



Agenda
Investment Advisory Council (IAC)

Tuesday, September 20, 2021, 1:00 P.M.*

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

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1:00 – 1:05 P.M.	1. Welcome/Call to Order/ Approval of Minutes <i>(See Attachments 1A – 1B)</i> <i>(Action Required)</i>	<i>Peter Jones, Chair</i>
1:05 – 1:20 P.M.	2. Opening Remarks/Reports/Other Updates & Reports <i>(See Attachments 2A – 2E)</i>	<i>Ash Williams,</i> <i>Executive Director & CIO</i> <i>Executive Staff</i>
1:20 – 2:20 P.M.	3. Asset Liability Review <i>(See Attachment 3A)</i>	<i>Kristen Doyle,</i> <i>Katie Comstock,</i> <i>John Sullivan</i> <i>Aon</i>
2:20 – 3:20 P.M.	4. Global Equity Asset Class Review <i>(See Attachments 4A – 4B)</i>	<i>Tim Taylor, SIO, Global Equity</i> <i>Meghan Brown, Senior Portfolio Manager</i> <i>Denise Hale, Director of Reporting & Analytics</i> <i>Jay Love,</i> <i>Mercer</i>

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3:20 – 4:20 P.M.	5. Asset Class SIO Updates <i>(See Attachments 5A – 5F)</i>	<i>Katy Wojciechowski, SIO Fixed Income</i> <i>Steve Spook, SIO Real Estate</i> <i>Trent Webster, SIO Strategic Investments</i> <i>John Bradley, SIO Private Equity</i> <i>Dan Beard, Chief Defined Contribution Programs</i> <i>Mike McCauley, Senior Officer Investment Programs & Governance</i>
4:20 – 4:35 P.M.	6. Major Mandate Performance Review <i>(See Attachment 6)</i>	<i>Kristen Doyle, Katie Comstock, Aon</i>
4:35 – 4:50 P.M.	7. IAC Compensation Subcommittee Update <i>(See Attachment 7)</i> <i>(Action Required)</i>	<i>Peter Jones, Chair</i>
4:50 – 5:00 P.M.	8. Audience Comments/2022 Meeting Dates/ Closing Remarks/Adjourn <i>(See Attachment 8A-8B)</i>	<i>Peter Jones, Chair</i>

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

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MINUTES
INVESTMENT ADVISORY COUNCIL
June 29, 2021

A hybrid meeting of the Investment Advisory Council (IAC) was held on Tuesday, June 29, 2021, via in-person attendance and Microsoft Teams. The attached transcript of the June 29, 2021 meeting is hereby incorporated into these minutes by this reference.

Members Present: Peter Jones
Vinnny Olmstead
Bobby Jones
John Goetz
Peter Collins
Tere Canida
Robb Turner

SBA Employees: Ash Williams, Executive Director/CIO
Alison Romano
Trent Webster
Katy Wojciechowski
Tim Taylor
Steve Spook
John Bradley
Daniel Beard
Mini Watson
Walter Kelleher
Mike McCauley
John Benton

Consultants: Katie Comstock (Aon)
Kristen Doyle (Aon)
Sheila Ryan (Cambridge)
Glenn Thomas (LLW)
Amy Michaliszyn (Federated Hermes)
Paige Wilhelm (Federated Hermes)
Luke Raffa (Federated Hermes)
Heather Froehlich (Federated Hermes)

WELCOME/CALL TO ORDER/APPROVAL OF MINUTES

Peter Jones, Chair, called the meeting to order at 1:00 p.m. He thanked Ash, the SBA staff and consultants for their efforts in putting the virtual meeting together; gave reminders about background noise and use of microphones during the meeting; and a reminder to say your name as you speak so the court reporter and audience can follow along with who is speaking.

Mr. Jones asked for a motion to approve the minutes from the March 30, 2021 IAC meeting. Ms. Tere Candia moved that the minutes be approved. Mr. Turner seconded the motion. The minutes were approved.

Opening Remarks/Reports

Ash Williams, Executive Director/Chief Investment Officer, welcomed all to our first hybrid meeting and briefly went over the focus of the meeting (i.e., investment plan program review of Florida PRIME, performance update, legislative update, actuarial assumption, etc.).

Mr. Williams provided a summary on the performance of the Florida Retirement System Trust Fund, stating that the estimated gross performance FY to date is a 28.83 percent return, 97 basis points ahead of target; FRS Trust Fund balance of \$199.5 billion, an increase of \$38.8 billion, net of \$6.6 billion in distributions. Total investment gain for fiscal year to date is \$45,377,500,584.

Mr. Williams also briefly discussed the Lawton Chiles Endowment Fund, which has now moved from the SBA to the state's budget stabilization fund.

Alison Romano, Deputy Chief Investment Officer, provided additional market information and briefly discussed inflation as the topic of the day, not just among investment professionals, but among consumers, also. SBA is thinking long-term within our asset classes with an understanding of where the risks are coming from to the extent that the tail risks were to occur.

Asset Class Review

John Bradley, Senior Investment Officer – Private Equity, presented the PE update along with Sheila Ryan, Cambridge Associates. Mr. Bradley focused on the overall performance and composition of the portfolio and walked through the sub-strategies. Asset allocation of PE has increased by 80 basis points (7.4 to 8.2%), largely driven by outsized performance in the PE portfolio and in particular, the venture portfolio. Mr. Bradley briefly went over the two benchmarks in PE—the global equity benchmark and the peer benchmark. Several questions were asked by IAC members regarding Mr. Bradley's presentation, questions answered by Mr. Bradley and Ms. Ryan. Ms. Ryan discussed the market in general and the SBA's private investment performance relative to the Cambridge Associates client universe. Ms. Ryan and Mr. Bradley answered follow up questions from IAC members.

Daniel Beard, Chief Officer – Defined Contribution Programs, provided an in-depth review of the FRS Investment Plan and the financial guidance program. Mini Watson and Walter Kelleher assisted in the presentation. Information was provided regarding assets, distributions, members, and retirees through March 31, 2021. Walter Kelleher provided information on the financial guidance program, the education program for the FRS. Mr. Beard, Ms. Watson, and Mr. Kelleher answered questions from IAC members.

Kristen Doyle and Katie Comstock presented the AON presentation on the annual investment structure review conducted on the investment plan each year.

Mike McCauley, Senior Officer – Investment Programs & Governance, gave a detailed review of Florida PRIME. Three items related to Florida PRIME were covered—statutorily required reviews, reports, legal compliance, as well as best practices review. Mr. McCauley also went over the portfolio construction. Mr. Glenn Thomas reported on the compliance review.

Katie Comstock reported on the annual best practices review. Amy Michaliszyn, Paige Wilhelm, Heather Froehlich and Luke Raffa discussed Federated's relationship with Florida PRIME.

SIO Updates/DC Programs Update/Investment Programs & Governance Office Update

Tim Taylor, Senior Investment Officer - Global Equity, gave an update on the performance of his asset class over the last quarter, and answered multiple questions from IAC members.

Katy Wojciechowski, Senior Investment Officer-Fixed Income, gave an update on the performance of her asset class over the last quarter, and answered questions from IAC members.

Stephen Spook, Senior Investment Officer-Real Estate, gave an update on the performance of her asset class over the last quarter, and answered questions from IAC members.

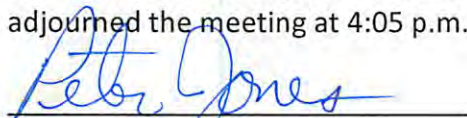
Trent Webster, Senior Investment Officer - Strategic Investment, gave an update on the performance of her asset class over the last quarter, and answered questions from IAC members.

Major Mandate Performance Review

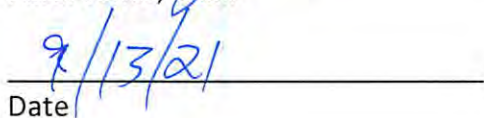
Katie Comstock, Aon Hewitt, provided an overview of the performance of the Pension Plan, the Investment Plan, the Florida Hurricane Catastrophe Fund, the Lawton Chiles Endowment Fund, and Florida PRIME through the end of March 2021.

Audience Comments/December Meeting Date/Proposed 2021 Meeting Dates/Closing Remarks

Peter Jones reminded all that the next meeting of the IAC is September 20th and thanked the presenters for a job well done. There being no further questions or comments, Mr. Jones adjourned the meeting at 4:05 p.m.



Peter Jones, Chair



Date

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IAC Meeting

June 29, 2021

PHIPPS REPORTING

Raising the Bar!

June 29, 2021

STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL MEETING

TUESDAY, JUNE 29, 2021
1:00 P.M. - 4:05 P.M.

LOCATION:

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

AND

VIA WEB CONFERENCE

Stenographically Reported By:

JO LANGSTON, RPR

Job No.: 170673

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APPEARANCES

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IAC MEMBERS:

PETER JONES
VINNY OLMSTEAD
BOBBY JONES
JOHN GOETZ
PETER COLLINS
TERE CANIDA
ROBB TURNER

SBA EMPLOYEES:

ASH WILLIAMS, EXECUTIVE DIRECTOR/CIO
ALISON ROMANO
TRENT WEBSTER
KATY WOJCIECHOWSKI
TIM TAYLOR
STEVE SPOOK
JOHN BRADLEY
DANIEL BEARD
MINI WATSON
WALTER KELLEHER
MIKE McCAULEY

CONSULTANTS:

KRISTEN DOYLE - (Aon)
KATIE COMSTOCK - (Aon)
SHEILA RYAN - (Cambridge Associates)
GLENN THOMAS - (Lewis, Longman & Walker)
AMY MICHALISZYN - (Federated Hermes)
PAIGE WILHELM - (Federated Hermes)
LUKE RAFFA - (Federated Hermes)
HEATHER FROELICH - (Federated Hermes)

INVESTMENT ADVISORY COUNCIL MEETING

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MR. WILLIAMS: So on today's agenda, we --
would you like me to go ahead and start, Mr.
Chairman?

PETER JONES: Please. Thank you, Ash.

MR. WILLIAMS: Okay. So on today's agenda,
first of all, I want to welcome folks to our
first hybrid meeting, so this is not without
technical challenge, and hopefully we'll get
through it smoothly. There's been a lot of
preparation done by our IT and communications
team, so I think we will get through it nicely.

Today's agenda has feature focus on the
investment plan program review on Florida PRIME,
and we have folks with us from Federated
Investors to help out with the Florida PRIME
review. And we're ready to go.

By way of openers, I will offer my usual
performance update. As of last night's close,
our estimated gross performance fiscal year to
date is a 28.83 percent return. That's 97 basis
points ahead of target. A balance on the Florida
Retirement System Trust Fund of \$199.5 billion.
That's an increase of \$38.8 billion. But that is

1 net of \$6.6 billion in distributions. So the
2 total investment gain for the fiscal year to date
3 is \$45,377,500,584. So call it a 45 point,
4 4 percent gain, not all bad.

5 By way of other items of interest, the
6 legislative session came and went since we were
7 last together. And there were a couple of items
8 that are worthy of sharing there. First and
9 foremost is a very positive thing, and that is
10 that the legislature fully funded both the normal
11 retirement cost and the contribution to unfunded
12 actuarial liability for the Florida Retirement
13 System pension fund.

14 It is worthy of note as well that the
15 funding this year was consistent with more
16 conservative and more prudent actuarial
17 assumption inputs than had been used in prior
18 years. You may recall that in part, as a benefit
19 of the active role that the Investment Advisory
20 Council took in what those assumptions should be,
21 the return assumption was lowered by 20 basis
22 points last year, as it was the previous year.
23 We're now at a 7 percent return assumption. Our
24 own view is that should be a bit lower, but
25 progress shouldn't stand -- rather, perfection

1 shouldn't stand in the way of progress. We want
2 progress and we're making it.

3 The other thing that should be noted is
4 there were changes in several other actuarial
5 standards over the past couple of years that
6 collectively have had the effect of substantially
7 improving the prudence of the way the plan is
8 funded. And the next meeting of the actuarial
9 estimating conference will be this fall, in the
10 late third quarter or early fourth quarter.

11 And the IAC, I'm guessing, at our next
12 meeting is going to want to talk about what those
13 inputs might be and perhaps choose to make
14 yourselves heard to our trustees on that subject
15 again. But we're happy with the direction we're
16 going.

17 Let's see. Other legislative items. There
18 was legislation, Senate Bill 84, whose objective
19 was to close the defined benefit pension plan,
20 the retirement plan, the pension plan, to all new
21 members. That was then amended to allow special
22 risk members, which is a class of member,
23 commonly police, fire and other first responders
24 and riskier jobs, I think prison guards are in
25 that category as well and perhaps some other

1 folks, to allow them to continue to go into the
2 plan. As it worked out, that passed two Senate
3 committees and the full Senate but was not acted
4 upon by the House of Representatives, so it did
5 not become law.

6 There were two other pieces of legislation
7 of interest to the State Board. One involved a
8 change in the law relating to trade secrets.
9 Without getting into the legal arcana of it,
10 suffice it to say that the Florida State Board of
11 Administration has a number of commercial
12 relationships, the details of which involve
13 proprietary and trade secret information.

14 And there was a potential change to that
15 that could have caused problems with a number of
16 our partnerships on the investment side. And the
17 reason is that in many cases the terms and fees
18 that the SBA enjoys because of our scale, the
19 quality of our brand as a brand to show on the
20 roster of an investment manager and the longevity
21 of the relationships we enjoy with many of our
22 partners, we get superior terms.

23 And if you're an asset manager, you really
24 don't want to be telegraphing to every potential
25 client you might have out there what a great deal

1 you're giving the Florida State Board, because
2 the first thing anybody else is going to ask is,
3 I'll have what they're having. And for all the
4 reasons I just outlined, there's no good reason
5 for a lot of other clients to have those terms.

6 But the good news is we were able to work
7 with the staff and the legislature and the
8 members over a number of meetings and get
9 language in that that made it completely
10 copacetic for the SBA. It's not a problem at
11 all. It's a very good piece of legislation.

12 The other thing that was done was to take
13 the corpus of one of the mandates we manage, the
14 Lawton Chiles Endowment Fund, away from the SBA
15 and put in the state's budget stabilization fund.
16 That's a matter of legislative policy, doesn't
17 affect us one way or the other. The funds in
18 that endowment were a little north of a billion
19 three, I think a billion 344 is where the closing
20 balance was.

21 And basically the decision was made to move
22 that money to the state treasury as part of the
23 budget stabilization fund, or rainy day fund for
24 the State, probably a good thing for our bond
25 rating, and to fund the programmatic activities

1 that were otherwise funded by the investment
2 gains of the Lawton Chiles Endowment through some
3 other means.

4 So at first blush, it would appear that
5 there's no change relating to the smoking
6 education and tobacco cessation activities that
7 the Chiles Endowment was funding, and we
8 strengthened the State's reserve fund, so no
9 issue there.

10 The law takes effect on July 1. So we've
11 taken steps to be ready for that and would
12 anticipate sending money over to the treasurer's
13 office sometime after 1 July, when we've had a
14 chance to accomplish some liquidations and have a
15 minor holdback for any potential claims on those
16 assets for manager fees or anything else that
17 might be out there.

18 One of the other areas that I think is
19 broadly topical and of interest to anyone who's
20 in the asset management business today is the
21 outlook for inflation, because it's absolutely a
22 critical thing, not only for financial markets
23 and investment returns, but for an institution
24 like us, where we're doing an annual net present
25 valuation, very, very large-scale and long-lived

1 liabilities. It has to do with the implications
2 of the net present value over our liabilities.

3 So we've had a lot of conversation about
4 that internally. And Deputy Chief Investment
5 Officer Alison Romano took the time to actually
6 commit some of those thoughts to paper and
7 organize them a little bit. And, Mr. Chairman,
8 if it meets your approval, I'd like to let Alison
9 take a minute and walk us through her inflation
10 piece, if she could.

11 PETER JONES: Yes. Absolutely. We welcome
12 that.

13 MR. WILLIAMS: Thank you.

14 MS. ROMANO: Thank you. And if anybody
15 online can't hear me at any point, please do let
16 me know. As Ash mentioned, inflation is the
17 topic of the day. And it's not just the topic
18 among investment professionals. It's the topic
19 among consumers, too. And so what I want to hit
20 on is why is it a hot topic today, what do we
21 expect it to be going forward, and what does that
22 mean for how we're investing our assets.

23 And I think why we're talking about it today
24 is pure basic economics 101. There are
25 supply-demand mismatches in segments of the

1 market that is causing price increases. There's
2 pent-up demand coming out of COVID and supply
3 chains that were disrupted.

4 So you see in the most recent CPI numbers,
5 you see high top-level inflation 5 percent year
6 over year in May. But when you start peeling
7 away the layers, it's driven by certain segments.
8 Airfare is up 24 percent. Well, we know what
9 airfare -- nobody was traveling a year ago. Used
10 cars and trucks, up close to 30 percent. Part of
11 that is driven by the supply chain disruption in
12 semis and in new car availability. Energy up
13 28 percent. So absolutely seeing signs of
14 inflation.

15 On the wage front, we are seeing some
16 inflation, but most of that is in sectors that
17 were, again, depressed a year ago. So for
18 instance, travel and leisure, average hourly
19 wages up over 10 percent from February of 2020.
20 And consumers are starting to get worried. So
21 consumer confidence came down, and 44 percent of
22 consumers thought that price increases would
23 exceed their income gains.

24 So it is real and it is something that we
25 are experiencing right now. But what does that

1 mean going forward? And based on conversations
2 we've had, I think I characterize it, there are
3 two camps of views; one, it's transitory, and,
4 two, maybe we really should be worried about this
5 and this is going to be a bigger issue. And I
6 would say these last two weeks there's almost
7 been a third camp that's emerged; it's
8 transitory, but it's going to be transitory for a
9 little while longer.

10 So we have some indications that it will be
11 transitory, some changes in metrics. We have
12 some counterbalancing forces, medium to
13 long-term, and we also have a Fed that's very
14 focused on this.

15 So in terms of sort of short-term
16 statistics, for instance, we saw a spike up in
17 lumber prices. Well, we're seeing that fall
18 down, falling 20 percent off the highs. Used car
19 price increases are slowing. Existing home sales
20 are starting to drop. Now, prices are still very
21 high and elevated off of previous years, but
22 there may be some response to those price
23 increases and a realignment over time of
24 supply-demand.

25 Longer term, there are countervailing

1 forces. So there's advances in technology.
2 There's an aging population, which typically,
3 with an aging population, there's less demand, as
4 consumers spend less, although there's fewer
5 workers, and there could be some wage pressure.
6 And then third, globalization.

7 And there's been some discussion coming out
8 of COVID, a move away from globalization, but
9 most likely that's going to occur in certain
10 sectors that may have national security
11 interests, and I don't think globalization is
12 going away tomorrow.

13 So these are countervailing forces. And
14 then we have the Fed and the critical role that
15 the Fed plays. And during his most recent
16 testimony in front of the House, Jeremy Powell
17 said, one, he doesn't expect inflation to run
18 away like it did in the seventies; two, he thinks
19 it's temporary; and, three, they are focused on
20 keeping inflation at that 2 percent level. So
21 this has the attention, but they, the Fed
22 likewise recognizes that this transitory period
23 may be longer.

24 To bring that to us and what it means for
25 us, we're talking about inflation today. A year

1 ago we were talking about a drop in the equity
2 market and liquidity challenges. And in some
3 respects, the answer I gave a year ago is similar
4 to today. We're long-term focused. We have a
5 long-term investment horizon, and we invest for
6 multiple market cycles.

7 So we don't get tactical, but we set our
8 asset allocation policy to generate long-term
9 returns. What that means is that to generate
10 those long-term returns, we need exposure to
11 return-seeking assets. That's equity. That's
12 private equity. Those are assets that are
13 sensitive to inflation. And in a period of
14 extreme inflation, we'll face a headwind.

15 Fixed income, we have that in the portfolio
16 for a reason. That will face headwinds under
17 inflation. But we balance that out with
18 exposures to real assets, which I know you all
19 know very well, we have real estate, we have
20 commodities, we have infrastructure. And these
21 will protect in some of those periods, but we
22 need those risk-seeking growth assets to generate
23 the long-term return.

24 We pair our asset allocation with rigorous
25 risk analytics, so we're constantly looking at

1 different macro scenarios to make sure we don't
2 have any unintended bets. So what we're seeing
3 is that in a period where we have truly extreme
4 inflation, where the supply-demand mismatch
5 continues, where the Fed raises rates much faster
6 than expected, that will be a tailwind, or sorry,
7 a headwind and performance will suffer. But
8 that's no different from the fact that when the
9 equity markets would go down, you would face some
10 challenges.

11 I would balance that out by saying, if we
12 are in a period where inflation is positive but
13 modest and we continue in a growth environment,
14 this fund will do well. That is a tailwind
15 because we have exposure to those types of
16 assets.

17 So we are not being tactical. We are
18 thinking long-term within our asset classes.
19 Active managers have the capability to tweak and
20 modify their portfolios given market conditions,
21 and some of them may do that. But, again,
22 long-term focus and an understanding of where the
23 risks are coming from to the extent that the tail
24 risks were to occur.

25 Are there any questions?

1 MR. WILLIAMS: Thanks, Alison. So, Peter,
2 unless there are questions for Alison or me, we
3 could go back and approve the minutes and then be
4 ready to go to item 3.

5 PETER JONES: Right. Okay. Thank you,
6 Alison, for that good summary and, Ash, for your
7 summary as well. Obviously, the performance,
8 that's terrific news. Congratulations to you and
9 your team. And to hear the news on the funding
10 level from the legislature was obviously good
11 news as well. So thank you for that.

12 And just as a reminder, since there are a
13 few of us that are on -- that are virtual, just a
14 reminder to keep our audio muted and announce
15 your name when you do speak so the audience will
16 know who's speaking and it will help the court
17 reporter, so just a couple of little housekeeping
18 reminders.

