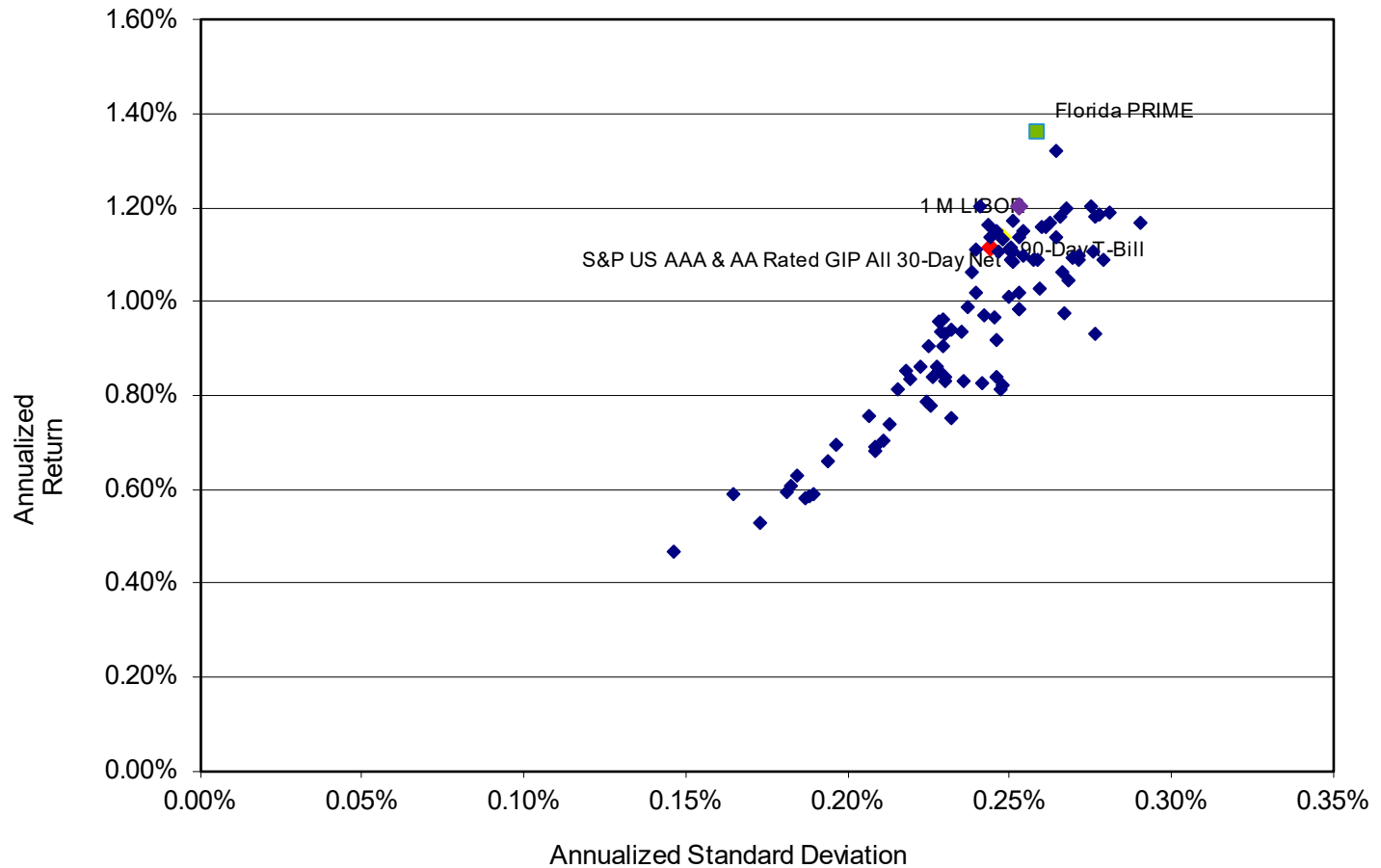


# Florida PRIME Risk vs. Return

## 3 Years Ending 9/30/2021

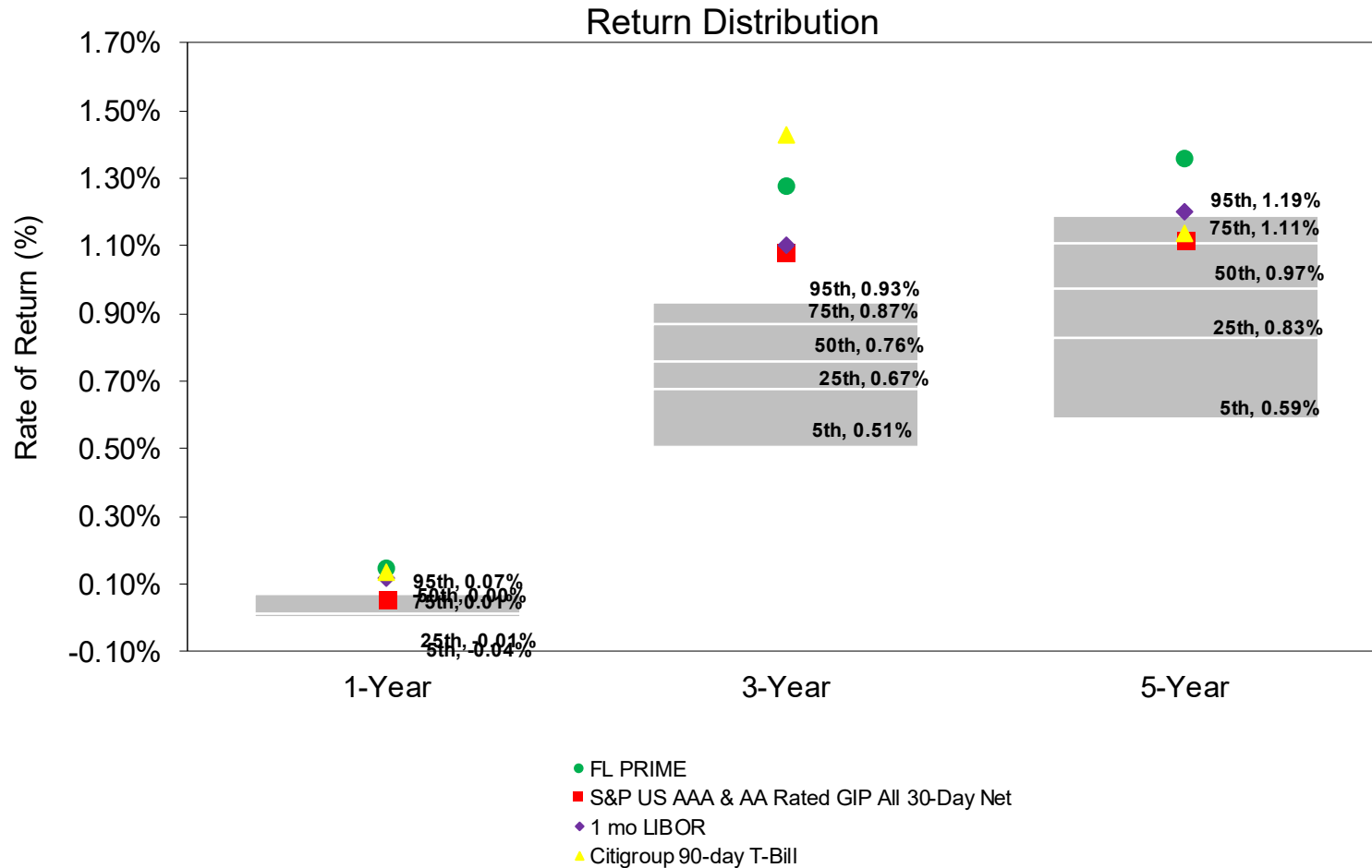


# Florida PRIME Risk vs. Return 5 Years Ending 9/30/2021



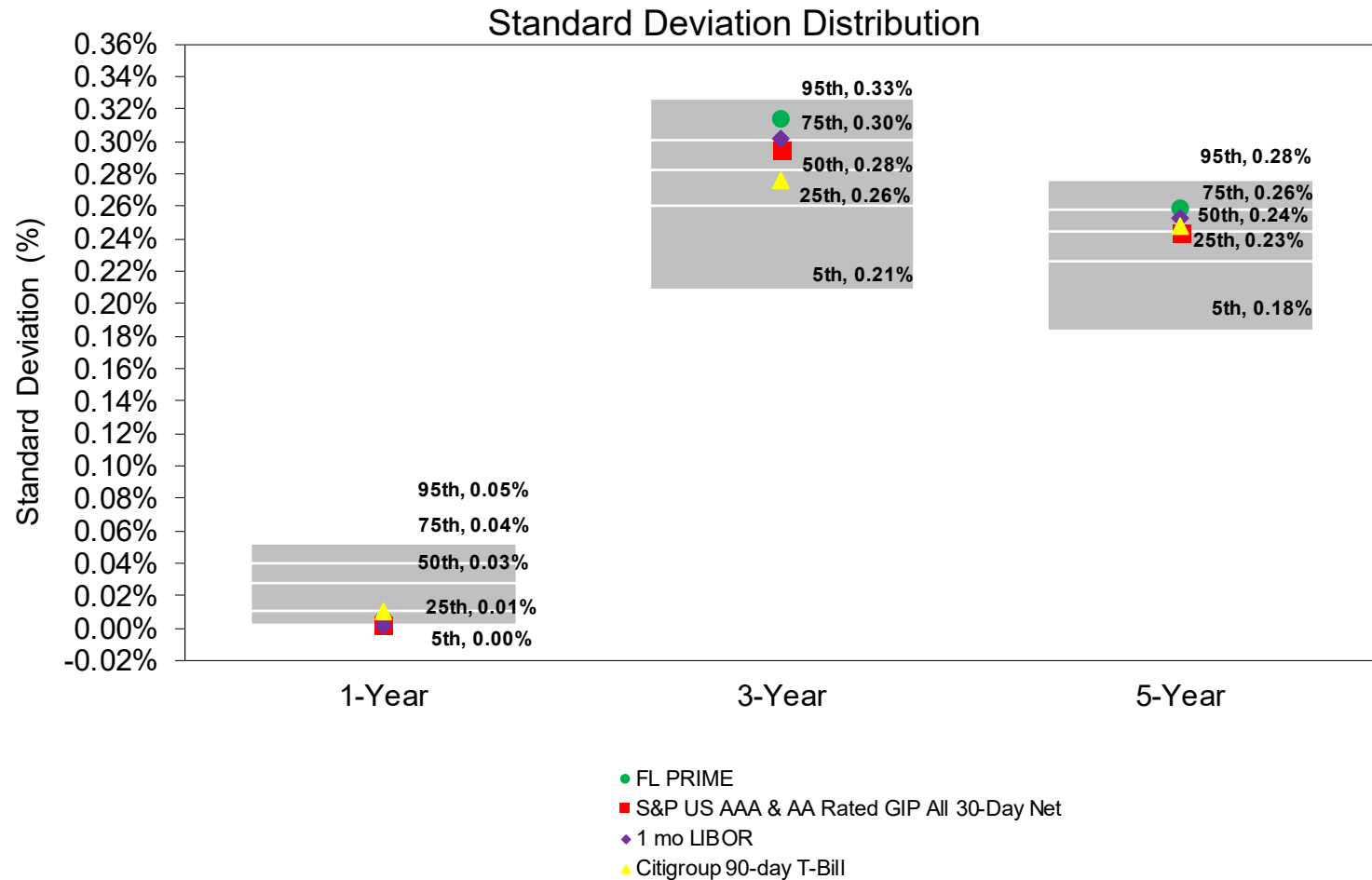
# Return Distribution

## Periods Ending 9/30/2021





# Standard Deviation Distribution Periods Ending 9/30/2021



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# Appendix

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## FRS Investment Plan Costs

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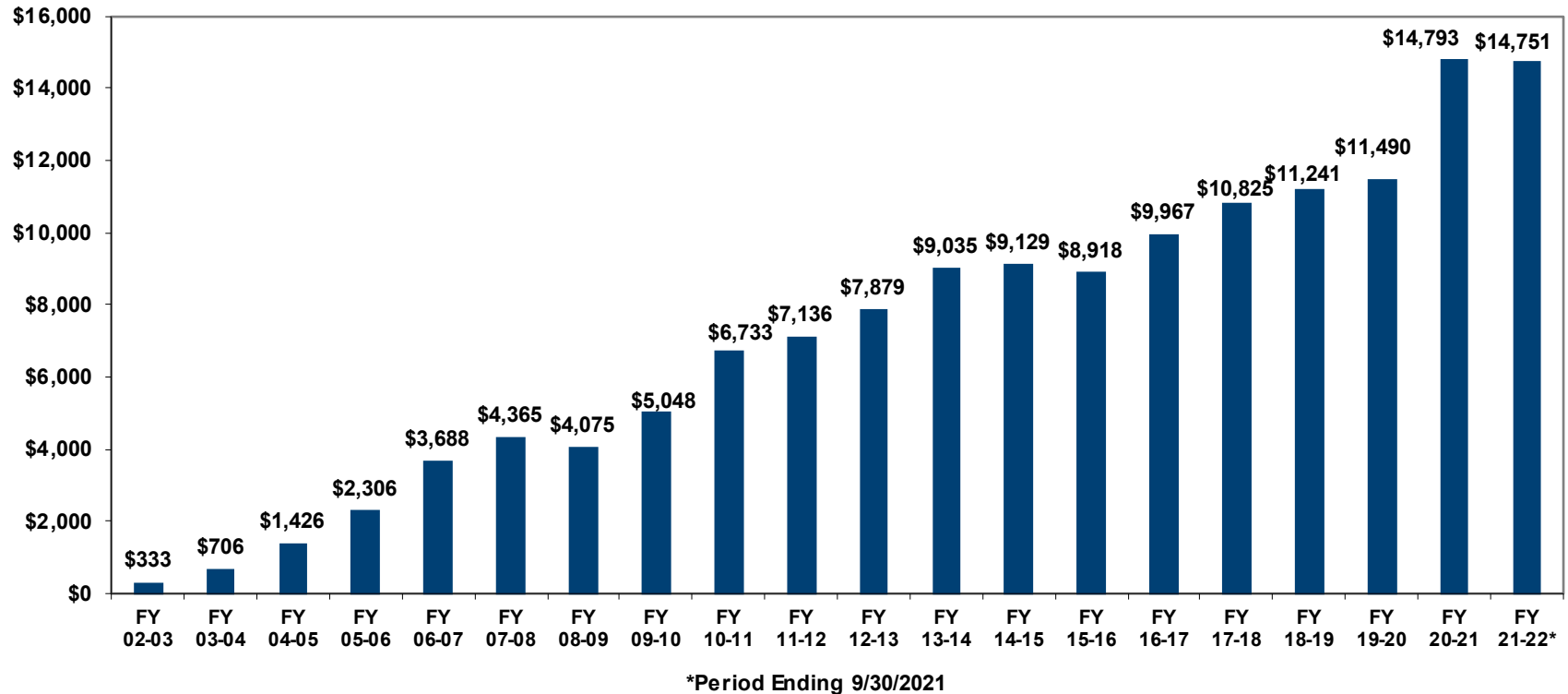
| Investment Category            | Investment Plan Fee* | Average Mutual Fund Fee** |
|--------------------------------|----------------------|---------------------------|
| Domestic Equity                | 0.15%                | 0.87%                     |
| International Equity           | 0.32%                | 0.95%                     |
| Diversified Bonds              | 0.14%                | 0.45%                     |
| Target Date                    | 0.14%                | 0.45%                     |
| Money Market                   | 0.19%                | 0.24%                     |
| Inflation Protected Securities | 0.36%                | 0.35%                     |

\*Average fee of multiple products in category as of 9/30/2021.

\*\*Source: Aon's annual mutual fund expense analysis as of 12/31/2020.

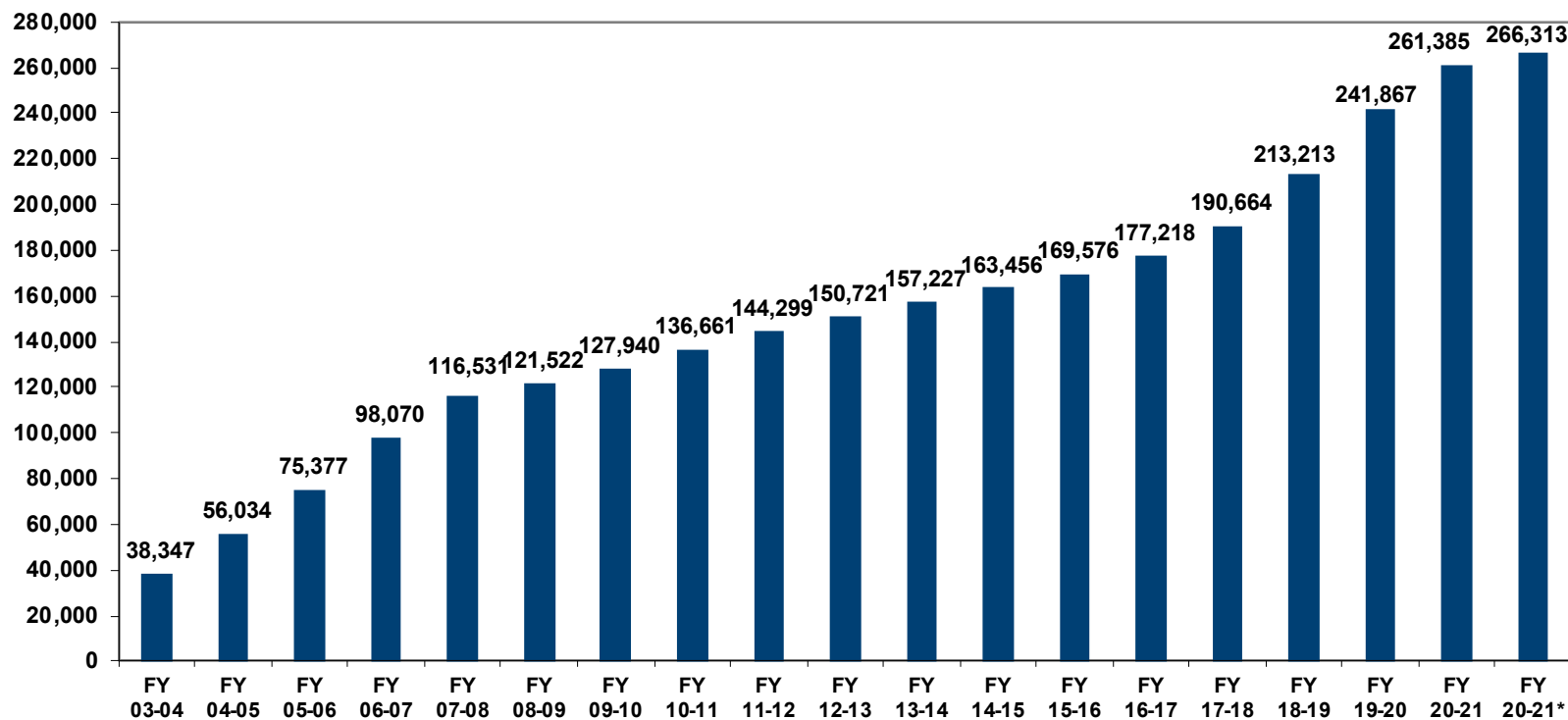
# Investment Plan Fiscal Year End Assets Under Management

By Fiscal Year (\$ millions)



Source: Investment Plan Administrator

# Investment Plan Membership



\* Period Ending 9/30/2021

Source: Investment Plan Administrator

# Florida Hurricane Catastrophe Funds Background and Details

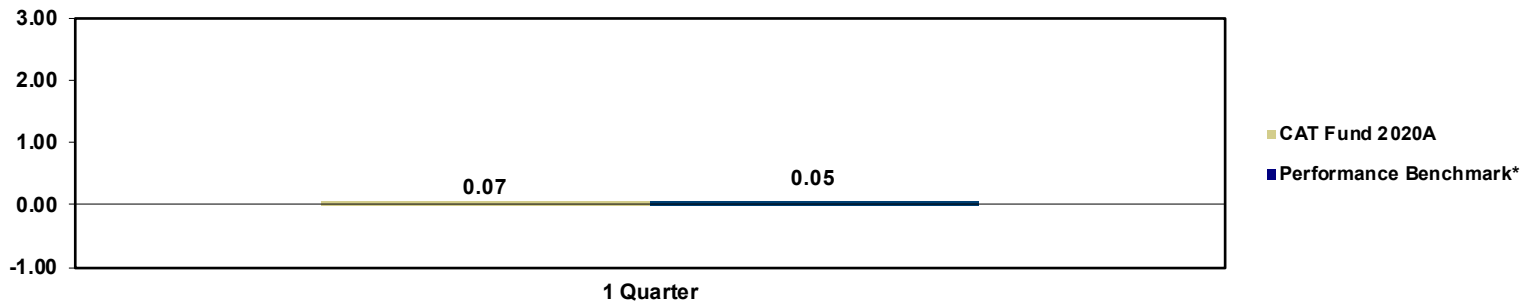
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- The purpose of the Florida Hurricane Catastrophe Fund (FHCF) is to provide a stable, ongoing and timely source of reimbursement to insurers for a portion of their hurricane losses.
- The CAT Operating Funds, along CAT 2020 A Fund are internally managed portfolios.
  - CAT 2013 A Fund was liquidated during 4Q 2020
  - CAT 2016 A Fund was liquidated during 3Q 2021
- As of September 30, 2021, the total value of:
  - The CAT Operating Funds was \$12.8 billion
  - The CAT 2020 A Fund was \$3.5 billion
- History of the CAT Funds Benchmarks: *Beginning February 2018, the CAT Fund Operating Liquidity Fund was benchmarked to the B of A Merrill Lynch 3-6 Month U.S. Treasury Bill Index, and the CAT Fund Operating Claims Paying Fund benchmarked to a blend of 35% of the Bank of America Merrill Lynch 1-3 Year AA U.S. Corporate Bond Index and 65% of Bank of America Merrill Lynch 1-3 Year U.S. Treasury Index. Beginning January 2021, the CAT Fund Operating Liquidity Fund was benchmarked to Bloomberg U.S. Treasuries Bills 3-6 Months & U.S. Treasury Bills 6-9 Months Custom Blend Index. This benchmark is comprised of 60% off the 3-6 month U.S. Treasury Bills and 40% 6-9 month U.S. Treasury Bills., and the CAT Fund Operating Claims Paying Fund is benchmarked Bloomberg U.S. Treasury 1-3 Years & Corporate AA+ ex 144A Reg S Custom Blend Index. This benchmark is comprised of 65% 1-3 year Treasury and 35% of 1-3 year Corporate AA or better excluding 144A and Reg S Securities.*

# CAT 2020 A Funds Investment Results

## Periods Ending 9/30/2021

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\*Performance Benchmark: Blend of 35% of the ICE 1-3 Year AA U.S. Corporate Bond Index and 65% of ICE 1-3 Year U.S. Treasury Index excluding 144A securities through December 31, 2020

\*\*Performance Benchmark: Beginning February 2018, the CAT 2016 A Funds was benchmarked to itself.



# CAT Operating Funds Characteristics

## Period Ending 9/30/2021

---

| <b>Maturity Analysis</b>     |                |
|------------------------------|----------------|
| 1 to 30 Days                 | 1.06%          |
| 31 to 60 Days                | 0.76           |
| 61 to 90 Days                | 0.00           |
| 91 to 120 Days               | 4.53           |
| 121 to 150 Days              | 2.75           |
| 151 to 180 Days              | 4.88           |
| 181 to 270 Days              | 13.27          |
| 271 to 365 Days              | 3.48           |
| 366 to 455 Days              | 6.21           |
| >= 456 Days                  | 63.06          |
| <b>Total % of Portfolio:</b> | <b>100.00%</b> |

| <b>Bond Rating Analysis</b> |                |
|-----------------------------|----------------|
| AAA                         | 69.82%         |
| AA                          | 17.47          |
| A                           | 12.71          |
| Baa                         | 0.00           |
| Other                       | 0.00           |
| <b>Total % of Portfolio</b> | <b>100.00%</b> |

# CAT 2020 A Fund Characteristics

## Period Ending 9/30/2021

---

| <b>Maturity Analysis</b>     |                |
|------------------------------|----------------|
| 1 to 30 Days                 | 0.03%          |
| 31 to 60 Days                | 0.00           |
| 61 to 90 Days                | 0.00           |
| 91 to 120 Days               | 0.00           |
| 121 to 150 Days              | 0.00           |
| 151 to 180 Days              | 0.00           |
| 181 to 270 Days              | 0.00           |
| 271 to 365 Days              | 3.69           |
| 366 to 455 Days              | 7.38           |
| >= 456 Days                  | 88.90          |
| <b>Total % of Portfolio:</b> | <b>100.00%</b> |

| <b>Bond Rating Analysis</b> |                |
|-----------------------------|----------------|
| AAA                         | 62.15%         |
| AA                          | 22.12          |
| A                           | 15.73          |
| Baa                         | 0.00           |
| Other                       | 0.00           |
| <b>Total % of Portfolio</b> | <b>100.00%</b> |

# Florida PRIME Characteristics

## Quarter Ending 9/30/2021

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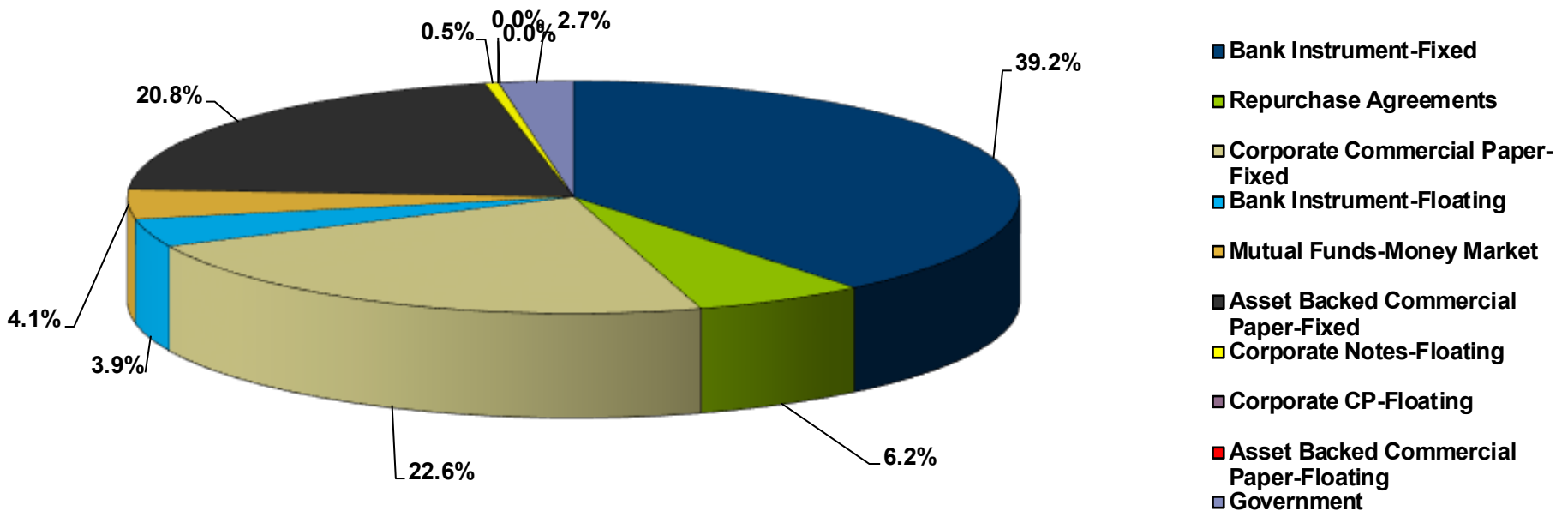
| <b>Cash Flows as of 9/30/2021</b> | <b>Third Quarter</b>     | <b>Fiscal YTD*</b>       |
|-----------------------------------|--------------------------|--------------------------|
| Opening Balance                   | \$17,441,698,421         | \$17,441,698,421         |
| Participant Deposits              | \$5,065,698,227          | \$5,065,698,227          |
| Gross Earnings                    | \$6,853,492              | \$6,853,492              |
| Participant Withdrawals           | (\$7,059,256,291)        | (\$7,059,256,291)        |
| Fees                              | (\$1,332,098)            | (\$1,332,098)            |
| Closing Balance (9/30/2021)       | \$15,453,661,751         | \$15,453,661,751         |
|                                   |                          |                          |
| <b>Change</b>                     | <b>(\$1,988,036,670)</b> | <b>(\$1,988,036,670)</b> |

\*Period July 2021 – September 2021

# Florida PRIME Characteristics

## Quarter Ending 9/30/2021

### Portfolio Composition



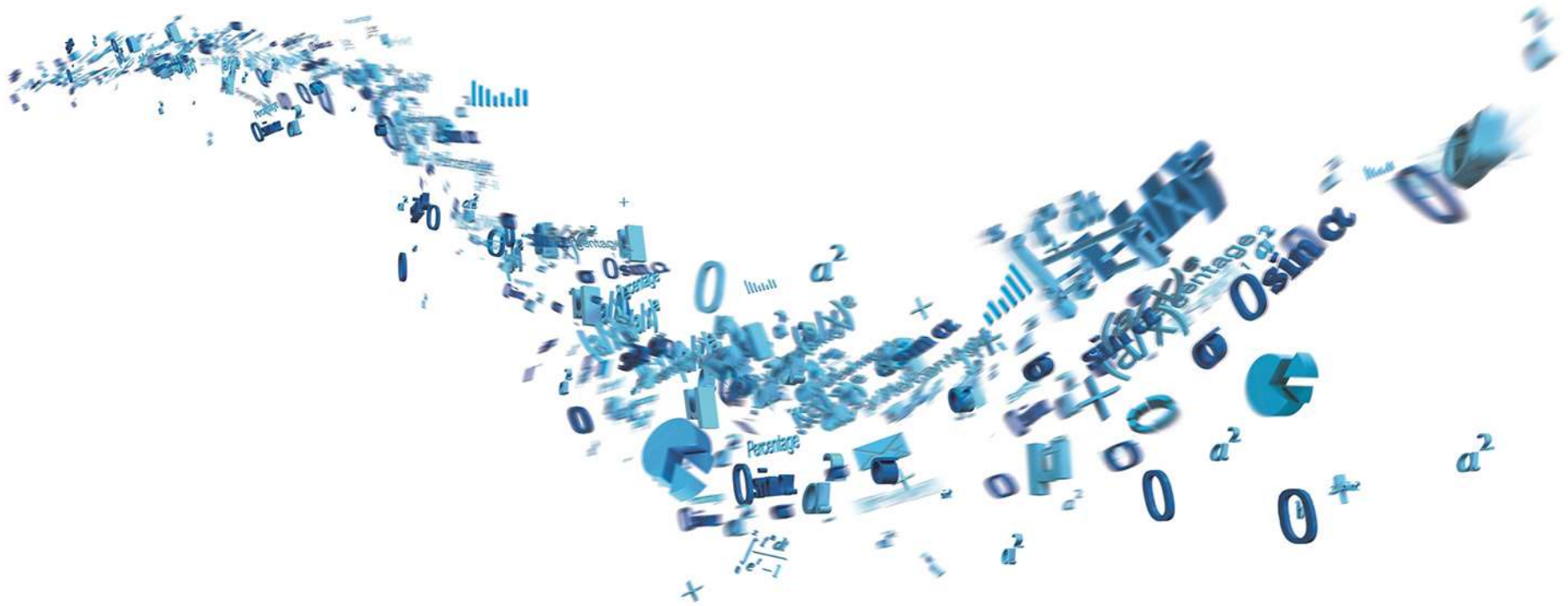
# Florida PRIME Characteristics

## Period Ending 9/30/2021

---

| Effective Maturity Schedule  |               |
|------------------------------|---------------|
| 1-7 Days                     | 43.4%         |
| 8 - 30 Days                  | 11.2%         |
| 31 - 90 Days                 | 26.7%         |
| 91 - 180 Days                | 12.3%         |
| 181+ Days                    | 6.4%          |
| <b>Total % of Portfolio:</b> | <b>100.0%</b> |

| S & P Credit Quality Composition |               |
|----------------------------------|---------------|
| A-1+                             | 66.7%         |
| A-1                              | 33.3%         |
| <b>Total % of Portfolio:</b>     | <b>100.0%</b> |



FRS Pension Plan | Third Quarter 2021

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## Quarterly Investment Review

Visit the Investments Thought Leadership Site (<https://insights-north-america.aon.com/investment>); sharing our best thinking.

Visit our new video library with our views on key investment topics for this quarter using access code "aon!"  
(<https://site-494121.bcvp0rtal.com/category/videos/key-topics-by-investor-type>)

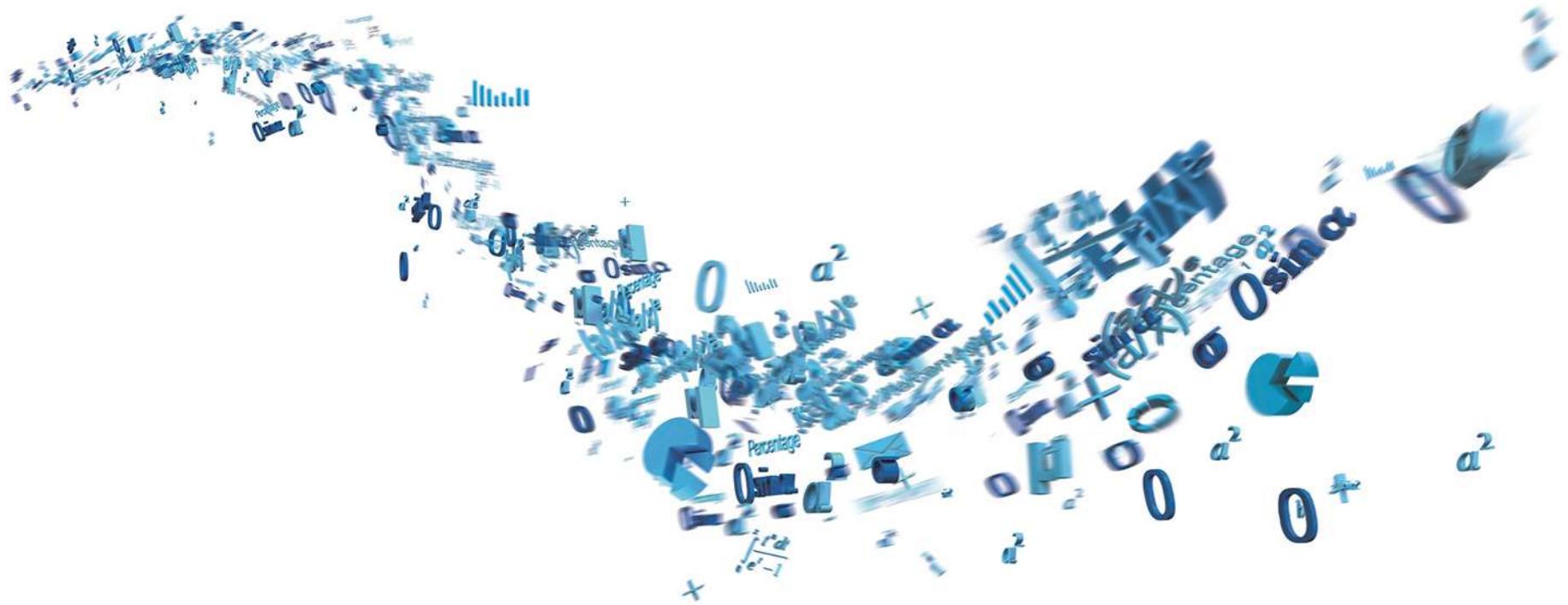
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# Table of Contents

|    |                       |    |
|----|-----------------------|----|
| 1  | Market Environment    | 5  |
| 2  | Total Fund            | 21 |
| 3  | Global Equity         | 31 |
| 4  | Domestic Equities     | 33 |
| 5  | Foreign Equities      | 37 |
| 6  | Global Equities       | 41 |
| 7  | Fixed Income          | 43 |
| 8  | Private Equity        | 47 |
| 9  | Real Estate           | 51 |
| 10 | Strategic Investments | 55 |
| 11 | Cash                  | 57 |
| 12 | Appendix              | 59 |



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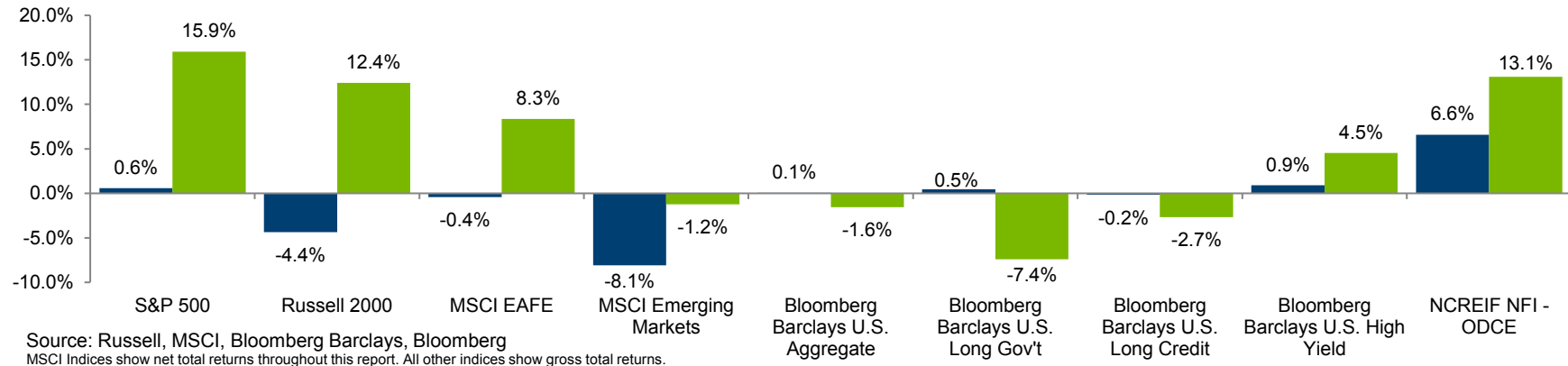
## Market Environment

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# Market Highlights

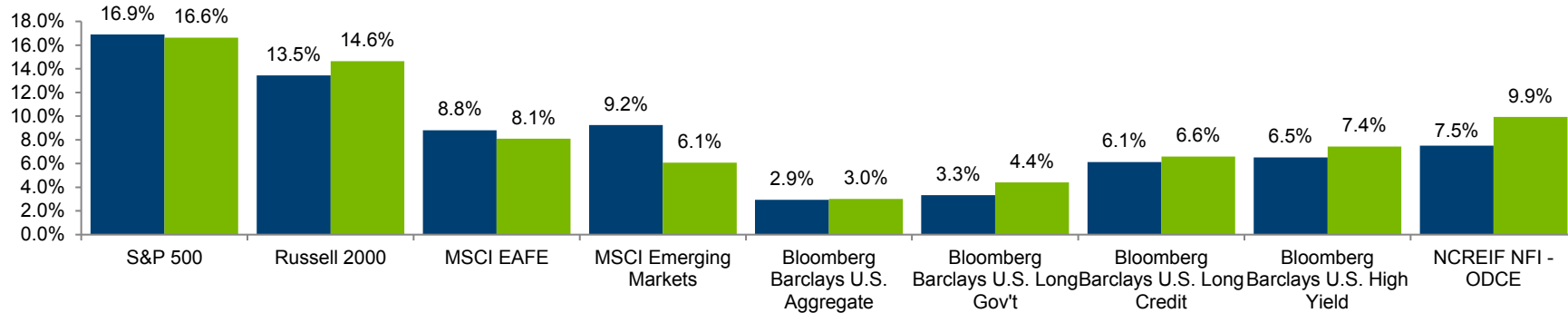
## SHORT TERM RETURNS AS OF 09/30/2021

■ Third Quarter 2021 ■ YTD



## LONG TERM ANNUALIZED RETURNS AS OF 09/30/2021

■ Five-Year ■ Ten-Year



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Investment advice and consulting services provided by Aon.

# Market Highlights

| Returns of the Major Capital Markets                  |               |        |         |                     |                     |                      |
|-------------------------------------------------------|---------------|--------|---------|---------------------|---------------------|----------------------|
| Period Ending 09/30/2021                              | Third Quarter | YTD    | 1-Year  | 3-Year <sup>1</sup> | 5-Year <sup>1</sup> | 10-Year <sup>1</sup> |
| <b>Equity</b>                                         |               |        |         |                     |                     |                      |
| MSCI All Country World IMI                            | -1.11%        | 11.42% | 28.92%  | 12.38%              | 13.06%              | 11.96%               |
| MSCI All Country World                                | -1.05%        | 11.12% | 27.44%  | 12.58%              | 13.20%              | 11.90%               |
| Dow Jones U.S. Total Stock Market                     | -0.12%        | 15.13% | 32.13%  | 15.95%              | 16.82%              | 16.56%               |
| Russell 3000                                          | -0.10%        | 14.99% | 31.88%  | 16.00%              | 16.85%              | 16.60%               |
| S&P 500                                               | 0.58%         | 15.92% | 30.00%  | 15.99%              | 16.90%              | 16.63%               |
| Russell 2000                                          | -4.36%        | 12.41% | 47.68%  | 10.54%              | 13.45%              | 14.63%               |
| MSCI All Country World ex-U.S. IMI                    | -2.56%        | 6.77%  | 25.16%  | 8.34%               | 9.13%               | 7.74%                |
| MSCI All Country World ex-U.S.                        | -2.99%        | 5.90%  | 23.92%  | 8.03%               | 8.94%               | 7.48%                |
| MSCI EAFE                                             | -0.45%        | 8.35%  | 25.73%  | 7.62%               | 8.81%               | 8.10%                |
| MSCI EAFE (Local Currency)                            | 1.32%         | 14.23% | 27.20%  | 7.16%               | 9.01%               | 10.10%               |
| MSCI Emerging Markets                                 | -8.09%        | -1.25% | 18.20%  | 8.58%               | 9.23%               | 6.09%                |
| <b>Equity Factors</b>                                 |               |        |         |                     |                     |                      |
| MSCI World Minimum Volatility (USD)                   | -0.09%        | 7.33%  | 13.56%  | 8.46%               | 9.27%               | 10.89%               |
| MSCI World High Dividend Yield                        | -1.88%        | 8.99%  | 21.90%  | 7.76%               | 8.72%               | 9.80%                |
| MSCI World Quality                                    | 0.12%         | 14.31% | 26.34%  | 18.32%              | 17.92%              | 15.84%               |
| MSCI World Momentum                                   | 1.07%         | 8.60%  | 20.12%  | 14.97%              | 18.11%              | 15.99%               |
| MSCI World Enhanced Value                             | -0.80%        | 15.92% | 36.99%  | 4.94%               | 8.53%               | 9.82%                |
| MSCI World Equal Weighted                             | -0.40%        | 11.94% | 31.44%  | 9.78%               | 11.12%              | 11.24%               |
| MSCI World Index Growth                               | 0.84%         | 12.21% | 26.34%  | 19.56%              | 19.02%              | 16.01%               |
| <b>Fixed Income</b>                                   |               |        |         |                     |                     |                      |
| Bloomberg Barclays Global Aggregate                   | -0.88%        | -4.06% | -0.91%  | 4.24%               | 1.99%               | 1.86%                |
| Bloomberg Barclays U.S. Aggregate                     | 0.05%         | -1.55% | -0.90%  | 5.36%               | 2.94%               | 3.01%                |
| Bloomberg Barclays U.S. Long Gov't                    | 0.46%         | -7.40% | -10.13% | 9.17%               | 3.34%               | 4.40%                |
| Bloomberg Barclays U.S. Long Credit                   | -0.18%        | -2.66% | 2.13%   | 10.20%              | 6.14%               | 6.59%                |
| Bloomberg Barclays U.S. Long Gov't/Credit             | 0.07%         | -4.57% | -2.97%  | 10.12%              | 5.21%               | 5.76%                |
| Bloomberg Barclays U.S. TIPS                          | 1.75%         | 3.51%  | 5.19%   | 7.45%               | 4.34%               | 3.12%                |
| Bloomberg Barclays U.S. High Yield                    | 0.89%         | 4.53%  | 11.28%  | 6.91%               | 6.52%               | 7.42%                |
| Bloomberg Barclays Global Treasury ex U.S.            | -1.56%        | -6.81% | -2.47%  | 3.01%               | 0.61%               | 0.56%                |
| JP Morgan EMBI Global (Emerging Markets)              | -0.53%        | -1.53% | 3.88%   | 5.64%               | 3.57%               | 5.48%                |
| <b>Commodities</b>                                    |               |        |         |                     |                     |                      |
| Bloomberg Commodity Index                             | 6.59%         | 29.13% | 42.29%  | 6.86%               | 4.54%               | -2.66%               |
| Goldman Sachs Commodity Index                         | 5.22%         | 38.27% | 58.30%  | -1.49%              | 3.64%               | -4.83%               |
| <b>Hedge Funds</b>                                    |               |        |         |                     |                     |                      |
| HFRI Fund-Weighted Composite <sup>2</sup>             | -0.03%        | 10.09% | 22.09%  | 8.52%               | 7.31%               | 5.86%                |
| HFRI Fund of Funds <sup>2</sup>                       | 1.37%         | 6.38%  | 15.00%  | 6.72%               | 5.93%               | 4.53%                |
| <b>Real Estate</b>                                    |               |        |         |                     |                     |                      |
| NAREIT U.S. Equity REITS                              | 0.98%         | 23.15% | 37.39%  | 10.01%              | 6.83%               | 11.27%               |
| NCREIF NFI - ODCE                                     | 6.59%         | 13.09% | 14.59%  | 7.05%               | 7.50%               | 9.92%                |
| FTSE Global Core Infrastructure Index                 | -1.20%        | 7.10%  | 14.84%  | 8.97%               | 8.79%               | 10.17%               |
| <b>Private Equity</b>                                 |               |        |         |                     |                     |                      |
| Burgiss Private iQ Global Private Equity <sup>3</sup> |               |        | 53.27%  | 20.13%              | 18.26%              | 14.59%               |

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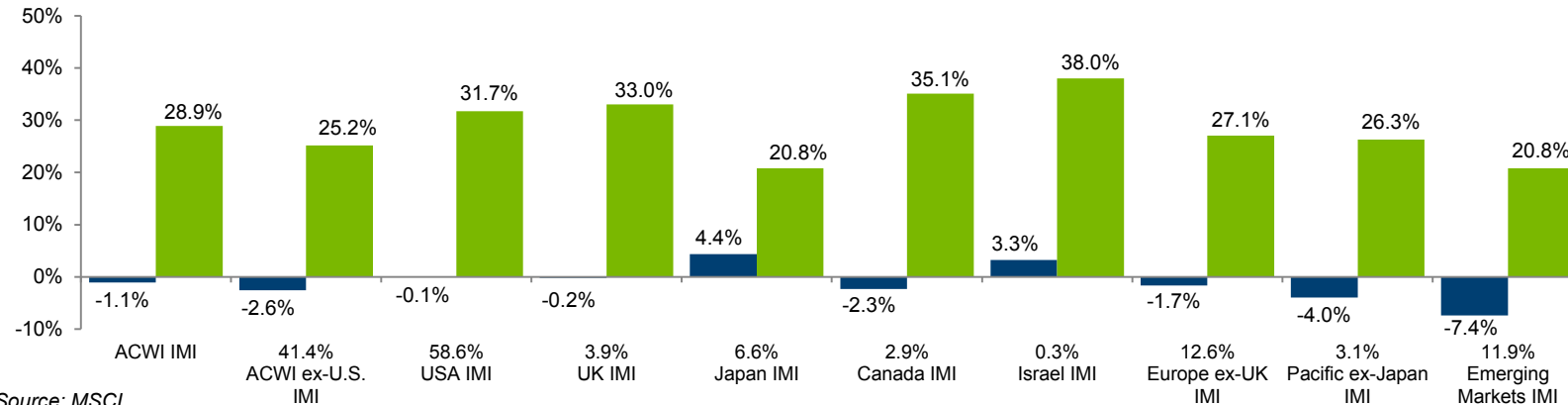
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# Global Equity Markets

**GLOBAL MSCI IMI INDEX RETURNS (USD)  
AS OF 09/30/2021**

■ Third Quarter 2021 ■ One-Year



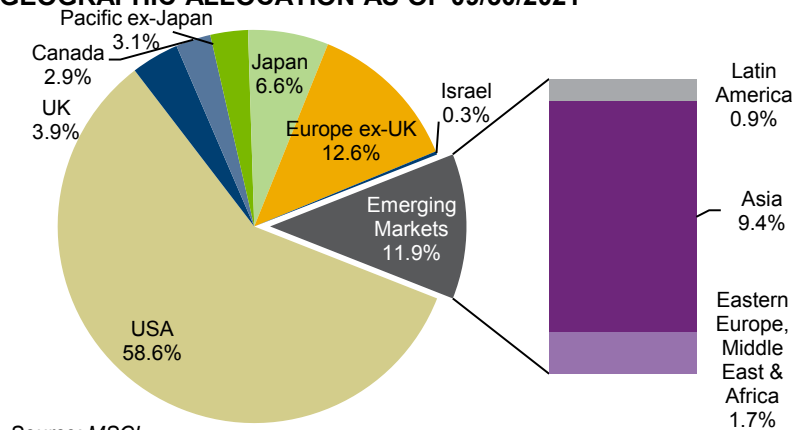
Source: MSCI

- The prospect of lower growth expectations and tighter monetary policy weighed on equities, with major markets falling over the month. The MSCI All Country World Investable Market Index (ACWI IMI) returned -1.1% for the quarter.
- Japanese equities led, returning 4.4%, while most of Europe ended the quarter in negative territory.
- Emerging Markets fared the worst, returning -7.4% for the third quarter, as poor returns from Brazil and China weighed on the region. In China, equity markets suffered a major setback due to regulatory crackdowns on technology companies, along with looming issues surrounding the country's indebted property developers. China's economy recorded an annual growth rate of 7.9% in Q2 2021, nearly cut in half from the previous quarter.

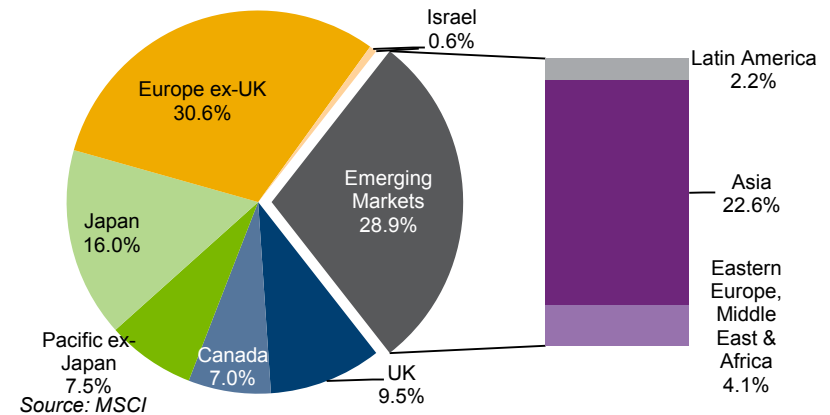
# Global Equity Markets

Below is the country/region breakdown of the global and international equity markets as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index, respectively.

**MSCI ALL COUNTRY WORLD IMI INDEX  
GEOGRAPHIC ALLOCATION AS OF 09/30/2021**



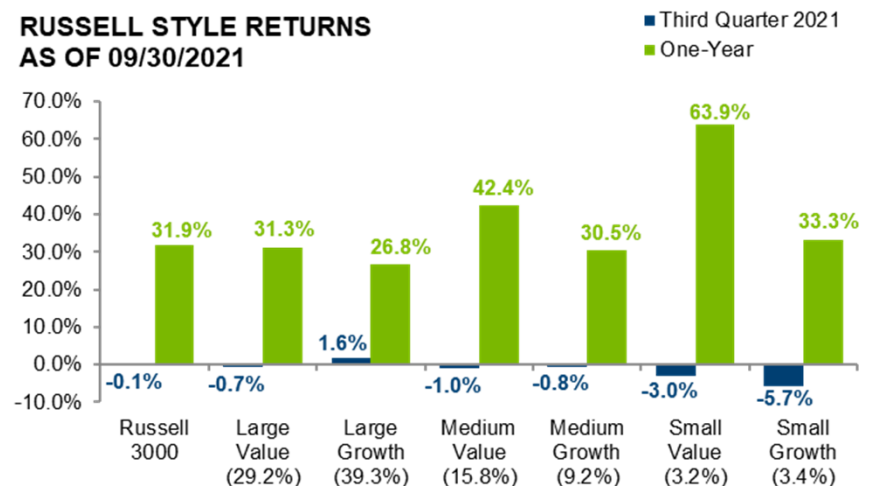
**MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX  
GEOGRAPHIC ALLOCATION AS OF 09/30/2021**



## U.S. Equity Markets

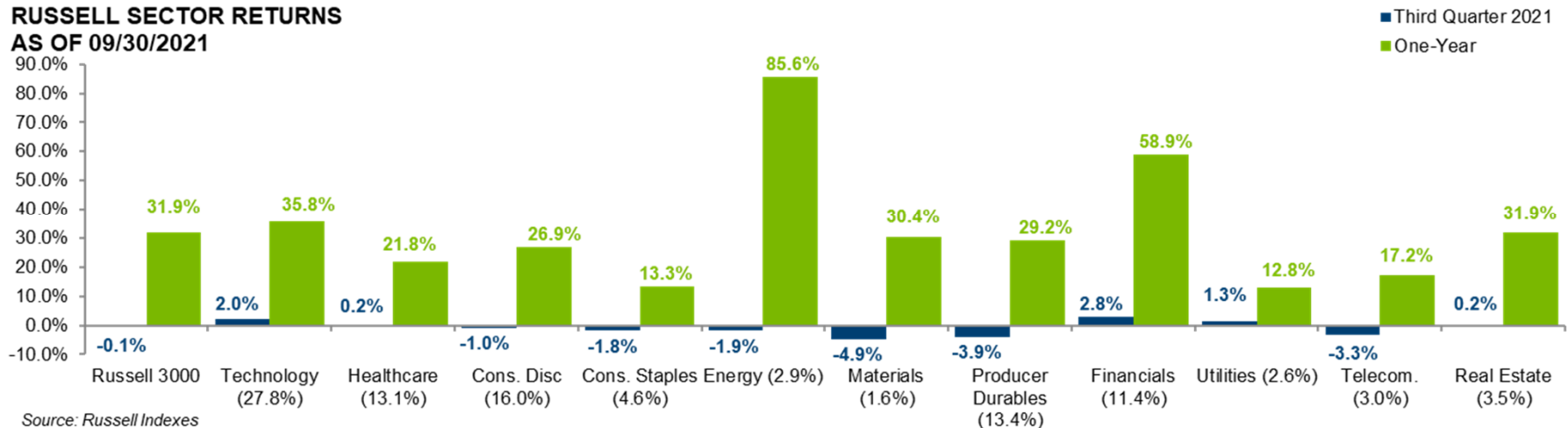
- U.S. equities were marginally up over the quarter with the S&P 500 index rising by 0.6%, giving up almost all of the quarter's gains during the final weeks of September.
- The Russell 3000 Index fell 0.1% during the third quarter but was up 31.9% over the trailing one-year period. Performance among sectors was mixed, with six out of the eleven sectors down for the quarter. Financials and Technology were the best performers while the Materials sector was the worst performer at -4.9%.
- Large and medium cap stocks outperformed small caps over the quarter, and growth outperformed value within large and medium cap stocks. However, over the trailing one-year period, value has eclipsed growth over all market capitalizations.

**RUSSELL STYLE RETURNS  
AS OF 09/30/2021**



Source: Russell Indexes

**RUSSELL SECTOR RETURNS  
AS OF 09/30/2021**

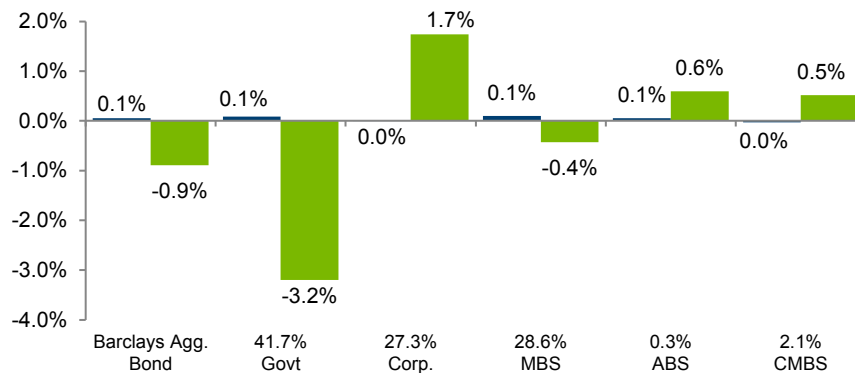


Source: Russell Indexes

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# U.S. Fixed Income Markets

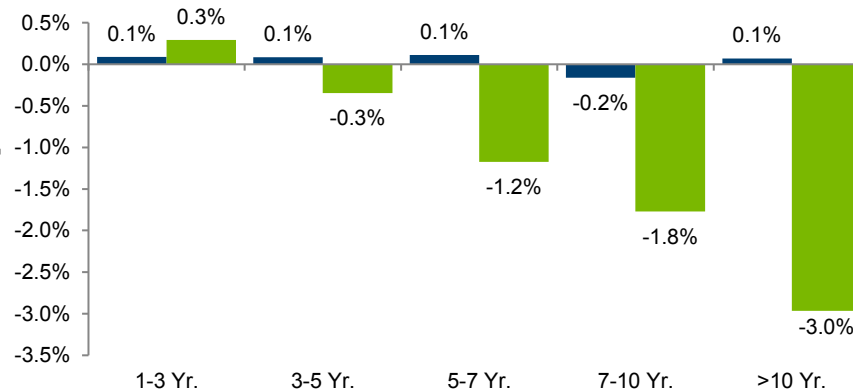
**BLOOMBERG BARCLAYS AGGREGATE RETURNS BY SECTOR  
AS OF 09/30/2021**



Source: FactSet

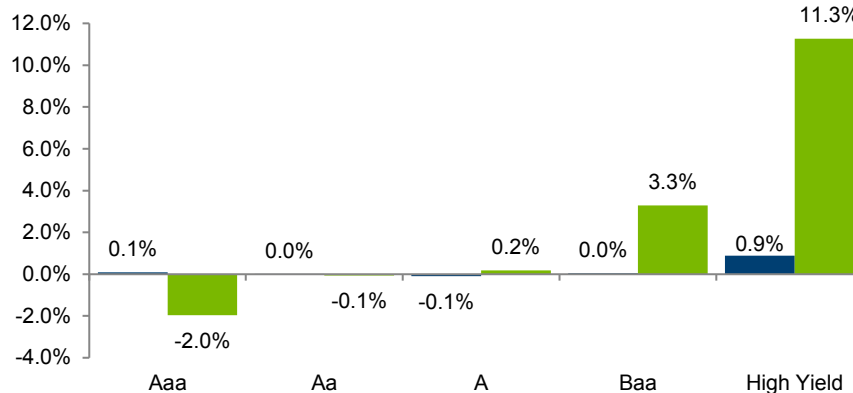
- The Bloomberg Barclays U.S. Aggregate Bond Index rose by 0.1% over the quarter.
- Risk sentiment waned over the quarter, weighing on credit markets, with most sectors posting muted quarterly returns.
- Across durations, 7-10 years maturity bonds finished the quarter in negative territory while all other maturities were marginally positive.
- Within investment grade bonds, higher-credit quality outperformed lower quality issues on the margin, with Aaa bonds rising by 0.1%. High yield bonds rose by 0.9% as spreads widened slightly.

**BLOOMBERG BARCLAYS AGGREGATE RETURNS BY MATURITY  
AS OF 09/30/2021**



Source: FactSet

**BLOOMBERG BARCLAYS AGGREGATE RETURNS BY QUALITY  
AND HIGH YIELD RETURNS AS OF 09/30/2021**

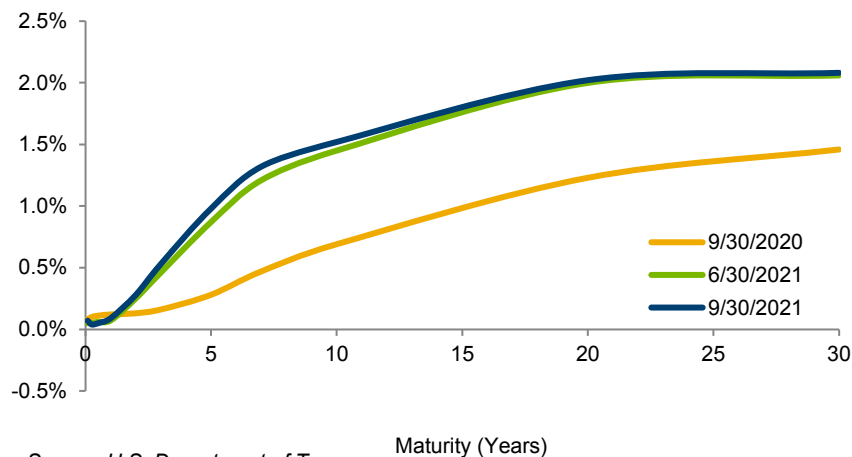


Source: FactSet

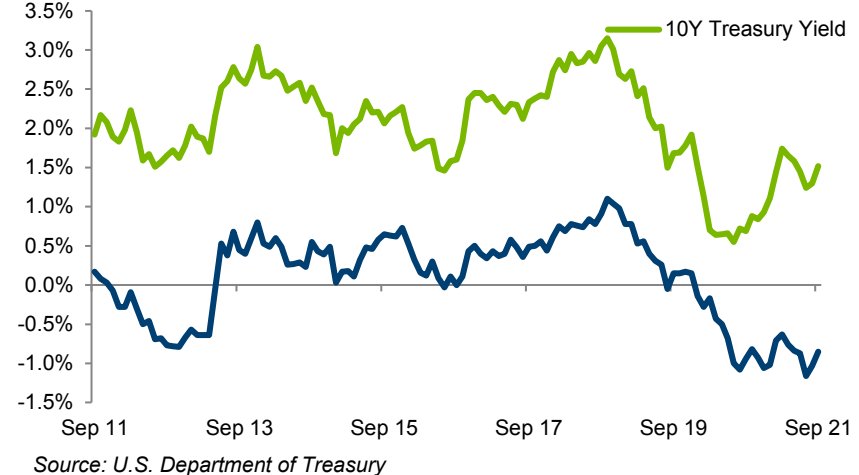


# U.S. Fixed Income Markets

**U.S. TREASURY YIELD CURVE**



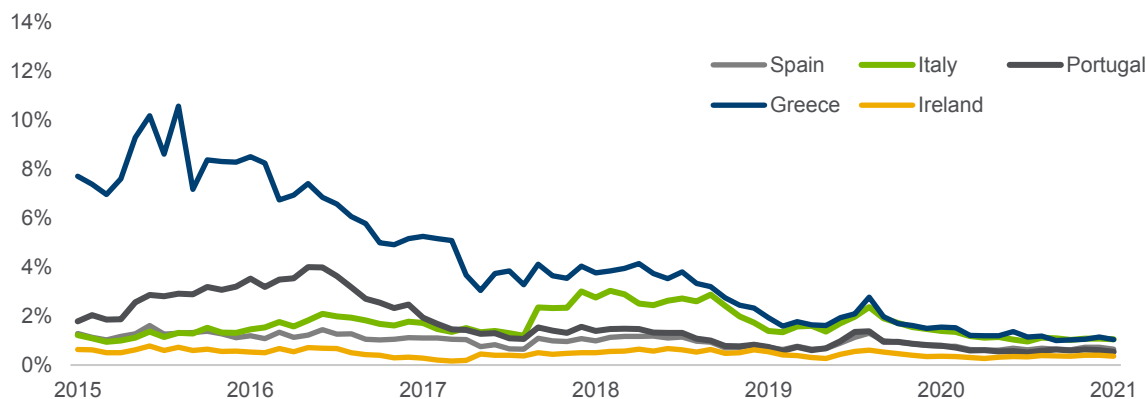
**U.S. 10-YEAR TREASURY AND TIPS YIELDS**



- The U.S. Treasury yield curve was largely unchanged, with yields rising across the belly of the curve. The Federal Reserve signaled that tighter monetary policy is on the horizon with plans to announce a formal tapering of monthly asset purchases, currently locked in at \$120bn per month, in November. The Fed September meeting also revealed that more policy makers than last quarter are forecasting interest rate hikes starting in 2022.
- Headline inflation accelerated to 5.3% year-over-year in August. Core CPI, excluding food and energy, increased by 4% over the same period.
- The 10-year U.S. Treasury yield ended the quarter 7bps higher at 1.52% and the 30-year yield increased by 2bps to 2.08%.
- The 10-year TIPS yield rose by 2bps over the quarter to -0.85%.

## European Fixed Income Markets

**EUROZONE PERIPHERAL BOND SPREADS  
(10-YEAR SPREADS OVER GERMAN BUNDS)**



Source: FactSet

- European government bond spreads over 10-year German bunds was mixed across the Euro Area but still remain low. The European Central Bank (ECB) decided to 'moderately' slow the pace of its Pandemic Emergency Purchase Programme (PEPP) over the next quarter, citing a strong rebound in Eurozone growth and inflation. The ECB also changed its yearly inflation target to 2% with the flexibility to fluctuate above or below the target for a temporary period.
- German government bund yields rose by 2bps to -0.19% over the quarter. The preliminary results of the German national elections indicated that the SPD (Social Democratic Party of Germany) secured a narrow victory over the outgoing chancellor Angela Merkel's CDU (Christian Democratic Union) and its ally CSU (Christian Social Union in Bavaria). However, uncertainty around forming a government continues as it depends on the coalition negotiations between SPD and CDU/CSU with smaller parties like the Greens and FDP (Free Democratic Party).
- The Eurozone continued to see economic activity rebound in Q2 2021, recording quarter-on-quarter GDP growth of 2.2%. The accelerating vaccination program helped boost consumer and business confidence.

## Credit Spreads

| Spread (bps)            | 09/30/2021 | 06/30/2021 | 09/30/2020 | Quarterly Change (bps) | One-Year Change (bps) |
|-------------------------|------------|------------|------------|------------------------|-----------------------|
| U.S. Aggregate          | 33         | 32         | 60         | 1                      | -27                   |
| Long Gov't              | 0          | 0          | 0          | 0                      | 0                     |
| Long Credit             | 123        | 118        | 188        | 5                      | -65                   |
| Long Gov't/Credit       | 72         | 71         | 111        | 1                      | -39                   |
| MBS                     | 27         | 27         | 61         | 0                      | -34                   |
| CMBS                    | 61         | 59         | 106        | 2                      | -45                   |
| ABS                     | 29         | 22         | 41         | 7                      | -12                   |
| Corporate               | 84         | 80         | 136        | 4                      | -52                   |
| High Yield              | 289        | 268        | 517        | 21                     | -228                  |
| Global Emerging Markets | 287        | 257        | 334        | 30                     | -47                   |

Source: FactSet, Bloomberg Barclays

- Credit spreads generally widened during the third quarter but are still narrow compared to historical standards.
- Global Emerging Markets and High Yield spreads widened the most in Q3 2021, increasing by 30bps and 21bps, respectively, over the quarter.