19 All right. So may I have a motion to
20 approve the minutes from March 30th, 2021?

21 MS. CANIDA: I move. Tere Canida. I move.

22 PETER JONES: Second?

23 MR. TURNER: I'll second. Robb Turner.

24 MR. BOBBY JONES: I'll second. This is
25 Bobby Jones.

1 PETER JONES: All right. Got a lot of good
2 seconds. So all in favor say aye.

3 (Ayes)

4 PETER JONES: Opposed? Okay. Motion
5 carried. Very good. Thank you. All right. We
6 will move on to section 3, private equity review.
7 I'll turn it over to John Bradley.

8 MR. BRADLEY: Thank you, Mr. Chairman. Good
9 afternoon. John Bradley, senior investment
10 officer, private equity. I have the pleasure to
11 present the private equity asset class today.
12 It's also nice to do this in person. With me
13 today remotely is Sheila Ryan. Sheila is a
14 member of our consultant team at Cambridge
15 Associates, and we will hear from Sheila at the
16 conclusion of my comments.

17 So with that, we'll jump right in. Here's
18 the agenda and what I plan on covering today. I
19 will quickly take us through the policy and the
20 process sections and focus my time on the overall
21 performance and composition of the portfolio and
22 then walk through the sub-strategies.

23 So in our private equity asset class, we
24 have a target allocation of 6 percent of the
25 total fund, with a targeted allocation range of 2

1 to 9 percent. As of yesterday, our allocation
2 stood at approximately 8.2 percent. Last year at
3 this time we were at 7.4. So we've seen about an
4 80 basis point increase in the last 12 months.

5 This increase has largely been driven by
6 outsized performance in our PE portfolio and in
7 particular our venture portfolio. And what's
8 usually a denominator problem for our asset class
9 is today more of a numerator problem. So it's
10 the better of the two problems to have, but it is
11 pushing our allocation up towards the policy
12 high. And I think this is something that
13 (indiscernible).

14 Here we see our goals and objectives. They
15 are to create a portfolio that outperforms our
16 benchmarks, to avoid concentrated exposure to any
17 particular vintage year, manager, strategy, or
18 geography, and to focus on keeping the number of
19 managers in the portfolio (indiscernible).

20 In our asset class we have two benchmarks.
21 Our primary benchmark is the global equity
22 benchmark, which is the MSCI ACWI IMI plus a 300
23 basis point premium. This is an opportunity cost
24 benchmark. This measures the decision to
25 allocate private equities.

1 The secondary benchmark is a peer benchmark,
2 the Cambridge Associates Global Private Equity
3 and Venture Capital Index. And this measures our
4 effectiveness in selecting -- are we selecting
5 top funds (indiscernible).

6 The asset class today has a staff of eight
7 investment professionals. We have three senior
8 portfolio managers, one portfolio manager, three
9 analysts and myself as SIO. As I mentioned,
10 Cambridge Associates is our asset class
11 consultant, and they provide support and
12 assistance with our PE program, things like
13 market research, operational due diligence, fund
14 due diligence and then help sourcing new
15 (indiscernible).

16 So I'll now shift to a quick look at our
17 process. We have four components to our process.
18 I'll walk us through. First is the creation of
19 our annual investment plan. Our aim here is to
20 focus our efforts, focus our attention on areas
21 of need within the portfolio, the most attractive
22 areas.

23 We use a number of tools in putting this
24 together each year, portfolio construction model.
25 Our heat map, which we can see here, where we're

1 ranking areas by attractiveness and exposure
2 (indiscernible).

3 Sourcing is very important for the asset
4 class. Aside from re-ups, our existing GPs,
5 (indiscernible) around the globe. And while it
6 takes years to build and develop these
7 relationships, the sourcing funnel shows the work
8 that goes into finding what was for us three new
9 GP commitments for 2020, a year that hopefully
10 will be like no other.

11 Our sourcing activity increased in 2020. We
12 had over 340 meetings or Zoom meetings, calls
13 during the year, reviewed over 100 funds.
14 Twenty-six of those funds went to diligence, and
15 then we ultimately approved and then committed to
16 three GPs. We made 16 re-ups, for a total of 19
17 commitments.

18 We have a very fulsome and process-oriented
19 due diligence process. Our goal here is really
20 to be consistent (indiscernible). So from the
21 initial screening and fund review to legal
22 documents, closing, the process (indiscernible).

23 Here we have the stages in the due diligence
24 process, down to approval memo. Our team debates
25 and decides whether or not an opportunity merits

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1 moving on or whether work needs to be done. I
2 would note most funds don't make it past the
3 preliminary diligence phase. Those that do move
4 to our full diligence, we do what's referred to
5 as a diligence summary. Each of these final
6 stages (indiscernible).

7 PETER JONES: John, this is Peter Jones.
8 Quick question, if I may. Your process, the due
9 diligence process, I notice you had on-site
10 visits. I assume during the COVID scenario, you
11 were not able to make on-site visits, and does
12 that compromise your process at all, if that was
13 the case?

14 MR. BRADLEY: So we were unable to make
15 on-site visits. We did due diligence over Zoom.
16 I think short-term it was a good solution,
17 especially with our existing GPs who we're very
18 familiar with it. I would note, the three new
19 funds that we did during the year, where we did
20 Zoom diligence, we had previously had them in the
21 office. We had previously looked at their prior
22 funds and made trips to all three of their
23 offices. So we felt comfortable with those.

24 PETER JONES: Very good. Thank you.

25 MR. BRADLEY: And then here we have our

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1 monitoring process. Note that we are very active
2 (indiscernible). I'm going to now shift to the
3 overall asset class portfolio. I'll start with
4 performance. Overall, since inception, the PE
5 program has committed over \$30 billion. Our
6 cumulative paid-in capital today is 23.6 billion.
7 We received distributions back of 24.8 billion.
8 (Indiscernible). We currently have about
9 16 billion in value today. (Indiscernible).

10 Asset class performance as of 12/31, the
11 portfolio had a very strong 2020, producing a one
12 year return of 32.5 percent, beat its benchmark.
13 (Indiscernible).

14 So this slide shows the performance of our
15 program by vintage year. So the benchmark here
16 is our secondary benchmark, the Cambridge
17 benchmark. This gives us a sense of the
18 performance of the GPs that we invested in in a
19 given vintage year versus the universe of GPs
20 that raised funds. The green bar would be the
21 SBA PE IRR. (Indiscernible). The asset class
22 has outperformed the vintage year
23 (indiscernible).

24 Next is our cash flow history. We continue
25 to see strong distributions in the program

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1 (indiscernible). We can see on a net cash flow
 2 basis that the program is (indiscernible). And
 3 then to update on (indiscernible), cash flows are
 4 net positive, a little bit more (indiscernible).

5 This chart shows our current allocations,
 6 sub-strategies within the portfolio, as well as
 7 our targets. The blue column shows our current
 8 allocation on 12/31. Then the green column in
 9 the middle, the total exposure, add our unfunded
 10 commitments to those, really gives us an idea as
 11 to (indiscernible). Notable on this slide, our
 12 venture exposure remains elevated.

13 (Indiscernible).

14 Here's another look at the composition of
 15 the portfolio at year-end. (Indiscernible). On
 16 the bottom of the slide here, we see the
 17 geographic sectors. (Indiscernible).

18 The next is our exposure by GP.
 19 (Indiscernible) 64 percent of our portfolio NAV.
 20 Our largest partner is Lexington Partners.
 21 (indiscernible). The majority of that,
 22 75 percent is coming from our co-investments.

23 Next is our exposure by geography. The
 24 portfolio remains largely focused in America,
 25 overweighted to our peer benchmark and our public

1 market benchmark. COVID notwithstanding, we
 2 continue to source and build relationships in
 3 Europe, Asia and would expect to see those
 4 improve.

5 I'll now move on to our sector exposure,
 6 which is shown here, versus our Cambridge peer
 7 benchmark. No real change since we went over
 8 this last quarter. Technology remains our
 9 largest single sector exposure in the program.

10 I'll now shift to our four portfolio
 11 sub-strategies. I'll start with the buyout
 12 portfolio. Our allocation to buyouts, to funds,
 13 is 55 percent, of which 75 percent of that is
 14 targeted to small and middle market buyout funds.
 15 And I'd say we continue to think that the smaller
 16 end of the market offers both greater alignment
 17 and greater potential for outperformance.

18 Here we see the breakdown of our buyout
 19 portfolio. It's broken down by firm, geographic
 20 focus and sector focus. I would note here, when
 21 we categorize our funds into small, medium and
 22 large, we do not look at fund size when doing
 23 that. Rather, we look at the enterprise value of
 24 the companies they invest in. So for us, small
 25 buyouts would be EVs less than 250 million.

1 Middle market would be enterprise values between
 2 250 and 750, and our large buyout portfolio would
 3 be enterprise values greater than 750.

4 This slide shows the exposures by sector,
 5 size and geography within the buyout portfolio.
 6 Similar to our overall PE portfolio, it remains
 7 tech heavy, almost 40 percent, while the bulk of
 8 the remaining exposure sits in health care,
 9 consumer and industrial sectors.

10 Our shift away from the larger end of the
 11 buyout market continues, and today almost three
 12 quarters of our portfolio is in small to middle
 13 market. So while it's taken quite a number of
 14 years to make that shift, we have moved the
 15 portfolio closer to our target.

16 In terms of geography, our exposure outside
 17 the U.S. continues to grow. Last year at this
 18 time our U.S.-based portfolio was at 71 percent.
 19 And so we've definitely seen some movement there,
 20 with Europe being the biggest gainer.

21 And so performance, performance of the
 22 buyout portfolio remains strong on both an
 23 absolute basis and relative to peer benchmarks,
 24 with our U.S. growth equity managers continuing
 25 to (indiscernible). We mark the portfolio on a

1 public market equivalent basis, or PME. We see
 2 annualized outperformance of 530 basis points.
 3 This portfolio had a DPI of 1.1X and a TVPI of
 4 1.7X.

5 New to this slide this year, on the bottom
 6 right, we show our quartile dispersion for the
 7 funds that we've invested in. So this gives you
 8 a sense of, one, our (indiscernible) accuracy in
 9 fund selection and then also in terms of capital
 10 allocation. So we can see in our buyout
 11 portfolio, 58 percent of our funds are first and
 12 second quartile, and 59 percent of our dollars
 13 committed went to those (indiscernible).

14 Our venture capital portfolio, this
 15 portfolio is heavily focused, a bit over
 16 two-thirds on the early stage, so we would think
 17 of that as Series A, Series B round. This is
 18 intentional. We have seen and we continue to see
 19 significant valuation increases for later stage
 20 venture-backed companies.

21 The overwhelming majority of this portfolio
 22 is focused on IT, with over a third of that being
 23 classified as software. I think it's notable
 24 only 13 percent of our portfolio today is in
 25 health care, venture or biotech. You know, this

1 is an area that we've been spending a lot of time
 2 recently looking at. We've unfortunately struck
 3 out on a few venture health care funds. But we
 4 spend a lot of time with Cambridge trying to
 5 (indiscernible) of the opportunities in this
 6 sector and (indiscernible).

7 MR. COLLINS: When you say struck out, you
 8 mean they didn't pass due diligence or you
 9 couldn't get in or --

10 MR. BRADLEY: Didn't pass due diligence,
 11 good relationships, tried to get in but
 12 oversubscribed to an extent that we didn't get
 13 (indiscernible).

14 MR. COLLINS: And what's the average size of
 15 these that you're going after anyway? Is it your
 16 size is so big that --

17 MR. BRADLEY: A little bit of both. I mean,
 18 there's -- 500 million in terms of fund size.
 19 Often we try to get in at whatever we can and
 20 then scale that up over time. But even at
 21 \$10 million allocations to a \$500 million fund
 22 that has 2 billion of interest is often
 23 difficult.

24 MR. COLLINS: Yeah. Okay. Thanks.

25 MR. BRADLEY: Here we show the performance

1 of the venture portfolio. I think from here you
 2 can quickly see why venture as a percentage
 3 of NAV within the portfolio continues to climb.
 4 This portfolio has produced a one year return of
 5 over 60 percent. It's had an incredible run of
 6 performance over the past few years, surpassed
 7 all the Cambridge benchmarks (indiscernible).

8 I would note this performance has been on
 9 the back of a number of successful IPOs within
 10 the portfolio. There have been a number of
 11 successful realizations during 2020. This
 12 venture portfolio had been for a very long time
 13 one that was lagging all other strategies in
 14 terms of distributions.

15 It now has quickly caught up, with a DPI of
 16 .9X. If you go back a few years and looked at
 17 this slide, it would show a DPI of 0.5X. And so
 18 a lot of ground has been made up. This portfolio
 19 also leads all other strategies with a TVPI of
 20 2.4X.

21 A quick look at quartile dispersion here
 22 shows that 87 percent of our funds and 90 percent
 23 of the dollars we've committed in venture have
 24 gone to first and second quartile.

25 MR. OLMSTEAD: Mr. Chairman, Vinny Olmstead

1 here. Can I ask a quick question?

2 PETER JONES: Yes, certainly.

3 MR. OLMSTEAD: Hey, John. Are you seeing
4 any change in sort of -- in the venture side,
5 your .5 to .9 doesn't surprise me because the
6 hold periods, these are obviously much longer
7 than the buyouts. But are you seeing any change
8 in hold periods and are you taking that into
9 account when you're evaluating funds to go into,
10 what their typical hold periods are?

11 MR. BRADLEY: Yeah, Vinny. We've absolutely
12 continued to see hold periods lengthen. And when
13 we go back and look at what have been our
14 successes in 2020 in terms of the venture
15 portfolio, it is largely deals that were done and
16 rounds that were raised that we participated in
17 in 2013, 2014.

18 And so, you know, we continue to see that.
19 We really don't see that changing. And so we
20 started to change kind of our pacing model to
21 adjust for longer holding periods in these
22 venture funds.

23 MR. OLMSTEAD: And so I guess the
24 interesting counter to that is going to be seven
25 years from now, these extraordinary valuations

1 where these venture funds are investing in right
2 now, you know, what happens on the return side of
3 that. Just a commentary. It's wild what's going
4 on in this market right now, so it will be
5 interesting to see how that impacts us in the
6 long-term.

7 There's a lot of other pressures. Like the
8 shift towards enterprise software is huge in IT.
9 So there's probably some other tailwinds there,
10 but it will be interesting to see what happens
11 here.

12 MR. BRADLEY: We would agree completely.

13 MR. GOETZ: John, this is John Goetz. Just
14 to follow up on Vinny's point, is there some way
15 for us to think about what the valuation metrics
16 are currently that have driven this? I didn't
17 see anything in the packet to kind of think about
18 where the valuation metrics are today versus
19 where they should be longer term.

20 MR. BRADLEY: Yeah. I think -- I don't
21 think we have it in the packet, and I'm not sure,
22 Sheila, if you want to jump in, if you included
23 it in the Cambridge slides. But when we look at,
24 just in general, valuation increase from, you
25 know, maybe call it early stage venture to kind

1 of the middle rounds to late stage, I mean, early
 2 stage, which has been the least increase, has
 3 probably still seen a 3 or 4 times increase in
 4 valuations.

5 And I think my comment on our portfolio
 6 construction, when we look through to late stage,
 7 it's almost an exponential curve in terms of
 8 where valuations have gone. So they're
 9 definitely at levels that we've never seen.

10 MS. RYAN: Yeah. I would just add, to
 11 John's point, that most of the exposure here
 12 thankfully is on the early-stage side. And one
 13 of the reasons we're seeing that big increase in
 14 NAV value is because of the increasing
 15 valuations, the exponential increasing valuations
 16 on that late-stage side. And that's what's
 17 really driving things.

18 So thankfully most of the portfolio is
 19 getting in much earlier, where, yes, there's some
 20 inflation in prices there, but most of it's
 21 really going on on that mid to late stage, where
 22 we're seeing, you know, Tiger Global, SoftBank,
 23 all sorts of other hedge funds come in, as well
 24 as mutual funds come in and pay very high prices
 25 for fear of missing out on the next unicorn.

1 PETER JONES: Just as a point, I'm less
 2 familiar with the venture area than some other
 3 members on this committee, but it would be great
 4 to see a progression over time of what those
 5 valuation metrics are, just so we have some feel
 6 for looking longer term. By that I mean whatever
 7 the metrics are, you know, price to revenue or
 8 whatever they are.

9 MS. RYAN: Yeah. We definitely have a
 10 chart. I can picture it in my head right now.
 11 We didn't include it in the deck, but it just
 12 shows you over time the valuations of early
 13 stage, mid stage, late stage.

14 And what it would show you, if we had it in
 15 the pack, is that the early stage is a fairly
 16 tight band over time and that late-stage
 17 valuations has gone way up. So we can certainly
 18 include it or send it to you after the fact.

19 MR. OLMSTEAD: And profitability has nothing
 20 to do with valuation, especially early stage,
 21 which is a comical commentary in this day and
 22 age.

23 MS. CANIDA: John, this is Tere. If you go
 24 back to page 48 where you have your heat map, I
 25 guess that relates to what we're talking about,

1 right, where your priorities are more in the low
2 or medium than would be high?

3 MR. BRADLEY: Yeah. I think the commentary
4 on that chart would say that there's nothing
5 today -- and noting that when we put this chart
6 together, it's not only valuations or the
7 attractiveness of these strategies, it's also our
8 allocation to them.

9 But the overall commentary would be nothing
10 is a blinking green light to us today in terms of
11 we really need to devote additional resources to
12 or on the margin make additional commitments.

13 MS. CANIDA: Okay. Thank you.

14 MR. BRADLEY: I'll now move to our
15 distressed portfolio. Just as a reminder, here,
16 the focus of this strategy is on control, and so
17 this is not a trading strategy. These GPs look
18 for complexity. They look for underperforming
19 companies, and their goal is to drive value
20 through operational improvement.

21 In this portfolio, U.S. companies are about
22 three quarters of the portfolio. As you might
23 expect, sectors like industrials, health care and
24 consumer make up about 70 percent of this
25 portfolio.

1 Our distressed portfolio saw a rebound in
2 performance of sorts, I'd say, with a one year
3 return of 20 percent. However, this strategy has
4 lagged our growth-focused, buyout and venture
5 portfolios for some years now. And given that we
6 haven't seen a true distressed cycle in over ten
7 years, this isn't surprising. This portfolio has
8 outperformed its peer benchmark, and it's also
9 outperformed the PME, or public market
10 equivalent, by over 1,000 basis points.

11 And then lastly on this slide, if we look at
12 our quartile dispersion, 73 percent of our funds
13 and 75 percent of our committed dollars
14 (indiscernible).

15 MR. COLLINS: How many total distressed
16 funds? Are these all the ones right here on the
17 left on page 168, or 33, or 28?

18 MR. BRADLEY: Correct, yes.

19 MR. COLLINS: And what was the last -- I'm
20 sorry. This is Peter Collins, for the court
21 reporter. When was the last investment you made
22 in distressed? Circa --

23 MR. BRADLEY: It was 2020. If we look at
24 velocity of fund-raising, these GPs are probably
25 on a three to four, four and a half year

1 fund-raising cycle. If we went all the way back
2 to our exposure by -- we have our largest piece
3 of dry powder is actually (indiscernible).

4 MS. RYAN: I would just add to that real
5 quickly that it's a very different strategy in
6 this portfolio versus the strategic portfolio.
7 The strategic portfolio plays in distressed but
8 more on a sort of trading-oriented credit side,
9 whereas this side of the portfolio it's very much
10 a control equity sort of a play, so quite
11 different strategies.

12 MR. BRADLEY: Thank you, Sheila. Our final
13 sub-strategy here is secondaries. Our secondary
14 portfolio is concentrated in large relationships,
15 Lexington Partners and Ardian. Secondaries
16 remain a very competitive market. A lot of
17 capital has been raised here over the last few
18 years.

19 I think it remains a seller's market.
20 However, we have been able to leverage our
21 relationship with Lexington. We co-invest
22 alongside of them in a few secondaries, which
23 allows us to get a bit more tactical.

24 And then similar to the distressed
25 portfolio, our secondary portfolio saw a rebound

1 in performance in 2020, although not at the
2 levels seen by other strategies. This portfolio
3 has moved back off its benchmark since inception.
4 It's in line with benchmarks over other measuring
5 periods.

6 Then lastly, in contrast to our strategies,
7 quartile dispersion amongst our secondary funds
8 largely falls below median, in the third and
9 fourth quartile. So 36 percent of our funds and
10 42 percent of our dollars have gone to first and
11 second (indiscernible).

12 That ends my prepared comments and slides.
13 I can answer any questions. We can wait till the
14 end. I was going to now turn it over to Sheila
15 Ryan.

16 MS. RYAN: Great. Thanks. Did anybody have
17 any questions for John? I just had about six
18 slides more about the market and in general to go
19 through. If you could turn to slide 196 in the
20 materials. There's a lot of slides here. I'm
21 not going to go through them all. They're more
22 for reference. So 196 of the PDF that got sent
23 around -- go back one more. There we go. Great.

24 So this is, I think, a really important
25 slide to share with you. This shows the SBA's

1 private investment performance relative to the
2 Cambridge Associates client universe. You can
3 see the sample size there in the lower box,
4 roughly 500 portfolios we're comparing the SBA's
5 performance to.

6 And the numbers have been very strong on an
7 absolute and relative basis, and they've been
8 consistently that way over time. So this is
9 really strong performance, and it's been that way
10 for some time. So some really good marks.

11 That was all I wanted to say on the
12 performance-specific side relative to the CA
13 clients. But I did have a few slides I wanted to
14 share on the environment, just to highlight some
15 of the stuff that John mentioned in his comments.
16 If we could go to slide 204 in the materials,
17 this is talking about the crazy performance of
18 venture. There you go.

19 So venture performance are in the green
20 boxes and the private equity is in the blue. And
21 on the right-hand side, you have the one year
22 numbers, and then the middle is three and then
23 the left is five. So just looking at the one and
24 three year numbers, you can see how crazy the
25 venture performance has been. And this is really

1 driving that sort of 27 percent allocation in the
2 portfolio.

3 If we turn to page 205, it's really the next
4 slide, this shows -- I'm sort of focused on the
5 two sets of bars or columns in the middle of this
6 slide. And what we've got there in the middle is
7 paid-in capital, and to the right of that is
8 based on NAV. I think the -- I think the x-axis
9 labels got cut off a little bit.

10 But the point here being, if you just look
11 at the venture capital exposure in the portfolio
12 on a paid-in capital basis, it's a 12 percent
13 allocation. But if you look at it on an NAV
14 basis, it's 27 percent. So this is getting at
15 this real increase in valuation of venture
16 driving that exposure and the fact that
17 distributions have been lower relative to some of
18 the other classes, like buyouts, for example.

19 So if we go to 216 in the PDF, this is
20 providing more of a sort of global perspective on
21 venture. So whether -- it's 216. Let's see,
22 that's -- back, keep going back. There it is.
23 Perfect. So a lot going on on this slide, but
24 the black line shows this is the one year return
25 for venture capital for 2020, and it's broken out

1 by geography.

2 So the first dot there -- and it shows the
3 quarterly returns in the bars below. So the
4 first one is China venture. The second one is
5 European venture, and then the one in the middle
6 is U.S. venture, and then on the right, that's
7 private equity.

8 So we've got exposure in the portfolio to
9 all of these geographies on the venture side.
10 And, you know, the point being is just investing
11 in venture around the world was a phenomenal
12 year. This is the one year return for 2020.

13 And then if we go to page 219, this is going
14 to show us performance for the last one year.
15 Keep going. Keep going. This one, yeah. This
16 is private equity performance for the last one
17 year, and this is broken out by sector. So on
18 the far left side, you'll see information
19 technology.

20 And John highlighted on this that tech
21 exposure is the largest exposure across the
22 portfolio. Clearly, that's where venture is.
23 But also on the buyout side, a lot of software
24 and related exposure. IT in private equity
25 generated a 47 percent return in 2020. And you

1 see how that compares to some other sectors, like
2 health care, industrials and the like.

3 So overall, we saw this in the public
4 markets as well, but we are clearly seeing it in
5 the private markets, that tech is driving -- has
6 been driving performance.

7 And then just a couple of slides forward,
8 221. There you go. We've all been seeing the
9 news about SPACs. I think the count right now is
10 100 billion raised in 2021 to date. That follows
11 82 billion in 2020, which was a 6X increase over
12 the prior year.

13 The numbers here are showing, for our
14 overall benchmark statistics, that about
15 50 percent of the appreciation in the venture
16 capital exposures over 2020, the calendar year
17 2020, was driven by public company appreciation.
18 So a combination of companies publicly listing
19 through traditional IPOs but also given what's
20 been going on in the SPAC market.

21 So a big sort of change in what we've seen,
22 all of this feeding into those really big growth
23 numbers that we've seen in venture that we
24 covered on the prior slides.

25 So there's a lot of slides here. I just

1 wanted to highlight those. I thought those
2 personally were the most interesting. Happy to
3 end my commentary there, take any questions.

4 PETER JONES: Any questions?

5 MR. GOETZ: This is John Goetz.

6 MS. RYAN: Say again.

7 MR. GOETZ: This is John Goetz. With
8 respect to -- I see you have these overall
9 guardrails on the allocation in the overall fund.
10 Within your domain of private equity, do you have
11 any guardrails on how much is in venture as a
12 percent of the total, et cetera? Are there
13 guardrails within that in terms of reallocation?

14 MR. BRADLEY: We absolutely have commitment
15 guidelines or targets that we target in the
16 portfolio. And so for venture specifically, it's
17 ten percent of our commitments have gone into
18 venture. I went back and looked. During the
19 last 12 years, we averaged 10.8 percent into the
20 venture space.

21 So we do target it at the commitment level,
22 and then we monitor the ranges in terms of their
23 NAV. And then the conversation around that just
24 goes into, you know, what's the reason for this
25 increased exposure to venture, do we want to pull

1 back, should we -- which we do go out in the
2 market and price our portfolio often on a
3 secondary basis, is there a trade to be made in
4 terms of a secondary sale to reduce some
5 exposure. So we do look at all that, and we do
6 have those guidelines set by sub-strategy.

7 MR. GOETZ: Okay. Thank you.

8 MS. RYAN: I would just add that, when we
9 look on a cost basis, on a paid-in capital basis,
10 the exposure is 12 percent, which is very close
11 to that sort of 10 percent target. What we can't
12 really control for are these -- you know, the
13 timing of the liquidity and these crazy
14 late-stage valuations, which have driven that
15 exposure higher. But on a cost basis, on a
16 paid-in capital basis, we're actually quite close
17 to the target.

18 MR. GOETZ: I was just thinking out loud
19 here, but clearly the SPAC volume is at a record,
20 record, record level, right? And liquidation
21 into that, if you were above any guardrail on
22 actual valuation, might be interesting. That's
23 why I was -- just a reallocation opportunity into
24 the SPAC demand, which has to peak sometime, I
25 presume.

1 MS. RYAN: Well, interestingly enough, the
 2 strategic portfolio, which is a quite different
 3 strategy, have looked at investing into some of
 4 these SPAC-related funds and SPAC-specific
 5 strategies, but it's not quite part of what the
 6 private equity program does.

7 MR. TURNER: Sheila, this is Robb Turner. I
 8 have a question for you. On these slides, the
 9 venture portfolio is somewhat tied back to the
 10 public markets, as you said. The first
 11 quarter -- this is as of the end of 2020. What
 12 does this look like right now? Because it's been
 13 kind of a sideways market, in the public markets
 14 at least, in this space.

15 MR. BRADLEY: If we roll forward to 3/31,
 16 which will be the next quarter, (indiscernible),
 17 our one year number might be around 78 percent of
 18 returns of the portfolio. And then, you know,
 19 through 6/30, you're right, things have been
 20 sideways, so that should tail off. But at least
 21 as we've gone through the 3/31 (indiscernible).
 22 I think the Cambridge venture capital benchmark
 23 performance was 18 or 19 percent for the first
 24 quarter.

25 MS. RYAN: Yeah, that sounds right. And

1 then we have some preliminary June numbers, but I
 2 don't remember them off the top of my head. I
 3 have to go back and look. Clearly, we won't have
 4 June numbers for quite some time.

5 MR. BRADLEY: And I guess for the asset
 6 class, we've been in a few big IPOs in the first
 7 quarter.

8 MR. TURNER: Then, Sheila, what are you --
 9 or John, what are you seeing more on the global
 10 fund-raising for venture capital firms? Are they
 11 raising more money? So is it getting a lot more
 12 competitive out there now?

13 MR. BRADLEY: It's getting more competitive
 14 in terms of LP demand for venture. So my earlier
 15 comment, a lot of these realizations are coming
 16 out of 2013, 2014 vintages. It was an era of
 17 time that a lot of LPs stopped investing in
 18 venture. And so we're kind of seeing the FOMO of
 19 LPs trying to get back in today.

20 We are seeing that a lot of venture funds
 21 today are coming back to market, it feels like
 22 every (indiscernible). For fund size, they tend
 23 to keep their smaller seed early-stage funds
 24 around the same size. They're making up for that
 25 by raising companion funds, late-stage funds,

1 follow-on funds. You name it are getting raised.
2 A firm is probably raising 2 to 3X today what
3 they raised (indiscernible).

4 MR. COLLINS: Peter Collins, for whoever is
5 recording. What's the average size of these
6 follow-on funds or the companion funds? I mean,
7 is it a fraction, or are they really pushing it,
8 you know --

9 MR. BRADLEY: (Indiscernible). So if it's a
10 \$400 million early-stage fund and they're coming
11 to market (indiscernible).

12 MR. COLLINS: And are they raising them at
13 the same time?

14 MR. BRADLEY: For the most part, yes. Now,
15 to the -- some of the rationale is that the
16 early-stage rounds require a lot less capital
17 than the later stage rounds.

18 MR. COLLINS: And they have 100 percent
19 control on the follow-on fund, 100 percent
20 discretion?

21 MR. BRADLEY: (Indiscernible).

22 MR. COLLINS: Okay.

23 MR. OLMSTEAD: Vinny Olmstead here. Are
24 you-all looking at any -- there's a lot of money
25 going into this market. There's also some other

1 trends, where folks are buying into GPs. I'm
2 curious if you're looking at other ways to
3 optimize. Are you optimizing with more fee
4 negotiation? Look, it's a great return, but are
5 there more opportunities here?

6 You know, the GPs, on their side, are also
7 doing fairly well and frothy. So I'm just trying
8 to think if there's other things outside the box
9 you're thinking about as opposed to just sort of
10 the standard X percent and X carry.

11 MR. BRADLEY: Yeah. Vinny, so we really
12 haven't seen any -- I guess there may have been a
13 handful of GP opportunities. Historically, Trent
14 and his group in strategic have looked at those.
15 We've avoided that and the conflict it creates in
16 the PE asset class. I think today in venture
17 we're frankly just kind of pulling back and
18 saying let's stick with our core GPs and our core
19 strategies, and on the margin we're not
20 committing more dollars to the strategy. We're
21 just trying to maintain allocation.

22 Where we've been successful with trying to
23 figure out alternate ways to get capital out or
24 to capitalize on the market has frankly been when
25 venture is out of favor. And that's when we've

1 been able to get either larger check sizes with
2 better GPs, reduced fees, or think of some
3 creative strategies where us having capital when
4 the market is lacking capital.

5 So we just feel like today is probably not
6 the time. It's probably the time to stick with
7 who we have and who we like, and hopefully that
8 opportunity will come.

9 MR. COLLINS: Last question on this, for me.
10 If you look at page 201, Sheila, and if you look
11 at the allocation versus the targets, our
12 venture, our current allocation shows a
13 27.3 percent. The target is 10, policy low is 5,
14 and policy high is 15. Is that just a temporary
15 aberration, or is there something going on there
16 that we're 12 points over the policy high?

17 MR. BRADLEY: So when we -- we should
18 probably clarify. When we think of policy, it's
19 more commitment level, so how much dollars each
20 year are going into these different
21 sub-strategies. And so the 10 percent target,
22 we've averaged 10.8 percent a year. So we've
23 been right on target with how much we've
24 committed. And so that --

25 MR. COLLINS: So it's not an allocation

1 necessarily. It's a commitment policy?

2 MR. BRADLEY: It's a commitment target. We
3 monitor the allocations and say, hey, is this a
4 red flag? Is there a signal here? Why is this
5 so out of range? And the answer for venture is,
6 one, it's performed well. So it's increased.
7 Our secondary and our distressed strategies have
8 underperformed.

9 MR. COLLINS: So is there something
10 internally that you have to do with risk, with
11 the risk team to say -- to report on that or --

12 MR. BRADLEY: Not within the SBA.
13 Internally within the asset class, we sit down
14 with Cambridge every six months and say, is this
15 telling us something? Should we pull back
16 commitments? Should we go to the secondary
17 market, and say, hey, can we lock in some of
18 these gains and reduce exposure? What internally
19 should we do to either correct? Are we
20 comfortable with it?

21 MR. COLLINS: Okay.

22 MS. RYAN: And I would just add two quick
23 points on that. Number one, that's why we've
24 been sort of talking about this on a paid-in
25 capital, sort of a cost basis, it's 12 percent.

1 So just in terms of dollars paid into the asset
 2 class, it's much closer to that 10 percent
 3 target.

4 The other point I want to make is that this
 5 is not unique. This situation, this, quote,
 6 unquote, issue is not unique to Florida. We're
 7 seeing it across all of our client portfolios
 8 that have seasoned, mature portfolios like
 9 Florida does.

10 So this is a situation right now where
 11 values have gone way up. We're still waiting for
 12 liquidity and distributions because these private
 13 companies are staying private for longer. So
 14 it's kind of the nature of the beast. But,
 15 frankly, it's good news. The portfolio is doing
 16 really well.

17 PETER JONES: John, this is Peter Jones.
 18 You may have commented on it and I didn't pick up
 19 on it. But an earlier question of Peter Collins,
 20 when there's a companion fund, are you sometimes
 21 required -- if you want the early stage, are you
 22 sometimes required, to get a commitment for early
 23 stage, to also put money in the companion fund?
 24 Is that something that you deal with?

25 MR. BRADLEY: It's definitely something that

1 we deal with. There are some cases where we've
 2 been such long-term investors that we aren't
 3 subject to that need to commit to the companion
 4 fund. And then in other cases, we simply pass on
 5 the fund and move on.

6 So what we've never done is give money to a
 7 fund that we don't believe in or don't think will
 8 produce a return that's acceptable just to get
 9 access to another fund from that firm. So we've
 10 been fortunate. We've not really been put in a
 11 position of making a suboptimal decision.

12 PETER JONES: Okay. Any other questions or
 13 comments? All right. Well, thank you.
 14 Performance is outstanding. Your process is
 15 certainly working. So well done, and it's
 16 certainly nice to see, so thank you very much.

17 So we will move on to our next section, the
 18 Florida Retirement System investment plan program
 19 review. And I'll turn it over to Dan Beard, the
 20 chief of defined contribution programs.

21 MR. BEARD: Thank you. Good afternoon.
 22 This is Dan Beard speaking. We're going to do a
 23 little bit more information on the investment
 24 plan and the financial guidance program today.
 25 With me who's going to be presenting is Mini

1 Watson, who's our director of administration, as
 2 well as Walter Kelleher, who is our director of
 3 educational services.

4 The Florida Retirement System is made up of
 5 two plans. It's made up of the traditional
 6 defined benefit plan, which we call the pension
 7 plan, and then as well as a 401(a) defined
 8 contribution plan, which is the investment plan.

9 All new employees, all new hires, when
 10 they're hired, they have to make a choice between
 11 the two available plans. They have until the
 12 last business day of the eighth month after the
 13 month of hire to make a choice. If they do not
 14 make a choice by 4:00 p.m. on that day -- so if
 15 we have some people whose choice period will be
 16 ending tomorrow, if they don't make a choice by
 17 4:00 p.m. tomorrow, then those people will
 18 default into the investment plan, except for
 19 those people who are in the special risk class.
 20 As Ash mentioned when we started off, those are
 21 like your policemen, your firefighters,
 22 correctional officers. They still default into
 23 the pension plan.

24 And, again, all employees have actually two
 25 choices, but they have one they have to make when

1 they're hired, and then they have a second one
 2 they have to make that they can use anytime
 3 during their FRS working career to go from one
 4 plan to the other.

5 The Division of Retirement actually handles
 6 the day-to-day administration of the pension
 7 plan. Of course, the SBA manages the money, but
 8 the Division of Retirement, which is part of the
 9 Department of Management Services, another state
 10 agency, handles the day-to-day administration.

11 The SBA is responsible for the day-to-day
 12 administration of the investment plan. All
 13 aspects of the investment plan, everything from
 14 record-keeping to the custodian bank is
 15 outsourced.

16 Governance of the investment plan. So in
 17 2000 the Florida Legislature passed the
 18 legislation creating the investment plan. It
 19 actually opened up for members in 2002, when the
 20 first members joined the FRS investment plan.
 21 When they created it, they directed the State
 22 Board of Administration, the trustees, would be
 23 responsible for the investment plan.

24 The executive director is delegated
 25 authority by the trustees to oversee the

1 implementation and administration of the
2 investment plan and the financial guidance
3 program. The deputy executive director and
4 deputy chief investment officer, they provide
5 guidance and input on the investment plan
6 administration and investment funds.

7 The chief of defined contribution programs
8 has delegated authority to oversee the day-to-day
9 overall activities of the plan, investment plan
10 and the financial guidance program. And then the
11 Investment Advisory Council, so this body, there
12 are some roles that you play in the overall
13 administration of the investment plan.

14 They are to assist the SBA in administering
15 the investment plan, to provide comments and
16 recommendations on providers and investment
17 products and then to review the investment policy
18 statement prior to it being presented to the
19 Board of Trustees.

20 Right now we have a staff of seven that
21 actually is in the office of defined contribution
22 programs. We're the office that oversees the
23 investment plan day to day, as well as the
24 financial guidance program. Actually, we'll be
25 adding a new position. That position will come

1 aboard probably sometime in August or September.
2 They will work with the director of investment
3 management overseeing the investment funds
4 available within the plan.

5 There are close to 1,000 participating
6 employers within the Florida Retirement System.
7 Of course, it goes from the State all the way to
8 your counties, school boards, public state
9 colleges, universities, some special districts
10 and charter schools. They're all part of the
11 Florida Retirement System.

12 As of May 31st, there was approximately
13 258,000 members in the investment plan. That's
14 both active and (indiscernible) active with a
15 balance. About 161,000 retirees. And then about
16 459,000 active members. Next I'm going to turn
17 it over to Mini Watson.

18 MS. WATSON: Thank you, Dan. Again, my name
19 is Mini Watson, and I'm the director of
20 administration over the defined contribution
21 program. What this slide shows is the investment
22 plan snapshot of the assets, distributions,
23 members and retirees through March 31st.

24 As you can see, through March 31st, there
25 were \$14 billion in assets. And as Dan stated,

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1 there were over 253,000 members, that's including
2 inactive and active members. As of May 31st,
3 those assets increased to 14.5 billion, with
4 distributions being 15.3 billion. The member
5 increase was just over 258,000, with just over
6 161,000 retirees.

7 In the investment plan, as Dan stated, all
8 of our services are out services, out-serviced,
9 and the service providers are listed here.
10 Alight Solutions is the plan administrator and
11 the record keeper over the investment plan, as
12 well as the self-directed brokerage account.

13 BNY Mellon is our custodian, and they
14 process the disbursements, along with the custody
15 separate accounts. And the division of
16 retirement, which is another state division,
17 administers the pension plan and some supporting
18 programs, such as the health insurance subsidy
19 and the disability for investment plan members.
20 So we work as a team administrating those
21 attributes of the investment plan.

22 So it looks like a couple of the -- the key
23 fell off for the choice statistics. This is a
24 snapshot of our default and active elections for
25 both the pension plan and investment plan. So if

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1 you'll look all the way over to fiscal year 2021,
2 this information is through March.

3 And as you can see, the first bar graph, the
4 10 percent, that's going to be your default to
5 your pension plan, which is the special risk
6 members, those high risk emergency personnel.
7 The next, the 27 percent, that's going to be your
8 active pension plan enrollment. That's where
9 members make an active election and choose the
10 pension plan. The next one is the 18 percent,
11 that's going to be your active investment plan.

12 And then your 46 percent is going to be your
13 default, where people do not make an active
14 election into the investment plan and they're
15 automatically enrolled because they did not make
16 that election by their deadline date. So this
17 information is through your March 31st, 2021.
18 This is showing the membership growth over the
19 last few years. As previously stated, through
20 May 31st, it is just over 258,000.

21 Just a couple of statistics to point out, as
22 I previously stated, Alight Solutions is the
23 record keeper. They did process contributions
24 totaling over 446 million. They sent out just at
25 260,000 quarterly statements to members. And

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1 then we also had the call center through them,
2 and they did almost 70,000 phone calls into the
3 center. BNY Mellon, they -- I'm sorry?

4 PETER JONES: I'm sorry. This is Peter
5 Jones, Mini. Just a question on the earlier
6 slide, on the default choices versus active. In
7 total, 56 percent of employees made -- the
8 decision was the default decision. Do you-all
9 have any targets? Is that -- do you have an
10 opinion on that? Do you want it to be 56 percent
11 or do you want it lower? Are you trying to
12 provide guidance where they actually make an
13 active decision, or is this not an important
14 matter?

15 MR. BEARD: This is Dan Beard. So we would,
16 of course, like for everyone to make an informed
17 decision, for a number of reasons, just so that
18 they have all the facts in front of them to know
19 what's going to provide them the better benefit
20 based on how long they're going to work. So
21 that's what we would like, what we'd like to see.

22 However, there are people who, no matter how
23 much we send them materials, they just do not
24 look at it and they default. Now, we can say
25 that part of that 56 percent, we do know a small

1 percentage of that are people who are using the
2 default as their active selection, meaning
3 they're saying, I want to go into the investment
4 plan or I want to go into the pension plan. I
5 don't want to mess anything up. I know they're
6 going to put me there, so I'm just going to let
7 them place me in a plan so I don't mess up
8 anything.

9 So we send out lots of materials. Our goal
10 would be to have 100 percent active selection.
11 We just know we're not going to get there just
12 for a number of reasons. But, you know, I would
13 say, if we can get anything 50 percent or lower,
14 we consider that a win, as people are reading the
15 materials and then making the choice.

16 That would be our goal. But I've been doing
17 this for 15 years, and we've always been around
18 that 50 percent or higher for default. That's
19 just the nature of -- most people don't read it.

20 PETER JONES: Thank you, Dan.

21 MS. WATSON: Just to finish off this slide,
22 so the BNY Mellon did mail out around 8600
23 distribution checks and just at 34,000
24 distribution payments, which would be probably
25 direct deposit or transfers.

1 So one of the provisions under the
2 investment plan is something that we call
3 requests for intervention. There are provisions
4 in the law that will allow members or people to
5 dispute something about the investment plan or
6 one of the vendors under the investment plan.

7 This is the total complaints we had from the
8 fiscal year through March 31st. I will tell you
9 most of the reasons for filing a complaint are
10 just something that we cannot do based on what
11 the Florida Statute says; the members do not
12 agree with it; however, we can't do it because
13 the law does not allow it. That's usually the
14 most complaints that we see.

15 And I'm going to turn it over to Walter.

16 MR. KELLEHER: Thank you, Mini. I'm Walter
17 Kelleher, director of educational services. Good
18 afternoon. I'm going to talk about the financial
19 guidance program, which is the education program
20 that we have for the Florida Retirement System.
21 It's an education program for pension plan
22 members and investment plan members. It's
23 available to new hires and existing members and
24 ultimately retirees in the investment plan.

25 So in the investment plan, we have a number

1 of providers that assist us with the financial
2 guidance program. Ernst & Young, they're the
3 financial planners. Pension plan members and
4 investment plan members can call them up with any
5 sort of question that they've got regarding
6 retirement.