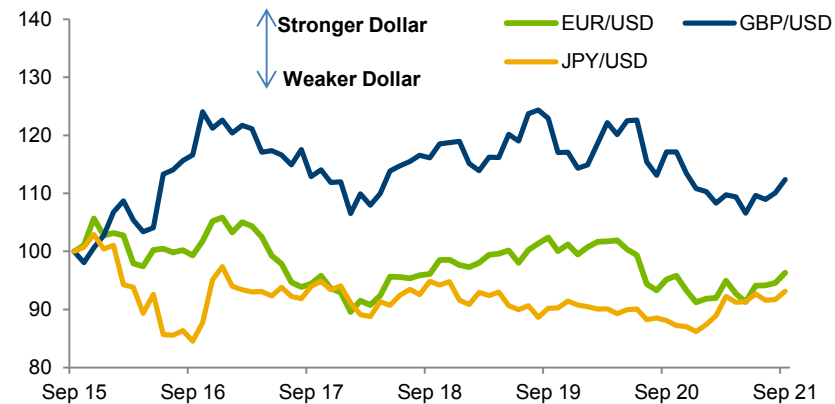
# Currency

**TRADE WEIGHTED U.S. DOLLAR INDEX  
(2006 = 100)**



Source: Federal Reserve

**U.S. DOLLAR RELATIVE TO EUR, GBP AND JPY  
REBASED TO 100 AT 09/30/2015**

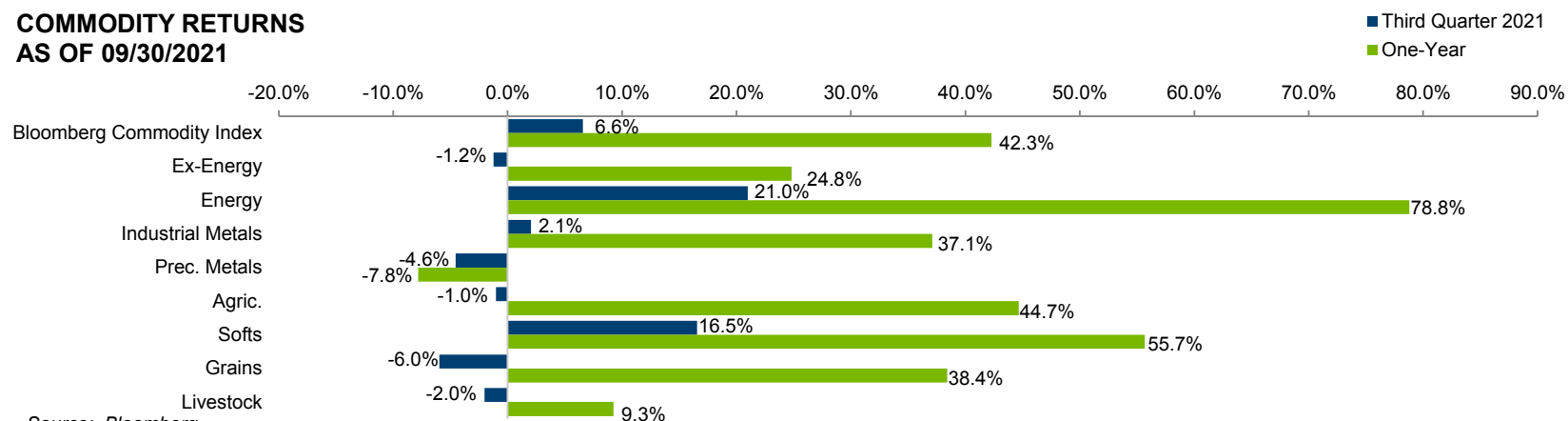


Source: FactSet

- The U.S. Dollar appreciated against major currencies over the quarter. The U.S. dollar rose 1.9% on a trade-weighted basis.
- Sterling fell by 0.9% on a trade-weighted basis over the quarter. The Bank of England (BoE) kept its interest rate unchanged but two members out of the nine-member Monetary Policy Committee voted to end its quantitative easing programme immediately. The Sterling depreciated by 2.5% against the U.S. dollar.
- The U.S. dollar appreciated by 2.3% against the Euro and by 0.5% against the Yen.

# Commodities

## COMMODITY RETURNS AS OF 09/30/2021



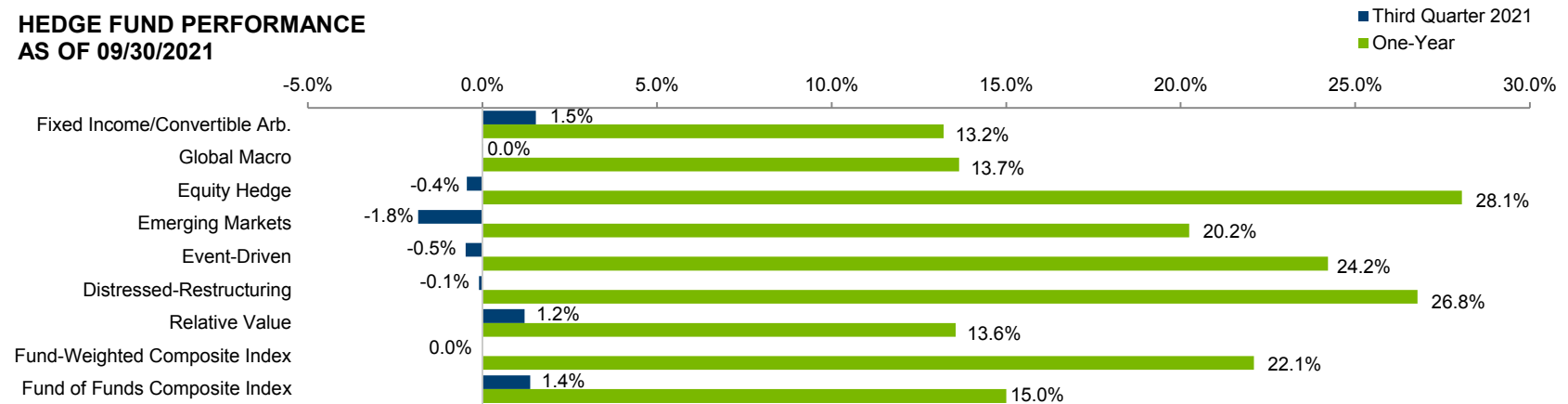
Source: Bloomberg

Note: Softs and Grains are part of the wider Agriculture sector

- Commodities continued their upward momentum over the quarter with the Bloomberg Commodity Index up 6.6%. Energy prices continued to rise higher demand has exacerbated supply issues, particularly in China and parts of Europe.
- Energy was the best performing sector, returning 21.0% over the quarter and 78.8% over the trailing one-year period. OPEC+ reached an agreement to increase crude oil production by 400,000 barrels a day each month from August until the end of 2022. OPEC+ also targeted the end of 2022 to start restoring output back to pre-pandemic levels.
- The price of Brent crude oil rose by 4.5% to \$79/bbl. while WTI crude oil spot prices rose by 2.1% to \$75/bbl.

# Hedge Fund Markets Overview

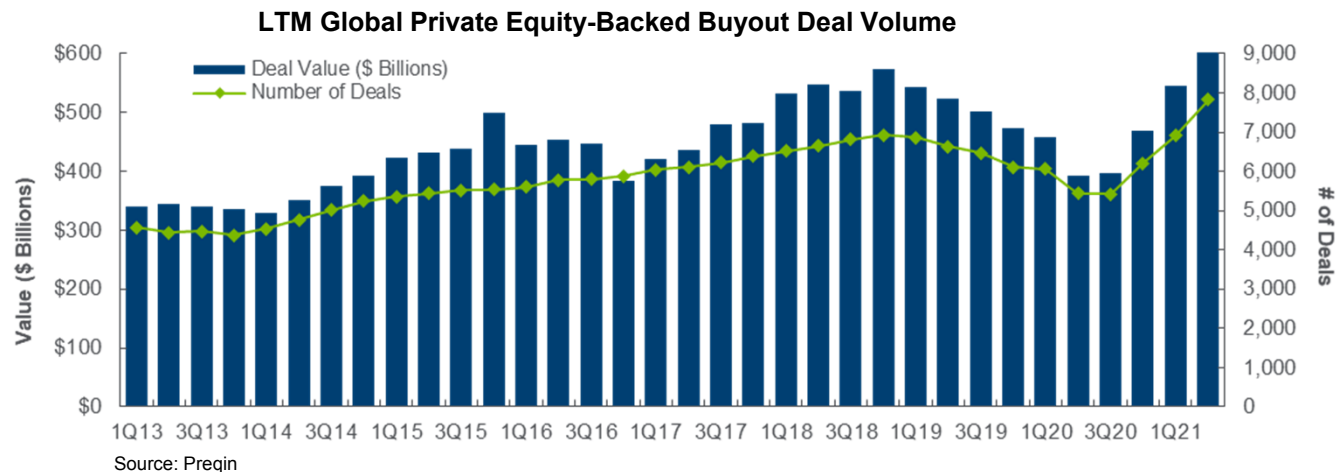
## HEDGE FUND PERFORMANCE AS OF 09/30/2021



*Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.  
Source: HFR*

- Hedge fund performance was mixed across all strategies in the third quarter.
- HFRI Fund-Weighted Composite Index remained flat whilst HFRI Fund of Funds Composite Index produced returns of 1.4% over the quarter.
- Over the quarter, Fixed Income/Convertible Arbitrage and Relative Value strategies were the best performers with returns of 1.5% and 1.2% respectively.
- Emerging Markets and Event-Driven strategies were the worst performers with a return of -1.8% and -0.5% respectively.

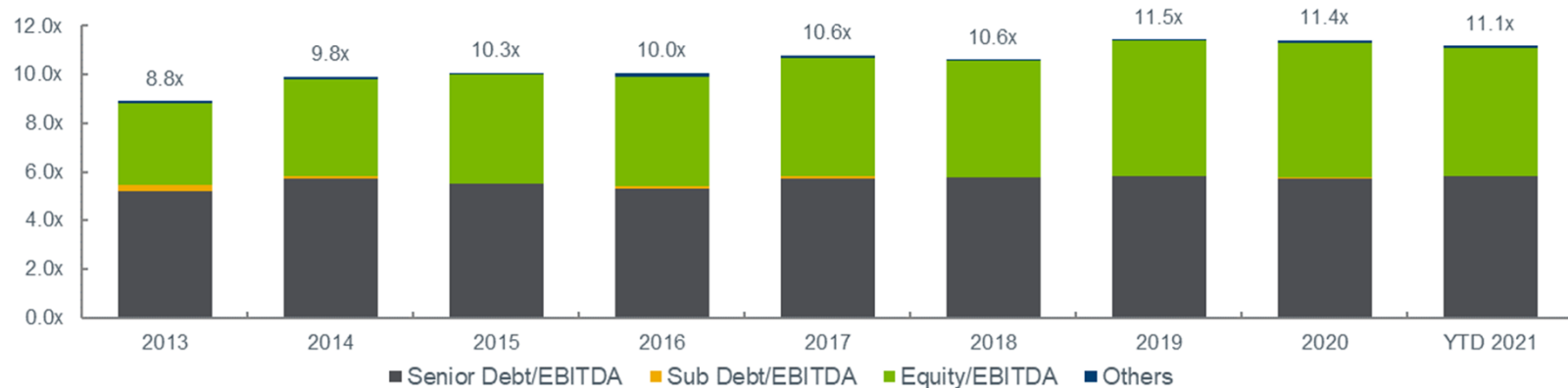
# Private Equity Market Overview – 2Q 2021



- **Fundraising:** In 2Q 2021, \$321.0 billion was raised by 750 funds, which was an increase of 34.1% on a capital basis and 26.6% by number of funds over the prior quarter. Dry powder stood at nearly \$2.1 trillion at the end of the quarter, an increase compared to year-end 2020's total of \$2.0 trillion.<sup>1</sup>
- **Buyout:** Global private equity-backed buyout deals totaled \$225.9 billion in 2Q 2021, which was up 22.6% on a capital basis and down 9.0% by number of deals from 1Q 2021.<sup>1</sup> Through 2Q 2021, the average purchase price multiple for all U.S. LBOs was 11.1x EBITDA, a decrease of 0.3x over 2020's average but higher than the five-year average (10.8x).<sup>2</sup> Large cap purchase price multiples stood at 11.0x through 2Q 2021, down compared to 2020's level of 11.3x.<sup>2</sup> In Europe, the average purchase price multiple across European transactions of greater than €500M averaged 12.6x EBITDA on an LTM basis as of 2Q 2021, equal to the 12.6x multiple seen at the end of 4Q 2020. Purchase prices for transactions of greater than €1.0 billion decreased to 12.9x EBITDA on an LTM basis compared to the 13.1x seen at the end of 2020. Globally, exit value totaled \$249.7 billion from 792 deals during the second quarter, up from the \$188.2 billion in exits from 748 deals during 1Q 2021. 2Q 2021's totals were significantly higher than Q2 2020's total of \$40.7 billion in value across 339 deals.<sup>1</sup>
- **Venture:** During the second quarter, an estimated 3,296 venture-backed transactions totaling \$75.0 billion were completed in the U.S., which was equal to the prior quarter on a capital basis but a decrease compared to the 3,762 completed deals. Q2's transaction value was 122.6% higher than the five-year quarterly average of \$33.7 billion and marked the strongest quarter on record.<sup>3</sup> Total U.S. venture-backed exit activity totaled approximately \$241.3 billion across an estimated 448 completed transactions in 2Q 2021, up from the \$130.9 billion across 435 exits in 1Q 2021. Through 2Q 2021, U.S. exit activity represented 129.5% of 2020's total.<sup>3</sup>
- **Mezzanine:** 11 funds closed on \$6.9 billion during the second quarter. This was up significantly from the prior quarter's total of \$510 million raised by three funds and up from 2Q 2020's total of \$3.7 billion raised by seven funds. Estimated dry powder was \$51.9 billion at the end of 2Q 2021, up slightly from the \$51.3 billion seen at the end of 1Q 2021.<sup>1</sup>

# Private Equity Market Overview – 2Q 2021

U.S. LBO Purchase Price Multiples – All Transactions Sizes



- **Distressed Debt:** The TTM U.S. high-yield default rate was expected to be 2.0% at the end of June 2021, which was a decrease from the 4.5% seen at year-end 2020.<sup>4</sup> During the quarter, \$14.9 billion was raised by 16 funds, a slight decrease from the \$15.9 billion raised by 20 funds in 1Q 2021. Distressed funds have raised 41.7% of 2020's total through 2Q 2021.<sup>1</sup> Dry powder was estimated at \$152.4 billion at the end of 2Q 2021, which was up from the \$143.6 billion seen at the end of 1Q 2021. This was 32.7% higher than the five-year annual average level of \$114.8 billion.<sup>1</sup>
- **Secondaries:** 16 funds raised \$12.6 billion during the quarter, down from the \$20.6 billion raised by 18 funds in 1Q 2021. This was also down 46.7% from 2Q 2020.<sup>1</sup> At the end of 2Q 2021, there were an estimated 101 secondary and direct secondary funds in market targeting roughly \$40.3 billion.<sup>1</sup> The average discount rate for all private equity sectors finished the quarter at 8.2%, continuing the rebound from the 9.1% discount at the end of 1Q 2021 and from the 11.8% discount at the end of 4Q 2020.<sup>5</sup>
- **Infrastructure:** \$37.8 billion of capital was raised by 39 funds in 2Q 2021 compared to \$23.8 billion of capital raised by 32 partnerships in 1Q 2021. Through 2Q 2021, infrastructure funds have raised 56.5% of 2020's total. At the end of the quarter, dry powder stood at an estimated \$270.6 billion, up from 1Q 2021's total of \$262.2 billion. Infrastructure managers completed 443 deals with an estimated aggregate deal value of \$97.9 billion in 2Q 2021 compared to 560 deals totaling \$81.4 billion a quarter ago.<sup>1</sup>
- **Natural Resources:** During 2Q 2021, seven funds closed on \$2.4 billion compared to five funds totaling \$1.4 billion in 1Q 2021. Energy and utilities industry managers completed approximately 83 deals totaling an estimated \$17.0 billion through 2Q 2021, which represented 104.4% of energy and utilities deal value during all of 2020.<sup>1</sup>

Sources: <sup>1</sup> Preqin <sup>2</sup> Standard & Poor's <sup>3</sup> PwC/CB Insights MoneyTree Report <sup>4</sup> PitchBook/NVCA Venture Monitor <sup>5</sup> Fitch Ratings <sup>6</sup> Thomson Reuters <sup>7</sup> UBS

Notes: FY=Fiscal year ended 12/31; YTD=Year to date; LTM=Last 12 months (aka trailing 12 months); PPM=Purchase Price Multiples: Total Purchase Price ÷ EBITDA.

Aon

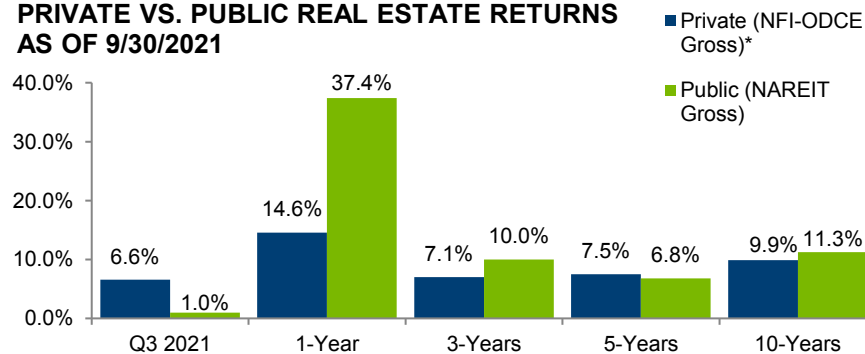
Proprietary

Investment advice and consulting services provided by Aon.

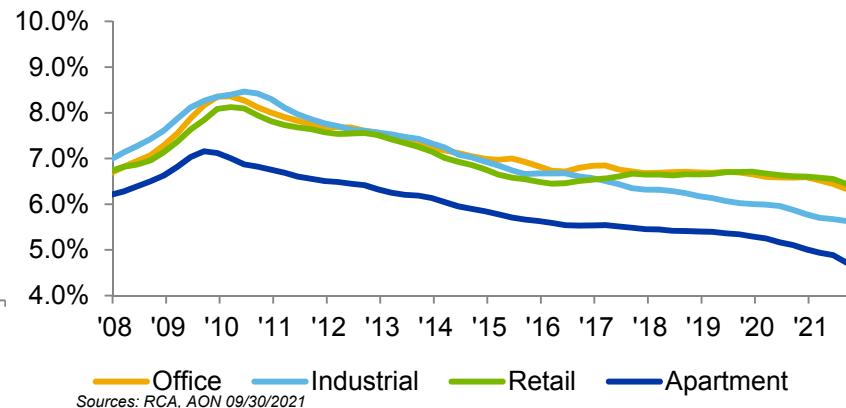


# U.S. Commercial Real Estate Markets

## PRIVATE VS. PUBLIC REAL ESTATE RETURNS AS OF 9/30/2021



\*Third quarter returns are preliminary  
Sources: NCREIF, FactSet



- U.S. Core Real Estate returned 6.6%\* in the third quarter, equating to an 14.6% total gross return year-over-year, including a 4.0% income return. Limited distressed sales have been witnessed thus far, although plenty of capital has been raised to capitalize on any potential opportunities coming out of COVID-19. Townsend has witnessed a robust recovery across the US economy and US real estate markets through the first half of 2021. Despite lingering uncertainty, real estate capital markets are highly liquid and competitive for in vogue sectors but have also been surprisingly strong for less favored sectors.
- Global property markets, as measured by the FTSE EPRA/NAREIT Developed Real Estate Index, returned -0.7% (USD) in aggregate during the third quarter and experienced a cumulative increase of 30.8% over the trailing 1-year period. REIT market performance was driven by Asia Pacific (-2.7% USD), North America (0.7% USD), and Europe (-1.4% USD). The U.S. REIT markets (FTSE NAREIT Equity REITs Index) returned 1.0% in the third quarter. The U.S. 10-year treasury bond yields were flat at 1.49% during the quarter.
- The demand for modern logistics networks has outpaced development and now low-single-digit vacancy rates are common across major markets in the US. A mismatch of supply and demand is driving strong rent growth in the sector, as e-commerce still only accounts for 18% of retail sales and is forecasted to grow at more than 10% per annum between 2021-2024. Significant demand combined with an undersupply of modern assets continues to support the development modern logistics properties and the retrofit or refurbishment of well-located older product.
- Residential property prices are appreciating across almost every major economy. Development hurdles, rising costs, and increasing regulatory risks are negatively impacting economic incentives to develop residential homes. Residential demand is anticipated to further recover and grow alongside the economy creating attractive investment opportunities across the residential market, including multifamily and single family-for-rent.
- Townsend has identified high conviction investment themes that are predicated on secular growth trends and strong underlying real estate market fundamentals. These investment themes have commonalities such as anticipated tenant demand growth, natural barriers to supply, and operating complexity that are anticipated to persist medium to long-term.

\*Indicates preliminary NFI-ODCE data gross of fees

**Aon**  
Proprietary  
Investment advice and consulting services provided by Aon.



## Highlights

### Executive Summary

- The Total Fund outperformed the Performance Benchmark over the trailing quarter-, one-, three-, five-, and ten-year periods.
- Performance relative to peers is also competitive over short- and long-term time periods.
- The Pension Plan is well-diversified across six broad asset classes, and each asset class is also well-diversified.
- Public market asset class investments do not significantly deviate from their broad market based benchmarks, e.g., sectors, market capitalizations, global regions, credit quality, duration, and security types.
- Private market asset classes are well-diversified by vintage year, geography, property type, sectors, investment vehicle/asset type, or investment strategy.
- Asset allocation is monitored on a daily basis to ensure the actual asset allocation of the plan remains close to the long-term policy targets set forth in the Investment Policy Statement.
- Aon Investments and SBA staff revisit the plan design annually through informal and formal asset allocation and asset liability reviews.
- Adequate liquidity exists within the asset allocation to pay the monthly obligations of the Pension Plan consistently and on a timely basis.

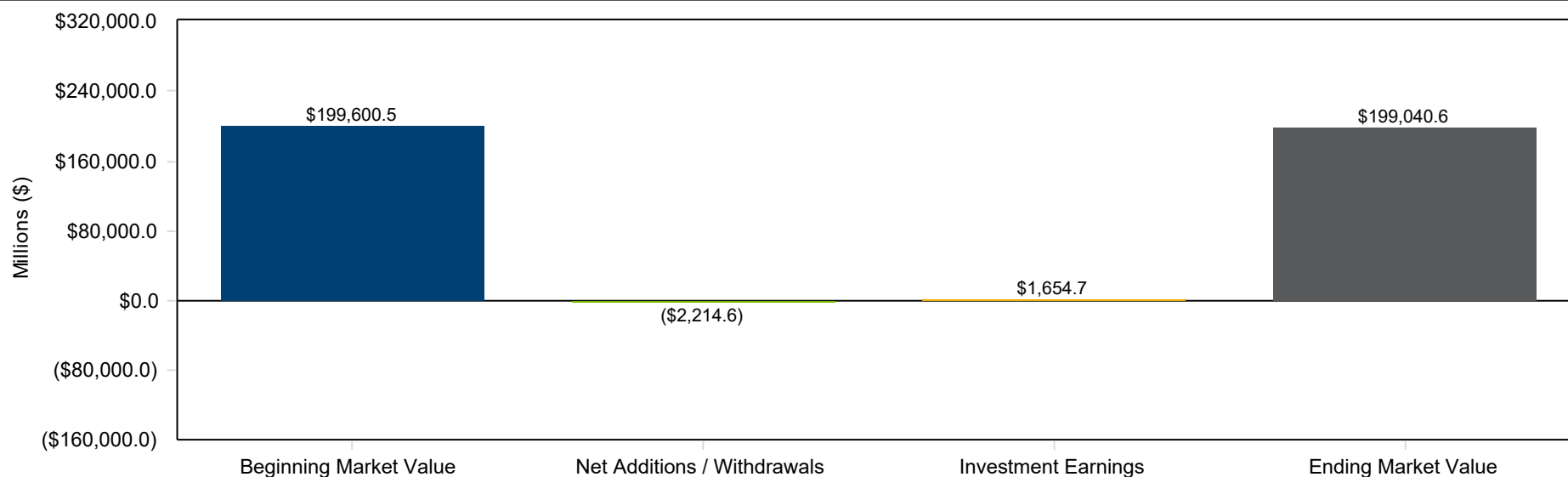
### Performance Highlights

- The Total Fund outperformed the Performance Benchmark over the trailing quarter-, one-, three-, five-, and ten-year periods.

### Asset Allocation

- The Fund assets total \$199.0 billion as of September 30, 2021, which represents a \$559.9 million decrease since last quarter.
- Actual allocations for all asset classes were within their respective policy ranges and in line with the current policy at quarter-end.

## Total Plan Asset Summary

Change in Market Value  
From July 1, 2021 to September 30, 2021

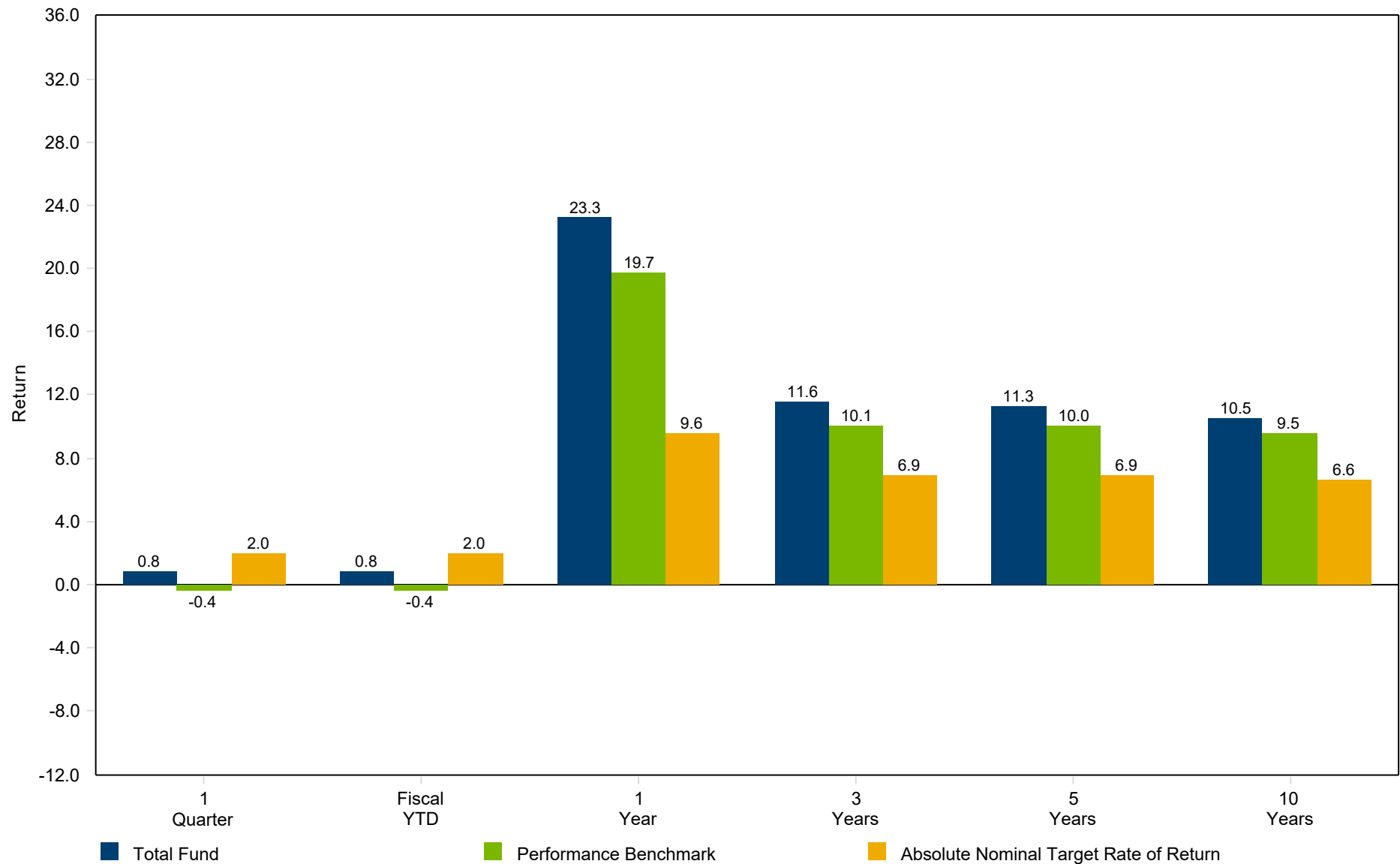
## Summary of Cash Flow

|                           | 1<br>Quarter    | Fiscal YTD*     |
|---------------------------|-----------------|-----------------|
| Beginning Market Value    | 199,600,498,385 | 199,600,498,385 |
| + Additions / Withdrawals | -2,214,635,138  | -2,214,635,138  |
| + Investment Earnings     | 1,654,746,405   | 1,654,746,405   |
| = Ending Market Value     | 199,040,609,652 | 199,040,609,652 |

\*Period July 2021 - September 2021

## Total Plan Performance Summary

## Return Summary



As of September 30, 2021

## Asset Allocation & Performance

|                                                         | Allocation        |       |           | Performance(%) |            |           |           |           |           |
|---------------------------------------------------------|-------------------|-------|-----------|----------------|------------|-----------|-----------|-----------|-----------|
|                                                         | Market Value (\$) | %     | Policy(%) | 1 Quarter      | Fiscal YTD | 1 Year    | 3 Years   | 5 Years   | 10 Years  |
| <b>Total Fund</b>                                       | 199,040,609,652   | 100.0 | 100.0     | 0.8 (35)       | 0.8 (35)   | 23.3 (24) | 11.6 (12) | 11.3 (10) | 10.5 (12) |
| Performance Benchmark                                   |                   |       |           | -0.4 (83)      | -0.4 (83)  | 19.7 (77) | 10.1 (48) | 10.0 (43) | 9.5 (47)  |
| Absolute Nominal Target Rate of Return                  |                   |       |           | 2.0 (9)        | 2.0 (9)    | 9.6 (97)  | 6.9 (95)  | 6.9 (96)  | 6.6 (95)  |
| <b>Global Equity*</b>                                   | 106,620,677,742   | 53.6  | 53.0      | -1.2           | -1.2       | 29.1      | 13.1      | 13.7      | 12.8      |
| Asset Class Target                                      |                   |       |           | -1.1           | -1.1       | 28.9      | 12.4      | 13.1      | 12.0      |
| <b>Domestic Equities</b>                                | 53,209,945,829    | 26.7  |           | 0.1            | 0.1        | 32.6      | 15.7      | 16.7      | 16.5      |
| Asset Class Target                                      |                   |       |           | -0.1           | -0.1       | 31.9      | 16.0      | 16.9      | 16.6      |
| <b>Foreign Equities</b>                                 | 38,480,484,530    | 19.3  |           | -3.4           | -3.4       | 24.9      | 10.1      | 10.4      | 9.0       |
| Asset Class Target                                      |                   |       |           | -2.6           | -2.6       | 25.0      | 8.4       | 9.1       | 7.8       |
| <b>Global Equities</b>                                  | 12,778,944,287    | 6.4   |           | -0.8           | -0.8       | 24.7      | 11.5      | 12.5      | 12.1      |
| Benchmark                                               |                   |       |           | -0.3           | -0.3       | 28.2      | 13.0      | 13.6      | 12.5      |
| <b>Fixed Income</b>                                     | 35,643,462,405    | 17.9  | 19.5      | 0.1            | 0.1        | 0.2       | 4.8       | 2.8       | 3.0       |
| Asset Class Target                                      |                   |       |           | 0.0            | 0.0        | -0.4      | 4.4       | 2.5       | 2.5       |
| <b>Private Equity</b>                                   | 17,601,485,017    | 8.8   | 9.0       | 8.9            | 8.9        | 64.0      | 27.8      | 23.9      | 17.7      |
| Asset Class Target                                      |                   |       |           | -2.2           | -2.2       | 31.8      | 15.4      | 16.1      | 16.5      |
| <b>Real Estate</b>                                      | 17,357,478,722    | 8.7   | 8.5       | 5.1            | 5.1        | 13.8      | 6.9       | 7.3       | 10.4      |
| Asset Class Target                                      |                   |       |           | 3.3            | 3.3        | 9.5       | 5.2       | 5.9       | 8.8       |
| <b>Strategic Investments</b>                            | 18,668,979,476    | 9.4   | 9.1       | 2.9            | 2.9        | 17.4      | 7.3       | 8.0       | 8.5       |
| Short-Term Target                                       |                   |       |           | 1.6            | 1.6        | 14.8      | 7.4       | 7.0       | 6.8       |
| <b>Cash</b>                                             | 3,148,526,290     | 1.6   | 1.0       | 0.0            | 0.0        | 0.1       | 1.1       | 1.2       | 0.7       |
| Bank of America Merrill Lynch 3-Month US Treasury Index |                   |       |           | 0.0            | 0.0        | 0.1       | 1.2       | 1.2       | 0.6       |

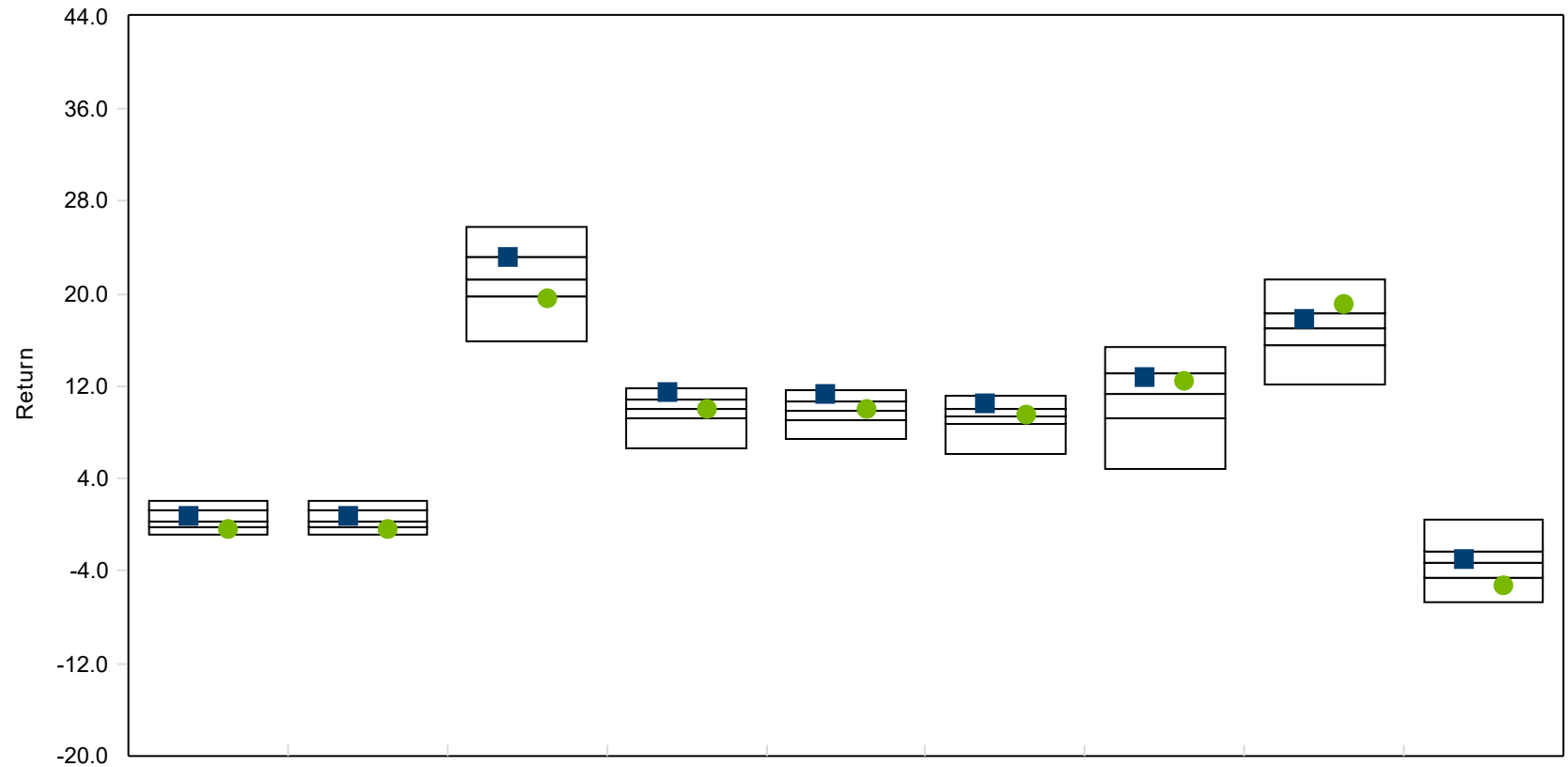
Benchmark and universe descriptions can be found in the Appendix.

\* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.

As of September 30, 2021

## Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-Total Fund

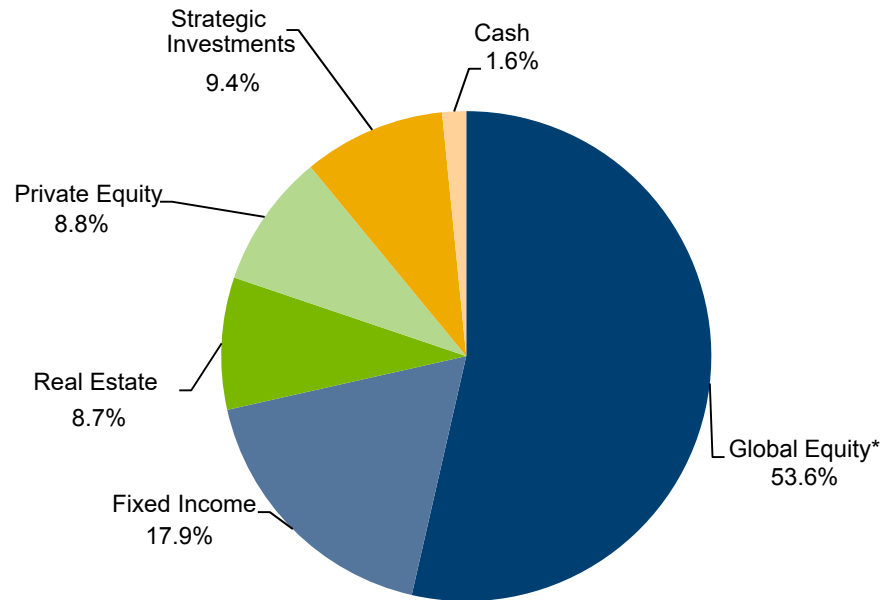


|                         | 1<br>Quarter | Fiscal<br>YTD | 1<br>Year | 3<br>Years | 5<br>Years | 10<br>Years | 2020      | 2019      | 2018      |
|-------------------------|--------------|---------------|-----------|------------|------------|-------------|-----------|-----------|-----------|
| ■ Total Fund            | 0.8 (35)     | 0.8 (35)      | 23.3 (24) | 11.6 (12)  | 11.3 (10)  | 10.5 (12)   | 12.9 (28) | 17.8 (32) | -3.0 (42) |
| ● Performance Benchmark | -0.4 (83)    | -0.4 (83)     | 19.7 (77) | 10.1 (48)  | 10.0 (43)  | 9.5 (47)    | 12.4 (35) | 19.1 (19) | -5.2 (79) |
| 5th Percentile          | 2.2          | 2.2           | 25.8      | 11.8       | 11.7       | 11.2        | 15.5      | 21.2      | 0.5       |
| 1st Quartile            | 1.2          | 1.2           | 23.2      | 10.9       | 10.7       | 10.1        | 13.1      | 18.4      | -2.3      |
| Median                  | 0.2          | 0.2           | 21.2      | 10.1       | 9.8        | 9.4         | 11.3      | 17.1      | -3.3      |
| 3rd Quartile            | -0.2         | -0.2          | 19.8      | 9.3        | 9.1        | 8.7         | 9.3       | 15.6      | -4.6      |
| 95th Percentile         | -0.8         | -0.8          | 15.9      | 6.6        | 7.4        | 6.1         | 4.9       | 12.2      | -6.6      |
| Population              | 92           | 92            | 91        | 87         | 85         | 78          | 121       | 112       | 82        |

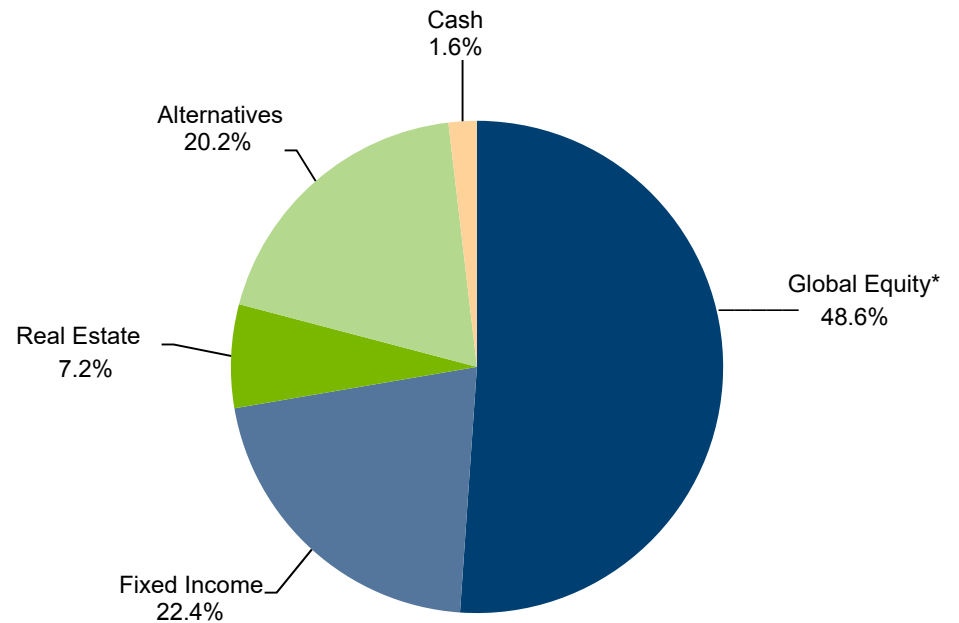
Parentheses contain percentile rankings.

## Universe Asset Allocation Comparison

Total Fund



\*Global Equity Allocation: 26.7% Domestic Equities; 19.3% Foreign Equities; 6.6% Global Equities; 0.9% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.

BNY Mellon Public Funds >  
\$1B Net Universe

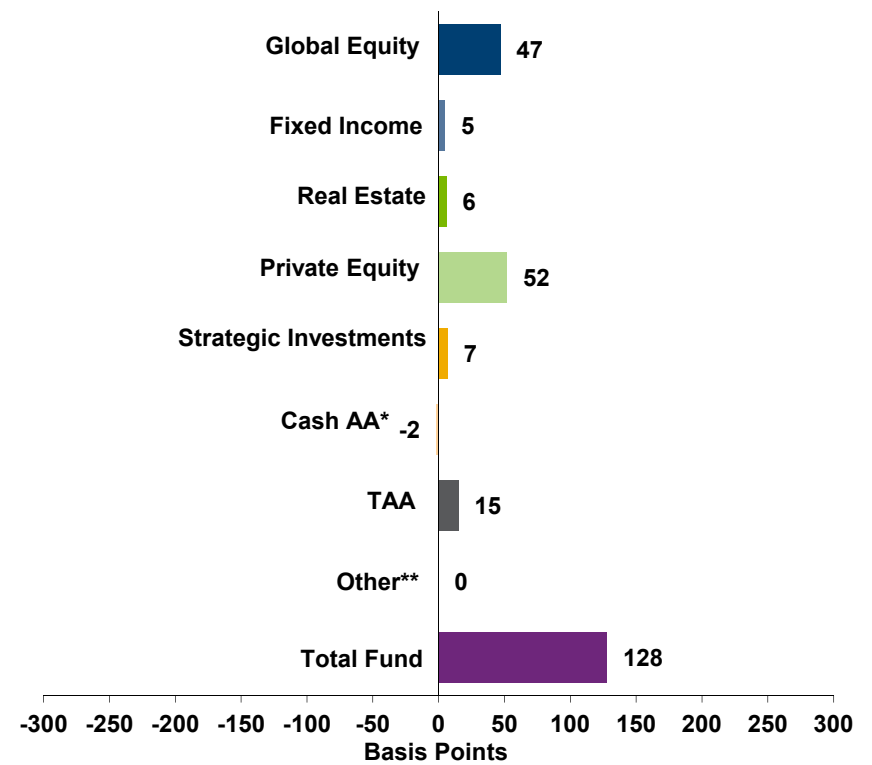
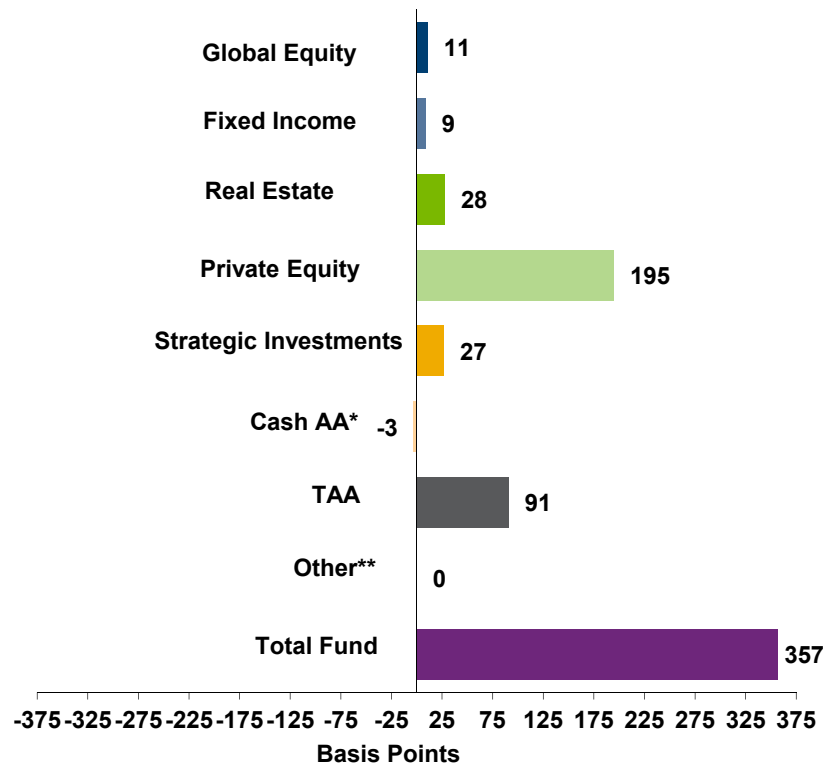
\*\*Global Equity Allocation: 30.5% Domestic Equities; 18.1% Foreign Equities.



Total Fund

As of September 30, 2021

## Attribution

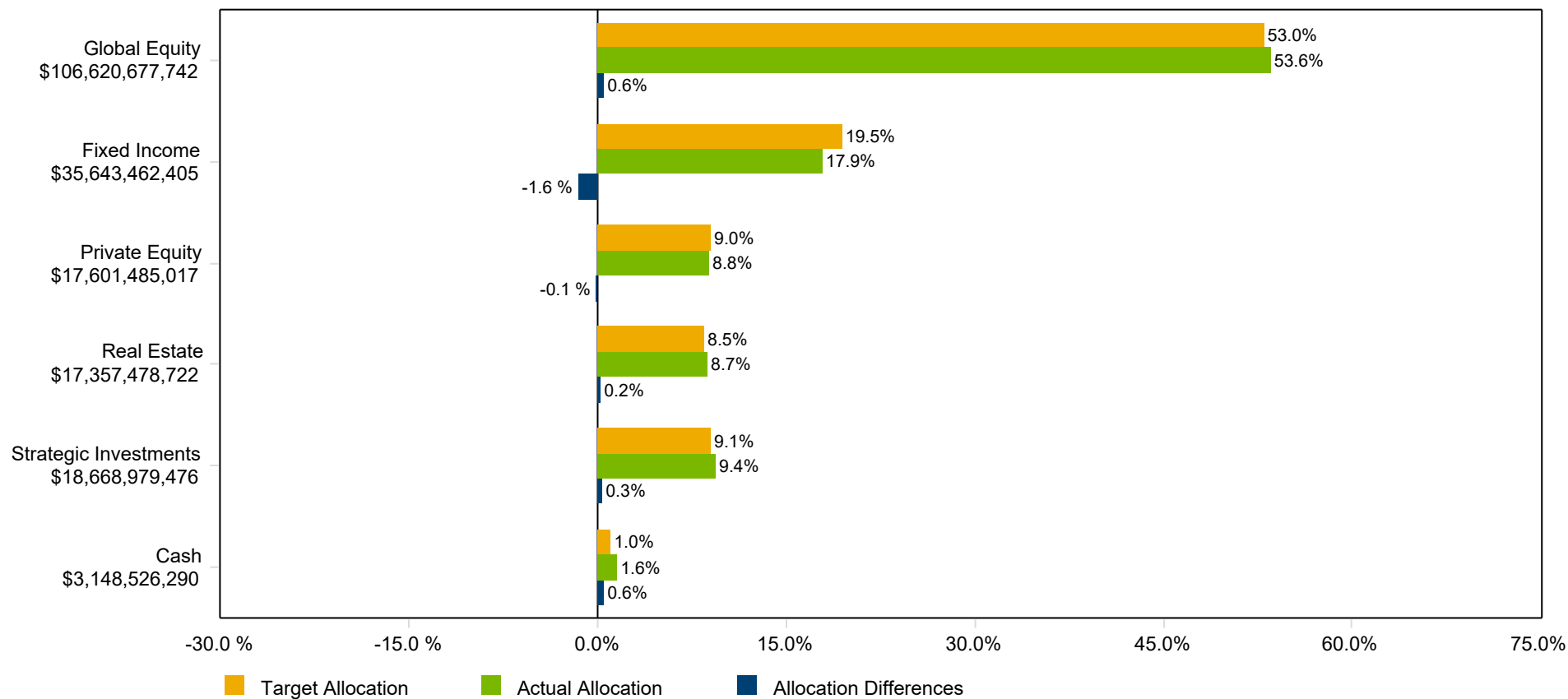


\*Cash AA includes Cash and Central Custody, Securities Lending Account income from 12/2009 to 3/2013 and unrealized gains and losses on securities lending collateral beginning June 2013, TF STIPFRS NAV Adjustment Account, and the Cash Expense Account.

\*\*Other includes legacy accounts and unexplained differences due to methodology.

## Asset Allocation Compliance

|                       | Market Value (\$) | Current Allocation (%) | Target Allocation (%) | Minimum Allocation (%) | Maximum Allocation (%) |
|-----------------------|-------------------|------------------------|-----------------------|------------------------|------------------------|
| Total Fund            | 199,040,609,652   | 100.0                  | 100.0                 |                        |                        |
| Global Equity         | 106,620,677,742   | 53.6                   | 53.0                  | 45.0                   | 70.0                   |
| Fixed Income          | 35,643,462,405    | 17.9                   | 19.5                  | 10.0                   | 26.0                   |
| Private Equity        | 17,601,485,017    | 8.8                    | 9.0                   | 2.0                    | 9.0                    |
| Real Estate           | 17,357,478,722    | 8.7                    | 8.5                   | 4.0                    | 16.0                   |
| Strategic Investments | 18,668,979,476    | 9.4                    | 9.1                   | 0.0                    | 16.0                   |
| Cash                  | 3,148,526,290     | 1.6                    | 1.0                   | 0.3                    | 5.0                    |



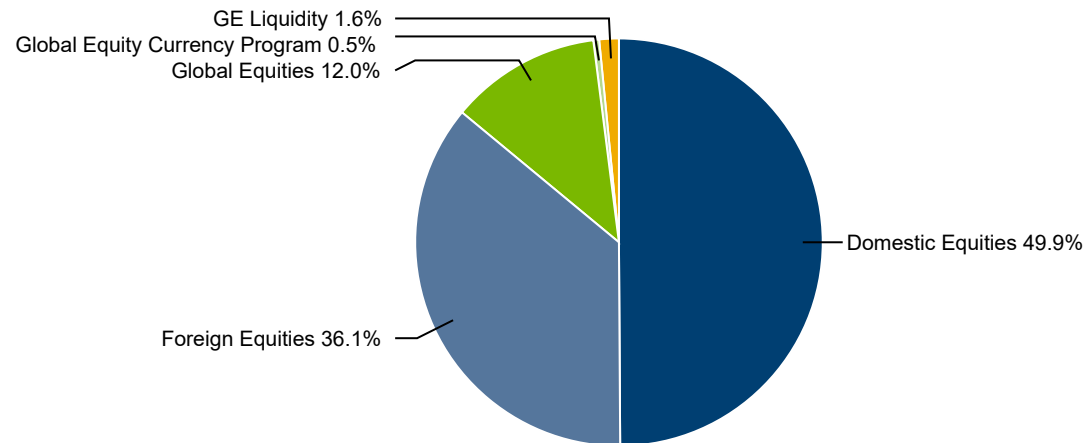
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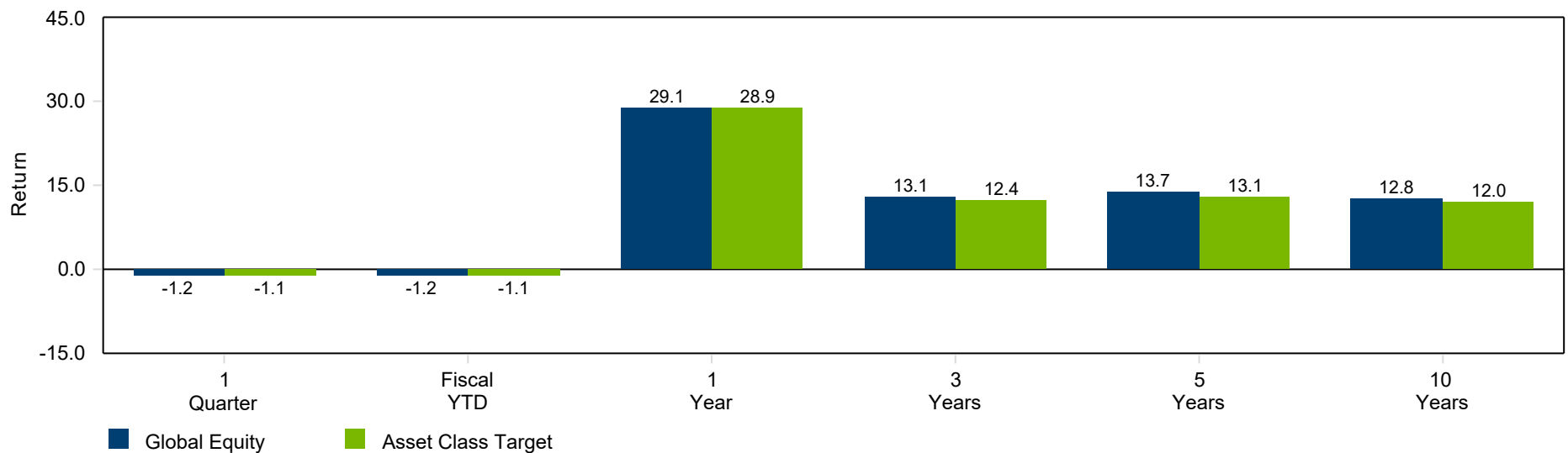
## Global Equity\* Portfolio Overview

## Current Allocation

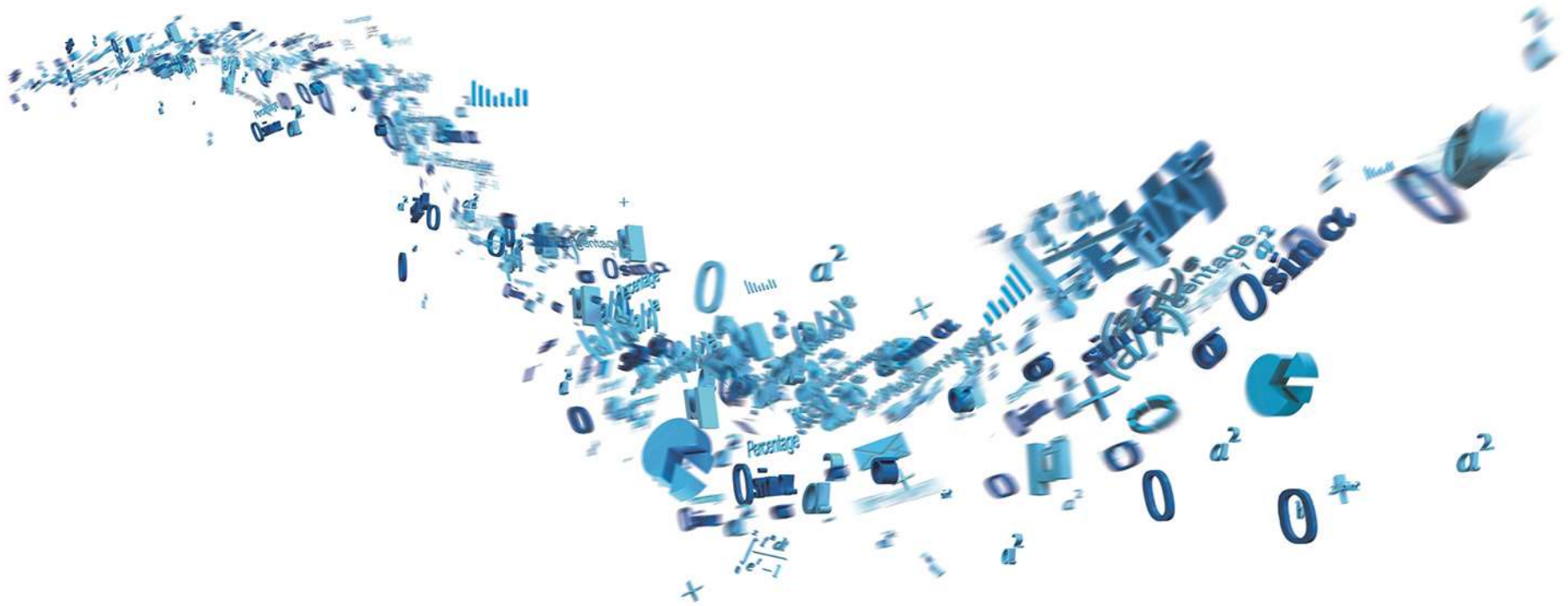
September 30, 2021 : \$106,621M



## Return Summary



\* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.



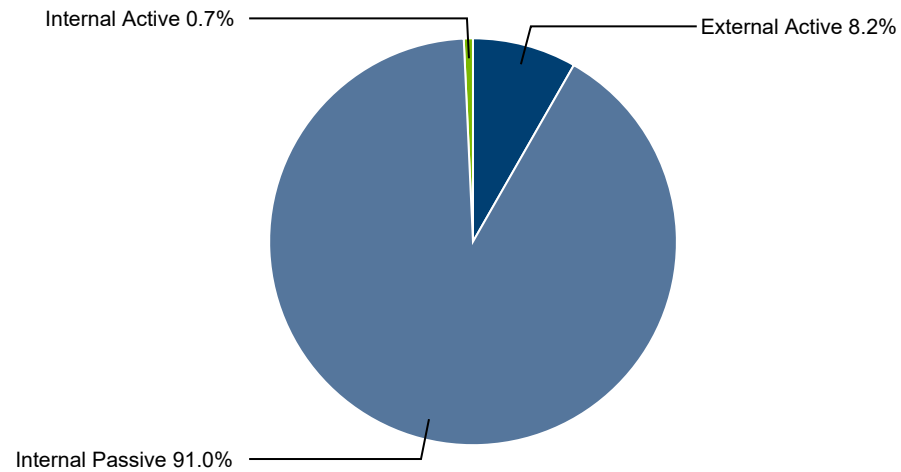
## Domestic Equities

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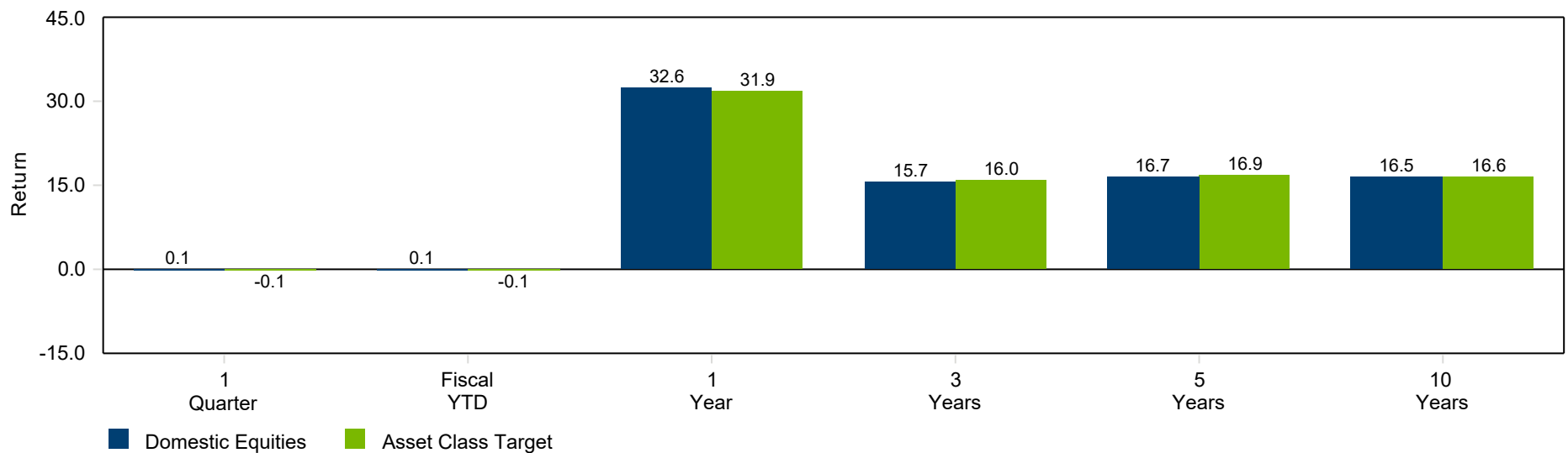
## Domestic Equities Portfolio Overview

## Current Allocation

September 30, 2021 : \$53,210M



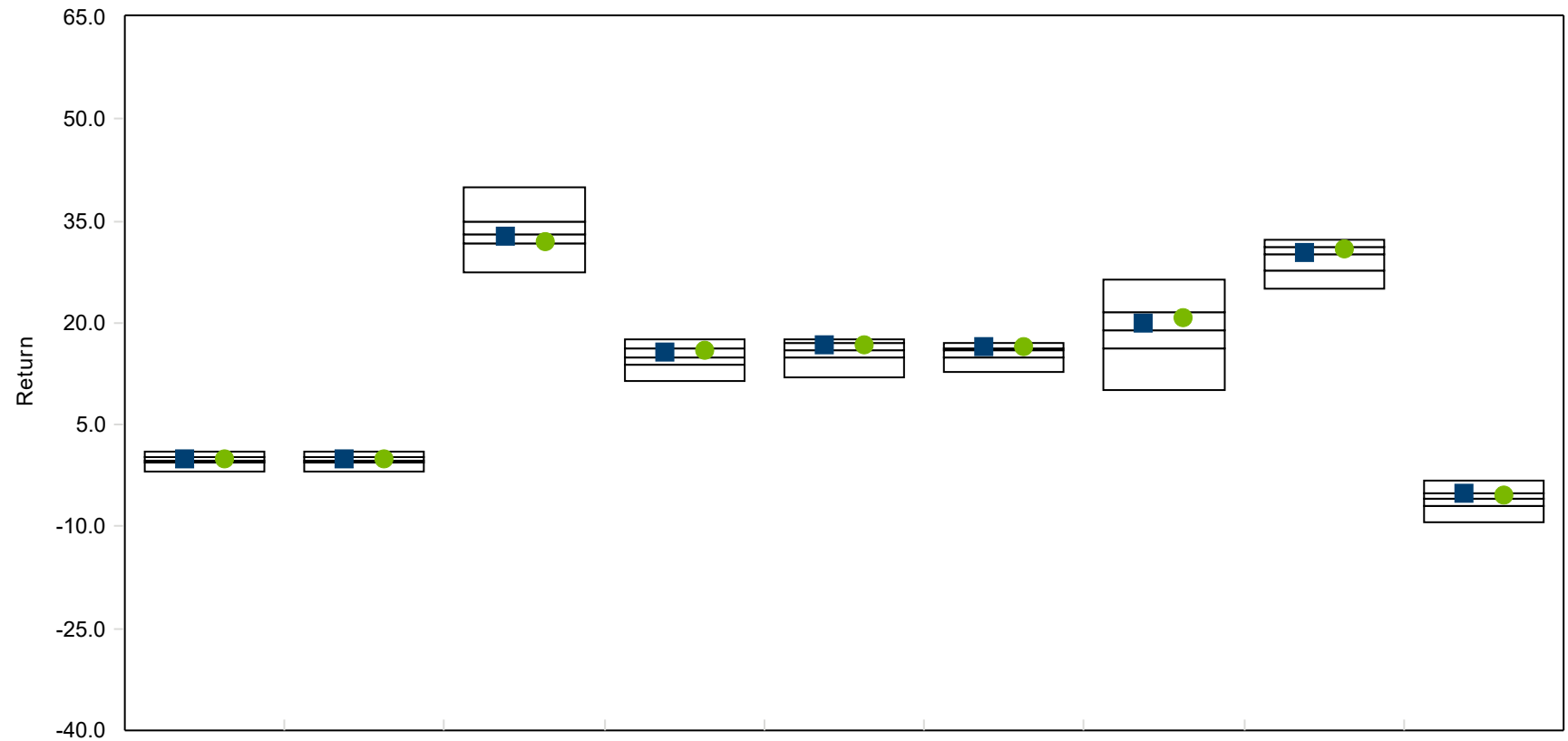
## Return Summary



As of September 30, 2021

## Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-US Equity Segment

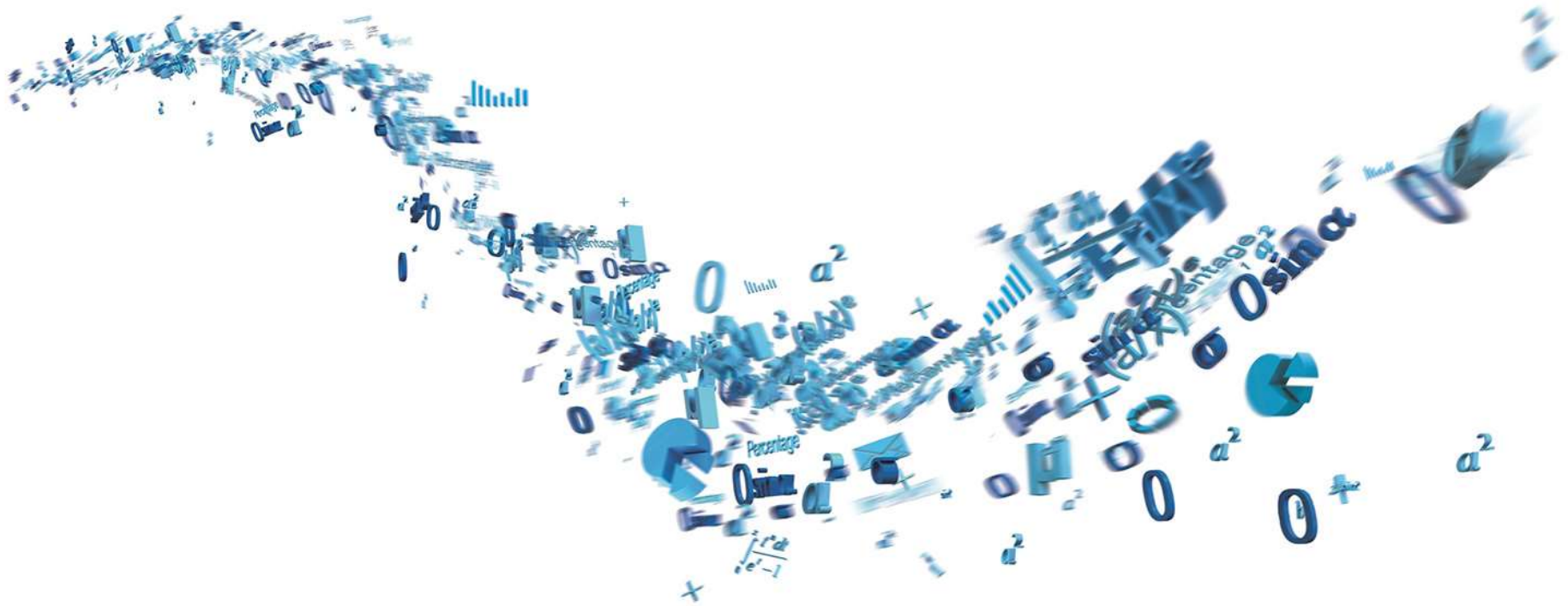


|                      | 1<br>Quarter | Fiscal<br>YTD | 1<br>Year | 3<br>Years | 5<br>Years | 10<br>Years | 2020      | 2019      | 2018      |
|----------------------|--------------|---------------|-----------|------------|------------|-------------|-----------|-----------|-----------|
| ■ Domestic Equities  | 0.1 (35)     | 0.1 (35)      | 32.6 (62) | 15.7 (31)  | 16.7 (34)  | 16.5 (23)   | 19.9 (40) | 30.4 (38) | -5.2 (33) |
| ● Asset Class Target | -0.1 (43)    | -0.1 (43)     | 31.9 (74) | 16.0 (27)  | 16.9 (31)  | 16.6 (21)   | 20.9 (29) | 31.0 (28) | -5.2 (38) |
| 5th Percentile       | 1.1          | 1.1           | 40.0      | 17.6       | 17.6       | 17.1        | 26.4      | 32.2      | -3.1      |
| 1st Quartile         | 0.2          | 0.2           | 34.9      | 16.2       | 17.0       | 16.3        | 21.5      | 31.2      | -5.0      |
| Median               | -0.2         | -0.2          | 33.1      | 14.8       | 16.0       | 15.9        | 18.9      | 30.1      | -5.9      |
| 3rd Quartile         | -0.5         | -0.5          | 31.7      | 13.8       | 14.9       | 15.0        | 16.1      | 27.7      | -6.9      |
| 95th Percentile      | -1.8         | -1.8          | 27.4      | 11.3       | 12.0       | 12.7        | 10.0      | 25.0      | -9.2      |
| Population           | 62           | 62            | 56        | 49         | 46         | 33          | 55        | 52        | 53        |

Parentheses contain percentile rankings.