7 A big key that they provide is unbiased
8 financial planning guidance via telephone. They
9 fielded around 270,000 calls last year for us.
10 They also conduct financial planning workshops,
11 over 500 workshops conducted throughout the
12 state. Obviously, with COVID, we did a lot of
13 these remotely, but they were real successful and
14 we had good attendance at those, even though they
15 were held remotely.

16 We also have an online personal adviser
17 service through a company called GuidedChoice.
18 They offer information. Is a member prepared for
19 retirement? What's the likelihood they're going
20 to be successful in retirement? Not only looks
21 at FRS benefits, looks at outside assets, Social
22 Security, a spouse's assets, assists members in
23 that regard.

24 Alight is a company that assists us with
25 design, printing, focus groups that we conduct.

1 They also run a service which is available to new
2 hires called the first election choice service.
3 A member logs in and can actually see a
4 comparison between the investment plan and
5 pension plan.

6 And also they run what's called a second
7 election choice tool. So someone -- everyone in
8 the system has a second choice, where they can
9 switch whatever plan they're in to the other
10 plan. And so we have a tool out there which does
11 a comparison between the two plans, which will
12 provide me the greater benefit.

13 We also have a contract with MetLife. They
14 provide lifetime annuities, fixed lifetime
15 annuities, also deferred lifetime annuities to
16 investment plan members. One of the items --

17 MS. CANIDA: Walter, this is Tere Canida.

18 MR. KELLEHER: Yes, ma'am.

19 MS. CANIDA: Do most participants exercise
20 the ability to change between plans? Do you see
21 a lot of that?

22 MR. KELLEHER: We do have a lot that do
23 that. They look into it. So they can go from
24 the pension plan to the investment plan. It's at
25 no cost to make that election. Going from the

1 investment to the pension, the member may have to
2 pay out a cost because they've got to make
3 themselves whole back in the pension plan.

4 So we see more second elections going from
5 pension to investment rather than from investment
6 back to pension. Anything you want to add on
7 that, Dan? Yes, ma'am, did you have another
8 question?

9 MS. CANIDA: No. Thank you.

10 MR. KELLEHER: So some of the items that we
11 offer in the financial guidance program,
12 obviously, telephone. You can call Ernst &
13 Young, can call Alight, MyFRS.com, the website.
14 We have tons of print material, videos that are
15 available, workshops, webcasts, as I mentioned
16 earlier.

17 These are some statistics over the last
18 year, from the period April 1st through
19 March 31st. Financial planner calls, those went
20 down a little bit. But correspondingly, you can
21 see that the website chats went up.

22 So we have on our website something that
23 pops up with an online chat feature, where
24 members can speak in real time with an Ernst &
25 Young financial planner. Those have really

1 exploded. We had 145,000 chats during that
2 period, 277,000 calls. Financial planning
3 workshops, 541 held during that period.

4 As I mentioned, during COVID, we actually
5 stopped in-person workshops for a period of time.
6 We are starting to resume those July 1st, but we
7 still held 541 workshops during that period. We
8 still had good attendance. Website hits are up
9 also. And then down at the bottom, we had 25
10 annuities purchased the last 12 months, for
11 2.4 million. Over a lifetime, we've had 168
12 annuities purchased for 21.6 million.

13 Some highlights that we've done over the
14 past year, we contracted with Experian to provide
15 breach response services. So this is available
16 to the SBA and for investment plan. In the event
17 of a breach, we have this service available to
18 us.

19 Multi-factor authentication, we're going to
20 initiate that on MyFRS.com. That will be coming
21 in the next several weeks. And then
22 GuidedChoice, who I mentioned was the online
23 adviser solution that's available, they've always
24 looked at the accumulation phase. I've got money
25 and I'm growing towards retirement. But the big

1 key is how do I spend that money in retirement.

2 So GuidedChoice is rolling out a new tool.
3 It's called their retirement income solution.
4 Where do I draw on that money? How much do I
5 pull out of the investment plan each month?
6 Where do I pull, from my deferred comp plan or
7 other outside assets? So that will be rolling
8 out in the month of July.

9 That's all I had, if there were any
10 questions.

11 MR. TURNER: This is Robb Turner. I've got
12 a quick question, coming back to one of the
13 things Dan said. You have 258,000 members.
14 What's the difference between an inactive member
15 and an active member? And that's 30 percent are
16 inactive. Is that a bad thing or a good thing
17 and does it matter?

18 MR. BEARD: This is Dan Beard. So the
19 active members are people who are currently
20 accruing (indiscernible). Inactive is someone
21 who may have terminated employment and still have
22 a balance. They're not actively employed.

23 PETER JONES: On the last point, under your
24 education highlights, the GuidedChoice Retirement
25 Income Solution, that's an online service, if I

1 heard correctly?

2 MR. KELLEHER: Yes, sir. But they can also
3 call in and speak to Ernst & Young, and Ernst &
4 Young can assist them with that tool.

5 PETER JONES: So in other words, they must
6 be sharing all of their investments, not just
7 what they have in the Florida Retirement System.
8 I'm assuming, if you're going to determine their
9 drawdown, they must disclose everything.
10 Ideally, you would --

11 MR. KELLEHER: Yes, sir. In order to get
12 the complete picture, you'd want to do that.
13 Otherwise, you're just getting a partial picture
14 if you just show what your investment plan is,
15 you don't show what your deferred comp or other
16 assets are. It kind of gives you an incomplete
17 picture.

18 PETER JONES: Right. So this is a service
19 that is coming. It's not yet quite available.

20 MR. KELLEHER: Yes. It's coming in July.
21 We're going to roll it out in two stages in July.

22 PETER JONES: I see. Very good. Okay.
23 Thank you.

24 MR. KELLEHER: You're welcome.

25 MR. BEARD: So quickly, just -- this is Dan

1 Beard. To add to what Walter said, on that
2 service that we're rolling out, it's going to be
3 free for active members. So if you're an active
4 employee of the Florida Retirement System, it's
5 no cost to that member, as well as if you have
6 a -- you've terminated or are what we call an
7 inactive member and they still have a balance in
8 the investment plan, they're not going to have to
9 pay additional money for that.

10 But there would be a charge for pension plan
11 retirees who will be able to use the service. So
12 they would have to pay for that service. Still,
13 based on our initial discussions, it's still
14 going to be a lot lower than if they went out and
15 did it.

16 They will have to pay. The reason they'll
17 have to pay is because, you know, we pay for that
18 service through the admin fee that is put in by
19 the employer. Once they retire, we no longer
20 receive that money, so they would have to pay
21 just a little bit on that service. But it will
22 be free for active members, investment plan
23 members.

24 PETER JONES: Very good. Thank you.

25 MR. BEARD: Next I'm going to cover the

1 investment fund options. So, of course, this has
2 been a very good fiscal year return-wise. What
3 you see on the screen or on the slide is our
4 returns as of March 31. As of May 31, fiscal
5 year to date, returns were 26.71 percent, or 82
6 basis points above the benchmark.

7 These are our available investment fund
8 options as of March 31. There's nine core funds,
9 ten target date funds. We call them retirement
10 date funds. And then the next slide is going to
11 be the available funds effective July 1, 2021.
12 One of the things we are doing -- and this is
13 based on, for those of you who were on the
14 committee last year, Aon comes in every two or
15 three years. They do a structure review on the
16 investment plan, a deep dive structure review,
17 and they come back with some recommendations.

18 One of the recommendations was to replace
19 the money market fund with a stable value fund.
20 The reason, the market -- money market funds
21 aren't gaining anything. We felt that a stable
22 value fund would provide our members with more of
23 a return.

24 So we took it under advisement. We stated
25 that we would take this current fiscal year, we

1 would look into that, decide whether there was a
2 stable value fund out there that we liked that
3 would fit into our fund.

4 And so we took this year to do that, and we
5 actually did find two managers that we're going
6 to bring on board. They'll start July 1, so
7 within a couple of days. We'll be transitioning
8 from a money market fund to a stable value fund.

9 So the two managers that are coming on are
10 Galliard, who are going to manage 60 percent,
11 40 percent in their CIT, 20 percent in a separate
12 account. And then T. Rowe Price will have the
13 other 40 percent. So that's pretty much the only
14 change that we'll be making as far as to the core
15 funds. I will later cover a few other changes
16 we're going to be making.

17 The next slide just shows how the assets are
18 broken out by different asset classes. Again,
19 over 46 percent of our assets are in retirement
20 date funds. And there are a couple of reasons
21 for that, well, one main reason. The reason is
22 the retirement date fund, that is our default.

23 So a few slides, we talked about that
24 57 percent that defaults into the investment
25 plan. When they default into the investment

1 plan, they default into one of the retirement
2 date funds.

3 And what we've seen is that when they
4 default, they do not take any action as far as
5 going to any of the other funds. They pretty
6 much stay in that retirement date fund. It's one
7 of the reasons a few years back we changed
8 from -- we changed to a retirement date fund
9 from -- like we used to have a conservative,
10 modest, aggressive.

11 So most of the funds are in the retirement
12 date funds, and then you can see, as far as the
13 other asset classes, where those (indiscernible).
14 This breaks out where those funds are located
15 within the retirement date funds. So it shows
16 where they're -- how much is allocated to each
17 one of those.

18 This next slide -- so our retirement date
19 funds or target date funds. The underlying
20 managers, our core managers are the underlying
21 managers within our retirement date funds. So we
22 have a custom glide path. Aon helps us with that
23 glide path, putting it together, how it should be
24 adjusted over time. And it's made up of our
25 underlying managers. So you can see what

1 underlying managers make up those
2 (indiscernible).

3 So what are some of your fiscal year
4 2021-'22 initiatives? So again we're going to --
5 every year we go to Aon and we ask them, do we
6 need to make any changes to the retirement date
7 fund glide path. So they came back, and so we'll
8 be just doing a roll-down effective July 1.

9 I mentioned we're going to switch out and go
10 to a stable value fund, which will open up for
11 investments July 1. And then the other change
12 we're going to make is replacing two large cap
13 value managers and a mid cap core manager. All
14 that should happen in the third quarter 2021.
15 We're terminating two managers for performance,
16 and then the other one we had to change out
17 because one of our managers decided to terminate
18 shop December 31. So we're bringing all those on
19 March of -- I'm sorry -- third quarter of 2021.

20 Next, plan administration initiatives.
21 We're going to go in and refresh our website,
22 MyFRS.com. We do that every five or so years.
23 We're going to go in, look at the website, maybe
24 change the appearance, just make it -- improve it
25 for our members, because the website is for

1 investment plan members and pension plan members.

2 We're going to put some additional online
3 election forms. We've been converting all our
4 paper-based forms to online forms, which would
5 allow someone to just go in, fill it out online
6 and they can just submit it online. They don't
7 have to send it in. They don't have to print out
8 that paper form. Then I also mentioned we're
9 going to add one additional staff member to work,
10 oversee (indiscernible).

11 So that wraps up our presentation. Happy to
12 answer any questions you may have before we go to
13 Aon.

14 PETER JONES: Any questions from my
15 colleagues?

16 MR. GOETZ: This is John Goetz. Do we have
17 an average all-in fee rate that ends up in this
18 plan?

19 MR. BEARD: We do have that. I don't have
20 that, but I can get that. I can communicate that
21 to you.

22 MR. GOETZ: Thank you.

23 PETER JONES: All right. Any other
24 questions, comments? All right. Well, thank you
25 to the team that presented, good solid

1 information and good thorough presentation, so
2 thank you for that.

3 Next, our next section, section 5, is the
4 Florida PRIME review. And I will turn it over to
5 Mike McCauley, senior officer, investment
6 programs and governance. So, Mike.

7 MR. McCAULEY: Thank you, Mr. Chairman. We
8 may have skipped Aon's presentation.

9 MS. DOYLE: Yeah. Mr. Chairman, this is
10 Kristen. Did you want us to -- we just have a
11 couple of updates.

12 PETER JONES: Yeah, please. Sorry for that
13 oversight.

14 MS. DOYLE: Okay. That's no problem. So,
15 hi, everybody. Good afternoon. This is Kristen
16 Doyle. Katie and I will tag team this
17 presentation. And this is the annual investment
18 structure review that we conduct on the
19 investment plan each year. They take different
20 flavors.

21 So some of you may recall that last year we
22 did a very, very deep dive with the investment
23 plan staff at the SBA into the program. And Dan
24 and team have mentioned a couple of the
25 recommendations that have come out of that. And

1 there were some pretty important changes that we
2 made as a result of that deep dive.

3 So because of that, for 2021, this year's
4 structure review, we'll just focus on a few key
5 components of the program. And, John, you can go
6 to the next slide. It's going to cover the
7 overall investment structure, fees and
8 performance. And I'll let Katie get into that in
9 a little bit of detail in a second.

10 We've also listed some of the enhancements
11 that have been made recently, including the
12 consolidation of a few options, and as Dan
13 articulated, replacing the money market fund with
14 a stable value fund.

15 And then just to say it out loud, and this
16 is almost always our conclusion when we do the
17 structure review of the investment plan, is that
18 overall, we do believe that the investment plan
19 is well-designed and in line with industry best
20 practices.

21 So in the next slide, we've shown this slide
22 before, but this basically illustrates what we
23 all know, which is that most DC participants
24 don't form efficient portfolios, and so they end
25 up -- the risk-return profile is going to end up

1 all over the place compared to the efficient
2 frontier.

3 So there are really important program design
4 features that improve participant outcomes. And
5 the two most important ones are simplicity and
6 automation. And the SBA investment plan, again,
7 as you've heard, utilizes many of these tools
8 already today.

9 And then the next slide -- and this is just
10 another way to look at what I just said, is that
11 if you can streamline the investment options as
12 much as possible and help facilitate smart
13 decision-making for participants, you can improve
14 their outcomes.

15 So overall observations are on the next
16 slide. And just to summarize for each category,
17 with regard to investment structure, the features
18 I would call out here are what you just heard
19 about the custom target date funds, they have
20 considerable assets in them, given that they are
21 the default option. So right there, the SBA is
22 helping participants create more efficient
23 portfolios.

24 I'd also mention the use of white label
25 funds, where again the investment team at the SBA

1 is constructing those on behalf of participants,
2 just as they do in the DB plan, and so
3 participants are getting that direct benefit.
4 And then offering a number of features to assist
5 in retirement preparation is also extremely
6 important around the concept of education.

7 With regard to cost -- and this won't be a
8 surprise, that the SBA does utilize its scale and
9 breadth of relationships to offer incredibly
10 competitive, competitively priced investment
11 options for participants. And as you'll see, the
12 investment fees that they pay in the program are
13 much lower than the median fee for the same type
14 of strategy.

15 And then we'll show you performance really
16 quickly, like we do every quarter. But
17 collectively the actively managed options have
18 added value over the short- and the long-term
19 periods.

20 So that's kind of the executive summary.
21 Katie, I'm going to turn it over to you to just
22 put some finer points on what I just mentioned.
23 And please, as always, stop us if you have
24 questions.

25 MS. COMSTOCK: Great. Thanks, Kristen.

1 Good afternoon, everyone. It's nice to see you
2 all. If we can move ahead to slide 128. As
3 Kristen mentioned, I'll just touch on a few of
4 the finer points here. One slide back, please,
5 128.

6 So here, we've shown this slide in the past,
7 and what it's showing is really the evolution of
8 defined contribution investment structures over
9 time. And I want to spend a minute here, because
10 as you heard from both your team and from
11 Kristen, there's been a lot of progress that has
12 been made over the past few years.

13 And moving from left to right, historically,
14 it wasn't uncommon to see many plans have 20 or
15 20-plus different investment options, a number of
16 different options in the same category. And as
17 Kristen discussed, helping participants make
18 smart decisions, really investment structure is
19 one of the primary tools. And simplifying that
20 and generating a streamlined structure is one of
21 the most effective ways to do that.

22 And so the SBA has now squarely fallen under
23 what we call a modern lineup. And there you can
24 see the number of options has really been cut in
25 half. The SBA offers time investment options.

1 And the different colors represent the different
2 objectives in their asset classes that are
3 offered across the fund.

4 And so you can see there are a few, just a
5 few options across each of these objectives. And
6 that really helps participants identify and not
7 overcomplicate their portfolios and is in line
8 with what our best thinking is.

9 We also include on the far right what we
10 consider an emerging lineup. We do think that
11 this is potentially where the structure of our
12 defined contribution plan is going. Not too many
13 plans have adopted this yet. It would be a
14 pretty decent change. But the objective here is
15 naming the fund in line with what their role or
16 the objective is.

17 And really, it's helping participants
18 understand what they are investing in rather than
19 naming them by asset class, equities, bonds, but
20 naming them what the role of that fund would be.
21 So you can see capital preservation, growth,
22 income.

23 Again, that's something kind of down the
24 line in the future, but we do include it here
25 because we do think that that is kind of the

1 future of the defined contribution structure.

2 If we flip ahead two pages to slide 130,
3 this page, we're marrying the investment options
4 with the tiered structure, which is really a tool
5 for communicating the investment lineup to
6 participants. So the slide looks like it got a
7 little jumbled, but across the top, just as a
8 reminder, the tiers help participants create
9 their investment portfolio.

10 So tier one is comprised of the target date
11 funds, the custom retirement date funds that FRS
12 offers. And this is really the "do it for me"
13 tier. They're professionally managed based on
14 the participant's retirement age.

15 The second tier are for those that want to
16 generate their own and create their own portfolio
17 but maybe are more key sensitive. These are
18 comprised of the index funds, the passive
19 options. You can see there are offered both an
20 income option, which is a bond fund, as well as
21 growth-oriented options, both U.S. and
22 international, and for those that maybe are more
23 cost aware and/or do not believe in active
24 management.

25 And then tier three we list here is engaged.

1 And these are typically those participants that
2 want to, again, build their own portfolio, maybe
3 feel they are more skilled or also believe
4 inactive management. And so here you can also
5 see that there are options across the risk-reward
6 spectrum and across the different asset types.

7 It will point out some of the changes that
8 were made and that are planning to be made. The
9 capital preservation fund across the top of tier
10 three, that will become the stable value
11 beginning in July that Dan spoke about. Some of
12 the ways that the FRS streamlined this plan was,
13 under the core-plus option, there used to be two
14 actively managed core bond funds, and now there
15 is one. And then within the U.S. equity, there
16 used to be a large and small cap, and that was
17 consolidated to one U.S. equity offering. And
18 that's consistent with the tier two option.

19 The last thing that I would note -- and then
20 one more thing, actually, the inflation
21 protection funds, also renamed inflation
22 sensitive fund. And I'll talk about this in just
23 a little bit, but that relates to some of the
24 benefits of having white label funds and being
25 able to name the fund in line with the objective

1 of that investment option and helps participants
2 in selecting their investment portfolios.

3 The other thing listed here is there is
4 typically a tier four, and that's the brokerage
5 window. I just wanted to mention that. That is
6 an option for your participants, and that is
7 typically there, again, for those participants
8 that feel they are more skilled, where they do
9 want to invest in something a little bit more
10 niche or that they have strong conviction in.

11 I'll jump ahead again two more slides to
12 page 132. I just wanted to touch on the benefits
13 of the white label structure that the FRS -- that
14 the investment plan does offer to participants.
15 And as a reminder, what white label funds are is
16 they are a single plan option, but they have the
17 ability to invest in multiple underlying funds.
18 And they can be named according to, again,
19 something that's more -- potentially more obvious
20 or more explainable in what that fund is.

21 As you know, some investment funds can have
22 odd names and it's not clear exactly what they
23 are investing in, so that white labeling also
24 assists with that. But the main benefit of white
25 label funds are, one, it allows for easier

1 management of these investment options by the
2 experts. And so you can exchange funds, replace
3 underlying funds, add to them without disrupting
4 participant portfolios. And, again, it also
5 helps reduce confusion when participants are
6 selecting their investment options.

7 And then the last thing I want to touch on,
8 I'll quickly touch on performance. I know Dan
9 hit on a bit of it. But on slide 133, we
10 discussed a little bit of this before, but
11 private equity in defined contribution plans.
12 This has come up as of late a little bit more so
13 because the DOL, the Department of Labor, did
14 release an information letter. And it basically
15 provided the view that defined contribution
16 options may include private equity within
17 professionally managed portfolios. And it didn't
18 provide much guidance other than that, and it
19 really has kind of made it a discussion on, if
20 this is appropriate, how it can be implemented.

21 And our takeaway at this moment is that it
22 is interesting. We do think that private equity
23 has merit. We do think that this is a
24 conversation that will continue. But today, we
25 think there is more work that needs to be done

1 until it becomes on time and more prevalent in
2 defined contribution plans.

3 From an asset class perspective, private
4 equity, the benefits there are similar to why
5 it's included in the pension plan. Enhanced
6 returns, skill-based returns. It is lined up
7 with long-term results, which is the ideal time
8 frame for most participants in the plan.

9 But as you can see from the bullets on this
10 page, the challenges today outweigh those
11 benefits. There are a lot of administrative and
12 just logistical items that we feel need to be
13 worked out more. The nature of investing in
14 private equity, as you all know, is much
15 different than daily value public equity and
16 fixed income and a typical option within defined
17 contribution plans.

18 And so navigating that and identifying and
19 developing products and logistics around that, we
20 feel, need to be further developed before this
21 does become prime time. But the discussion, we
22 do think, will continue. And there are some
23 other state plans that are looking into it and
24 that are seeing ways that they can be
25 implemented.

1 The likely -- you know, the next step in
2 seeing this, we believe, will be within target
3 date funds and/or within white label funds, so
4 that they are being managed by professionals and
5 are not available to a participant, you know, to
6 more or less mismanage those types of
7 investments.

8 The next two things that I'll touch on are
9 performance and --

10 MR. COLLINS: Mr. Chairman, can I ask a
11 question? This is Peter Collins.

12 PETER JONES: Yes, Peter, please.

13 MR. COLLINS: So -- and maybe this is for
14 Ash or John. Would it be possible for the SBA to
15 design a product that the DC could access for
16 private equity that you-all manage that it's a --
17 call it a mutual fund, if you will, of your
18 holdings available to the defined contribution
19 plan?