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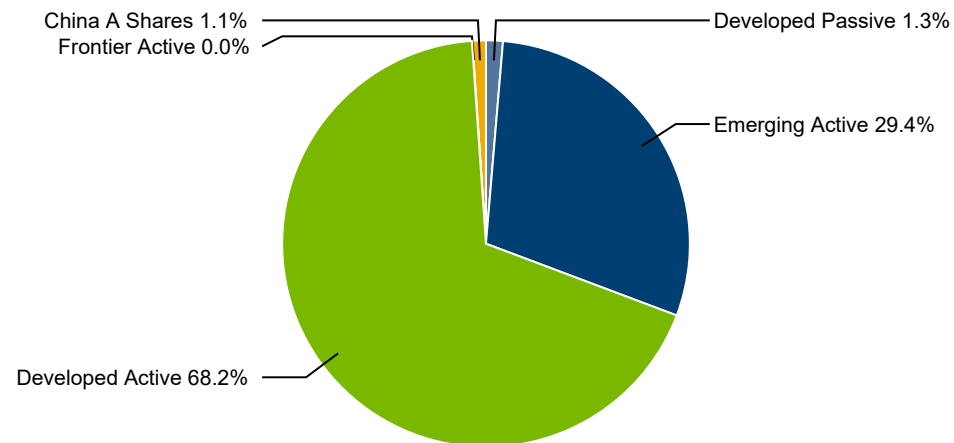
## Foreign Equities

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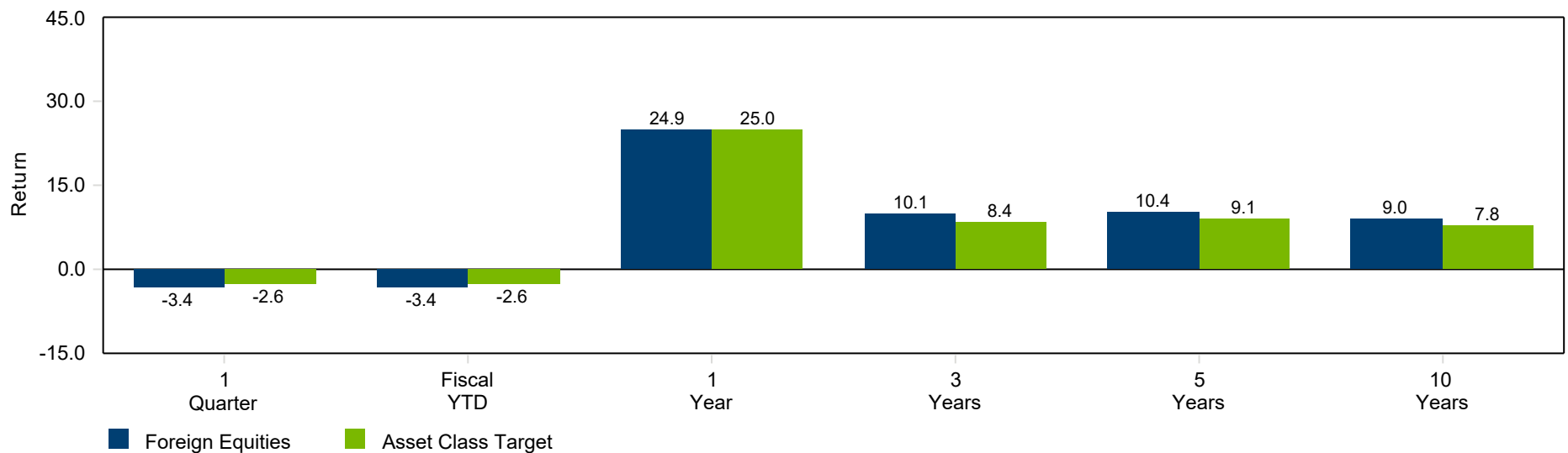
## Foreign Equities Portfolio Overview

### Current Allocation

September 30, 2021 : \$38,480M



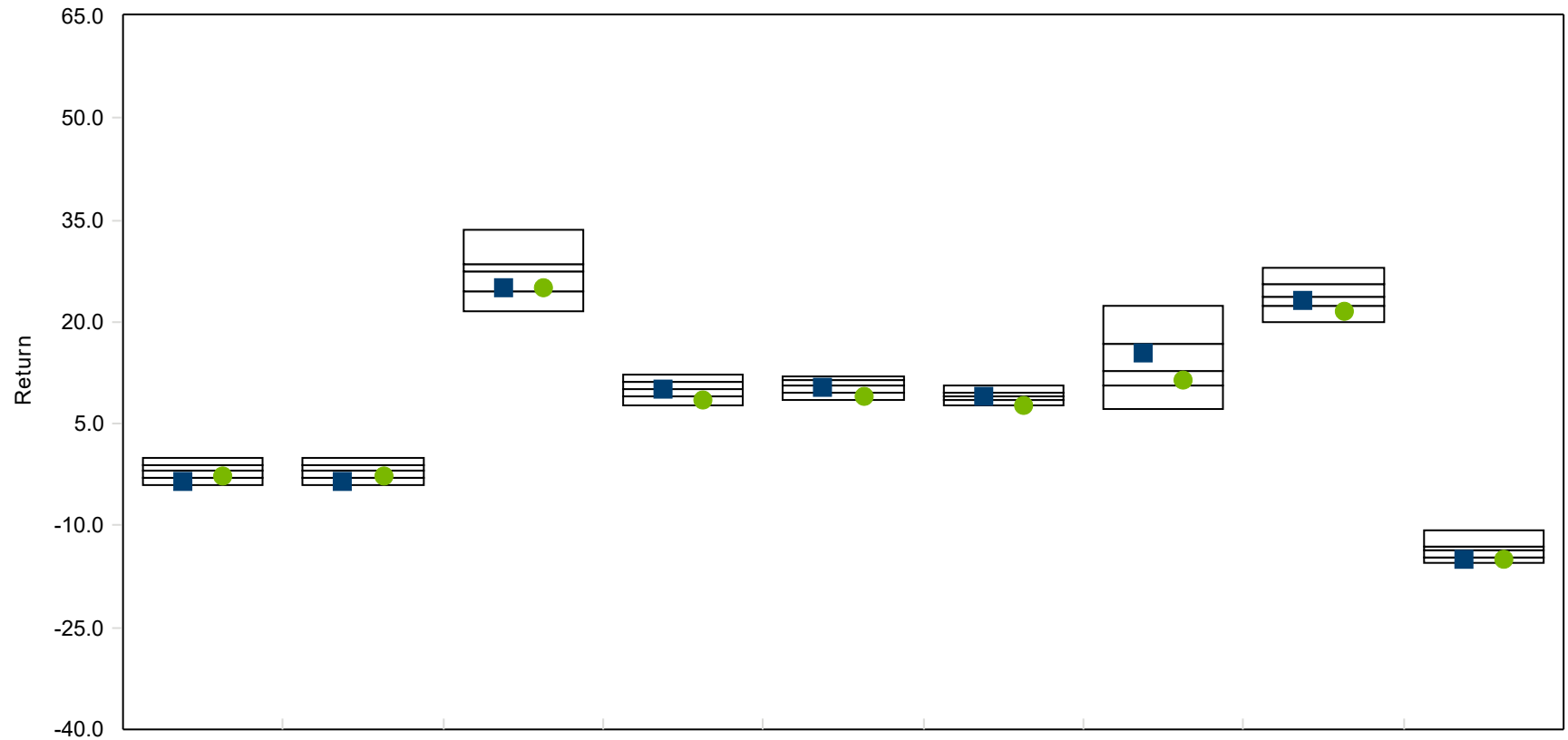
### Return Summary



As of September 30, 2021

## Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-Intl. Equity Segment



|                      | 1<br>Quarter | Fiscal<br>YTD | 1<br>Year | 3<br>Years | 5<br>Years | 10<br>Years | 2020      | 2019      | 2018       |
|----------------------|--------------|---------------|-----------|------------|------------|-------------|-----------|-----------|------------|
| ■ Foreign Equities   | -3.4 (86)    | -3.4 (86)     | 24.9 (67) | 10.1 (49)  | 10.4 (58)  | 9.0 (48)    | 15.4 (34) | 23.1 (63) | -14.9 (83) |
| ● Asset Class Target | -2.6 (65)    | -2.6 (65)     | 25.0 (67) | 8.4 (91)   | 9.1 (90)   | 7.8 (95)    | 11.3 (64) | 21.7 (84) | -14.8 (83) |
| 5th Percentile       | -0.1         | -0.1          | 33.5      | 12.3       | 12.1       | 10.7        | 22.4      | 27.9      | -10.8      |
| 1st Quartile         | -1.1         | -1.1          | 28.6      | 11.3       | 11.4       | 9.5         | 16.8      | 25.5      | -13.0      |
| Median               | -2.0         | -2.0          | 27.3      | 10.0       | 10.7       | 9.0         | 12.8      | 23.7      | -13.6      |
| 3rd Quartile         | -3.0         | -3.0          | 24.5      | 9.0        | 9.7        | 8.5         | 10.7      | 22.4      | -14.6      |
| 95th Percentile      | -3.9         | -3.9          | 21.7      | 7.8        | 8.6        | 7.8         | 7.1       | 20.0      | -15.5      |
| Population           | 63           | 63            | 58        | 52         | 51         | 34          | 58        | 53        | 55         |

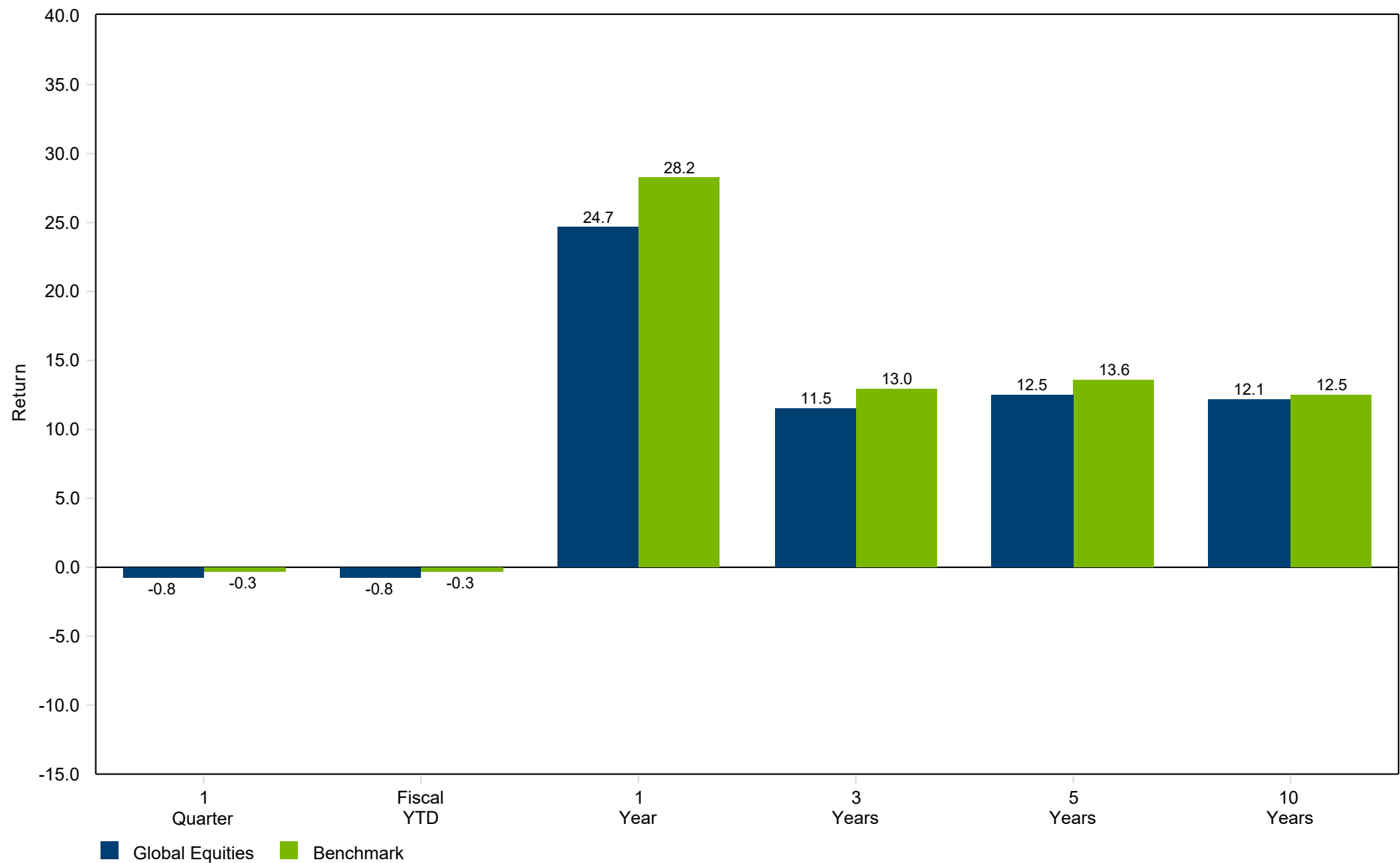
Parentheses contain percentile rankings.

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## Global Equities Performance Summary

## Return Summary



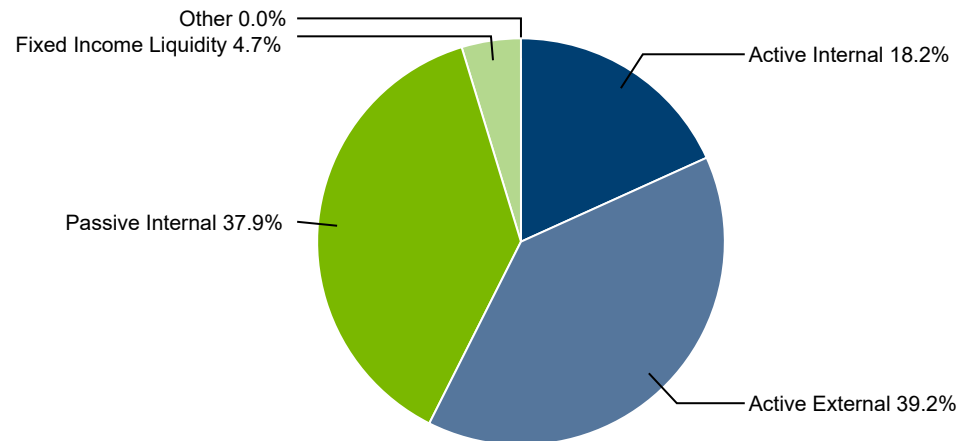




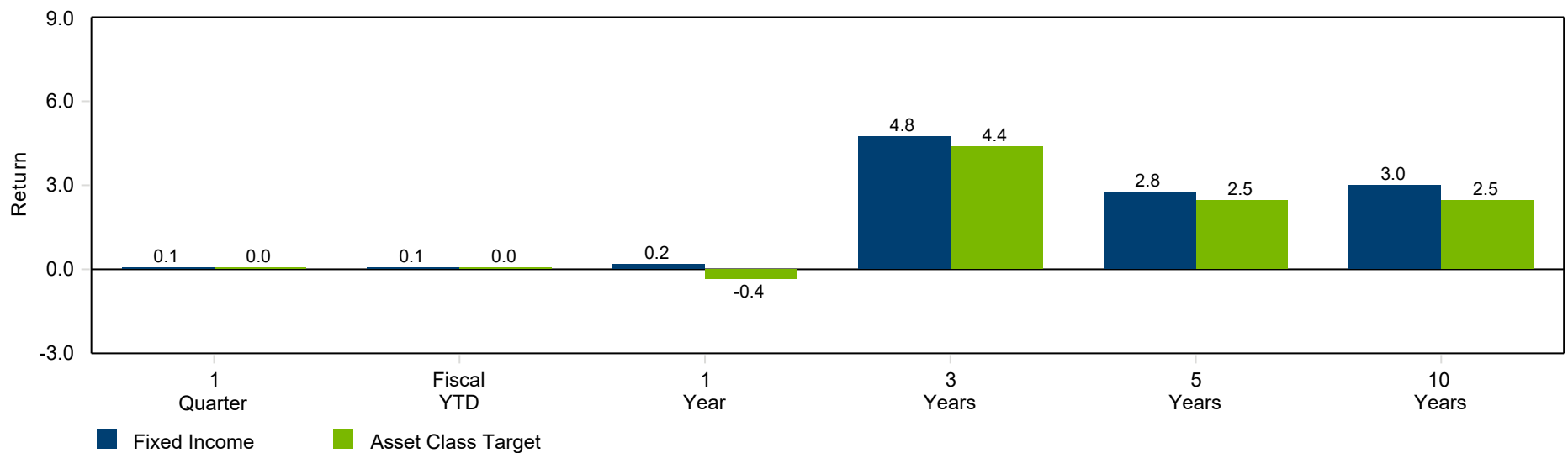
## Fixed Income Portfolio Overview

## Current Allocation

September 30, 2021 : \$35,643M



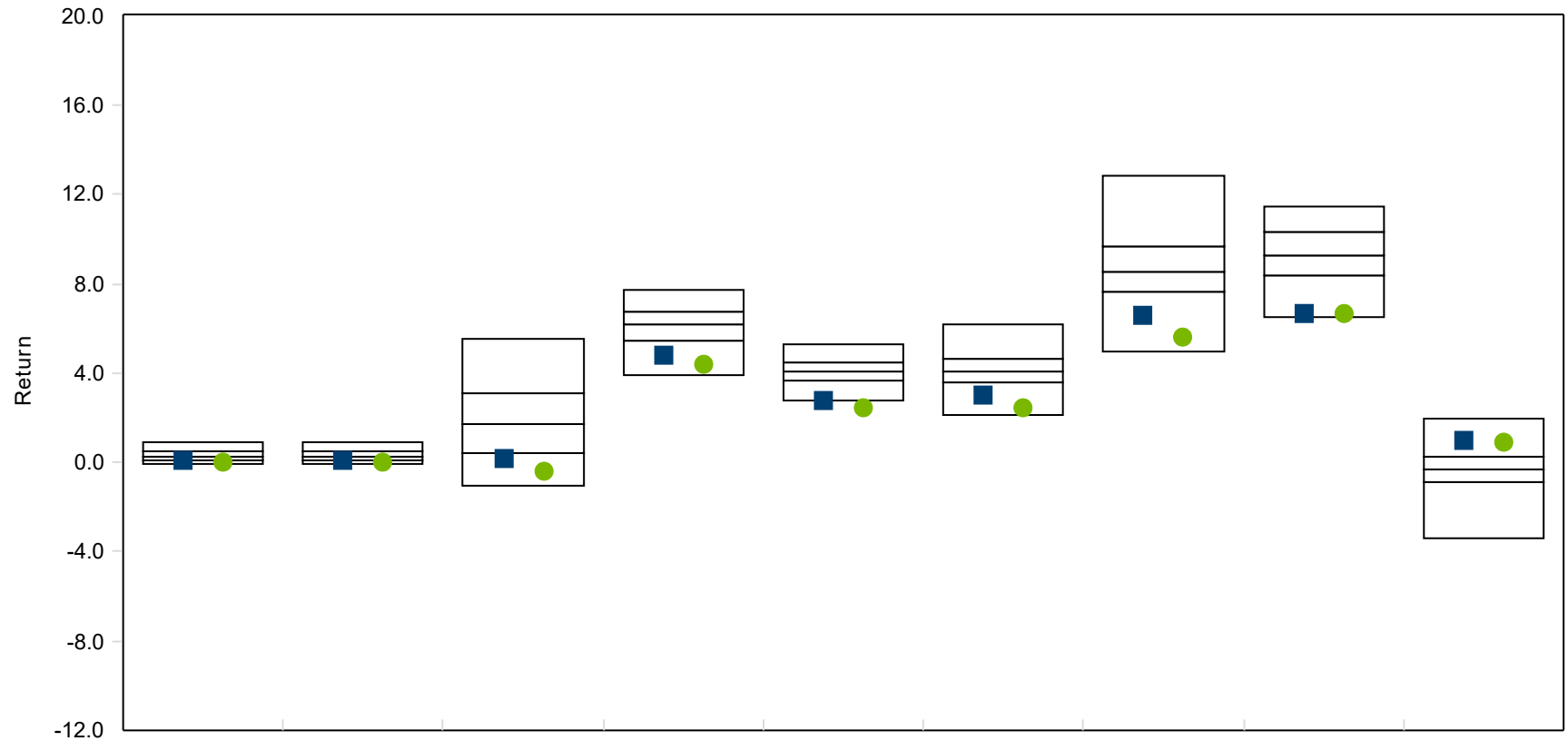
## Return Summary



As of September 30, 2021

## Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-US Fixed Income Segment



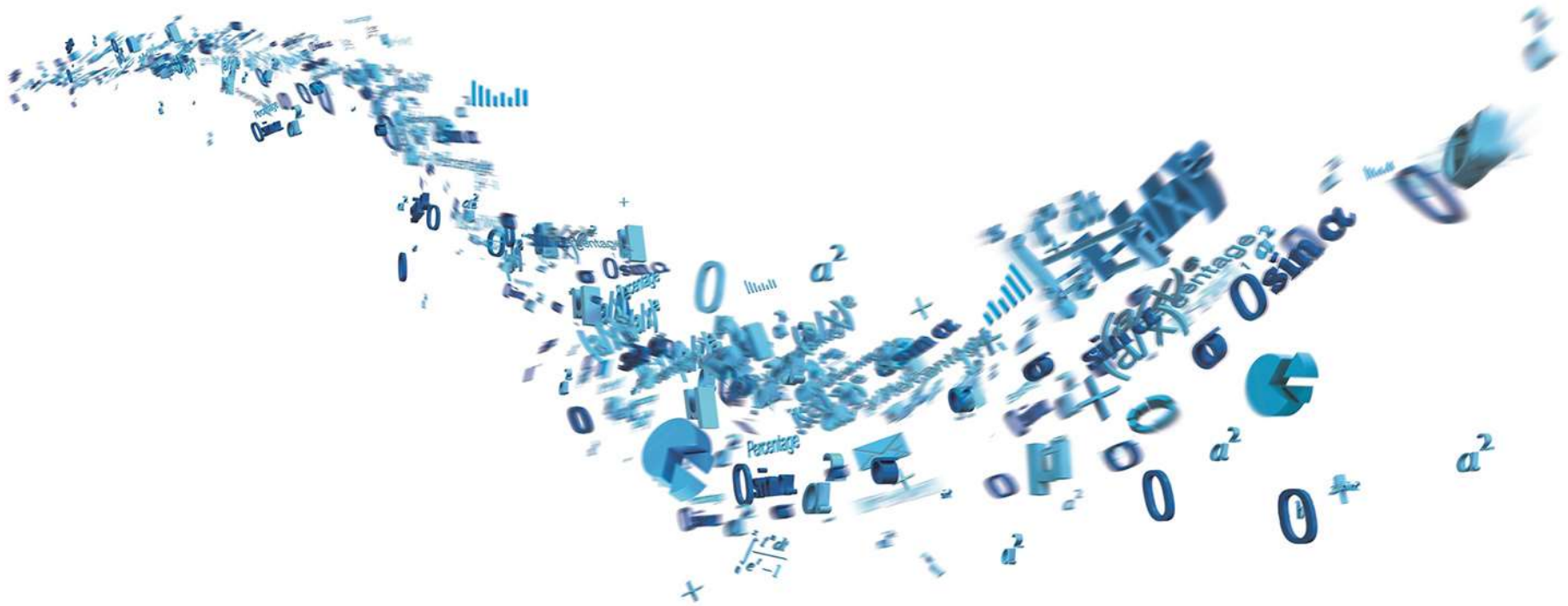
■ Fixed Income  
● Asset Class Target

|                 |     |     |      |     |     |     |      |      |      |
|-----------------|-----|-----|------|-----|-----|-----|------|------|------|
| 5th Percentile  | 0.9 | 0.9 | 5.5  | 7.7 | 5.3 | 6.2 | 12.9 | 11.4 | 2.0  |
| 1st Quartile    | 0.5 | 0.5 | 3.1  | 6.8 | 4.5 | 4.7 | 9.7  | 10.3 | 0.3  |
| Median          | 0.3 | 0.3 | 1.7  | 6.2 | 4.0 | 4.1 | 8.6  | 9.3  | -0.3 |
| 3rd Quartile    | 0.1 | 0.1 | 0.4  | 5.5 | 3.7 | 3.6 | 7.7  | 8.4  | -0.9 |
| 95th Percentile | 0.0 | 0.0 | -1.1 | 3.9 | 2.8 | 2.1 | 4.9  | 6.5  | -3.4 |

Population 63 63 59 51 50 35 59 53 56

Parentheses contain percentile rankings.

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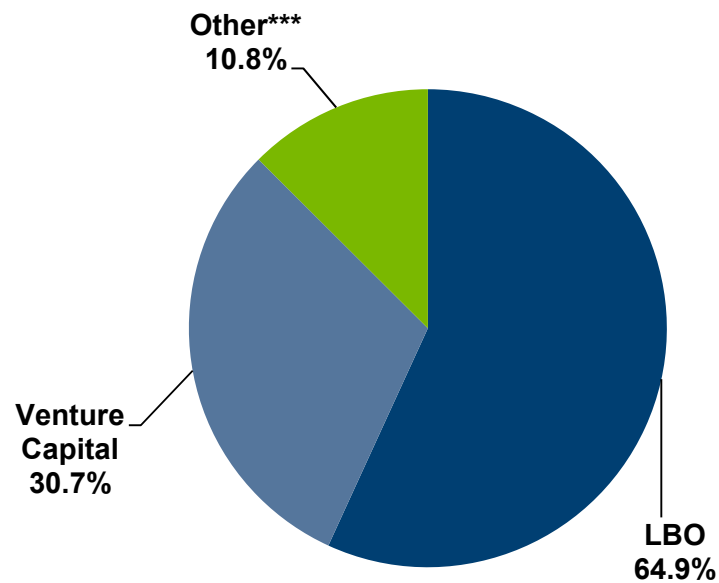


## Private Equity

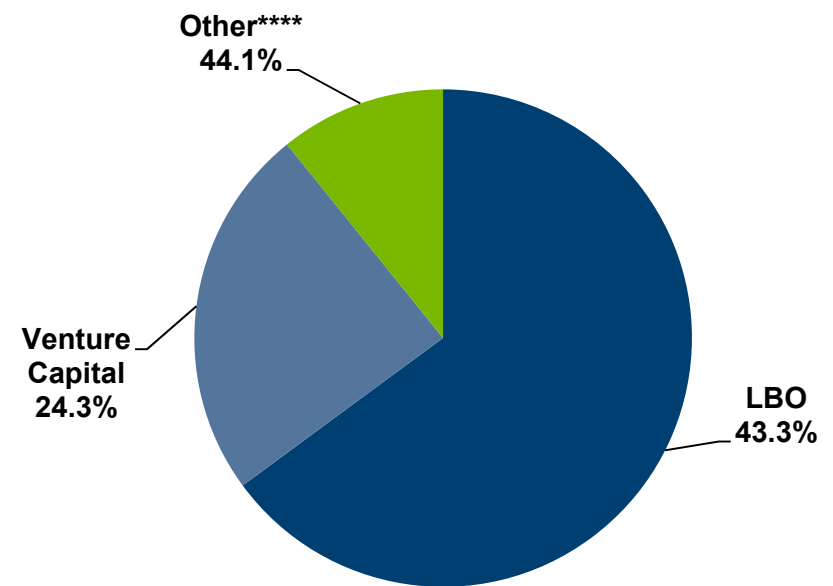
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## Overview

FRS Private Equity by Market Value\*



Preqin Private Equity Strategies by Market Value\*\*



\*Allocation data is as of June 30, 2021.

\*\*Allocation data is as of June 30, 2019, from the Preqin database.

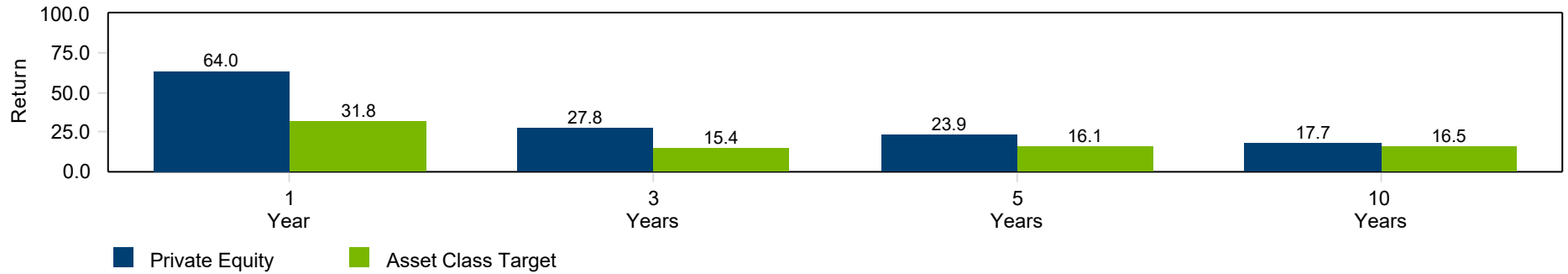
\*\*\*Other for the FRS Private Equity consists of Growth Capital, Secondary, PE Cash, and PE Transition.

\*\*\*\*Other for the Preqin data consists of Distressed PE, Growth, Mezzanine, and other Private Equity/Special Situations.

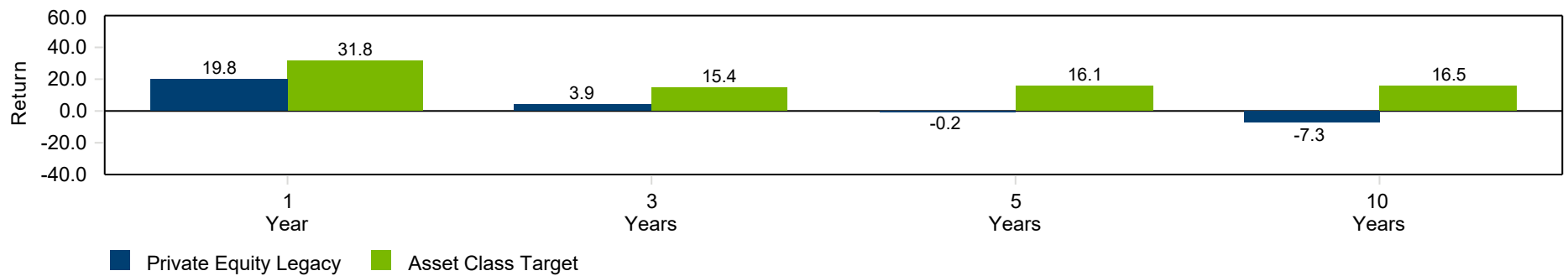
Preqin universe is comprised of 10,000 private equity funds representing \$4.8 trillion.

## Time-Weighted Investment Results

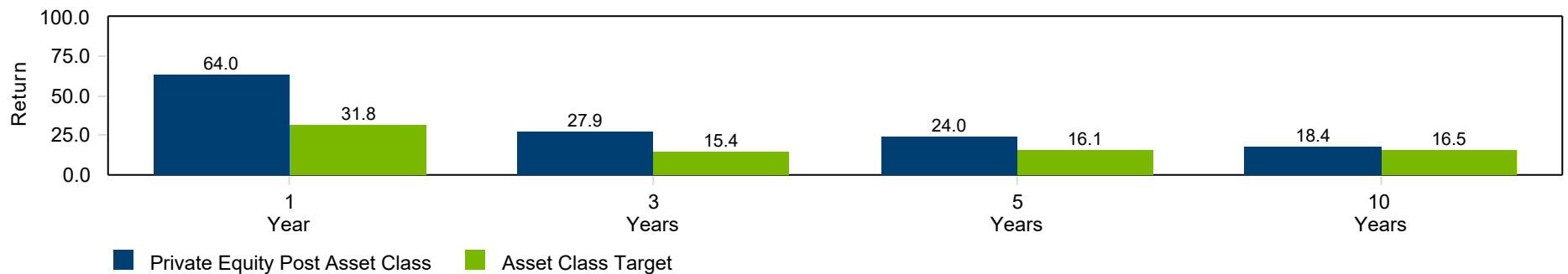
Private Equity Return Summary as of September 30, 2021



Private Equity Legacy Return Summary as of September 30, 2021



Private Equity Post Asset Class Return Summary as of September 30, 2021

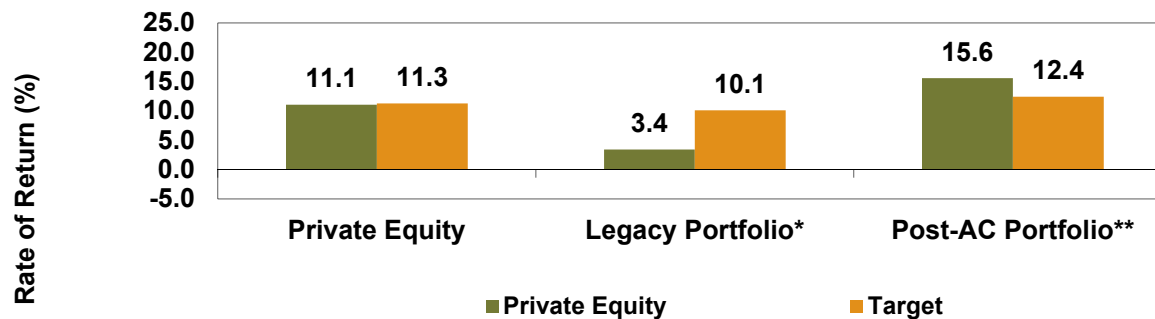


## Private Equity

### Dollar-Weighted Investment Results

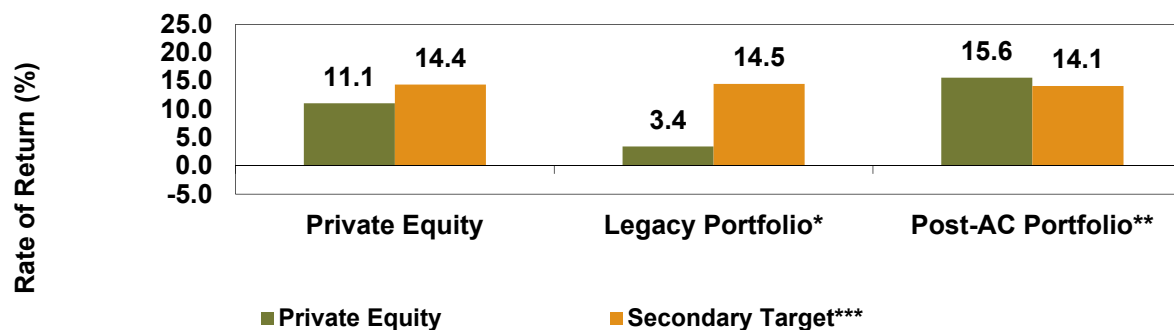
As of September 30, 2021

Since Inception



As of September 30, 2021

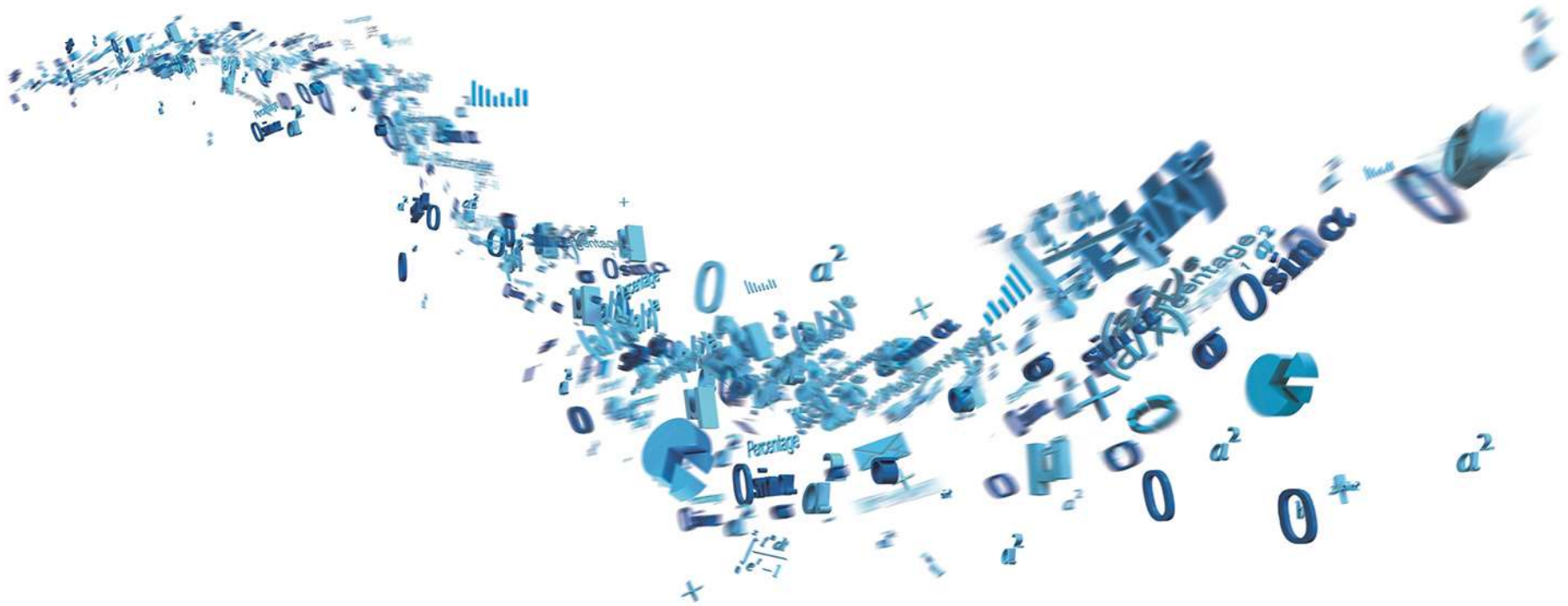
Since Inception



\*The Inception Date for the Legacy Portfolio is January 1989.

\*\*The Inception Date for the Post-AC Portfolio is September 2000.

\*\*\*The Secondary Target is a blend of the Cambridge Associates Private Equity Index and the Cambridge Associates Venture Capital Index based on actual ABAL weights. Secondary Target data is on a quarterly lag.

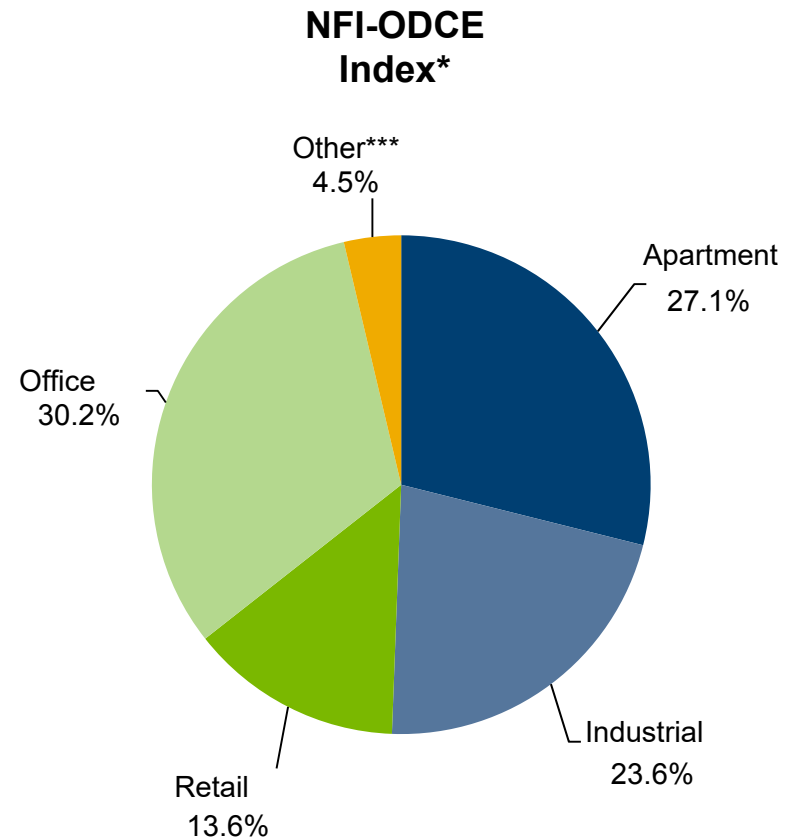
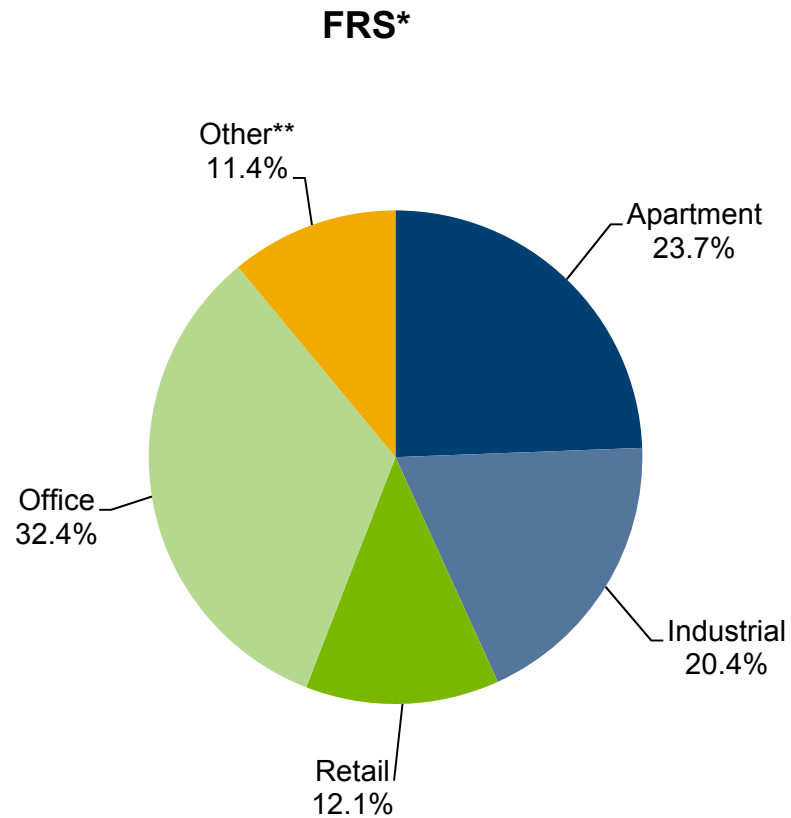


## Real Estate

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## Overview



\*Property Allocation data is as of June 30, 2021. The FRS chart includes only the FRS private real estate assets. Property type information for the REIT portfolios is not included.

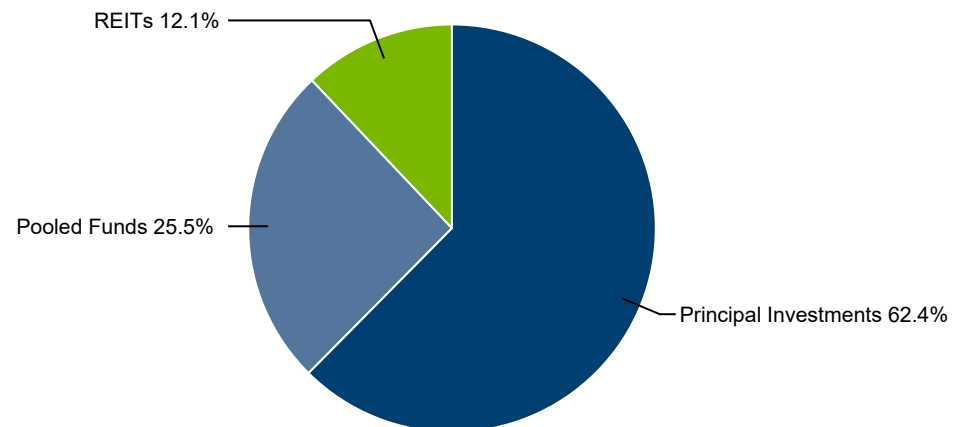
\*\*Other for the FRS consists of Hotel, Land, Preferred Equity, Agriculture, Self-Storage and Senior Housing.

\*\*\*Other for the NFI-ODCE Index consists of Hotel, Senior Living, Healthcare, Mixed Use, Single Family Residential, Parking, Timber/Agriculture, Land and Infrastructure.

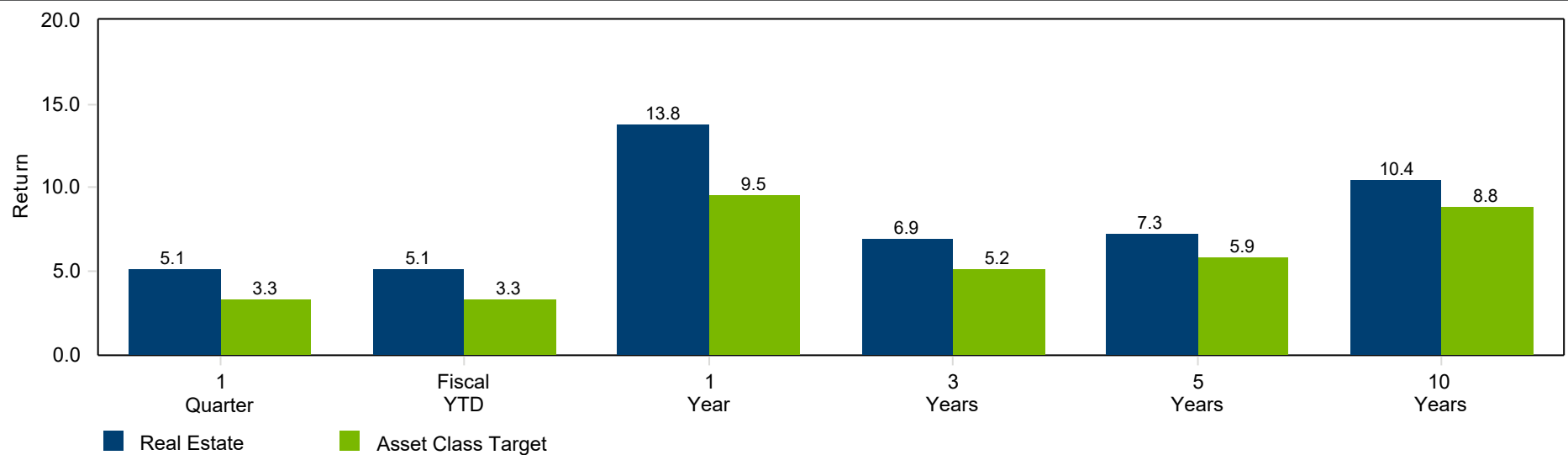
## Real Estate Portfolio Overview

## Current Allocation

September 30, 2021 : \$17,357M

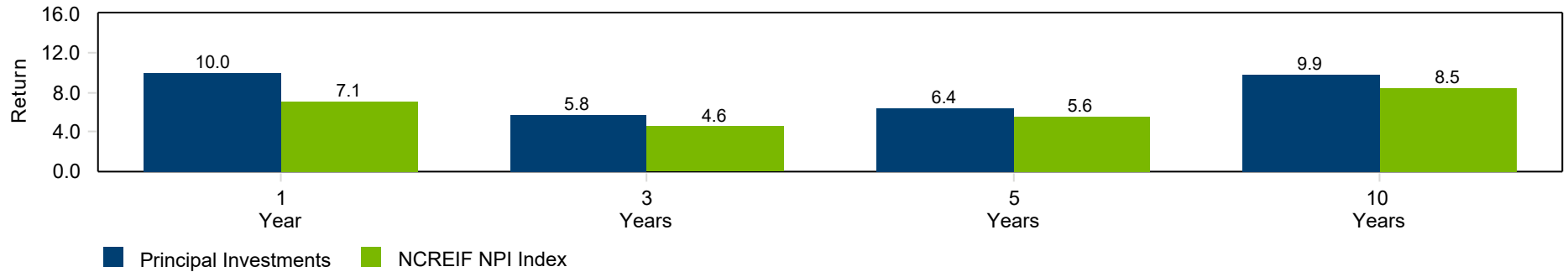


## Return Summary

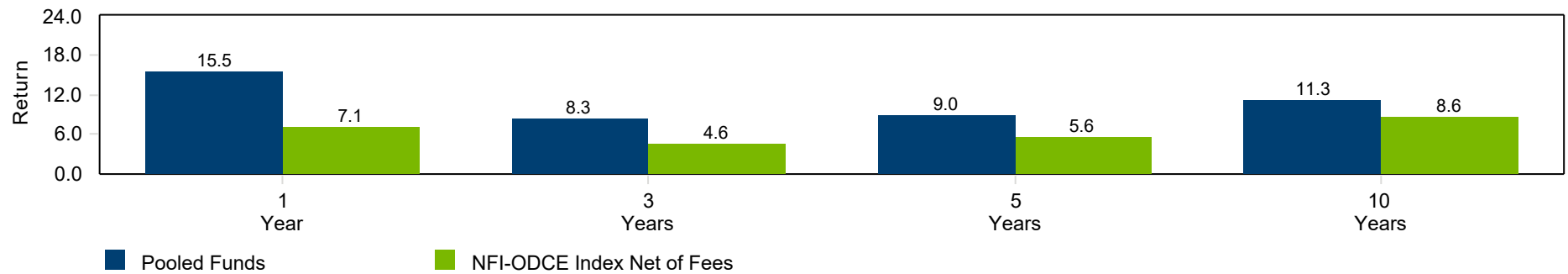


## Real Estate

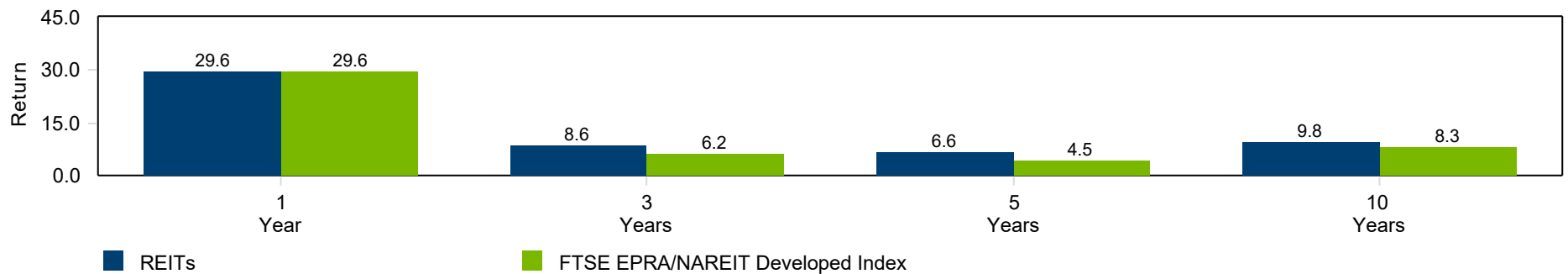
Principal Investments Return Summary as of September 30, 2021

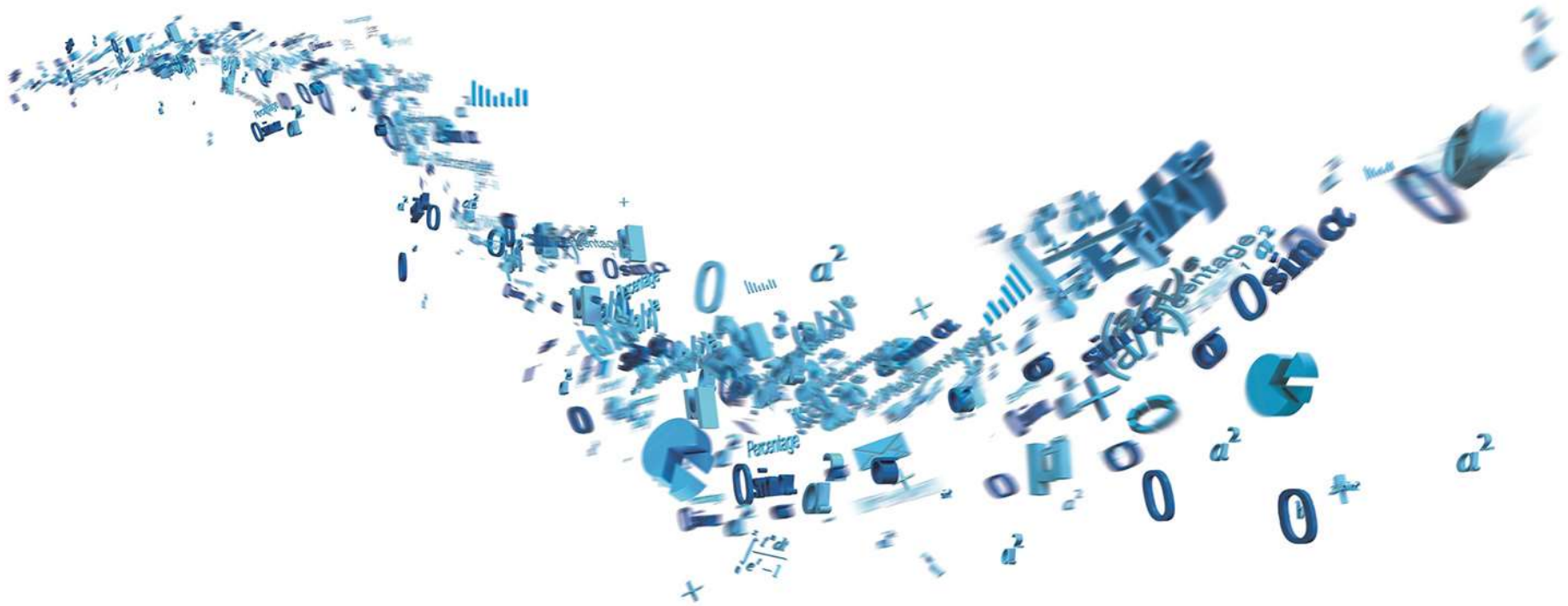


Pooled Funds Return Summary as of September 30, 2021



REITs Return Summary as of September 30, 2021





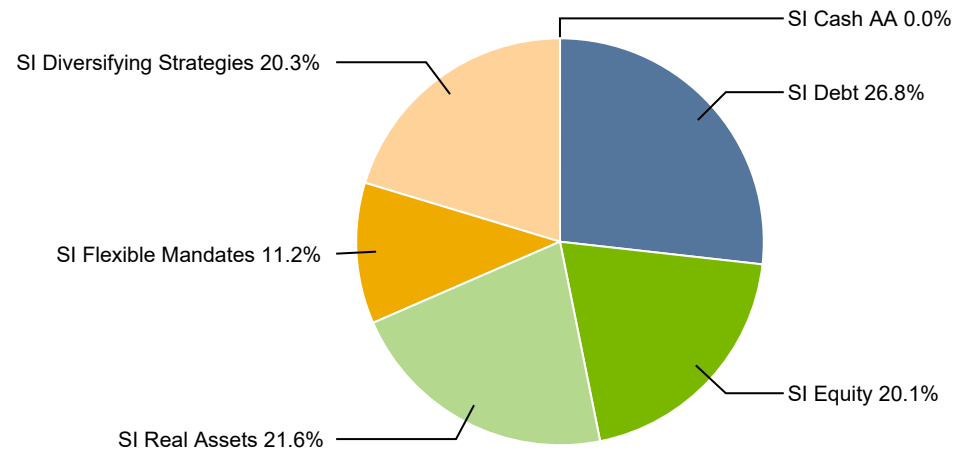
## Strategic Investments

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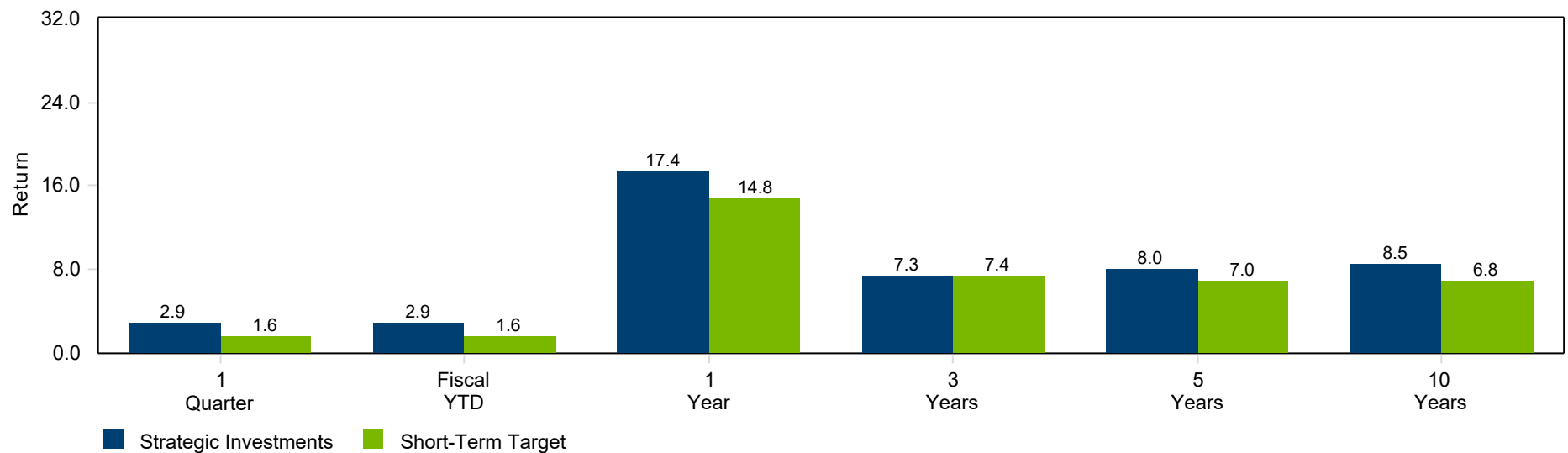
## Strategic Investments Portfolio Overview