20 MR. WILLIAMS: Mr. Chairman, this is Ash.
21 I'll take that, if I may. It would, but I
22 think -- I think Katie correctly identified the
23 challenges. There's the liquidity mismatch,
24 number one. Number two, there are lags in
25 valuation, so there's a performance calculation

1 issue. And there's a pretty serious fee mismatch
2 as well at this point with the rest of the
3 portfolio.

4 We put in quite a bit of work on this two or
5 three years ago. And at that point, the juice
6 just wasn't worth the squeeze, so to speak. I
7 suspect that over the next decade, this is going
8 to be an area of emerging focus for the industry
9 because return expectations for liquid markets
10 are suppressed looking forward, in large part
11 because of the lofty levels they're at currently.
12 And, secondly, because people still need to
13 compound capital over time, and they'll be
14 looking for new tools through which to do that.

15 So I suspect there will be a combination of
16 industry focus from some very, very capable
17 people in the field to solve those issues and
18 bring products forward that make sense. And I'm
19 hesitant for us to try and create and unitize a
20 vehicle like that on our own. Dan, did I miss
21 any points on that?

22 MR. BEARD: No. And one other thing I'd add
23 is currently the statute doesn't allow the SBA to
24 manage funds for the DC or investment plan. But
25 that's the change we need in order for that to be

1 done.

2 MR. COLLINS: It just seems like we've got a
3 first quartile private equity program on the one
4 side, and on the other side we have nothing for
5 the DC plan to access.

6 MR. WILLIAMS: Well, there might be an
7 additional follow-on question here, Peter, that
8 would be worthwhile, and that's one for Aon,
9 which is, Katie, do you guys know of anybody
10 elsewhere in the public fund arena that is trying
11 to do something like this, and if so, has it
12 worked or what's been the experience?

13 MS. COMSTOCK: Yeah. So I believe there
14 have been a few state plans. I want to say
15 Washington State board is one. And I don't have
16 the specifics, if it is up and running, but I
17 believe it has been four years in the making.

18 So this has been something that other plans
19 have looked at. It has taken a lot of time. And
20 we can get back to you maybe on what has -- if
21 anything has actually been implemented yet. I'm
22 not sure, Kristen, if you are familiar with any.

23 MS. DOYLE: Yeah, it's an incredibly few
24 number, just for the challenges that we've
25 mentioned. And in the private sector, as you can

1 imagine, with a lot of litigation around fees and
2 things like that, this is not a tenable solution
3 at this point in time, unless we get some
4 additional direction from the regulators, I
5 guess.

6 PETER JONES: Okay. So it sounds like more
7 to come on that topic.

8 MS. COMSTOCK: So there are just two other
9 items that we were planning on hitting. On page
10 134, the next slide is performance. And Dan
11 touched on this. Absolute returns, you can see
12 very strong results, a 38.8 percent over the one
13 year. But I want to focus on the relative
14 results, which looks at an aggregate, how the
15 investment plan active options have done relative
16 to their benchmark. You can see over all these
17 trailing time periods, these active strategies
18 have added value above the benchmark, which is
19 nice to see.

20 And if you look ahead to the next page, we
21 list out each of the investment options and their
22 relative performance across the one, three, five
23 and ten year periods. And so the numbers in
24 green are our outperformance and red,
25 underperformance.

1 So generally, very strong relative results
2 from the investment options. One notable, one
3 you'll likely be drawn to is the FRS foreign
4 stock fund. And this is -- the underperformance
5 of about 8 percentage points over the one year
6 period is really stemming from the most recent
7 quarter, when we saw a reversal in trend from
8 growth to value, which hit this manager hard.

9 But what you cannot tell from this page is
10 that in an absolute term, this option returned
11 60.8 percent, that's six-zero-point-eight
12 percent. It did trail its benchmark, which was
13 up 68.9 percent. But very strong absolute
14 returns, though modest for this one year time
15 period. Longer term, though, again, all
16 investment options have outperformed over the
17 five and ten year periods, which is excellent
18 performance for your participants.

19 And then the last page that I wanted to
20 touch on are the investment option fees, which is
21 on page 136. We compare each of the investment
22 management fees for the options relative to a
23 peer group. This is -- these are compared to
24 funds that are managed in a similar asset class
25 with a similar style.

1 And across the board, the fees that the FRS
2 offers the participants are in line and/or
3 significantly lower than what otherwise could be
4 achieved in the marketplace. And this is -- we
5 got into some of the items a little bit earlier,
6 your size, scale, the relationships that you have
7 in the investment managers. And so a great
8 benefit to the participants within the investment
9 plan.

10 And so those are all the items that we
11 wanted to touch on this year. Again, we think
12 that the structure is in great shape and a number
13 of changes have been made that we think are to
14 the benefit of the participants. I'll be happy
15 to take any questions or comments.

16 PETER JONES: Thank you, Katie and Kristen.
17 Just a reminder, if you're not speaking, if you
18 could keep your phone on mute, it would help us
19 hear a little bit better. But any questions for
20 Katie or Kristen? All right. Well, thank you
21 for that presentation.

22 So we will now at this point move ahead to
23 section 5, and I will once again turn it over to
24 Mike McCauley.

25 MR. MCCAULEY: Thank you, Mr. Chair, and

1 good afternoon. We have three items related to
 2 Florida PRIME. We've got the two statutorily
 3 required reviews, reports, legal compliance, as
 4 well as best practices reviews. Then we'll do a
 5 deeper dive into the portfolio construction. We
 6 have some folks in person, some folks on the
 7 phone. So with that, I'll turn it over to Glenn
 8 Thomas to do the compliance review.

9 MR. THOMAS: (Indiscernible.) All right.
 10 As I was saying, compliance with Florida
 11 Statutes, sections 218.40 through 218.412,
 12 between May 16th, 2020, and May 15th, 2021. My
 13 analysis included a review of applicable laws and
 14 relevant rules, interviews with SBA personnel and
 15 review of some materials provided by SBA
 16 personnel and some materials posted to the
 17 website.

18 And I concluded that Florida PRIME was in
 19 compliance with the requirements of sections
 20 218.40 to 218.412 for that period. I'd be happy
 21 to answer any specific questions that you might
 22 have. I'm hearing no questions.

23 PETER JONES: Okay. No questions, it
 24 doesn't seem. So, Mike, are we turning it now
 25 over to Kristen and Katie once again?

1 MS. COMSTOCK: Great. Thanks, everyone.
 2 This is Katie. We do have a very short slide
 3 deck. And I'll actually speak to one page, slide
 4 145. As well, we do an annual best practices
 5 review for the Florida PRIME. And to cut to the
 6 chase, consistent with past reviews, we did
 7 conclude that the Florida PRIME is being managed
 8 in a manner that is consistent with best
 9 practices and with participants' best interests
 10 in mind.

11 We did have, for this 2021 review, a few of
 12 the regular items that we include. The first
 13 thing is the results of the participant survey.
 14 The full results are included in the packet, but
 15 the responses from the group of roughly 70
 16 respondents have been consistent with previous
 17 years, generally very strong responses and
 18 answers towards service level, happiness with
 19 service level, administration and investment
 20 performance of the portfolio.

21 Eighty percent of respondents said that they
 22 are extremely and/or very likely to recommend
 23 Florida PRIME. So strong results from the
 24 participant survey. The other regular item is
 25 the investment policy review. And you recall at

1 the March meeting, we actually did that at the
2 last meeting, which was approved.

3 There were three other items that we wanted
4 to highlight here from this report. And the full
5 report is included in your packet. On page 145,
6 the first three boxes there hit on some of the
7 items we covered this year.

8 And the first is a data security update.
9 And if you've turned on the news at all over the
10 past year or so, you see that cyber crime is up
11 significantly. And preventive measures and
12 measuring risks related to this are top of mind
13 across industries. And one of the things that
14 your team has since implemented is requiring a
15 multi-factor authentication when accessing the
16 information online.

17 And basically what that is requiring is
18 participants to use two forms of verification
19 when signing in. The uptake of this has been
20 smooth so far. It went into effect in early May.
21 It just provide another level of security to your
22 participants' information.

23 The second thing is ESG integration, and
24 this stands for environmental, social and
25 governance. And this is another topic that has

1 continued and we will expect to continue to gain
2 a lot of attention, and for different reasons,
3 because we believe these issues will impact
4 performance of a investment portfolio's risk and
5 return. And so thought that it would be a nice
6 topic to talk about, about how this is being
7 incorporated into the management of the Florida
8 PRIME portfolio.

9 As you all know, Federated manages the
10 Florida PRIME investment portfolio, and so we sat
11 down with their team to understand how they
12 incorporate ESG into the investment process, into
13 their credit scoring. This is something that
14 Federated has always done. Governance has been
15 the most relevant topic here, but they do assess
16 the E, S and G when incorporating it into their
17 internal credit ratings.

18 As you all also likely know, they did
19 acquire Hermes Investment Management back in
20 2018. And they're actually a pioneer in ESG and
21 responsible investing. And so they were able to
22 add a number of additional resources that
23 Federated has since been able to include and
24 review when incorporating ESG into their credit
25 ratings.

1 And so ultimately ESG integration, we
2 believe, is an important part of the investment
3 process. And they are doing that, and they are
4 assessing the impact on ultimately the risk and
5 return of the portfolio.

6 The third item is just a quick update on the
7 business plan review of Florida PRIME. You may
8 recall this was part of a strategic plan and
9 initiated back in 2019. And the goal here was
10 just to review from top to bottom the
11 administration of Florida PRIME. Most of this is
12 administered in-house. The investment management
13 is outsourced to Federated.

14 And the goal here was just to assess if
15 there were efficiencies that could be had, if it
16 made sense to potentially outsource the rest of
17 the administration of Florida PRIME or certain
18 aspects of this. And a lot of work had been done
19 in late 2019 and early 2020.

20 And then the pandemic hit. And as you can
21 all imagine, there were some other priorities and
22 strained resources. And so the decision was just
23 to put this on pause for a few months until we
24 managed through the pandemic. And the plan is to
25 pick this back up in early fall and complete this

1 review. So we just wanted to provide an update
2 on where that stood as well.

3 So all in all, I went through that really
4 quickly, but the plan continues to be managed in
5 line with best practices. And I'd be happy to
6 take any questions or comments.

7 PETER JONES: All right. Any questions?
8 Okay. Well, thank you very much. We appreciate
9 that. Now we'll turn it over to our friends with
10 Federated Hermes.

11 MS. MICHALISZYN: Good afternoon. We're
12 pleased to be here. And we brought some new
13 people, not new to Federated but newer to Florida
14 PRIME. When we conclude our remarks here today,
15 we're all driving down to Orlando to the county
16 association conference to meet and greet with
17 participants. So we're here to, of course, be
18 with all of you but to get back out on the road
19 and talk to our customers, our joint customers.

20 So before we hear from Paige Wilhelm, who is
21 joining us virtually, I'll just make a brief
22 comment as to who is with me. Heather Froehlich
23 is to my left. She's been with Federated for
24 25-plus years. And I drafted her from our M and
25 A group as business manager in the institutional

1 space, and she's concentrated very heavily within
2 our Treasury business, and that means additional
3 resources for Florida PRIME.

4 And to my right is Luke Raffa, and Luke
5 joined us almost five years ago and started his
6 career with us on the Massachusetts pool that we
7 manage. And he expressed a desire to move south.
8 A logical thing, right? And so he's now working
9 with our participants. So just glad to really
10 augment the team, bring more to Florida PRIME and
11 continue to enjoy the interactions with the
12 clients.

13 So before we turn things over to Paige, Luke
14 has a few participant outreach remarks that will
15 just bring you current with how we've maintained
16 relationships throughout the pandemic.

17 MR. RAFFA: Sure. Thank you, Amy. Good
18 afternoon. As Amy said, my name is Luke Raffa,
19 and I'm a member of the institutional business
20 development team at Federated, but I am based in
21 South Florida now, so I provide both relationship
22 management and marketing support for the pool.

23 And I just have a few comments about our
24 participant outreach over the last 12 to 18
25 months. Needless to say, engaging with clients

1 over the last year has taken on a much different
2 form than it ever has before. But we tried to
3 get as creative as we could, finding new ways to
4 engage with participants and keep them updated on
5 what's going on with the pool.

6 One way that we did that was through our
7 participant calls. So during the depths of the
8 pandemic last year, we had two of these calls,
9 one in March and a follow-up then in April, which
10 were extremely well-attended by the Florida PRIME
11 participants.

12 And I think understandably so, there were
13 some participants who were concerned, seeing all
14 the volatility in the market. But these calls
15 served as a great resource for them to sort of
16 alleviate those concerns and reassure them that
17 everything was running smoothly with the pools.

18 Now, following each of those calls, I
19 reached out to anywhere from 20 to 30 individual
20 participants just to solicit feedback and see if
21 there were any additional resources that we could
22 provide. Overwhelmingly the feedback was
23 extremely positive that we received on the calls.
24 They appreciated the information, the educational
25 aspect of it, and most importantly they did feel

1 reassured that their investments were safe within
2 Florida PRIME.

3 In addition to that, we do continue to post
4 the weekly commentaries from Paige on the
5 website. And then virtual conference
6 participation, that was another new one for us as
7 well as the associations that we work with. But
8 those that were able to successfully transition
9 their conferences into a virtual format, we did
10 participate in those, hosting certain sessions
11 focused on Florida PRIME. That way we could
12 better get the word out about the offer.

13 And then the recent participant call took
14 place on Friday of last week. That one had about
15 35 participants that joined us, which is pretty
16 good turnout for a midsummer event. But just in
17 the last couple of days we have been making
18 follow-up calls on that. And once again, the
19 feedback has been overwhelmingly positive.
20 People appreciate being kept in the loop with
21 what's going on, as well as enjoyed hearing about
22 our outlook for interest rates as well as the
23 Fed.

24 Just flipping to the next slide here, this
25 is just a quick example of one of the

1 advertisements that we put in the directories for
2 the various associations. Anytime these
3 opportunities do present themselves, we are
4 always very eager to get the word out there about
5 Florida PRIME.

6 This is just the final slide I'll comment
7 on. It is our 2021 conference plan. Conferences
8 for Florida PRIME are one of the main venues that
9 we use to sort of get the word out there. It's a
10 great opportunity to see existing participants as
11 well as network and meet new folks from the
12 various public entities around the state. And
13 this covers the conferences that we've already
14 done in 2021 as well as the ones that we will do
15 between now and the end of the year.

16 As Amy mentioned, we've got 6/29 on there,
17 so we will all be loading up in the car and
18 heading down to Orlando to catch the opening
19 welcome reception of that conference. But
20 starting this month in June, all the conferences
21 for the most part have returned to an in-person
22 format. So there's a lot of energy and eagerness
23 to be there, so we found them to be right where
24 they left off and another great avenue to engage
25 with participants and educate them on Florida

1 PRIME.

2 So with that, those were the comments that I
3 had, and I will turn it over to Paige for the
4 portfolio review.

5 MS. WILHELM: Great. Thank you, Luke, and
6 hello, everybody. I'll assume that everyone can
7 hear me. Yes? Okay. I know that 2019-2020 was
8 kind of a crazy year for us, but I did want to
9 highlight a couple of items from an economic
10 standpoint that impacted the very short end of
11 the curve, the money market part of the curve,
12 which obviously impacts Florida PRIME.

13 So back at the beginning of the COVID crisis
14 in March, we all remember that the Fed did a few
15 things. They cut interest rates mid-March by 150
16 basis points, taking the Fed funds target range
17 to zero to .25. They also instituted their
18 quantitative easing program, where they are
19 purchasing \$120 billion a month in Treasury and
20 agency securities.

21 And then a couple of weeks after those two
22 moves, towards the end of March, they also
23 started a few lending facilities, the money
24 market lending facilities, some facilities to
25 lend to individuals, small businesses,

1 municipalities. There are about eight or nine
2 lending facilities that were introduced.

3 All of these things, from a monetary
4 stimulus standpoint, helped to calm down the
5 markets, because in mid-March we all know what
6 was happening with markets. Whether it was fixed
7 income, equity, muni, money markets, they were
8 all responding to the liquidity crisis caused by
9 the COVID outbreak.

10 So these facilities and this monetary
11 stimulus helped calm down the market. So by the
12 time we get into April and the beginning of May,
13 we see a yield curve for the money market space
14 that is more reflective of a Fed funds target
15 range of zero to .25. And I'll get into that in
16 a minute.

17 But the Fed couldn't do everything to help
18 the economy. We needed fiscal stimulus, too.
19 And we did see, as we recall last year, the CARES
20 Act was introduced. That was followed up later
21 by the COVID relief bill and then most recently
22 the American Rescue Plan.

23 Those fiscal stimulus packages, together
24 with the quantitative easing program that the Fed
25 is doing by purchasing securities every month,

1 has added \$4 trillion to the Treasury and the
2 Fed's balance sheet.

3 The bulk of that money is sitting in the
4 short end of the markets, and by that I mean in
5 the money markets. Not many people have taken
6 that fiscal stimulus and spent it longer out on
7 the curve, whether that was in the bond markets
8 or the equity markets or anywhere else. So we
9 still see a lot of cash, an abnormal amount of
10 cash sitting in the front end that is causing
11 downward pressure, additional downward pressure
12 on our rates.

13 So we'll look at yields in a minute, but
14 let's just talk for a second. If we flip two
15 pages ahead, just some thoughts on the Federal
16 Reserve and what their thinking is most recently.
17 When we published this slide, it was before the
18 June 16th Fed meeting two weeks ago, so this is a
19 little bit of old data.

20 But obviously the Fed was saying that, you
21 know, the economy was starting to look a little
22 bit stronger and they expected a rebound due to
23 the fast pace of the vaccination rollout that we
24 had, that we have in the United States.

25 But Chairman Powell, as well as the other

1 Fed governors, felt that we were still a long way
2 from meeting the Fed's dual mandate. And their
3 dual mandate is inflation targetting and the
4 employment situation. And you can see those
5 charts at the bottom.

6 And I know we already heard a little bit
7 this morning, or not this morning, this
8 afternoon, about inflation, is it transitory or
9 is it here to stay. So I won't reiterate that.
10 But the other thing that the Fed is looking at is
11 the employment situation.

12 And if you look at the bar chart there on
13 the right, you can see that the unemployment rate
14 in the shaded area prior to the COVID crisis was
15 around 3.5 percent, and it spiked to as high as
16 about 14, 15 percent. And it's back down again,
17 but it's not to the levels that it was pre-COVID,
18 that 3.5 percent level.

19 Does the Fed want to see the unemployment
20 rate get to 3.5? Maybe. But I think what's more
21 important is they want to see a widespread
22 situation, where jobs are -- we have created jobs
23 and filled jobs across the population spectrum,
24 even lower income types of positions. So they're
25 looking for broad-based employment, not

1 necessarily just an unemployment rate at
2 3.5 percent. They want to see all sectors of our
3 population become more fully employed.

4 So their dual mandate is to watch that
5 unemployment or that employment situation and
6 target the inflation rate at 2 percent or higher
7 for some period of time. They haven't defined
8 that period of time. And as was mentioned
9 earlier today, it's going to be dependent on what
10 happens with the inflation situation, is it
11 transitory, does it seem more permanent, and then
12 they will start to consider raising the Fed funds
13 target.

14 But before all that, the Fed will most
15 likely unwind the quantitative easing program.
16 Remember, they're buying \$120 billion in
17 securities each month. At the June meeting on
18 the 16th, they actually did start to discuss
19 tapering of that quantitative easing program.
20 And we expect that we might hear more from the
21 Fed regarding the taper, maybe at the Jackson
22 Hole meeting in August or at their next FLMC
23 meeting following that, which would be sometime
24 in September.

25 If they do start to unwind the quantitative

1 easing program, we would expect that that would
2 start sometime at the end of 2021 or into the
3 beginning of 2022, and then an increase in the
4 Fed funds target would happen sometime after
5 tapering has begun.

6 If we look at the last time the Fed had a
7 quantitative easing program, once they started to
8 taper, it was about nine months later that they
9 chose to raise the Fed funds target range. That
10 doesn't mean that they're going to do the same
11 thing this time.

12 The last time the Fed instituted a
13 quantitative easing program it was for a much
14 different reason. It was a credit reason. This
15 time, as we all know, it's a liquidity reason
16 caused by a pandemic. So two totally different
17 scenarios, but, you know, if there is any history
18 there, it's that typically they'll raise rates
19 after they taper the quantitative easing program.

20 One of the things that the Fed did do last
21 week, which is a little obscure but is very, very
22 important to the money market space, is they
23 raised the interest rate that they pay on their
24 reverse repo program. And they raised the
25 interest rates that they're paying for interest

1 on excess reserves to the banks.

2 The RRP was at zero basis points, and
3 interest on excess reserves for the banks was at
4 10. Last week they tweaked those two
5 administered rates, and they raised the RRP to
6 five basis points and IOER to 15. And you might
7 think, why do we care about that? But that RRP
8 rate is influencing the short-term interest
9 rates, the overnight repurchase rates and the
10 overnight commercial paper rates that we can get
11 for Florida PRIME.

12 So those rates went from trading around
13 zero, one basis point, to now trading at five or
14 six basis points, which doesn't seem like a lot,
15 but just in the past week, it has helped the
16 yield of Florida PRIME move up by one basis point
17 already.

18 So I know that money funds don't earn a lot,
19 but every little basis point helps. So we'll
20 take those tweaks from the Fed, and we'll look
21 forward to the beginning of taper of the
22 quantitative easing program and then some -- you
23 know, hopefully an increase in the Fed funds
24 rate.

25 If we look at the next slide, we can just

1 see in picture form here what has happened to the
2 curve over the past year. And we look at the
3 LIBOR curve as an indication of where we can
4 invest Florida PRIME from one month out to a
5 year.

6 So you can see the top line, at the end of
7 March of last year, when the COVID crisis first
8 hit, we were trading anywhere between 1 percent
9 and as high as about a 1.50 across the money
10 market curve. And this is after the Fed has cut
11 rates. But, remember, we're still waiting for
12 the lending programs. We're waiting for
13 quantitative easing to kick in. We're waiting
14 for fiscal stimulus to come about before the
15 markets return to normal.

16 And you can see that they -- by the time we
17 got to June, three months later, the LIBOR curve
18 was trading, as you would expect, with a Fed
19 funds target range of 0.25.

20 And then with all of that fiscal stimulus
21 that we talked about coming throughout 2020 and
22 into 2021, that \$4 trillion hitting the
23 marketplace just put additional downward pressure
24 on that money market curve. So you can see that
25 today we're trading repo rates at -- this is the

1 bottom line, is today. We're trading repo at 5.
2 We're trading the one month area about 8 to 10,
3 out to one year at about 20 basis points. So
4 that's our investment curve today for Florida
5 PRIME. And I would expect it to stay there as we
6 get through the summer, go through the summer
7 months.

8 There's additional pressures on the front
9 end. If we get another fiscal stimulus package
10 that's been talked about, that would put more
11 cash into the system. We're bumping up against
12 the debt ceiling limit around August 1st, which
13 also means that the Treasury Department must
14 reduce their cash position. They put that cash
15 into the market. It's just more additional
16 demand for the same amount of supply of money
17 market securities. So yields -- it will keep
18 pressure on yields throughout the summer.

19 On the next slide this is just a current
20 indication of where the different security types
21 are, how they are trading for Florida PRIME. We
22 can buy asset-backed commercial paper. We buy
23 bank CDs. We buy industrial commercial paper.

24 We can also buy Treasuries, U.S. Treasuries
25 and agencies. We typically don't do that

1 because, as you can see from the gray line and
2 the blue line there at the bottom, they're
3 trading much lower than paper that has credit
4 associated with it, such as commercial paper or
5 bank CDs. So we typically are favoring those
6 securities.

7 If we flip ahead for a minute two pages to
8 the asset slide, with all this fiscal stimulus,
9 obviously we've seen participants deposit a lot
10 of that money into Florida PRIME. And we've seen
11 higher highs and higher lows in our typical asset
12 flows.

13 We usually see assets start to come into the
14 fund during tax season in November. And assets
15 will pick up until we get into, you know, call it
16 March, April time frame, where then we see that
17 decline in assets throughout the summer months
18 and into the fall until tax season picks up
19 again. But if you look at this trend over the
20 past three years, you can see that we are hitting
21 higher highs and higher lows. Today's assets
22 stand at about 17.7 billion for the pool.

23 So the next page is just a summary of where
24 the pool stands at the end of -- this was at the
25 end of March, but it looks pretty much the same

1 if you look at the end-of-May data.

2 You can see the breakdown by the security
3 type on the left. Our exposures to foreign
4 countries -- and just as a reminder, this is
5 exposure. All U.S. dollar exposure, all this is
6 telling you is that a bank such as Australian &
7 New Zealand Bank is issuing CDs and commercial
8 paper out of their U.S. branch. So the home
9 country there is Australia, but the investment is
10 obviously in U.S. dollars. There's no currency
11 risk or anything in this pool.

12 And you can see the top ten holdings there
13 on the right-hand side, the bulk of which are
14 banks or bank-sponsored asset-backed commercial
15 paper programs because that's where we're seeing
16 the best value, as we saw from the graph
17 previously.

18 And just a reminder, the pool is rated AAA
19 by Standard & Poor's. So you can see the
20 breakdown of the short-term ratings there at the
21 bottom, the breakdown of the portfolio by
22 maturity type. We do not buy securities longer
23 than 397 days. And then our weighted average
24 maturity target.

25 The pool is not allowed to exceed a weighted

1 average maturity of 60 days by definition. And
2 we're targeting around 40 to 50 days. We've been
3 at the very high end of that range, just because
4 we do feel that the Fed is on hold and would like
5 to be as long as possible in this rate
6 environment.

7 The next couple of pages are performance for
8 the month of March and April. You can see the
9 performance of the pool itself on the top line
10 versus the -- was someone asking a question?
11 Sorry. No? Okay.

12 So the top line is performance of the pool
13 followed by the performance of the S&P LGIP
14 index, which is comprised of other state pools.
15 And then just the outperformance versus the
16 benchmark. And you can see that for March and
17 April. So the pool continues to perform very
18 well versus its competitors.

19 The next page is stress testing. And I
20 won't go into too much detail on this. This is
21 just -- as a reminder, we stress different
22 scenarios for the pool so that we're positive
23 that the portfolio is structured appropriately to
24 maintain that stable one dollar price, while
25 meeting the liquidity requirements of the

1 participants.

2 So on the next page, you can see, in the
3 footnotes that are highlighted, the different
4 blocks are highlighted in colors that show you
5 what these stresses are. So we're stressing for
6 a change in interest rates. We're stressing for
7 redemptions. We're stressing for our floater
8 spreads to widen out, and then we combine all of
9 those stresses.

10 One of the things that changed since we met
11 last year was, last year we were stressing for
12 credit events, changes to bank-related paper
13 only. But as we worked through the pandemic and
14 even before the pandemic, in the beginning of
15 2020, we started to stress our oil company
16 exposure, too, because you might recall oil took
17 a dive down to about \$15 a barrel at the
18 beginning of 2020, even before the COVID crisis.

19 So we are currently stressing all of our
20 exposure to banks, oil companies, as well as the
21 travel and leisure sector. Travel/leisure sector
22 is starting to improve, so we might -- you might
23 see that coming off of our stress scenarios in
24 the future, but for now, we're leaving that on
25 there, too.

1 If I could just take a minute, if there's
2 interest on slide -- I'm going backwards now to
3 the slides regarding LIBOR and LIBOR reform. I
4 know this is a hot topic, especially for bond
5 funds and for derivative investments, but it's
6 also an important topic for money market funds.

7 You may recall that historically we've held
8 20 to 25 percent in floating rate securities
9 within the Florida PRIME portfolio. Today that
10 percentage is down to 4, not because we want to
11 have 4 percent in floaters but because we don't
12 want to own LIBOR-based floaters anymore in this
13 product.

14 You may recall that the reform for LIBOR
15 initially was that LIBOR publications in the U.S.
16 were supposed to go away at the end of December
17 of 2021. What they did do, though, is they
18 revised that so that they are not -- the
19 regulators are not encouraging any new contracts
20 to be issued based on Libor, but they will
21 continue to publish those Libor numbers, so
22 one-month, three-month, six-month, 12-month U.S.
23 dollar LIBOR will be published until June 30th of
24 2023.

25 But since there's not going to be any new

1 issuance of LIBOR-based floaters, we're not
2 comfortable that there would be a two-way market
3 in those securities, meaning ample buyers and
4 sellers if you did buy a LIBOR-based floater. So
5 we've chosen not to add to LIBOR floaters. We've
6 let that position dwindle, and I think our last
7 LIBOR floater matures on July 23rd of this year.

8 We do continue to look for a replacement for
9 LIBOR, something that would be more indicative of
10 the security types that we can buy. You've
11 probably heard about SOFR, the secured overnight
12 funding rate, as a replacement for LIBOR.

13 The problem with the SOFR rate is it is
14 based on trades of Treasury repo securities on an
15 overnight basis. There's no term associated with
16 SOFR at this point. There's also no credit risk
17 associated with that, because it's backed by
18 Treasury securities.

19 So we're used to a LIBOR curve that has a
20 term structure, one month out to one year, as
21 well as credit, because LIBOR was a
22 representation of the 16 different LIBOR banks'
23 issuance of paper.

24 So one of the things that we're looking at
25 is SOFR is an okay index. We have purchased SOFR

1 floaters, but we price them as overnight
2 securities, just because it is just an overnight
3 index right now. We also look at Fed funds
4 floaters.

5 But on the next slide, there is an index
6 that has been around -- it has about three years
7 worth of history now, almost four. You might
8 have heard of it. It's called the BSBY Index.
9 And it stands for the Bloomberg Short-Term Bank
10 Yield Index.

11 And what we like about this index is it's
12 representative of actual live trades of 30 of the
13 global banks across the world and its trades
14 within each of the sectors of the curve,
15 overnight, one-month, three-month, six-month and
16 12 months. And every day they look for live
17 trades from those 30 different banks in each of
18 those sectors to publish a BSBY Index.

19 We have seen over the course of the past
20 couple of months some trades for some banks that
21 have issued paper that trades off of BSBY, so
22 it's one-month BSBY plus a spread or three-month
23 BSBY plus a spread. We haven't participated in
24 any of those securities yet because we don't like
25 the pricing. We feel we should be paid a little

1 bit more than the market offering because of the
2 newness of the index and because of the fact that
3 there's not a lot of two-way traffic yet in the
4 BSBY floaters.

5 But it is something that we're looking at.
6 We think that it's one of the indices that
7 probably will gain a little bit more momentum
8 maybe for a credit-based floater than SOFR or Fed
9 funds. So just something to keep in mind and
10 something that we may be looking at in the near
11 future.

12 And that's all the comments that I have
13 about the LGIP, unless there's any questions.

14 PETER JONES: Thank you, Paige. Are there
15 any questions? Very good. It seems like we
16 are -- Florida PRIME is in quite good shape, as
17 we expected it would be. So thank you for all
18 the presentations related to that.

19 So now we will move to section 6, review
20 changes to the Florida Retirement System pension
21 plan investment policy statement. So I'll turn
22 it over to Ash Williams for this portion.

23 MR. WILLIAMS: Thank you, Mr. Chairman. And
24 this is going to be a quick one. There's one
25 and -- well, really two changes, but they're

1 related. The main one is a high-class problem.
2 Reflecting the excellent performance of
3 Mr. Bradley and his team in private equity, we've
4 added 1 percent to the upper policy range for
5 private equity.

6 The reason we moved it from 9 to 10 is very
7 simply, if we have either a drawdown in the
8 global equity market, which would give us a
9 denominator issue, or we have continued upward
10 movements in PE, we don't want to become forced
11 sellers at the wrong time. So this just gives us
12 a little more flexibility. The only other change
13 is to make that change effective from 1
14 September 2021. Thank you.

15 PETER JONES: Any questions? Good summary,
16 Ash. I think we need a motion to approve those
17 changes to the policy statement.

18 MS. CANIDA: Tere Canida. I move.

19 PETER JONES: Do we have a second?

20 MR. COLLINS: I'll second it. Peter
21 Collins.

22 PETER JONES: All right. All in favor, aye.
23 (Ayes)

24 PETER JONES: Opposed? Okay. Motion
25 carried. So we are -- that concludes that

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1 section. Thank you. All right. Next section --

2 MR. COLLINS: Good job, Ash.

3 PETER JONES: Number 7, asset class updates.

4 And we'll start with global equity, Tim Taylor.

5 MR. TAYLOR: Yes. Good afternoon,
6 everybody. In the first quarter, equity markets
7 extended a rally, prompted by the positive
8 vaccine announcements from Pfizer and Moderna in
9 November. The market was also enthusiastic about
10 another U.S. stimulus package and also the
11 prospects of U.S. infrastructure legislation.

12 You can see in the lower left that cyclical
13 sectors were very strong. And the change in
14 market leadership from growth and momentum and
15 from large cap to value and small cap companies
16 continued.

17 Evidence of a spectacular year of absolute
18 returns is seen in the worst performing sector,
19 utilities, which was up only 24 percent. And you
20 see my quotation marks. That's my attempt at
21 humor for today.

22 Next page, please. We were encouraged by
23 our performance in Q1. We outperformed by 21
24 basis points. And remember, market leadership
25 changed. We'd been doing well, we did well,

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1 continue to do well in Q1 as market leadership
2 changed to different types of stocks, finally
3 finishing ahead after extended periods of
4 underperformance.

5 Also note the one year returns, the
6 benchmark return of almost 58 percent, we were
7 above that by almost 80 basis points. And if you
8 carry that out three years or five years, you can
9 see benchmark returns anywhere from 12 to
10 13 percent. So absolutely, John Bradley and his
11 team have had enviable returns, but don't forget
12 global equity is not too far behind.

13 I noted the one year benchmark return of
14 almost 58 percent. We measured that, of course,
15 beginning April 1st of 2020. And during that
16 time, you may recall, for those of you on the
17 committee, that's when the Florida Retirement
18 System purchased over a billion dollars of
19 equities on weakness over a one to two week
20 period roughly. So I wanted to point that out.

21 Longer term periods all continue to have
22 positive excess returns, acceptable measured
23 tracking error levels, and those calculate to
24 very strong information ratios.

25 Next page, please. This provides some added

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1 commentary about our active strategy aggregates.
2 What is notable here is that developed standard,
3 which had been a very successful aggregate,
4 underperformed in the first quarter. However,
5 overall performance was boosted by the continued
6 strength of our emerging market active managers
7 and positive numbers in several other groups,
8 including active management in dedicated U.S.
9 mandate. Historically, this has been a very
10 difficult and very challenging space for active
11 management.

12 We have some areas that did very well in Q1,
13 which we thought would do very well when market
14 leadership changed. Well, that's what happened.
15 And then finally the last page of my comments
16 today -- and of course I'm happy to answer any
17 questions, but the next page, it's an update on
18 our initiatives.

19 We've continued to be very busy since the
20 start of 2020. And even throughout the pandemic
21 and up to today, we continue to be very active.
22 In the first quarter of 2021, we funded three new
23 foreign developed small cap managers after
24 completing a manager search.

25 We also repositioned our U.S. large cap

1 active aggregate. We eliminated style
2 benchmarks. And beginning April 1st, we now
3 measure the performance of that group to the
4 Russell 1000 core benchmark.

5 Within that aggregate, we had been looking
6 at an opportunistic and differentiated strategy.
7 We came to the conclusion that the most
8 appropriate benchmark for it would be the Russell
9 1000 core. And so we've added that strategy and
10 funded it as part of our U.S. large cap active
11 aggregate.

12 We continue to be a significant provider of
13 liquidity. We expect we will continue to be in
14 the future. In 2020 calendar year we provided
15 over \$7 billion in beneficiary payments.

16 And my final prepared comment before I
17 certainly can answer any questions, next quarter,
18 I believe we're going to be on the agenda for a
19 larger, more detailed update, an annual update of
20 global equity. We've already started thinking
21 about the material and the information that we'd
22 like to present and share with you that day.

23 Mr. Chairman, those are my prepared
24 comments.

25 PETER JONES: Very good, Tim, thank you.

1 Any questions from the board? Okay. Good
 2 summary, Tim. Thank you for that. We're going
 3 to turn to fixed income now. So, Katy, you're
 4 up.

5 MS. WOJCIECHOWSKI: Good afternoon. I'm
 6 certainly not going to repeat anything that Paige
 7 gave you on the insights on what the Fed has to
 8 say, but suffice it to say that our cash guys
 9 were very excited to see repo go from 1 to 5.
 10 How exciting is that, 1 basis point to 5?

11 Okay. So you can see our asset class
 12 outperformed pretty handily over the past 12
 13 months. And then what we learned is what I've
 14 learned over a long time is don't fight the Fed.
 15 And they're pushing us to stopping the risk out,
 16 and that's what we did.

17 So all of our managers, all of our internal
 18 portfolios, external portfolios, we are
 19 overweight credit. Underweight mortgages,
 20 although that is something the Fed is buying.
 21 We're not significantly underweight. But
 22 continue to overweight credit, continue to look
 23 for interesting opportunities, because everybody
 24 in the world has that game.

25 Over the one, three and five year, we also

1 have pretty handy outperformance. It should
 2 taper off as we've kind of lowered our risk,
 3 lowered our opportunities. We're just trying to
 4 make sure we really, really have clean
 5 portfolios, so in the future at some point,
 6 continue to overweight those.

7 John, will you drive for me, please? Twelve
 8 month returns for the intermediate index were
 9 plus 42 basis points. The date there, plus one,
 10 year to date, that's our one year basis. I think
 11 I came in last year -- no, I know I came in last
 12 year and said I am not sure we'll be able to
 13 produce a positive return. And I was right,
 14 sadly. The full agg is actually underperforming
 15 about 40 basis points.

16 If you look, ten year Treasuries vacillated,
 17 1.40, 1.50. We got out to 1.80, sitting about
 18 1.50 right now. When you think about that, TIPS,
 19 10 year TIPS and your breakevens at 2.30, so
 20 something is mismatched in the market. We'll see
 21 who wins on that.

22 The Fed obviously wants to encourage
 23 inflation. We're investing in that way. One
 24 thing that really does well is short credit.
 25 We've really pushed the pedal on short credit,

1 gone down in credit there, but just continued to
2 overweight that sector.

3 I go through this every time just to point
4 this out. The intermediate agg actually is
5 winning on an absolute basis, but it always wins,
6 has won over the past five years, and since we
7 made the adjustment to a shorter benchmark on a
8 risk adjusted (indiscernible). So not very
9 exciting in absolute returns, but it has allowed
10 the overall fund to move risk in other places,
11 (indiscernible).

12 If you would flip one more, please. I said
13 this before and I'll say it again, there's just
14 not a lot of income. At 1 percent yield for four
15 year duration, not a lot of yield and you've got
16 to go out to (indiscernible), not a great
17 opportunity. I guess I'm not a great advocate of
18 my asset class, cheerleader. But we just try to
19 continue to be diligent, be careful, investing in
20 good credit, and the portfolios are clean, and
21 that's all we can do.

22 Flip to the last one for me, whoever is
23 driving. This will show it to you. We are still
24 overweight secured spread product. That's not
25 agency mortgages necessarily. We've invested in

1 some (indiscernible) securitizations, some CLOs,
2 securitized credit, opportunities to get a little
3 bit more yield and just credit in general.

4 We've also delved a bit more into the ETF
5 space and (indiscernible), just because it's very
6 difficult to really gain access quickly in
7 credit. We want to increase exposure. But if
8 you look, our risk numbers, our active risk has
9 gone way down, much a function of where we were a
10 year ago. It should be steady as she goes.

11 I think I have one more slide. So we
12 increased our allocation recently to our short
13 credit mandate. We continue to look for more
14 opportunities in the core plus space, just to
15 give our managers a little bit more degree of
16 freedom. Other than that, it's sleep well at
17 night. I think that's all the comments I had.
18 Any questions?

19 MR. COLLINS: I have a question, Mr.
20 Chairman.

21 PETER JONES: Please.

22 MR. COLLINS: So Alison started off the
23 meeting on the inflation discussion, and then
24 Paige obviously talked quite a bit about it. You
25 know, to me, inflation is always transitory,

1 right? It just depends on how long that period
2 is, right? You could be transitory for ten
3 years, right? So when we talk about it being
4 transitory, my next question is, okay, well, how
5 long is it going to be -- how long is that
6 transitory period, and then where are we setting
7 ourselves up?

8 And so you said, to go after yield, you've
9 been going down credit a little bit, right? So
10 as we go down credit, are they more susceptible
11 to rising interest rates?

12 MS. WOJCIECHOWSKI: Not particularly, no.
13 You might think so if you believe
14 (indiscernible). But you have a lot of
15 opportunity between now and when the Fed starts
16 to move.

17 MR. COLLINS: So will you actively trade
18 those, or those aren't passive, those are
19 actively traded portfolios.

20 MS. WOJCIECHOWSKI: (Indiscernible). By the
21 way, internally we only have an investment grade
22 portfolio, so it would be our external
23 (indiscernible).

24 MR. COLLINS: So last question is, what is
25 the period? How long is the period?

1 MS. WOJCIECHOWSKI: We've talked to several
2 people who consult with the Fed. They say two
3 years could be transitory. And they have said
4 repeatedly, we are going to be patient. They
5 feel like they have a lot of tools to attack
6 inflation if it gets too high. It's very
7 difficult for them to guess.

8 But I think they are very comfortable, from
9 what we are told, only as good as the information
10 we receive, that they have ten tools to lower
11 inflation, one tool (indiscernible). And given
12 the age, the demographics of the country, the
13 growth prospects, it's going to be tough to keep
14 inflation above 2 percent.

15 MR. COLLINS: Okay.

16 MS. WOJCIECHOWSKI: I am not
17 (indiscernible), and they certainly don't listen
18 to me.

19 MS. CANIDA: Katy, this is Tere Canida.
20 What is the average duration of your short credit
21 manager?

22 MS. WOJCIECHOWSKI: Our short credit
23 manager? The benchmark is one to three.

24 MS. CANIDA: Okay.

25 PETER JONES: Any other questions or

1 comments? Okay. Well, Katy, thank you. We are
2 excited for the 1 basis point to 5 basis point
3 increase. It's all relative. Okay. We're going
4 to move to real estate. Steve Spook.

5 MR. SPOOK: Good afternoon, Peter and Robb.
6 Look forward to seeing the rest of you at the
7 next IAC meeting and getting back totally to more
8 normal. Is the speaker on? The light is on.
9 I'm looking forward to seeing all of you.

10 So, John, the next slide, please. So right
11 there, real estate is showing 8.9 percent
12 allocation as of 12/31/2020. (Indiscernible).
13 As of today, because global equities continue to
14 climb (indiscernible) target allocation is a
15 reminder.

16 Next page, please, John. Here is the
17 leverage page, and the next page gives detail on
18 leverage. Happy to address any detail on that.
19 Peter, did you have a question?

20 MR. COLLINS: I just said the entire IAC has
21 expressed interest in that.

22 UNIDENTIFIED SPEAKER: Steve, would you
23 maybe see if you can move that mike a little bit
24 closer to you? We're having some people that are
25 just having a little hard time.

1 MR. SPOOK: Is this better? Okay. Next
2 page, please, John. Here again, specifically on
3 principal investments, which is again the
4 portfolio where we have the most control over --
5 over the level of leverage. It very slightly
6 continues to climb, and we plan in the future
7 (indiscernible).

8 Next page, please, John. Here's the
9 performance. I'm showing one, three and five
10 year returns, all of which we are outperforming.
11 The total portfolio, just a couple of comments
12 there. For the one year return through
13 12/31/2020, the core portfolio was by far the
14 biggest contributor to returns. The second
15 biggest was -- the second highest risk asset
16 type, which is value added, and then
17 opportunistic was the lowest return here.