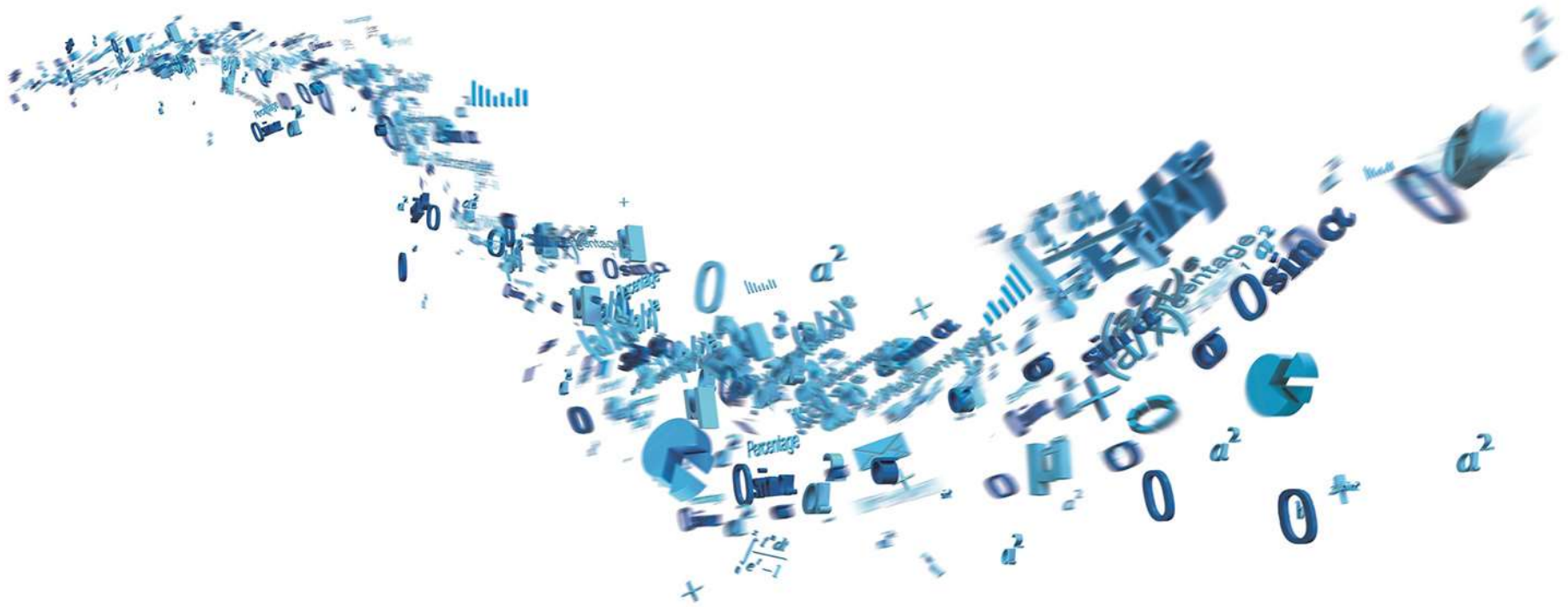
## Current Allocation

September 30, 2021 : \$18,669M



## Return Summary



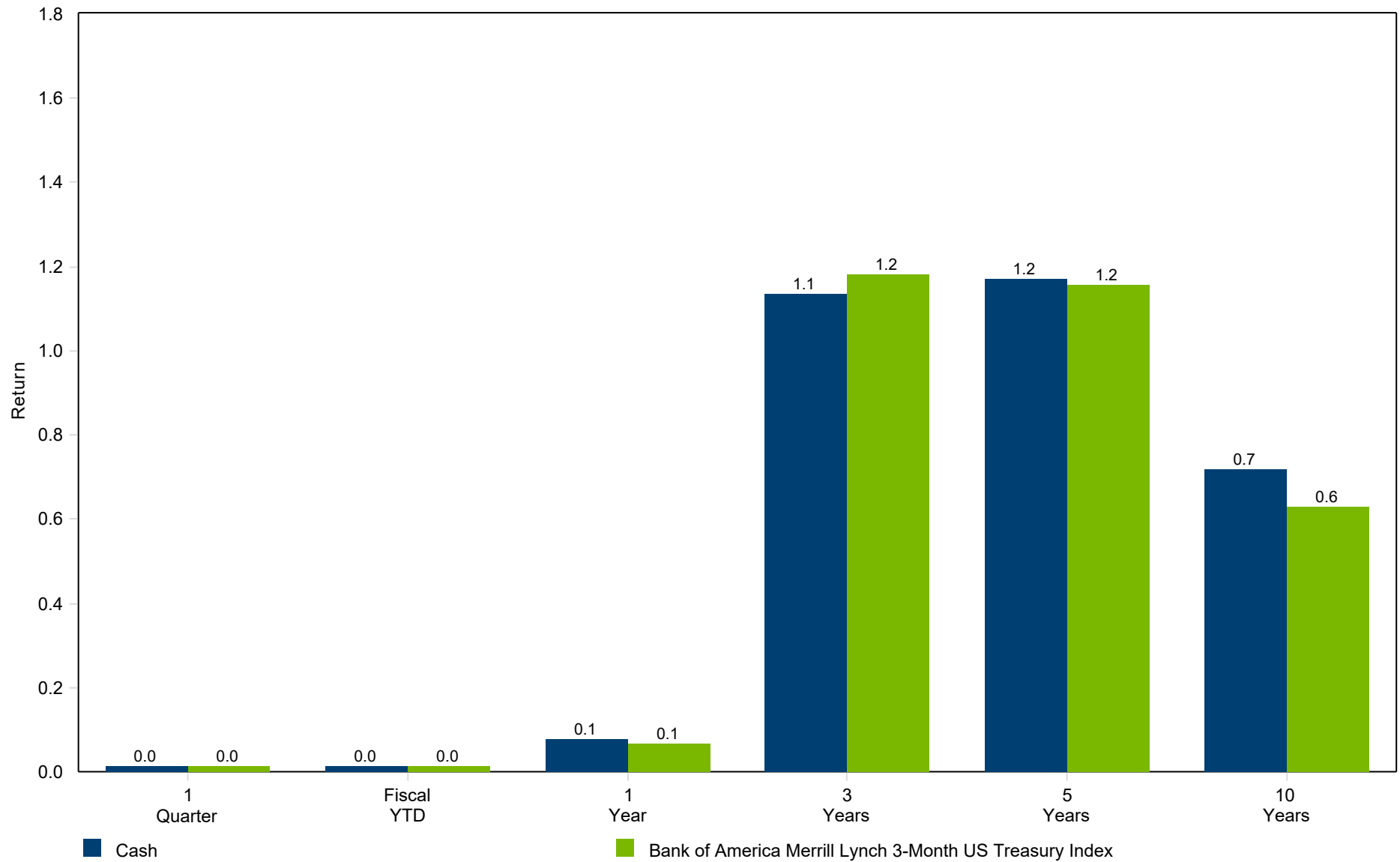


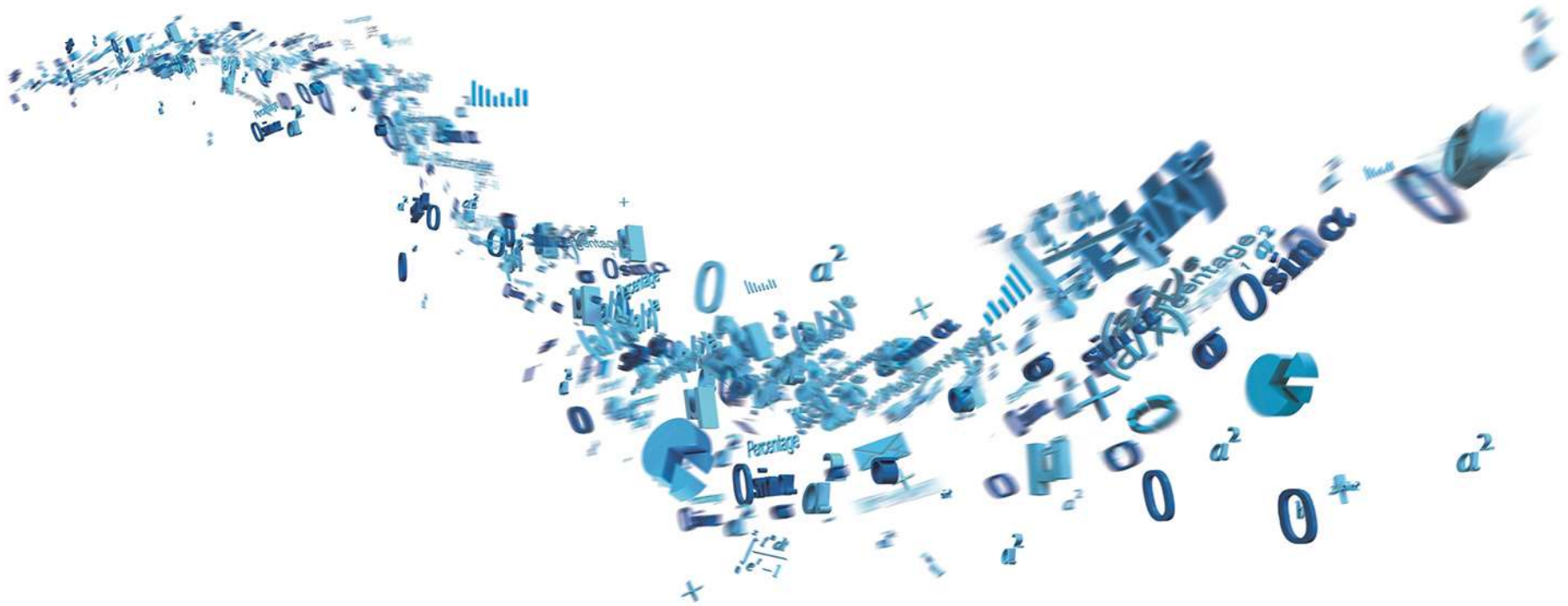
# Cash

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## Cash Performance Summary

## Return Summary





## Appendix

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## Appendix

### Total FRS Assets

Performance Benchmark- A combination of the Global Equity Target, the Barclays Capital U.S. Intermediate Aggregate Index, the Private Equity Target Index, the Real Estate Investments Target Index, the Strategic Investments Target Benchmark, and the Bank of America Merrill Lynch 3-Month US Treasury Index. The short-term target policy allocations to the Strategic Investments, Real Estate and Private Equity asset classes are floating and based on the actual average monthly balance of the Global Equity asset class. Please refer to section VII. Performance Measurement in the FRS Defined Benefit Plan Investment Policy Statement for more details on the calculation of the Performance Benchmark. Prior to October 1, 2013, the Performance benchmark was a combination of the Global Equity Target, the Barclays Aggregate Bond Index, the Private Equity Target Index, the Real Estate Investments Target Index, the Strategic Investments Target Benchmark, and the iMoneyNet First Tier Institutional Money Market Funds Net Index. The short-term target policy allocations to the Strategic Investments, Real Estate and Private Equity asset classes are floating and based on the actual average monthly balance of the Global Equity asset class. Prior to July 2010, the Performance Benchmark was a combination of the Russell 3000 Index, the Foreign Equity Target Index, the Strategic Investments Target Benchmark, the Barclays Aggregate Bond Index, the Real Estate Investments Target Index, the Private Equity Target Index, the Barclays U.S. High Yield Ba/B 2% Issuer Capped Index, and the iMoneyNet First Tier Institutional Money Market Funds Gross Index. During this time, the short-term target policy allocations to Strategic Investments, Real Estate and Private Equity asset classes were floating and based on the actual average monthly balance of the Strategic Investments, Real Estate and Private Equity asset classes. The target weights shown for Real Estate and Private Equity were the allocations that the asset classes were centered around. The actual target weight floated around this target month to month based on changes in asset values.

### Total Global Equity

Performance Benchmark- A custom version of the MSCI All Country World Investable Market Index, adjusted to exclude companies divested under the provisions of the Protecting Florida's Investments Act (PFIA). Prior to July 2010, the asset class benchmark is a weighted average of the underlying Domestic Equities, Foreign Equities and Global Equities historical benchmarks.

### Total Domestic Equities

Performance Benchmark- The Russell 3000 Index. Prior to July 1, 2002, the benchmark was the Wilshire 2500 Stock Index. Prior to January 1, 2001, the benchmark was the Wilshire 2500 Stock Index ex-Tobacco. Prior to May 1, 1997, the benchmark was the Wilshire 2500 Stock Index. Prior to September 1, 1994, the benchmark was the S&P 500 Stock Index.

### Total Foreign Equities

Performance Benchmark- A custom version of the MSCI ACWI ex-U.S. Investable Market Index adjusted to exclude companies divested under the PFIA. Prior to April 1, 2008, it was the MSCI All Country World Index ex-U.S. Investable Market Index. Prior to September 24, 2007, the target was the MSCI All Country World ex-U.S. Free Index. Prior to November 1, 1999, the benchmark was 85% MSCI Europe, Australasia and Far East (EAFE) Foreign Stock Index and 15% IFCI Emerging Markets Index with a half weight in Malaysia. Prior to March 31, 1995, the benchmark was the EAFE Index.

### Total Global Equities

Performance Benchmark- Aggregated based on each underlying manager's individual benchmark. The calculation accounts for the actual weight and the benchmark return. The benchmarks used for the underlying managers include both the MSCI FSB All Country World ex-Sudan ex-Iran Net Index and MSCI FSB All Country World ex-Sudan ex-Iran Net Investable Market Index (IMI).

## Appendix

### Total Fixed Income

Performance Benchmark- The Barclays Capital U.S. Intermediate Aggregate Index. Prior to October 1, 2013, it was the Barclays U.S. Aggregate Bond Index. Prior to June 1, 2007, it was the Fixed Income Management Aggregate (FIMA). Prior to July 1, 1999, the benchmark was the Florida High Yield Extended Duration Index. Prior to July 31, 1997, the benchmark was the Florida Extended Duration Index. Prior to July 1, 1989, the Salomon Brothers Broad Investment-Grade Bond Index was the benchmark. For calendar year 1985, the performance benchmark was 70% Shearson Lehman Extended Duration and 30% Salomon Brothers Mortgage Index.

### Total Private Equity

Performance Benchmark- The MSCI All Country World Investable Market Index (ACWI IMI), adjusted to reflect the provisions of the Protecting Florida's Investments Act, plus a fixed premium return of 300 basis points per annum. Prior to July 1, 2014, the benchmark was the domestic equities target index return (Russell 3000 Index) plus a fixed premium return of 300 basis points per annum. Prior to July 1, 2010, it was the domestic equities target index return plus a fixed premium return of 450 basis points per annum. Prior to November 1, 1999, Private Equities was part of the Domestic Equities asset class and its benchmark was the domestic equities target index return plus 750 basis points.

### Total Real Estate

Performance Benchmark- The core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index- Open-ended Diversified Core Equity, net of fees, weighted at 76.5%, and the non-core portion of the asset class is benchmarked to an average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index- Open-ended Diversified Core Equity, net of fees, weighted at 13.5%, plus a fixed return premium of 150 basis points per annum, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10%. Prior to July 1, 2014, the benchmark was a combination of 90% NCREIF ODCE Index, net of fees, and 10% FTSE EPRA/NAREIT Developed Index, net of fees. Prior to July 1, 2010, it was a combination of 90% NCREIF ODCE Index, gross of fees, and 10% Dow Jones U.S. Select RESI. Prior to June 1, 2007, it was the Consumer Price Index plus 450 basis points annually. Prior to July 1, 2003, the benchmark was the Dow Jones U.S. Select Real Estate Securities Index Un-Levered. Prior to November 1, 1999, the benchmark was the Russell-NCREIF Property Index.

### Total Strategic Investments

Performance Benchmark- Long-term, 4.0% plus the contemporaneous rate of inflation or CPI. Short-term, a weighted aggregation of individual portfolio level benchmarks. Prior to July 1, 2018, a Performance Benchmark-Long-term, 4.5% plus the contemporaneous rate of inflation or CPI. Short-term, a weighted aggregation of individual portfolio level benchmark.

### Total Cash

Performance Benchmark- Bloomberg Barclays U.S. Treasury Bill: 1-3 month index. Prior to October 1, 2020, it was the Bank of America Merrill Lynch 3-Month US Treasury Index. Prior to July 1, 2018 it was the iMoneyNet First Tier Institutional Money Market Funds Net Index. Prior to July 1, 2010, it was the iMoneyNet First Tier Institutional Money Market Funds Gross Index. Prior to June 1, 2007, it was the return of the Merrill Lynch 90-Day (Auction Average) Treasury Bill Yield Index.

## Appendix

### Description of Benchmarks

Bloomberg Barclays U.S. Treasury Bill: 1-3 month Index- Consists of U.S. Treasury Bills that have a remaining maturity of greater than or equal to 1 month and less than 3 months

Barclays Capital U.S. Intermediate Aggregate Bond Index- A market value-weighted index consisting of U.S. Treasury securities, corporate bonds and mortgage-related and asset-backed securities with one to ten years to maturity and an outstanding par value of \$250 million or greater.

Consumer Price Index (CPI)- The CPI, an index consisting of a fixed basket of goods bought by the typical consumer and used to measure consumer inflation.

FTSE EPRA/NAREIT Developed Index- An index designed to represent general trends in eligible real estate equities worldwide. Relevant real estate activities are defined as the ownership, disposal and development of income-producing real estate. This index covers the four primary core asset classes (Industrial, Retail, Office, and Apartment).

MSCI All Country World Investable Market Index- A free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed and emerging markets. This investable market index contains constituents from the large, mid, and small cap size segments and targets a coverage range around 99% of free-float adjusted market capitalization.

NCREIF ODCE Property Index- The NCREIF ODCE is a capitalization-weighted, gross of fee, time-weighted return index. The index is a summation of open-end funds, which NCREIF defines as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, subject to contribution and/or redemption requests.

Russell 3000 Index- A capitalization-weighted stock index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This represents most publicly traded, liquid U.S. stocks.

## Appendix

### Description of Universes

Total Fund- A universe comprised of 150 total fund portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics and Investment Metrics. Aggregate assets in the universe comprised \$2.0 trillion as of quarter-end and the average market value was \$13.2 billion.

Domestic Equity- A universe comprised of 52 total domestic equity portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised \$1.0 trillion as of quarter-end and the average market value was \$18.5 billion.

Foreign Equity- A universe comprised of 55 total international equity portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised \$1.0 trillion as of quarter-end and the average market value was \$18.5 billion.

Fixed Income- A universe comprised of 55 total fixed income portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised \$1.1 trillion as of quarter-end and the average market value was \$19.5 billion.

Real Estate- A universe comprised of 42 total real estate portfolio returns, net of fees, of public defined benefit plans calculated and provided by BNY Mellon Performance & Risk Analytics. Aggregate assets in the universe comprised \$1.0 trillion as of quarter-end and the average market value was \$24.1 billion.

Private Equity- An appropriate universe for private equity is unavailable.

Strategic Investments- An appropriate universe for strategic investments is unavailable.

## Appendix

### Explanation of Exhibits

**Quarterly and Cumulative Excess Performance-** The vertical axis, excess return, is a measure of fund performance less the return of the primary benchmark. The horizontal axis represents the time series. The quarterly bars represent the underlying funds' relative performance for the quarter.

**Ratio of Cumulative Wealth Graph-** An illustration of a portfolio's cumulative, un-annualized performance relative to that of its benchmark. An upward-sloping line indicates superior fund performance versus its benchmark. Conversely, a downward-sloping line indicates underperformance by the fund. A flat line is indicative of benchmark-like performance.

**Performance Comparison - Plan Sponsor Peer Group Analysis-** An illustration of the distribution of returns for a particular asset class. The component's return is indicated by the circle and its performance benchmark by the triangle. The top and bottom borders represent the 5th and 95th percentiles, respectively. The solid line indicates the median while the dotted lines represent the 25th and 75th percentiles.

## Notes

- The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.
- Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.
- Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.

## Disclaimer

Past performance is not necessarily indicative of future results.

Unless otherwise noted, performance returns presented reflect the respective fund's performance as indicated. Returns may be presented on a before-fees basis (gross) or after-fees basis (net). After-fee performance is net of each respective sub-advisors' investment management fees and include the reinvestment of dividends and interest as indicated on the notes page within this report or on the asset allocation and performance summary pages. Actual returns may be reduced by Aon Investments' investment advisory fees or other trust payable expenses you may incur as a client. Aon Investments' advisory fees are described in Form ADV Part 2A. Portfolio performance, characteristics and volatility also may differ from the benchmark(s) shown.

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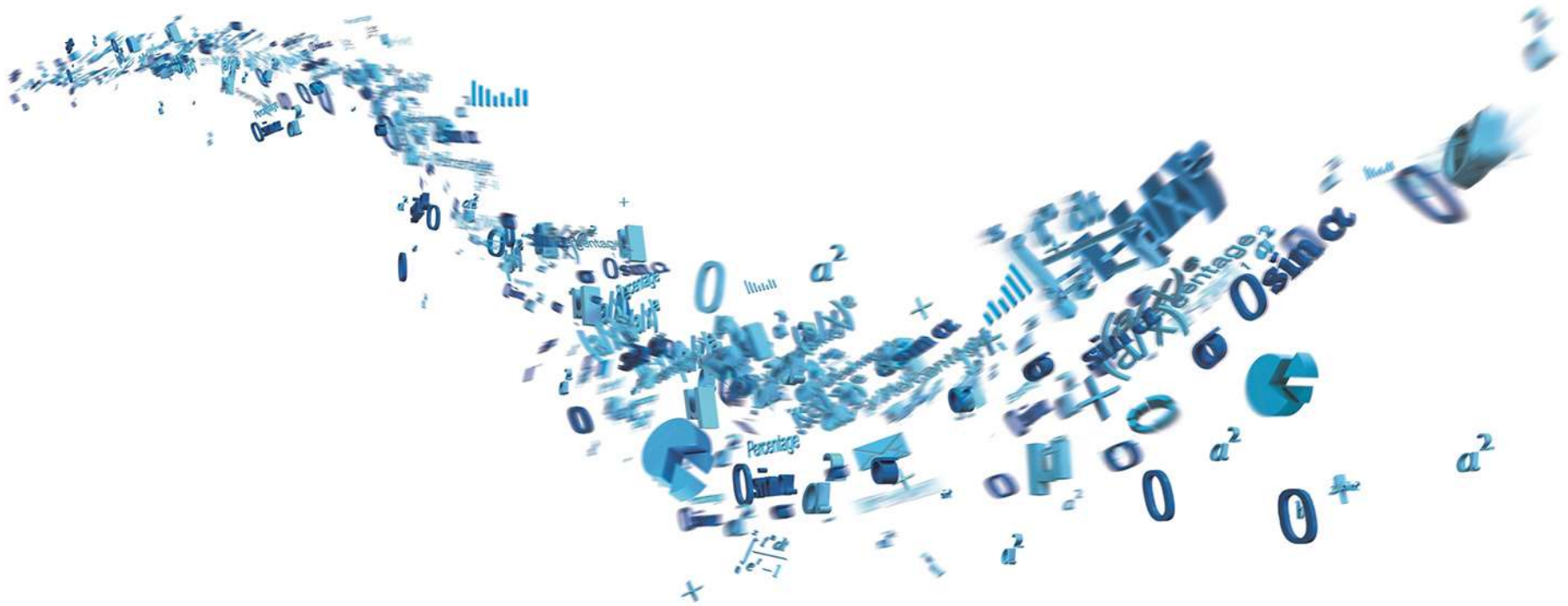
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Suite 700  
Chicago, IL 60601  
ATTN: Aon Investments Compliance Officer



## FRS Investment Plan | Third Quarter 2021

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# Quarterly Investment Review

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Visit our new video library with our views on key investment topics for this quarter using access code "aon!" (<https://site-494121.bcvp0rtal.com/category/videos/key-topics-by-investor-type>)

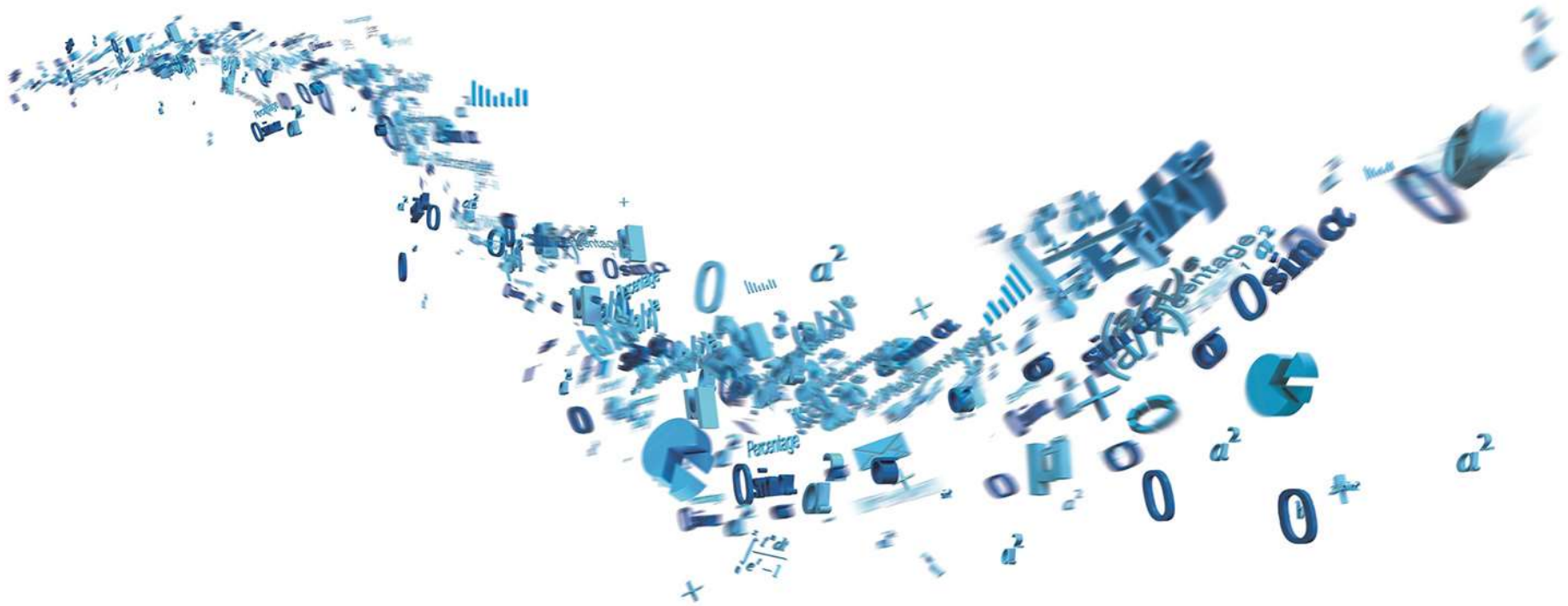


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# Table Of Contents

|   |                     |    |
|---|---------------------|----|
| 1 | FRS Investment Plan | 5  |
| 2 | Appendix            | 15 |

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# FRS Investment Plan

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As of September 30, 2021

## Asset Allocation & Performance

|                                | Allocation        |       | Performance(%) |              |           |           |           |           |
|--------------------------------|-------------------|-------|----------------|--------------|-----------|-----------|-----------|-----------|
|                                | Market Value (\$) | %     | 1 Quarter      | Year To Date | 1 Year    | 3 Years   | 5 Years   | 10 Years  |
| FRS Investment Plan            | 14,751,365,869    | 100.0 | -0.1           | 9.1          | 21.2      | 10.3      | 10.6      | 9.4       |
| Total Plan Aggregate Benchmark |                   |       | -0.3           | 8.8          | 20.5      | 9.7       | 10.0      | 8.9       |
| Retirement Date                | 6,893,592,934     | 46.7  |                |              |           |           |           |           |
| FRS Retirement Fund            | 748,373,347       | 5.1   | 0.6 (1)        | 6.3 (8)      | 13.8 (35) | 8.6 (19)  | 7.3 (38)  | 6.3 (71)  |
| Retirement Custom Index        |                   |       | 0.4 (1)        | 5.7 (9)      | 13.0 (46) | 8.2 (27)  | 6.9 (42)  | 5.8 (84)  |
| FRS 2020 Retirement Date Fund  | 613,149,037       | 4.2   | 0.6 (1)        | 6.9 (1)      | 15.3 (21) | 8.9 (66)  | 8.4 (56)  | 7.9 (83)  |
| 2020 Retirement Custom Index   |                   |       | 0.2 (2)        | 6.4 (4)      | 14.9 (24) | 8.6 (68)  | 8.0 (68)  | 7.4 (87)  |
| FRS 2025 Retirement Date Fund  | 988,964,880       | 6.7   | 0.3 (1)        | 7.7 (3)      | 17.7 (15) | 9.5 (49)  | 9.4 (44)  | 9.0 (71)  |
| 2025 Retirement Custom Index   |                   |       | -0.1 (10)      | 7.2 (8)      | 17.2 (22) | 9.3 (59)  | 9.0 (56)  | 8.6 (86)  |
| FRS 2030 Retirement Date Fund  | 936,243,058       | 6.3   | 0.1 (4)        | 8.4 (7)      | 19.8 (23) | 10.0 (60) | 10.2 (51) | 10.1 (64) |
| 2030 Retirement Custom Index   |                   |       | -0.3 (16)      | 7.9 (28)     | 19.4 (32) | 9.8 (63)  | 9.8 (63)  | 9.7 (78)  |
| FRS 2035 Retirement Date Fund  | 903,278,910       | 6.1   | -0.2 (5)       | 9.0 (31)     | 21.7 (52) | 10.4 (73) | 10.9 (62) | 11.0 (65) |
| 2035 Retirement Custom Index   |                   |       | -0.5 (12)      | 8.5 (51)     | 21.2 (58) | 10.3 (81) | 10.5 (76) | 10.6 (78) |
| FRS 2040 Retirement Date Fund  | 824,835,153       | 5.6   | -0.4 (6)       | 9.5 (67)     | 23.4 (71) | 10.8 (87) | 11.4 (66) | 11.2 (80) |
| 2040 Retirement Custom Index   |                   |       | -0.7 (10)      | 9.1 (84)     | 23.0 (75) | 10.7 (88) | 11.2 (85) | 11.0 (83) |
| FRS 2045 Retirement Date Fund  | 817,983,456       | 5.5   | -0.6 (8)       | 10.0 (76)    | 24.8 (77) | 11.2 (86) | 11.8 (72) | 11.4 (89) |
| 2045 Retirement Custom Index   |                   |       | -0.8 (13)      | 9.7 (81)     | 24.6 (79) | 11.1 (89) | 11.7 (85) | 11.2 (96) |
| FRS 2050 Retirement Date Fund  | 537,577,874       | 3.6   | -0.6 (8)       | 10.5 (70)    | 26.1 (64) | 11.4 (87) | 12.0 (76) | 11.5 (87) |
| 2050 Retirement Custom Index   |                   |       | -0.9 (11)      | 10.1 (84)    | 25.7 (71) | 11.3 (88) | 11.8 (80) | 11.3 (93) |
| FRS 2055 Retirement Date Fund  | 350,527,445       | 2.4   | -0.6 (8)       | 10.6 (64)    | 26.4 (73) | 11.6 (73) | 12.1 (80) | 11.6 (87) |
| 2055 Retirement Custom Index   |                   |       | -0.9 (10)      | 10.2 (77)    | 25.9 (76) | 11.3 (87) | 11.8 (83) | 11.3 (97) |
| FRS 2060 Retirement Date Fund  | 172,659,776       | 1.2   | -0.6 (8)       | 10.6 (65)    | 26.4 (73) | 11.6 (72) | -         | -         |
| 2060 Retirement Custom Index   |                   |       | -0.9 (10)      | 10.2 (77)    | 25.9 (76) | 11.3 (87) | -         | -         |

As of September 30, 2021

## Asset Allocation & Performance

|                                         | Allocation           |             | Performance(%)   |                  |                  |                  |                  |                  |
|-----------------------------------------|----------------------|-------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                         | Market Value (\$)    | %           | 1 Quarter        | Year To Date     | 1 Year           | 3 Years          | 5 Years          | 10 Years         |
| <b>Stable Value</b>                     | <b>1,072,594,020</b> | <b>7.3</b>  | <b>0.4</b>       | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>         | <b>-</b>         |
| FRS Stable Value Fund                   | 1,072,594,020        | 7.3         | 0.4 (22)         | -                | -                | -                | -                | -                |
| FTSE 3 Month T-Bill                     |                      |             | 0.0 (99)         | -                | -                | -                | -                | -                |
| <b>Real Assets</b>                      | <b>164,883,999</b>   | <b>1.1</b>  |                  |                  |                  |                  |                  |                  |
| FRS Inflation Sensitive Fund            | 164,883,999          | 1.1         | 2.1              | 8.6              | 14.9             | 6.2              | 5.2              | 2.9              |
| FRS Custom Multi-Assets Index           |                      |             | 1.6              | 7.6              | 13.7             | 5.8              | 4.7              | 2.6              |
| <b>Fixed Income</b>                     | <b>714,323,829</b>   | <b>4.8</b>  | <b>0.2 (16)</b>  | <b>-0.4 (70)</b> | <b>1.4 (27)</b>  | <b>6.0 (1)</b>   | <b>3.8 (2)</b>   | <b>3.7 (1)</b>   |
| Total Bond Index                        |                      |             | 0.2 (31)         | -0.7 (90)        | 0.5 (61)         | 5.5 (2)          | 3.4 (7)          | 3.3 (13)         |
| FRS U.S. Bond Enhanced Index Fund       | 277,075,761          | 1.9         | 0.1 (34)         | -1.5 (22)        | -0.8 (13)        | 5.4 (38)         | 3.0 (22)         | 3.1 (28)         |
| Blmbg. U.S. Aggregate                   |                      |             | 0.1 (35)         | -1.6 (22)        | -0.9 (15)        | 5.4 (39)         | 2.9 (24)         | 3.0 (29)         |
| FRS Core Plus Bond Fund                 | 437,248,068          | 3.0         | 0.2 (24)         | -0.3 (42)        | 2.2 (37)         | 6.4 (38)         | 4.3 (30)         | 4.9 (17)         |
| FRS Custom Core-Plus Fixed Income Index |                      |             | 0.2 (23)         | -0.5 (49)        | 1.1 (61)         | 5.8 (70)         | 3.6 (63)         | 4.2 (37)         |
| <b>Domestic Equity</b>                  | <b>3,787,743,023</b> | <b>25.7</b> | <b>-0.2 (45)</b> | <b>15.2 (46)</b> | <b>34.0 (37)</b> | <b>15.0 (43)</b> | <b>16.5 (38)</b> | <b>16.5 (26)</b> |
| Total U.S. Equities Index               |                      |             | -0.1 (42)        | 15.4 (45)        | 34.0 (37)        | 14.8 (43)        | 16.0 (42)        | 16.1 (34)        |
| FRS U.S. Stock Market Index Fund        | 1,579,951,523        | 10.7        | -0.1 (56)        | 15.0 (50)        | 31.9 (29)        | 16.1 (49)        | 16.9 (49)        | 16.7 (40)        |
| Russell 3000 Index                      |                      |             | -0.1 (56)        | 15.0 (50)        | 31.9 (29)        | 16.0 (50)        | 16.9 (50)        | 16.6 (44)        |
| FRS U.S. Stock Fund                     | 2,207,791,500        | 15.0        | -0.4 (48)        | 15.6 (39)        | 36.9 (24)        | -                | -                | -                |
| Russell 3000 Index                      |                      |             | -0.1 (40)        | 15.0 (47)        | 31.9 (44)        | -                | -                | -                |

As of September 30, 2021

## Asset Allocation & Performance

|                                          | Allocation        |     | Performance(%) |              |           |           |           |           |  |
|------------------------------------------|-------------------|-----|----------------|--------------|-----------|-----------|-----------|-----------|--|
|                                          | Market Value (\$) | %   | 1 Quarter      | Year To Date | 1 Year    | 3 Years   | 5 Years   | 10 Years  |  |
| International/Global Equity              | 910,762,378       | 6.2 | -2.2 (51)      | 7.2 (48)     | 25.9 (42) | 10.3 (34) | 10.8 (28) | 9.7 (26)  |  |
| Total Foreign and Global Equities Index  |                   |     | -2.4 (55)      | 7.3 (48)     | 25.4 (44) | 8.9 (45)  | 9.7 (38)  | 8.6 (41)  |  |
| FRS Foreign Stock Index Fund             | 304,791,092       | 2.1 | -2.6 (57)      | 6.9 (49)     | 25.3 (44) | 8.6 (48)  | 9.4 (42)  | 8.5 (44)  |  |
| MSCI All Country World ex-U.S. IMI Index |                   |     | -2.6 (57)      | 6.8 (50)     | 25.2 (46) | 8.3 (50)  | 9.1 (48)  | 8.1 (49)  |  |
| FRS Global Stock Fund                    | 397,240,066       | 2.7 | -0.1 (30)      | 10.6 (55)    | 29.7 (38) | 18.8 (14) | 18.3 (13) | 15.7 (13) |  |
| MSCI All Country World Index Net         |                   |     | -1.1 (47)      | 11.1 (50)    | 27.4 (48) | 12.6 (39) | 13.2 (37) | 12.0 (47) |  |
| FRS Foreign Stock Fund                   | 208,731,219       | 1.4 | -2.3 (50)      | 4.0 (92)     | 24.8 (68) | 13.2 (1)  | 12.2 (1)  | 10.6 (1)  |  |
| MSCI All Country World ex-U.S. Index     |                   |     | -3.0 (65)      | 19.7 (1)     | 40.1 (1)  | 12.5 (1)  | 11.7 (1)  | 9.1 (1)   |  |
| FRS Self-Dir Brokerage Acct              | 1,207,465,687     | 8.2 |                |              |           |           |           |           |  |

The returns for the Retirement Date Funds, Inflation Sensitive Fund and Core Plus Bond Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