18 Then you go to the fourth quarter, when
19 we're starting to see some recovery in the real
20 estate markets, in the higher risk categories
21 (indiscernible).

22 Next page, please, John. This is breaking
23 down the total portfolio, first into principal
24 investments, which is our direct-owned portfolio.
25 And here, again, outperformance across all time

1 periods. In particular the one year was
 2 particularly strong. The top ten drivers of
 3 performance there for the one year were medical
 4 office building, not surprising, self storage,
 5 not surprising. By far the biggest contributor
 6 was industrial.

7 But perhaps a little more surprising were
 8 two out of those top ten were two very large
 9 office buildings. We've all been hearing about
 10 work from home, office is dead. Well, I think
 11 this proves that (indiscernible) performed well
 12 in one case, and it's (indiscernible).

13 We have an office building in Washington,
 14 D.C. We extended a full building lease, 15
 15 years. It almost doesn't matter (indiscernible).
 16 Another office building is our biggest asset.
 17 It's in LA. We consider it probably one of the
 18 top five office buildings in LA.
 19 (Indiscernible). Despite being office, all the
 20 negatives, we still have office (indiscernible).

21 Detractors, for the one year in principal
 22 investments, were retail, senior housing, New
 23 York office, number one loser, and San Francisco,
 24 which is showing signs of bouncing back.

25 Next page, please, John. So externally

1 managed is our commingled funds, REITs. And,
 2 again, drivers for the one year -- and I keep
 3 focusing on the one year (indiscernible).
 4 Normally we look at longer time periods. But the
 5 drivers, again, were kind of as expected
 6 (indiscernible). Industrial led the way
 7 (indiscernible). Alternative focused funds
 8 (indiscernible). Detractors, again, is senior
 9 housing, hotels that we own. (Indiscernible).
 10 Next page, please.

11 PETER JONES: Steve, I'm sorry. This is
 12 Peter Jones. You're going in and out a little
 13 bit, at least for us on the virtual. So maybe a
 14 little closer to the mike, please.

15 MR. SPOOK: Yes. I'll do that. And if
 16 there's anything you would like me to repeat,
 17 please let me know.

18 PETER JONES: That sounds great now. Thank
 19 you.

20 MR. SPOOK: So the next slide is private
 21 market property type diversification. Now, there
 22 are adjustments we'd like to make to those, given
 23 lessons learned in coronavirus and changes in
 24 secular trends.

25 Unlike Katy, I'm not quite able to rebalance

1 as quickly as she can to conditions. The assets,
2 of course, that you want to get out of today are
3 illiquid, and the ones you want to get into are
4 so liquid that the pricing is challenging. But
5 we are working long-term on rebalancing the
6 portfolio. It's just going to take some time.

7 In general, we would like to reduce our
8 office exposure. But, then again, that's very
9 nuanced. There are certain types of assets in
10 office exposure that we would like to increase
11 our exposure to.

12 Life sciences might be -- to the extent that
13 it is included in the office sector, we certainly
14 want to increase that. Creative office would be
15 something that we'd want to increase, too, and
16 just the highest quality office (indiscernible).
17 Same with apartments, we'd like to increase that
18 (indiscernible). And other, we're already up
19 there but (indiscernible).

20 Next page, please, John. Here's geographic
21 diversification. I don't really have a whole
22 bunch of comments there. Fairly close to our
23 ODCE exposure. Again, we can operate
24 (indiscernible). Certain ranges, certain
25 geographies we are less comfortable with and

1 continue to be less comfortable with, the Midwest
2 being one of those geographies (indiscernible).

3 And next page, John. Recent activity. The
4 quarter looks like it was kind of quiet. The
5 quarter previous to that was very busy. We have
6 a robust pipeline that just wasn't at a point
7 that I felt comfortable putting it into this
8 report until they are more fully baked. So we'll
9 be discussing some of those at the next IAC
10 meetings.

11 But we did two acquisitions, closed two
12 acquisitions. One is a life science development
13 deal in the San Francisco peninsula, which life
14 sciences is very important to build in clusters.
15 Scale matters. People in the life science
16 community want to be near each other.

17 Medical office, that is a continuation of an
18 aggregation strategy in building portfolios,
19 (indiscernible). Dispositions, four student
20 housing properties. We continue to own a large
21 student housing portfolio, and we're adding to
22 it. And industrial, two dispositions there.
23 It's something that most people don't want to get
24 rid of. This one (indiscernible). But even in
25 industrial there's (indiscernible).

1 And that's all I have. If anyone has any
2 questions as it relates to real estate, I'm happy
3 to do that.

4 PETER JONES: Thank you, Steve. Any
5 questions from the IAC council? Okay. Well,
6 very good. Thanks again, Steve. We appreciate
7 the good update. And our last asset class update
8 is going to be on strategic investments. Trent
9 Webster, we'll turn it over to you.

10 MR. WEBSTER: Can everybody hear me okay on
11 the virtual?

12 PETER JONES: Yeah, you sound great. Thank
13 you.

14 MR. WEBSTER: I have a double microphone
15 here. The first slide here, we'll look at the
16 portfolio. This is a breakdown of our portfolio
17 by sub-strategy. What we expect to happen over
18 time is that we expect more of our risk assets to
19 grow. So the blue and the pink parts of the
20 portfolio are going to get bigger. Green
21 probably gets a little bigger, and the purple is
22 probably going to get smaller.

23 Part of that is because we're going to see
24 redemptions coming through with some of the funds
25 that did not protect well during the pandemic,

1 and also simply because risk strategies are
2 generating higher (indiscernible) increase in our
3 risk assets.

4 Another way to look at our portfolio --
5 John, if you could switch over to the next page.
6 If you think about a 60/40 portfolio in stocks
7 and bonds, where stocks are growth and bonds
8 provide protection and some income, we can slice
9 our portfolio in a similar way, with the red part
10 of this graph are primarily in assets, which are
11 growing. They may have some income, but they're
12 primarily focused on growth.

13 And then the blue part of this graph is
14 those strategies which are focused on income and
15 those which have a diversifying element, the same
16 way that, say, Treasuries would perform in a
17 portfolio. And this is not by design, but our
18 60/40 portfolio (indiscernible).

19 So, John, if you could switch over to the
20 next page, please. So this is performance. The
21 one year number looked pretty bad. This is a
22 result of the mismatching of accounting
23 statements to short-term benchmarks going back at
24 the end, a year ago in March and April of 2020.

25 If you look at -- this is for the end of

1 March. If you look at this as of the end of
2 April, we're underperforming by about -- I think
3 it's 380 basis points. I'm looking at the
4 preliminary numbers right now for May. The one
5 year number we're actually up by, it looks like,
6 140 basis points. So there's a timing issue
7 here. We're still lagging on a three year basis,
8 but we're coming (indiscernible). Hopefully
9 we'll catch that by the (indiscernible).

10 John, next slide, please. So we've been
11 very active this year. Our fiscal cash outflow
12 has been \$1.28 billion, which makes it one of our
13 more active years. We put a lot of money to work
14 with the opportunities that the pandemic created.

15 Our activity going forward is slowing, as we
16 would expect. We closed on four funds the first
17 quarter. We've got five funds that closed this
18 quarter, and four funds are in the pipeline.

19 John, next, please. So this is our
20 pipeline. We've got two debt funds and two real
21 asset funds. This will start to pick up a little
22 bit as we go forward, but it's not going to be
23 anything like what it was a year ago.

24 John, next slide, please. And this is
25 finally our investment themes. The one thing

1 that's going to be very interesting is when they
2 start raising interest rates and what happens to
3 this incredible ocean of debt in Katy's world.
4 That could trickle down to our world. I notice
5 that -- I saw that the Fed is purchasing
6 (indiscernible).

7 We're going to see how the credit markets
8 are able to absorb this huge amount of debt in
9 the system when the Fed starts raising interest
10 rates. And if it can't, we'll be right there
11 with our funds to scoop it all up.

12 Any questions? Thanks, everyone.

13 PETER JONES: Okay. Trent, thank you for
14 the good summary as well. So that concludes
15 section 7, asset class updates. We will now go
16 to section 8, major mandate performance review.
17 And once again, Kristen and Katie with Aon, and
18 sounds like you're earning overtime today.

19 MS. COMSTOCK: Hello, everyone. So not too
20 much. We already covered two of the major
21 mandates, the investment plan and Florida PRIME.
22 So we'll cover the remaining three and start with
23 the pension plan.

24 If we could turn to slide 202, and we'll see
25 just a snapshot. This is all through March 31st

1 of 2021. You see the pension plan ended the
2 quarter with \$189 billion in assets under
3 management. That's growth for that fiscal year
4 to date period, which is July through March, of
5 about \$28 billion, net of benefit payments and
6 expenses.

7 And I know Ash had given some updated
8 numbers which look even better for the fiscal
9 year to date period. I believe the portfolio is
10 up another \$10 billion or so.

11 If we flip ahead two pages, jump right into
12 performance. And you just heard from all of the
13 asset class heads, and as you can imagine,
14 returns for the total fund are extremely strong.
15 Page 204 looks at the total FRS investment plan,
16 4 percent for the quarter, but for the one year,
17 the total plan returned 33 percent. You can see
18 on an absolute basis how that's impacted trailing
19 performance, very strong returns over the
20 trailing three, five, ten and 15 year periods.

21 On a relative basis, strong outperformance
22 across these time periods. The one period that
23 you'll notice some modest underperformance is
24 over that one year period. The primary driver of
25 this is relative performance of private equity

1 and a little bit also from strategic investments.

2 These are more timing and benchmarking
3 issues, as you've just heard. The private equity
4 portfolio for the one year period, on a
5 time-weighted return basis, was 28 percent for
6 that one year period. That's relative to its
7 benchmark that it's compared to, which is public
8 equities plus a premium, and that benchmark was
9 up 60.7 percent.

10 So benchmarking private equity is extremely
11 difficult, especially when you see some strong
12 periods of volatility in public markets. But
13 you've heard from your investment team how well
14 the private equity portfolio is doing, and we
15 expect that the deviations between actual and the
16 benchmark performance to balance out over the
17 long-term.

18 On the next slide we look at longer term
19 performance. And here we are focused on the
20 absolute nominal target rate of return and
21 returns over 20, 25 and 30 years. We can see how
22 this strong performance recently has impacted
23 these results. The portfolio has generated very
24 strong returns and relative performance as well,
25 outperforming its benchmark between 1 and 2

1 percentage points across all of these time
2 periods.

3 Next we look at performance relative to the
4 peer group on page 206, the next slide. We first
5 touch on asset allocation, as that is the primary
6 driver of returns, and will explain largely the
7 differences between performance of the FRS plan
8 and the peer group.

9 This is the TUCS top ten. So this is
10 looking at the top largest U.S. pension plans.
11 And you can see on the right, the median plan's
12 asset allocation, not too dissimilar from the
13 FRS, mostly within global equities.

14 Notable differences, which are fairly modest
15 at the end of this quarter, is a greater
16 allocation to international securities that the
17 FRS has relative to that peer group, with a
18 modest underweight to what we consider, what we
19 bucket as alternatives, and that's strategic and
20 private equity for the FRS.

21 Now, if you look at the following page, how
22 this impacted relative performance, here we're
23 looking at gross of fees, and this is so we can
24 provide an apples-to-apples comparison to the
25 peer group. You can see across the board, the

1 FRS has outperformed the median plan's returns
2 across all time periods shown.

3 And not to move too quickly, but then on
4 page 208, at the bottom, we show the ranks of
5 where the total FRS has ranked within this peer
6 group. And you can see for the one year, it was
7 at the top, within the 15th percentile, and then
8 across time periods, above the median plan over
9 the three, five and ten year period. So strong
10 performance across the board for the pension
11 plan.

12 Are there any questions before we move on to
13 the other two major mandates? Okay. Hearing
14 none, if we flip all the way to page 212, we'll
15 quickly touch on the Hurricane Catastrophe Funds.
16 You've heard from a number of individuals where
17 yields are, and so it's no surprise.

18 This is a short-term capital preservation
19 primarily investment portfolio. And so you can
20 see near-terms returns, really returns over the
21 past ten years is extremely low, though in line
22 with benchmark and ahead of the benchmark across
23 all of these time periods. There was about
24 \$12.9 billion in the operating funds at the end
25 of March 2021.

1 And then the last major mandate that I will
2 hit on is the Lawton Chiles Endowment Fund. And
3 if you want to flip ahead to page 215. As a
4 reminder, this portfolio is primarily invested in
5 global equities. Roughly 73 percent of the
6 investment portfolio has exposure to public
7 global equity.

8 At the end of March, the portfolio had grown
9 to just north of \$1 billion. And you can see on
10 this slide the strong performance that the
11 portfolio has experienced over the one year,
12 42.1 percent, so a nice boost in assets. And you
13 can see that relative performance has been very
14 strong as well. The one active manager is within
15 that global equity asset class and has performed
16 favorably over these time periods.

17 Those were all of the major mandates. If
18 there are any other questions, though, on the
19 investment plan or Florida PRIME, we're happy to
20 answer those, or on any of the other three that I
21 just touched on, I'm happy to answer those as
22 well.

23 PETER JONES: All right. Thank you for
24 that. And any questions or comments from the
25 council? Okay. Well, thank you again. We're

1 down to the final section. And I will ask if the
2 audience has any comments or questions.

3 All right. Hearing none, our next meeting
4 is going to be September 20th. And I'm jealous
5 that so many of you are in Tallahassee in person.
6 I know, for one, I'm very much looking forward to
7 being back in Tallahassee with you at our next
8 meeting on September 20th. The schedule is
9 actually behind Tab 9 in your book.

10 And finally, I just want to thank the
11 presenters for a good job, well done. I know
12 that it takes time for preparation. Also the SBA
13 staff for an excellent meeting and coordination
14 and also my IAC colleagues for their engagement
15 and time, because I know it does take time. So
16 thank you for that. So that is it. So I will --
17 at 4:05 this meeting is now adjourned.

18 (The meeting concluded at 4:05 p.m.)

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June 29, 2021

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CERTIFICATE OF REPORTER

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STATE OF FLORIDA
COUNTY OF LEON

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

Dated this 19th day of July 2021.



JO LANGSTON, RPR



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Date: August 30, 2021
To: Board of Trustees
From: Todd Neville, Audit Committee Vice-Chair
Subject: Quarterly Audit Committee Report

The State Board of Administration's Audit Committee met on August 30, 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.

A handwritten signature in black ink, appearing to read "Todd Neville".

Todd Neville

STATE BOARD OF ADMINISTRATION
Audit Committee Meeting
Agenda
August 30, 2021
9:30 A.M. – Noon

1. Call to Order
2. Approval of the meeting minutes from May 24, 2021
3. SBA Executive Director & CIO status report
 - SBA Update: investment performance, risks, opportunities and challenges
4. Presentation of RFQ for Real Estate Pool of Firms to Provide Audit, Tax and Other Services
 - a. Approval for final selection of respondents
5. Presentation of FHCF Financial Statement Audit ITN
 - a. Draft ITN
 - b. Members of the evaluation committee
 - c. Proposed universe of providers
6. Chief Risk & Compliance Officer Quarterly Report
 - a. ODD Overview: Third Party Investment Partners and Managers
 - b. Trading counterparty overview
7. Annual review of the charters
 - a. Audit Committee
 - b. Office of Internal Audit
8. Office of Internal Audit Quarterly Report
9. Office of Inspector General Quarterly Report
10. Other items of interest
11. Closing remarks of the Audit Committee Chair and Members
12. Adjournment



Office of Internal Audit (OIA) Quarterly Report to the Audit Committee

August 30, 2021



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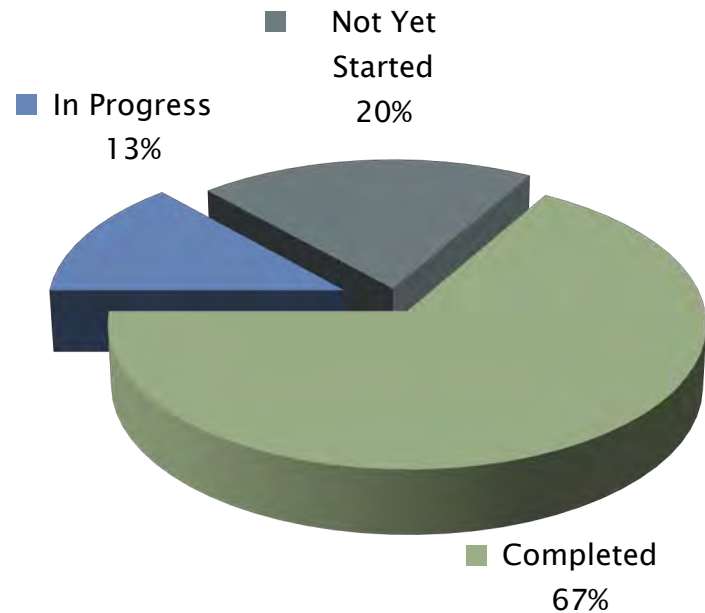


Status of the FY 2020–21 Annual Audit Plan



Status of the FY 2020–21 Annual Audit Plan

Internal Audit and Advisory Engagements



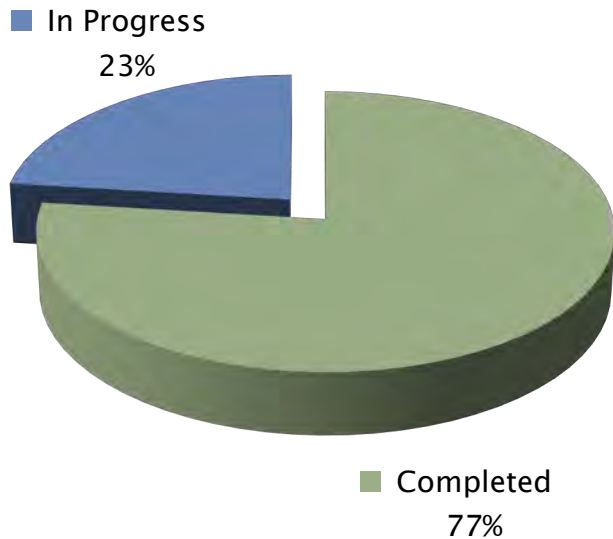
Highlighted: Completed since prior quarterly report.

<u>Projects Status</u>	<u>Type</u>	<u>Planned Timing</u>
Completed		
Real Estate - Direct Owned	OIA Operational Audit	Q1
Periodic Follow-up Audit	OIA Follow-up Audit	Q1-Q2
Business Continuity/Disaster Recovery Audit	OIA Operational Audit	Q1-Q2
Investment Policy & Asset Allocation – Liquidity Management	OIA Operational Audit	Q1-Q2
Security Configuration & Vulnerability Patch Management	OIA Advisory	Q2-Q3
Periodic Follow-up Audit	OIA Follow-up Audit	Q3-Q4
Continuous Monitoring - General	Continuous Monitoring	Ongoing/ Complete for FY20-21
Data Analytics - Strategy	Data Analytics	
Continuous Risk Assessment	Data Analytics	
Action Plan Monitoring	Project Management	
In Progress		
Private Equity	OIA Operational Audit	Q3-Q4
Contract Management	Continuous Monitoring	Q4
Not Started		
Identity and Privileged Access Management Advisory	OIA Advisory	Q3-Q4
Proxy Voting Phase 3	OIA Advisory	Q1-Q2
FHCF Examination Process	OIA Advisory	Q2-Q3



Status of the FY 2020–21 Annual Audit Plan

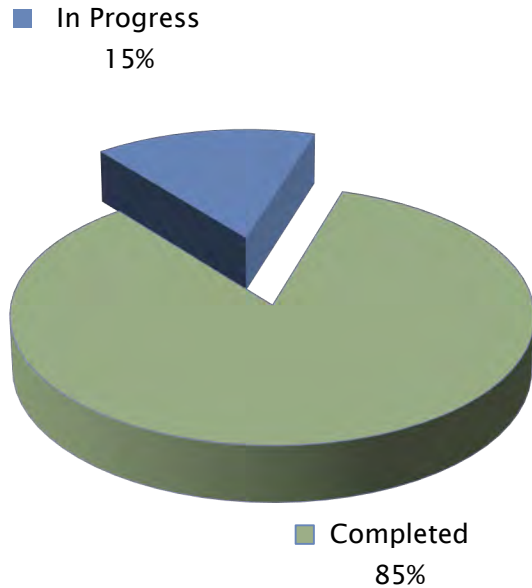
External Engagement Oversight



<u>Project Status</u>	<u>Service Provider</u>	<u>Type</u>	<u>Planned Timing</u>
Completed			
Florida Retirement System (FRS) Trust Fund	Crowe	External Financial Statement Audit for FY19-20	Q1/Q2
FRS Investment Plan Trust Fund	Crowe	External Financial Statement Audit for FY19-20	Q1/Q2
Florida PRIME	Auditor General	External Financial Statement Audit for FY19-20	Q1/Q2
AG PRIME and ITGC Operational Audit	Auditor General	External Operational Audit	Q1/Q2
Florida Hurricane Catastrophe Fund	KPMG	External Financial Statement Audit for FY19-20	Q1/Q2
Network Security, outsourced	BDO	External IT Assessment	Q1/Q3
Part of the Statewide CAFR	Auditor General	External Financial Statement Audit for FY19-20	Q2/Q3
Florida Growth Fund Initiative	OPPAGA	External Review	Q1/Q2
Biennial Review	OPPAGA	External Review	Q1/Q2
FMR and DC Investment Plan	Auditor General	External Operational Audit	Q1/Q3
In Progress			
Florida Retirement System (FRS) Trust Fund	Crowe	External Financial Statement Audit for FY20-21	Q3/Q4
FRS Investment Plan Trust Fund	Crowe	External Financial Statement Audit for FY20-21	Q3/Q4
Florida Hurricane Catastrophe Fund	KPMG	External Financial Statement Audit for FY20-21	Q3/Q4
Not Started			
None			

Status of the FY 2020–21 Annual Audit Plan

Special Projects, Risk Assessments, and Other Activities

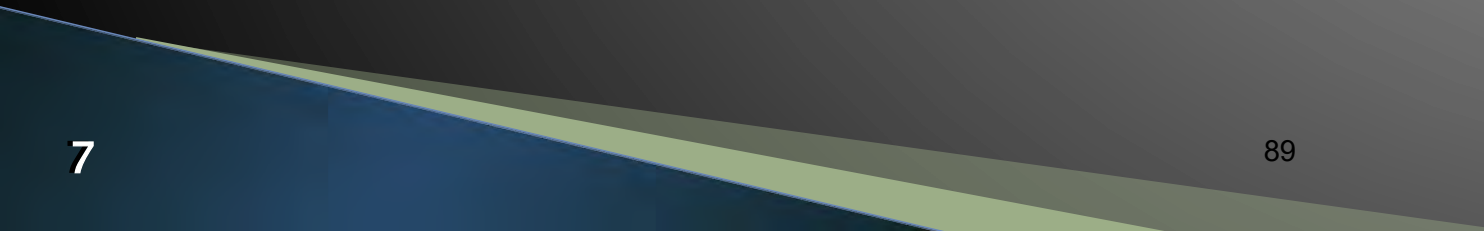


Highlighted: Completed since prior quarterly report.