As of September 30, 2021

## Asset Allocation & Performance

|                                | Performance(%) |           |           |           |          |            |          |           |           |           |
|--------------------------------|----------------|-----------|-----------|-----------|----------|------------|----------|-----------|-----------|-----------|
|                                | 2020           | 2019      | 2018      | 2017      | 2016     | 2015       | 2014     | 2013      | 2012      | 2011      |
| FRS Investment Plan            | 13.1           | 20.5      | -5.7      | 16.4      | 8.0      | -0.9       | 4.9      | 15.2      | 10.5      | 0.7       |
| Total Plan Aggregate Benchmark | 11.7           | 20.0      | -5.8      | 15.5      | 8.5      | -1.3       | 4.9      | 14.6      | 9.7       | 0.9       |
| Retirement Date                |                |           |           |           |          |            |          |           |           |           |
| FRS Retirement Fund            | 10.2 (35)      | 14.8 (39) | -3.7 (53) | 10.8 (52) | 6.2 (59) | -2.6 (100) | 4.4 (82) | 3.5 (96)  | 10.7 (59) | 3.4 (10)  |
| Retirement Custom Index        | 9.6 (45)       | 14.5 (42) | -3.8 (55) | 10.4 (58) | 6.2 (59) | -1.8 (98)  | 3.6 (89) | 3.4 (96)  | 8.5 (78)  | 5.0 (1)   |
| FRS 2020 Retirement Date Fund  | 10.5 (76)      | 16.3 (56) | -4.4 (53) | 14.0 (24) | 7.4 (22) | -2.1 (91)  | 4.4 (79) | 9.6 (75)  | 12.4 (38) | 0.6 (38)  |
| 2020 Retirement Custom Index   | 10.2 (81)      | 16.0 (60) | -4.5 (55) | 13.3 (47) | 7.1 (32) | -1.6 (80)  | 3.9 (88) | 9.7 (75)  | 11.0 (74) | 1.5 (21)  |
| FRS 2025 Retirement Date Fund  | 11.4 (75)      | 18.2 (58) | -5.2 (46) | 16.1 (26) | 8.0 (14) | -1.7 (80)  | 4.5 (86) | 13.7 (74) | 13.5 (43) | -0.7 (35) |
| 2025 Retirement Custom Index   | 11.2 (77)      | 17.8 (67) | -5.3 (51) | 15.5 (39) | 7.6 (20) | -1.5 (77)  | 4.2 (91) | 13.8 (74) | 12.4 (73) | -0.3 (26) |
| FRS 2030 Retirement Date Fund  | 12.0 (74)      | 19.8 (68) | -6.0 (44) | 18.0 (30) | 8.5 (18) | -1.3 (63)  | 4.5 (83) | 18.1 (54) | 14.6 (34) | -2.1 (50) |
| 2030 Retirement Custom Index   | 12.0 (74)      | 19.4 (72) | -6.0 (45) | 17.3 (48) | 8.0 (33) | -1.5 (67)  | 4.4 (83) | 18.2 (52) | 13.8 (53) | -2.0 (49) |
| FRS 2035 Retirement Date Fund  | 12.6 (92)      | 21.1 (77) | -6.7 (37) | 19.8 (27) | 9.1 (17) | -1.4 (51)  | 4.4 (84) | 22.0 (38) | 15.8 (23) | -3.0 (46) |
| 2035 Retirement Custom Index   | 12.7 (90)      | 20.8 (82) | -6.8 (38) | 18.9 (54) | 8.3 (43) | -1.7 (67)  | 4.3 (85) | 22.0 (38) | 15.2 (46) | -3.1 (47) |
| FRS 2040 Retirement Date Fund  | 13.3 (81)      | 22.5 (70) | -7.5 (39) | 20.9 (28) | 9.2 (17) | -1.4 (55)  | 4.4 (83) | 22.3 (48) | 15.8 (36) | -3.0 (38) |
| 2040 Retirement Custom Index   | 13.4 (79)      | 22.1 (82) | -7.5 (39) | 20.4 (45) | 8.6 (43) | -1.7 (69)  | 4.3 (84) | 22.4 (48) | 15.2 (50) | -3.1 (38) |
| FRS 2045 Retirement Date Fund  | 13.8 (81)      | 23.4 (72) | -8.0 (49) | 21.5 (26) | 9.4 (18) | -1.5 (53)  | 4.4 (82) | 22.3 (60) | 15.8 (38) | -3.0 (26) |
| 2045 Retirement Custom Index   | 13.9 (77)      | 23.0 (84) | -8.0 (49) | 21.2 (39) | 8.9 (36) | -1.7 (64)  | 4.3 (83) | 22.4 (60) | 15.2 (68) | -3.1 (26) |
| FRS 2050 Retirement Date Fund  | 14.0 (76)      | 24.0 (75) | -8.4 (55) | 21.6 (32) | 9.5 (20) | -1.5 (60)  | 4.4 (82) | 22.3 (53) | 15.8 (36) | -3.0 (20) |
| 2050 Retirement Custom Index   | 14.1 (75)      | 23.6 (78) | -8.4 (55) | 21.3 (52) | 8.9 (37) | -1.7 (65)  | 4.3 (82) | 22.4 (53) | 15.2 (58) | -3.1 (20) |
| FRS 2055 Retirement Date Fund  | 14.3 (73)      | 24.1 (80) | -8.4 (53) | 21.5 (47) | 9.3 (27) | -1.4 (54)  | 4.4 (81) | 22.3 (72) | 15.8 (46) | -         |
| 2055 Retirement Custom Index   | 14.1 (75)      | 23.7 (83) | -8.4 (53) | 21.3 (55) | 8.9 (33) | -1.7 (63)  | 4.3 (81) | 22.4 (71) | 15.2 (75) | -         |
| FRS 2060 Retirement Date Fund  | 14.5 (73)      | 24.2 (79) | -8.3 (52) | -         | -        | -          | -        | -         | -         | -         |
| 2060 Retirement Custom Index   | 14.1 (75)      | 23.7 (83) | -8.4 (53) | -         | -        | -          | -        | -         | -         | -         |



As of September 30, 2021

## Asset Allocation & Performance

|                                          | Performance(%)   |                  |                   |                  |                  |                  |                  |                  |                  |                   |
|------------------------------------------|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
|                                          | 2020             | 2019             | 2018              | 2017             | 2016             | 2015             | 2014             | 2013             | 2012             | 2011              |
| Cash                                     | 0.7              | 2.4              | 2.2               | 1.2              | 0.6              | 0.2              | 0.1              | 0.2              | 0.3              | 0.2               |
| FRS Stable Value Fund                    | -                | -                | -                 | -                | -                | -                | -                | -                | -                | -                 |
| FTSE 3 Month T-Bill                      | -                | -                | -                 | -                | -                | -                | -                | -                | -                | -                 |
| <b>Real Assets</b>                       |                  |                  |                   |                  |                  |                  |                  |                  |                  |                   |
| FRS Inflation Sensitive Fund             | 4.0              | 13.0             | -5.5              | 8.1              | 6.0              | -7.9             | 3.2              | -9.1             | 9.1              | 7.4               |
| FRS Custom Multi-Assets Index            | 2.3              | 13.0             | -5.5              | 8.1              | 6.2              | -5.0             | 1.8              | -8.9             | 6.6              | 4.6               |
| <b>Fixed Income</b>                      | <b>8.0 (3)</b>   | <b>9.8 (1)</b>   | <b>-0.1 (94)</b>  | <b>4.4 (2)</b>   | <b>4.7 (8)</b>   | <b>0.3 (81)</b>  | <b>4.7 (1)</b>   | <b>-1.1 (84)</b> | <b>6.0 (36)</b>  | <b>6.7 (1)</b>    |
| Total Bond Index                         | 7.2 (13)         | 9.2 (1)          | -0.1 (94)         | 3.9 (3)          | 4.3 (9)          | 0.1 (89)         | 4.9 (1)          | -1.2 (87)        | 4.8 (62)         | 7.4 (1)           |
| FRS U.S. Bond Enhanced Index Fund        | 7.8 (49)         | 8.7 (33)         | 0.0 (66)          | 3.6 (32)         | 2.7 (1)          | 0.7 (38)         | 6.2 (36)         | -2.0 (17)        | 4.4 (13)         | 7.9 (67)          |
| Blmbg. U.S. Aggregate                    | 7.5 (59)         | 8.7 (33)         | 0.0 (66)          | 3.5 (32)         | 2.6 (1)          | 0.5 (46)         | 6.0 (37)         | -2.0 (18)        | 4.2 (14)         | 7.8 (68)          |
| FRS Core Plus Bond Fund                  | 8.6 (50)         | 11.0 (14)        | -0.5 (42)         | 5.3 (23)         | 5.7 (23)         | 0.1 (43)         | 4.6 (82)         | 0.8 (18)         | 11.1 (17)        | 4.6 (86)          |
| FRS Custom Core-Plus Fixed Income Index  | 7.6 (79)         | 10.0 (35)        | -0.4 (35)         | 4.2 (62)         | 4.9 (36)         | 0.2 (37)         | 5.1 (75)         | 0.8 (18)         | 7.8 (53)         | 7.6 (30)          |
| <b>Domestic Equity</b>                   | <b>20.0 (40)</b> | <b>30.1 (41)</b> | <b>-6.5 (45)</b>  | <b>20.8 (48)</b> | <b>13.7 (29)</b> | <b>0.7 (35)</b>  | <b>11.5 (42)</b> | <b>35.2 (43)</b> | <b>16.9 (33)</b> | <b>0.3 (38)</b>   |
| Total U.S. Equities Index                | 18.9 (43)        | 30.0 (41)        | -6.5 (45)         | 19.6 (55)        | 14.9 (23)        | -0.5 (45)        | 11.1 (47)        | 34.0 (54)        | 16.5 (37)        | -0.1 (41)         |
| FRS U.S. Stock Market Index Fund         | 21.0 (43)        | 31.1 (48)        | -5.2 (57)         | 21.2 (56)        | 12.9 (26)        | 0.6 (54)         | 12.6 (34)        | 33.6 (40)        | 16.5 (39)        | 1.0 (39)          |
| Russell 3000 Index                       | 20.9 (44)        | 31.0 (48)        | -5.2 (58)         | 21.1 (56)        | 12.7 (27)        | 0.5 (55)         | 12.6 (35)        | 33.6 (40)        | 16.4 (40)        | 1.0 (39)          |
| FRS U.S. Stock Fund                      | -                | -                | -                 | -                | -                | -                | -                | -                | -                | -                 |
| Russell 3000 Index                       | -                | -                | -                 | -                | -                | -                | -                | -                | -                | -                 |
| <b>International/Global Equity</b>       | <b>15.2 (41)</b> | <b>23.7 (37)</b> | <b>-13.5 (29)</b> | <b>28.6 (50)</b> | <b>4.5 (41)</b>  | <b>-2.6 (49)</b> | <b>-3.2 (42)</b> | <b>21.6 (33)</b> | <b>18.6 (53)</b> | <b>-11.3 (23)</b> |
| Total Foreign and Global Equities Index  | 11.7 (52)        | 22.3 (46)        | -14.0 (33)        | 27.3 (60)        | 4.9 (38)         | -4.4 (56)        | -3.0 (41)        | 20.6 (39)        | 16.6 (72)        | -11.3 (23)        |
| FRS Foreign Stock Index Fund             | 11.5 (52)        | 22.3 (46)        | -14.7 (40)        | 28.3 (53)        | 5.3 (37)         | -4.4 (56)        | -4.5 (55)        | 20.5 (39)        | 17.6 (63)        | -11.8 (27)        |
| MSCI All Country World ex-U.S. IMI Index | 11.1 (54)        | 21.6 (52)        | -14.8 (41)        | 27.8 (56)        | 4.4 (42)         | -4.6 (56)        | -4.2 (51)        | 21.0 (37)        | 16.4 (72)        | -12.2 (30)        |
| FRS Global Stock Fund                    | 33.8 (16)        | 30.5 (20)        | -5.6 (20)         | 29.3 (18)        | 2.2 (81)         | 5.6 (13)         | 3.7 (44)         | 27.1 (41)        | 21.0 (15)        | -7.4 (46)         |
| MSCI All Country World Index Net         | 16.3 (35)        | 26.6 (45)        | -9.4 (46)         | 24.0 (40)        | 7.9 (46)         | -2.4 (56)        | 4.2 (39)         | 22.8 (60)        | 16.3 (38)        | -5.5 (35)         |
| FRS Foreign Stock Fund                   | 25.3 (1)         | 27.4 (5)         | -14.9 (48)        | 31.2 (5)         | 1.0 (60)         | -0.5 (20)        | -2.3 (16)        | 20.6 (60)        | 19.6 (37)        | -13.3 (59)        |
| MSCI All Country World ex-U.S. Index     | 10.7 (8)         | 21.5 (55)        | -14.2 (30)        | 27.2 (23)        | 5.0 (10)         | -5.3 (73)        | -3.4 (18)        | 15.8 (80)        | 17.4 (67)        | -13.3 (60)        |

### FRS Self-Dir Brokerage Acct

The returns for the Retirement Date Funds, Inflation Sensitive Fund, Core Plus Bond Fund, U.S. Large Cap Stock Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

## FRS Investment Plan

As of September 30, 2021

## Asset Allocation

| Asset Allocation as of 9/30/2021         |                         |                         |                         |                         |                         |                         |                          |               |
|------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|---------------|
|                                          | U.S. Equity             | Non-U.S. Equity         | U.S. Fixed Income       | Real Assets             | Stable Value            | Brokerage               | Total                    | % of Total    |
| FRS Retirement Fund                      | 110,010,882             | 101,030,402             | 245,466,458             | 291,865,605             |                         |                         | 748,373,347              | 5.1%          |
| FRS 2020 Retirement Date Fund            | 115,272,019             | 106,687,932             | 179,039,519             | 212,149,567             |                         |                         | 613,149,037              | 4.2%          |
| FRS 2025 Retirement Date Fund            | 246,252,255             | 227,461,922             | 263,064,658             | 252,186,044             |                         |                         | 988,964,880              | 6.7%          |
| FRS 2030 Retirement Date Fund            | 281,809,160             | 259,339,327             | 217,208,389             | 177,886,181             |                         |                         | 936,243,058              | 6.3%          |
| FRS 2035 Retirement Date Fund            | 311,631,224             | 287,242,693             | 177,945,945             | 126,459,047             |                         |                         | 903,278,910              | 6.1%          |
| FRS 2040 Retirement Date Fund            | 318,386,369             | 293,641,314             | 130,323,954             | 82,483,515              |                         |                         | 824,835,153              | 5.6%          |
| FRS 2045 Retirement Date Fund            | 340,281,118             | 314,105,647             | 95,704,064              | 67,892,627              |                         |                         | 817,983,456              | 5.5%          |
| FRS 2050 Retirement Date Fund            | 233,308,797             | 215,031,149             | 43,006,230              | 46,231,697              |                         |                         | 537,577,874              | 3.6%          |
| FRS 2055 Retirement Date Fund            | 153,180,493             | 141,262,560             | 25,588,503              | 30,495,888              |                         |                         | 350,527,445              | 2.4%          |
| FRS 2060 Retirement Date Fund            | 75,452,322              | 69,581,890              | 12,604,164              | 15,021,401              |                         |                         | 172,659,776              | 1.2%          |
| <b>Total Retirement Date Funds</b>       | <b>\$ 2,185,584,640</b> | <b>\$ 2,015,384,838</b> | <b>\$ 1,389,951,885</b> | <b>\$ 1,302,671,572</b> | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ 6,893,592,934</b>  | <b>46.7%</b>  |
| FRS Stable Value Fund                    |                         |                         |                         |                         | 1,072,594,020           |                         | 1,072,594,020            | 7.3%          |
| <b>Total Stable Value</b>                | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ 1,072,594,020</b> | <b>\$ -</b>             | <b>\$ 1,072,594,020</b>  | <b>7.3%</b>   |
| FRS Inflation Adjusted Multi-Assets Fund |                         |                         |                         | 164,883,999             | -                       |                         | 164,883,999              | 1.1%          |
| <b>Total Real Assets</b>                 | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ 164,883,999</b>   | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ 164,883,999</b>    | <b>1.1%</b>   |
| FRS U.S. Bond Enhanced Index Fund        |                         |                         | 277,075,761             |                         |                         |                         | 277,075,761              | 1.9%          |
| FRS Core Plus Bond Fund                  |                         |                         | 437,248,068             |                         |                         |                         | 437,248,068              | 3.0%          |
| <b>Total Fixed Income</b>                | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ 714,323,829</b>   | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ 714,323,829</b>    | <b>4.8%</b>   |
| FRS U.S. Stock Market Index Fund         | 1,579,951,523           |                         |                         |                         |                         |                         | 1,579,951,523            | 10.7%         |
| FRS U.S. Stock Fund                      | 2,207,791,500           |                         |                         |                         |                         |                         | 2,207,791,500            | 15.0%         |
| <b>Total Domestic Equity</b>             | <b>\$ 3,787,743,023</b> | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ 3,787,743,023</b>  | <b>25.7%</b>  |
| FRS Foreign Stock Index Fund             |                         | 304,791,092             |                         |                         |                         |                         | 304,791,092              | 2.1%          |
| FRS Global Stock Fund                    |                         | 397,240,066             |                         |                         |                         |                         | 397,240,066              | 2.7%          |
| FRS Foreign Stock Fund                   |                         | 208,731,219             |                         |                         |                         |                         | 208,731,219              | 1.4%          |
| <b>Total International/Global Equity</b> | <b>\$ -</b>             | <b>\$ 910,762,378</b>   | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ -</b>             | <b>\$ 910,762,378</b>    | <b>6.2%</b>   |
| FRS Self-Dir Brokerage Acct              |                         |                         |                         |                         |                         | 1,207,465,687           | 1,207,465,687            | 8.2%          |
| <b>Total Self-Dir Brokerage Acct</b>     |                         |                         |                         |                         |                         | <b>\$ 1,207,465,687</b> | <b>\$ 1,207,465,687</b>  | <b>8.2%</b>   |
| <b>Total Portfolio</b>                   | <b>\$ 5,973,327,662</b> | <b>\$ 2,926,147,216</b> | <b>\$ 2,104,275,713</b> | <b>\$ 1,467,555,571</b> | <b>\$ 1,072,594,020</b> | <b>\$ 1,207,465,687</b> | <b>\$ 14,751,365,869</b> | <b>100.0%</b> |
| <b>Percent of Total</b>                  | <b>40.5%</b>            | <b>19.8%</b>            | <b>14.3%</b>            | <b>9.9%</b>             | <b>7.3%</b>             | <b>8.2%</b>             | <b>100.0%</b>            |               |

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund and Core Plus Bond Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

Note: The SDBA opened for members on 1/2/14. No performance calculations will be made for the SDBA.

As of September 30, 2021

## Multi Timeperiod Statistics

|                                   | 3<br>Years<br>Return | 3<br>Years<br>Standard<br>Deviation | 3<br>Years<br>Sharpe<br>Ratio | 3<br>Years<br>Tracking<br>Error | 3<br>Years<br>Information<br>Ratio | 3<br>Years<br>Up<br>Market<br>Capture | 3<br>Years<br>Down<br>Market<br>Capture |
|-----------------------------------|----------------------|-------------------------------------|-------------------------------|---------------------------------|------------------------------------|---------------------------------------|-----------------------------------------|
| FRS Investment Plan               | 10.29                | 13.37                               | 0.71                          | 0.56                            | 0.99                               | 103.21                                | 101.42                                  |
| FRS Retirement Fund               | 8.59                 | 8.12                                | 0.90                          | 0.49                            | 0.76                               | 102.68                                | 100.41                                  |
| FRS 2020 Retirement Date Fund     | 8.87                 | 9.36                                | 0.82                          | 0.54                            | 0.44                               | 101.10                                | 99.36                                   |
| FRS 2025 Retirement Date Fund     | 9.53                 | 10.90                               | 0.77                          | 0.52                            | 0.47                               | 100.86                                | 99.26                                   |
| FRS 2030 Retirement Date Fund     | 10.02                | 12.32                               | 0.74                          | 0.52                            | 0.37                               | 100.54                                | 99.37                                   |
| FRS 2035 Retirement Date Fund     | 10.43                | 13.56                               | 0.71                          | 0.51                            | 0.27                               | 100.24                                | 99.41                                   |
| FRS 2040 Retirement Date Fund     | 10.83                | 14.75                               | 0.69                          | 0.49                            | 0.20                               | 100.15                                | 99.60                                   |
| FRS 2045 Retirement Date Fund     | 11.16                | 15.71                               | 0.67                          | 0.49                            | 0.19                               | 100.20                                | 99.75                                   |
| FRS 2050 Retirement Date Fund     | 11.39                | 16.33                               | 0.67                          | 0.50                            | 0.22                               | 100.11                                | 99.51                                   |
| FRS 2055 Retirement Date Fund     | 11.58                | 16.46                               | 0.67                          | 0.47                            | 0.51                               | 100.63                                | 99.60                                   |
| FRS 2060 Retirement Date Fund     | 11.64                | 16.47                               | 0.68                          | 0.49                            | 0.62                               | 100.79                                | 99.52                                   |
| FRS Stable Value Fund             | N/A                  | N/A                                 | N/A                           | N/A                             | N/A                                | N/A                                   | N/A                                     |
| FRS Inflation Sensitive Fund      | 6.24                 | 9.17                                | 0.57                          | 1.09                            | 0.43                               | 104.29                                | 101.47                                  |
| FRS U.S. Bond Enhanced Index Fund | 5.44                 | 3.59                                | 1.19                          | 0.17                            | 0.48                               | 101.90                                | 102.71                                  |
| FRS Core Plus Bond Fund           | 6.44                 | 4.95                                | 1.04                          | 1.69                            | 0.39                               | 117.27                                | 128.83                                  |
| FRS U.S. Stock Market Index Fund  | 16.07                | 19.68                               | 0.79                          | 0.05                            | 1.13                               | 100.18                                | 100.03                                  |
| FRS U.S. Stock Fund               | N/A                  | N/A                                 | N/A                           | N/A                             | N/A                                | N/A                                   | N/A                                     |
| FRS Foreign Stock Index Fund      | 8.61                 | 18.17                               | 0.48                          | 0.94                            | 0.27                               | 101.04                                | 100.23                                  |
| FRS Global Stock Fund             | 18.82                | 19.22                               | 0.93                          | 3.41                            | 1.65                               | 113.85                                | 93.67                                   |
| FRS Foreign Stock Fund            | 13.21                | 18.91                               | 0.69                          | 8.38                            | 0.06                               | 98.48                                 | 94.84                                   |

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund, Core Plus Bond Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

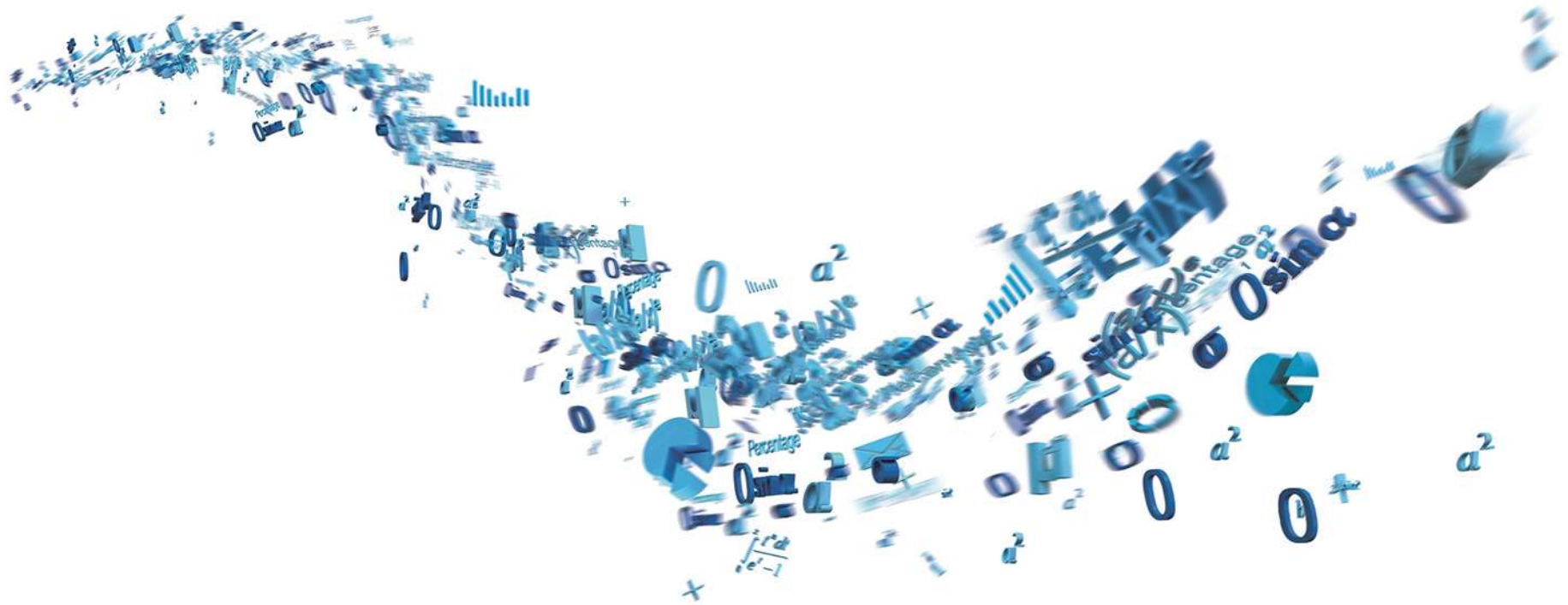
As of September 30, 2021

## Multi Timeperiod Statistics

|                                   | 5<br>Years<br>Return | 5<br>Years<br>Standard<br>Deviation | 5<br>Years<br>Sharpe<br>Ratio | 5<br>Years<br>Tracking<br>Error | 5<br>Years<br>Information<br>Ratio | 5<br>Years<br>Up<br>Market<br>Capture | 5<br>Years<br>Down<br>Market<br>Capture |
|-----------------------------------|----------------------|-------------------------------------|-------------------------------|---------------------------------|------------------------------------|---------------------------------------|-----------------------------------------|
| FRS Investment Plan               | 10.60                | 10.68                               | 0.88                          | 0.50                            | 1.18                               | 103.51                                | 100.79                                  |
| FRS Retirement Fund               | 7.30                 | 6.56                                | 0.92                          | 0.43                            | 0.85                               | 102.90                                | 99.59                                   |
| FRS 2020 Retirement Date Fund     | 8.39                 | 7.57                                | 0.94                          | 0.47                            | 0.76                               | 102.15                                | 98.94                                   |
| FRS 2025 Retirement Date Fund     | 9.39                 | 8.79                                | 0.93                          | 0.46                            | 0.78                               | 101.77                                | 99.03                                   |
| FRS 2030 Retirement Date Fund     | 10.16                | 9.92                                | 0.90                          | 0.46                            | 0.65                               | 101.24                                | 99.08                                   |
| FRS 2035 Retirement Date Fund     | 10.93                | 10.91                               | 0.89                          | 0.49                            | 0.71                               | 101.39                                | 99.22                                   |
| FRS 2040 Retirement Date Fund     | 11.45                | 11.86                               | 0.87                          | 0.46                            | 0.50                               | 100.75                                | 99.33                                   |
| FRS 2045 Retirement Date Fund     | 11.81                | 12.61                               | 0.85                          | 0.45                            | 0.31                               | 100.33                                | 99.38                                   |
| FRS 2050 Retirement Date Fund     | 12.01                | 13.09                               | 0.84                          | 0.46                            | 0.37                               | 100.37                                | 99.22                                   |
| FRS 2055 Retirement Date Fund     | 12.10                | 13.18                               | 0.84                          | 0.45                            | 0.52                               | 100.64                                | 99.26                                   |
| FRS 2060 Retirement Date Fund     | N/A                  | N/A                                 | N/A                           | N/A                             | N/A                                | N/A                                   | N/A                                     |
| FRS Stable Value Fund             | N/A                  | N/A                                 | N/A                           | N/A                             | N/A                                | N/A                                   | N/A                                     |
| FRS Inflation Sensitive Fund      | 5.16                 | 7.46                                | 0.55                          | 1.09                            | 0.45                               | 104.25                                | 99.35                                   |
| FRS U.S. Bond Enhanced Index Fund | 3.01                 | 3.34                                | 0.57                          | 0.13                            | 0.51                               | 101.70                                | 101.14                                  |
| FRS Core Plus Bond Fund           | 4.28                 | 4.23                                | 0.74                          | 1.37                            | 0.48                               | 118.32                                | 118.84                                  |
| FRS U.S. Stock Market Index Fund  | 16.92                | 15.83                               | 0.99                          | 0.05                            | 1.22                               | 100.20                                | 99.99                                   |
| FRS U.S. Stock Fund               | N/A                  | N/A                                 | N/A                           | N/A                             | N/A                                | N/A                                   | N/A                                     |
| FRS Foreign Stock Index Fund      | 9.42                 | 14.95                               | 0.60                          | 0.93                            | 0.30                               | 100.66                                | 99.21                                   |
| FRS Global Stock Fund             | 18.27                | 15.56                               | 1.08                          | 3.44                            | 1.32                               | 113.11                                | 91.43                                   |
| FRS Foreign Stock Fund            | 12.17                | 15.60                               | 0.74                          | 6.76                            | 0.06                               | 98.20                                 | 93.96                                   |

The returns for the Retirement Date Funds, Inflation Adjusted Multi-Assets Fund, Core Plus Bond Fund, U.S. Large Cap Stock Fund use prehire data for all months prior to 7/1/2014, actual live data is used thereafter.

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## Appendix

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As of September 30, 2021

## Benchmark Descriptions

Retirement Date Benchmarks - A weighted average composite of the underlying components' benchmarks for each fund.

FTSE 3 Month T-Bill Index - An index that measures the average return of the last three-month U.S. Treasury Bill issues.

FRS Custom Multi-Assets Index - A monthly weighted composite of underlying indices for each TIPS and Real Assets fund. These indices include Barclays U.S. TIPS Index, MSCI AC World Index and the Bloomberg Commodity Total Return Index, NAREIT Developed Index, S&P Global Infrastructure Index, S&P Global Natural Resources Index.

Total Bond Index - A weighted average composite of the underlying benchmarks for each bond fund.

Barclays Aggregate Bond Index - A market value-weighted index consisting of government bonds, SEC-registered corporate bonds and mortgage-related and asset-backed securities with at least one year to maturity and an outstanding par value of \$250 million or greater. This index is a broad measure of the performance of the investment grade U.S. fixed income market.

FRS Custom Core-Plus Fixed Income Index - A monthly rebalanced blend of 80% Barclays U.S. Aggregate Bond Index and 20% Barclays U.S. High Yield Ba/B 1% Issuer Constrained Index.

Total U.S. Equities Index - A weighted average composite of the underlying benchmarks for each domestic equity fund.

Russell 3000 Index - A capitalization-weighted index consisting of the 3,000 largest publicly traded U.S. stocks by capitalization. This index is a broad measure of the performance of the aggregate domestic equity market.

Russell 1000 Index - An index that measures the performance of the largest 1,000 stocks contained in the Russell 3000 Index.

Total Foreign and Global Equities Index - A weighted average composite of the underlying benchmarks for each foreign and global equity fund.

MSCI All Country World ex-U.S. IMI Index - A capitalization-weighted index of stocks representing 22 developed country stock markets and 24 emerging countries, excluding the U.S. market.

MSCI All Country World Index - A capitalization-weighted index of stocks representing approximately 47 developed and emerging countries, including the U.S. and Canadian markets.

MSCI All Country World ex-U.S. Index - A capitalization-weighted index consisting of 23 developed and 24 emerging countries, but excluding the U.S.

As of September 30, 2021

## Descriptions of Universes

Retirement Date Funds - Target date universes calculated and provided by Lipper.

FRS Stable Value Fund - A money market universe calculated and provided by Lipper.

FRS U.S. Bond Enhanced Index Fund - A long-term bond fixed income universe calculated and provided by Lipper.

FRS Core Plus Bond Fund - A core plus bond fixed income universe calculated and provided by Lipper.

FRS U.S. Stock Market Index Fund - A large cap blend universe calculated and provided by Lipper.

**FRS U.S. Stock Fund** - An all U.S. equity market universe calculated and provided by Lipper.

FRS Foreign Stock Index Fund - A foreign blend universe calculated and provided by Lipper.

FRS Global Stock Fund - A global stock universe calculated and provided by Lipper.

FRS Foreign Stock Fund - A foreign large blend universe calculated and provided by Lipper.



## Notes

- The rates of return contained in this report are shown on an after-fees basis unless otherwise noted. They are geometric and time-weighted. Returns for periods longer than one year are annualized.
- Universe percentiles are based upon an ordering system in which 1 is the best ranking and 100 is the worst ranking.
- Due to rounding throughout the report, percentage totals displayed may not sum to 100%. Additionally, individual fund totals in dollar terms may not sum to the plan total.

## Disclaimer

Past performance is not necessarily indicative of future results.

Unless otherwise noted, performance returns presented reflect the respective fund's performance as indicated. Returns may be presented on a before-fees basis (gross) or after-fees basis (net). After-fee performance is net of each respective sub-advisors' investment management fees and include the reinvestment of dividends and interest as indicated on the notes page within this report or on the asset allocation and performance summary pages. Actual returns may be reduced by Aon Investments' investment advisory fees or other trust payable expenses you may incur as a client. Aon Investments' advisory fees are described in Form ADV Part 2A. Portfolio performance, characteristics and volatility also may differ from the benchmark(s) shown.

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Aon Investments USA Inc.  
200 East Randolph Street  
Suite 700  
Chicago, IL 60601  
ATTN: Aon Investments Compliance Officer

## Proposed 2022 IAC Meeting Dates

Tuesday, March 29, 2022

Tuesday, June 28, 2022

Tuesday, September 13, 2022

Tuesday, December 13, 2022