<u>Project Status</u>	<u>Type</u>	<u>Planned Timing</u>
Completed		
RFQ for Financial Close Solution	Part of Evaluation Team	Q1
Annual Risk Assessment	OIA Risk Assessment	Q4
Annual Audit Plan	OIA Risk Assessment	Q4
RFQ for Real Estate Pool of Auditors	OIA Special Projects	Q4
Annual Quality Assessment Review - Self-Assessment	OIA Quality Assurance	Q4
Data Analytics Tools Enhancements - Tableau	OIA Special Projects	Ongoing/ Complete for FY20-21
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	
In Progress		
Integrated Risk Management Solution Enhancements	OIA Special Projects	Q1-Q4
Robotics Process Automation	OIA Special Projects	Q1-Q4
Not Yet Started		
None		



Status of Management Action Plans/Recommendations





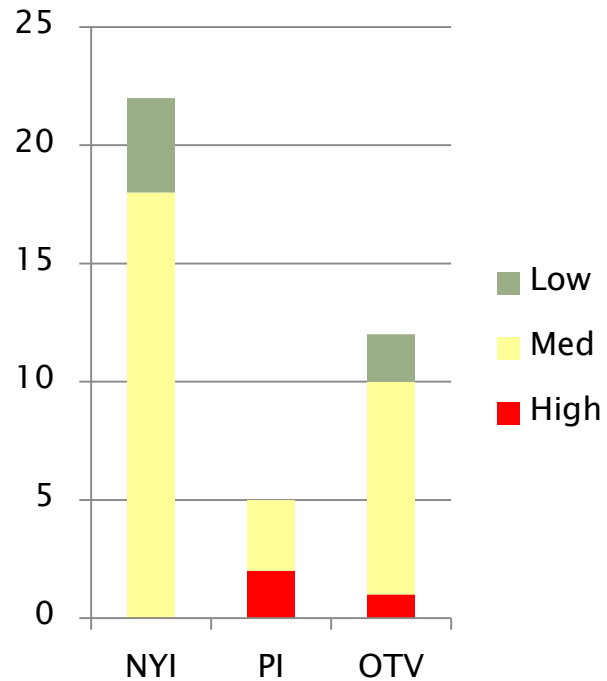
New/Closed Action Plans & Recommendations

Audit and Advisory Engagements

# of Recs	Source	
<u>New action plans and recommendations:</u>		
24	Security Configuration and Vulnerability Management Advisory	
24	Total action plans/recommendations added to the database	
<u>Closed action plans and recommendations:</u>		
1	Incentive Compensation Program Operational Audit	Closed as a part of the 2021-05 Periodic Follow-up Audit Report (see Appendix B)
5	Procure to Pay Operational Audit	
3	Business Continuity and Disaster Recovery Operational Audit	
9	Total action plans/recommendations closed in the database	
15	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

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	3	2	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	6		6	12
3	30	6	39	22	5	12	39
8%	77%	15%		56%	13%	31%	

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

		Status			
Report Title	Report Date	NYI	PI	IMP	Total
Governance, Risk Management, and Compliance Assessment (Funston) ¹	1/15/2018	3	22		25
Network Security Assessment 2018 (BDO) ²	11/15/2018	2	1	2	5
Network Security Assessment 2019 (BDO) ²	11/21/2019	3	1	44	48
CIS CSC Framework Gap Assessment Advisory ¹	3/19/2020	14	3		17
Network Security Assessment 2020 (BDO) ²	1/5/2021	12		16	28
Security Configuration and Vulnerability Management Advisory ¹	8/3/2021	24			24
		58	27	62	147

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
- NA - Not accepted by SBA management

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.

¹At 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.

²Recommendations will be reviewed for remediation and closure as part of the subsequent Network Security Assessment.



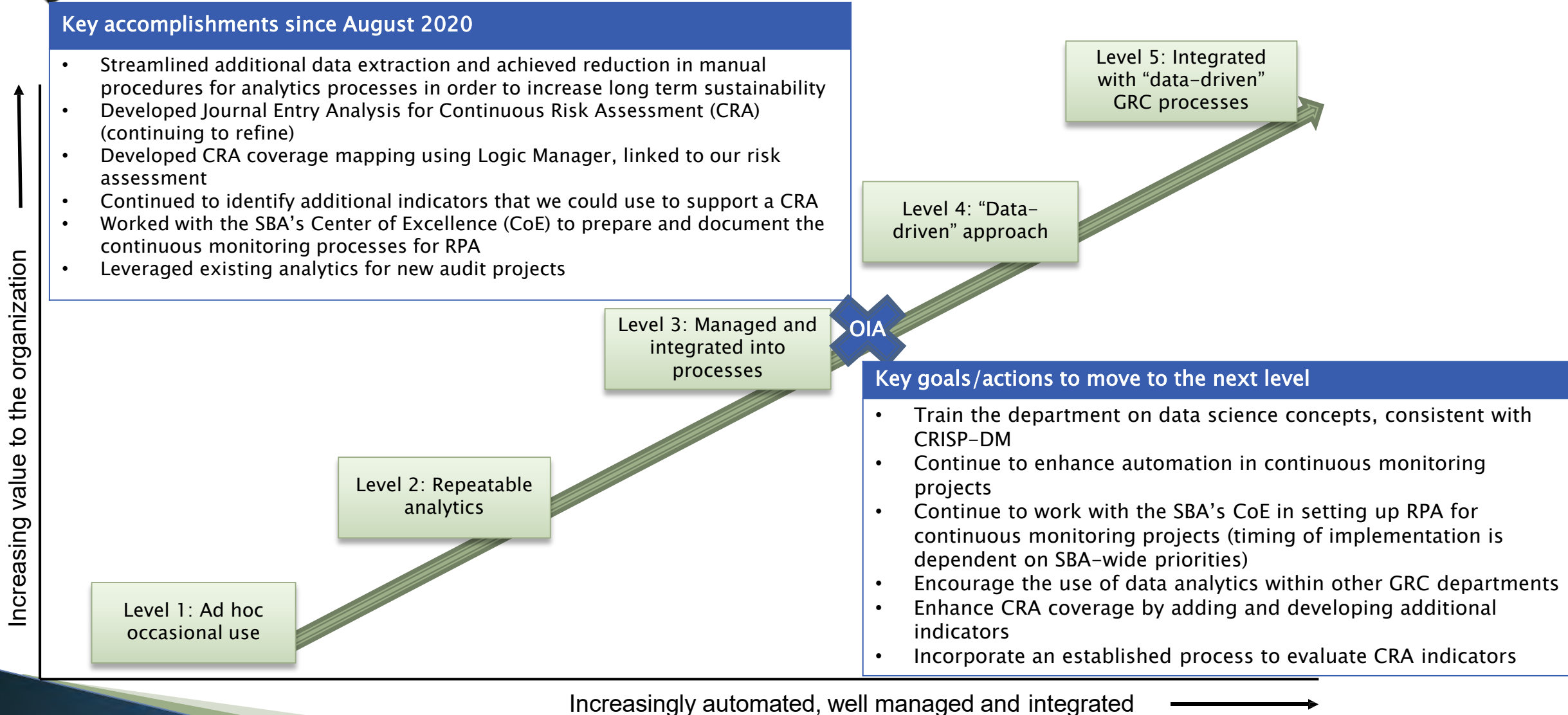
Data Analytics >>



OIA Data Analytics Strategic Goals

1. Risk Assessments	2. Engagement Planning and Execution	3. Continuous Monitoring or Auditing
A. Use data analytics to identify high risk areas to include in OIA's annual audit plan B. Develop continuous monitoring of key risk indicators to determine if changes to the annual audit plan are needed (continuous risk assessment)	A. Utilize existing continuous analytics across the program to further support engagement planning and execution	A. Continue to support sustainability of continuous analytics through additional automation, live connections, and support of SBA's use of Tableau Server and data governance B. Continue to evaluate critical success factors for the program to improve the quality and use of OIA's continuous monitoring and data analytics. C. Evaluate the potential use of Robotics Process Automation for continuous audit projects.

OIA Data Analytics Maturity Model & Progress





Quality Assurance and Improvement Program (QAIP) »»



QAIP Program

- ▶ The Standards issued by The IIA require that an internal audit department maintain a QAIP.
- ▶ The OIA's QAIP contains:
 - ▶ Internal assessments that include both ongoing monitoring and periodic assessment.

Ongoing Monitoring	Periodic Assessment
• Progress tracking of Annual Audit Plan • Supervisory review of work papers • Maintenance of recommendations/action plans and status • Maintenance of OIA procedures manual • Engagement-specific QA assessments and related verifications • Completion of required continuing professional education	• Annual internal quality assurance self-assessment for years when an external assessment is not performed. The results are presented in this report. • Annual review of OIA Charter

- ▶ External assessments are conducted every five years, under the direction of the Audit Committee, by a qualified, independent reviewer.
 - ▶ This Governance, Risk Management and Compliance (GRC) assessment conducted periodically includes OIA in the scope of assessment.
- ▶ Quality Initiatives are incorporated into OIA's department goals.
- ▶ The CAE updates the Audit Committee on the implementation status of the departmental goals during the quarterly meetings.



OIA's Quality Assessment Results

		GC	PC	DNC	NA
OVERALL		X			
ATTRIBUTE STANDARDS		X			
1000	Purpose, Authority, and Responsibility	X			
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the <i>Standards</i> in the Internal Audit Charter	X			
1100	Independence and Objectivity	X			
1110	Organizational Independence	X			
1111	Direct Interaction with the Board	X			
1120	Individual Objectivity	X			
1130	Impairments to Independence or Objectivity	X			
1200	Proficiency and Due Professional Care	X			
1210	Proficiency	X			
1220	Due Professional Care	X			
1230	Continuing Professional Development	X			
1300	Quality Assurance and Improvement Program	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
PERFORMANCE STANDARDS		X			
2000	Managing the Internal Audit Activity	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
2100	Nature of Work	X			
2110	Governance	X			
2120	Risk Management	X			
2130	Control	X			
2200	Engagement Planning	X			
2201	Planning Considerations	X			
2210	Engagement Objectives	X			
2220	Engagement Scope	X			
2230	Engagement Resource Allocation	X			
2240	Engagement Work Programs	X			
	Performing the Engagement	X			
2310	Identifying Information	X			
2320	Analysis and Evaluation	X			
2330	Documenting Information	X			
2340	Engagement Supervision	X			
2400	Communicating Results	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			
2500	Monitoring Progress	X			
2600	Communicating the Acceptance of Risks	X			
IIA CODE OF ETHICS		X			
DEFINITION OF INTERNAL AUDITING		X			



FY 2020–21 OIA Metrics >>

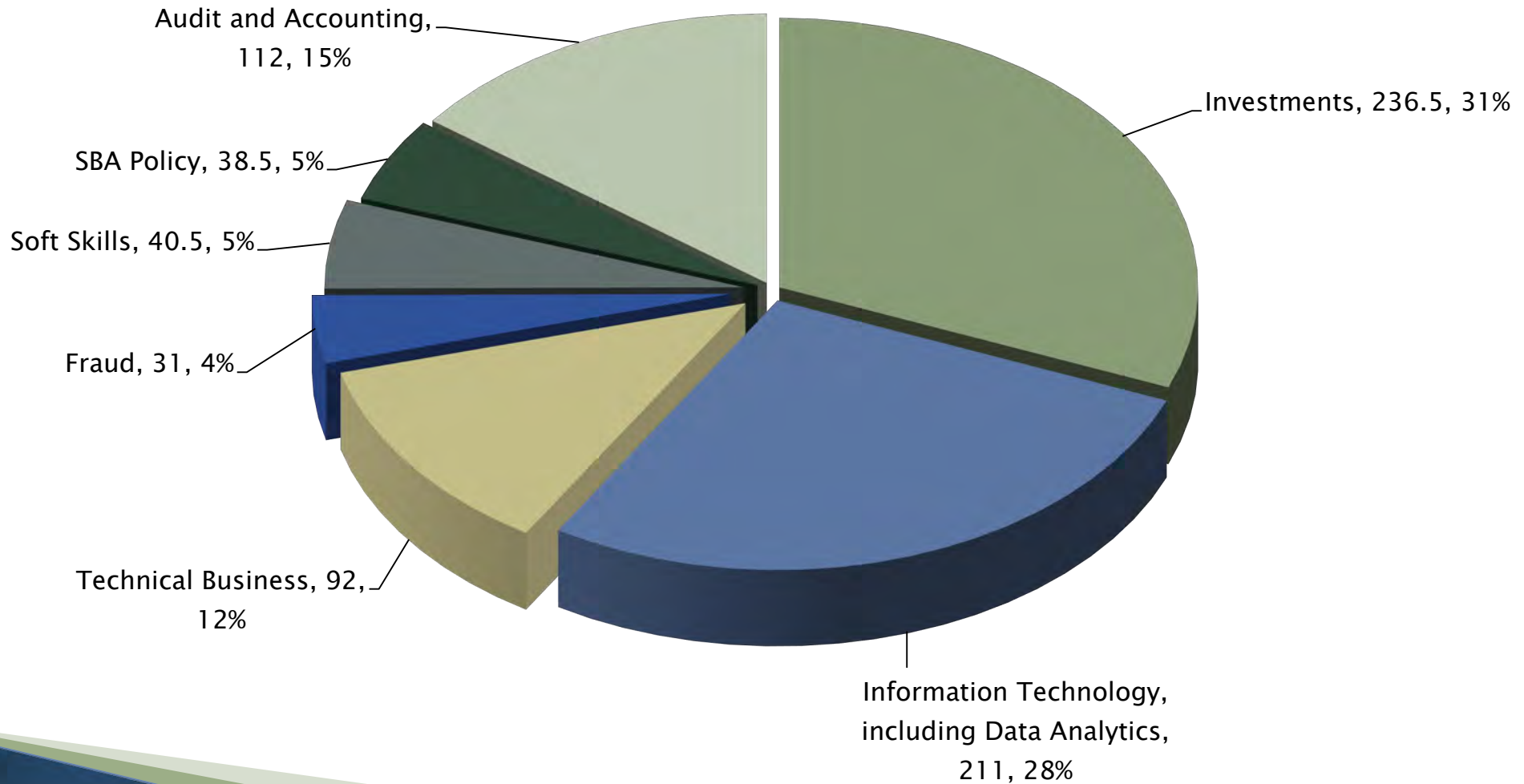
Budget to Actual Comparison FY 2020–21

Category	Budget	Percent	Actual	Percent	Budget to Actual Over / Under	Explanation for any difference greater than 1%
Audit/Advisory Projects	5,334	42.74%	5,549	44.98%	-2.24%	Carryover of the Real Estate Direct Owned Audit and additional hours needed for Business Continuity/Disaster Recovery Audit and the IP&AA Liquidity Management Audit
Oversight of External Auditors	438	3.51%	397	3.22%	0.29%	
Special Projects	336	2.69%	542	4.39%	-1.70%	LogicManager Enhancements and Development
Risk Assessment	547	4.38%	419	3.40%	0.98%	
Audit Committee Related Activities	319	2.56%	263	2.13%	0.43%	
Leave & Holidays	2,810	22.52%	2,398	19.44%	3.08%	Less time taken for leave due to pandemic
Continuing Education	926	7.42%	909	7.37%	0.05%	
Quality Assessment Review	159	1.27%	141	1.14%	0.13%	
Administrative	1,611	12.91%	1,718	13.93%	-1.02%	Minor amount over budget mainly due to working out issues with remote working
Total	12,480	100%	12,336	100%	100%	



Professional Staff Training FY 2020–21

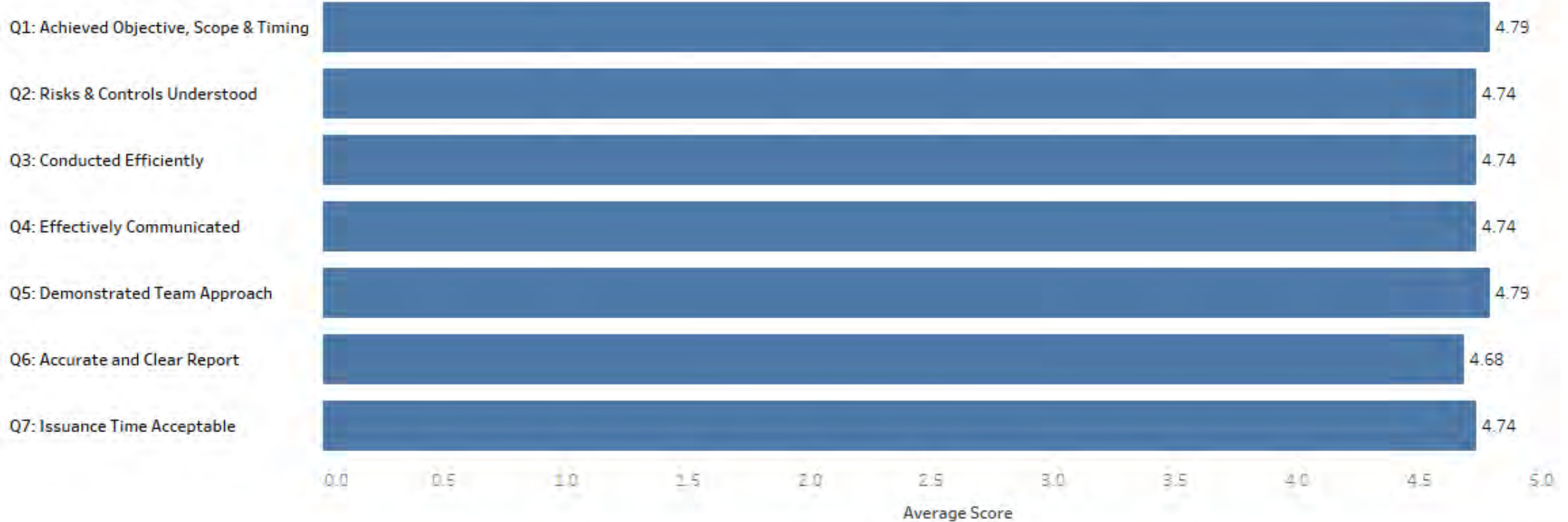
Training Hours by Type





2020–21 Client Survey Results: Audit

Questions



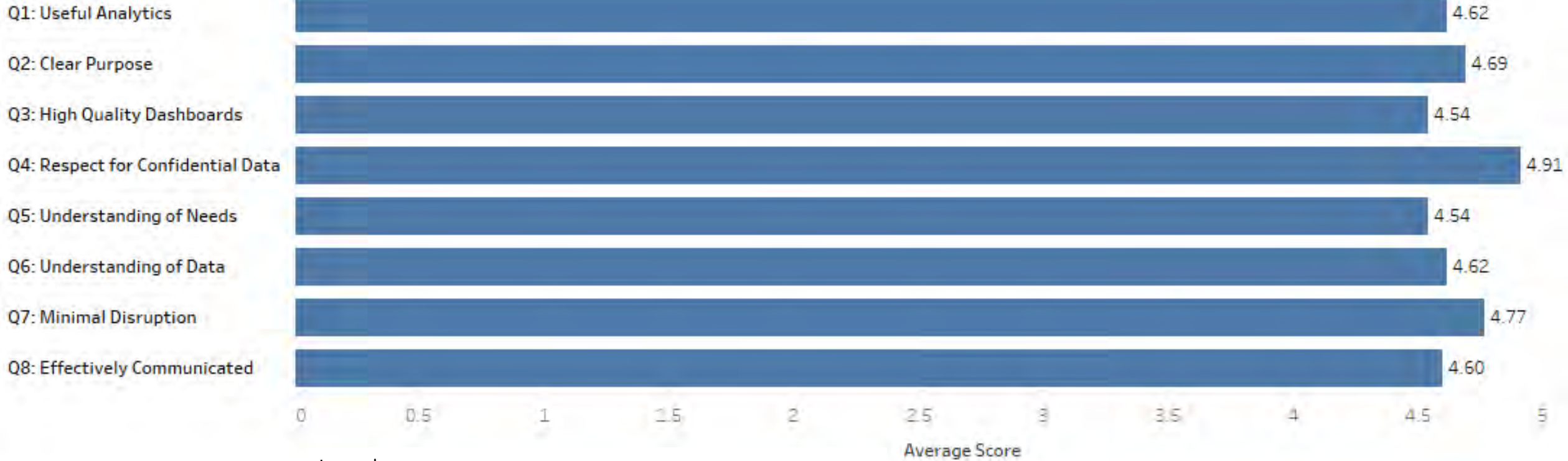
Legend:

- 5 – Strongly Agree
- 4 – Agree
- 3 – Neither Agree Nor Disagree
- 2 – Disagree
- 1 – Strongly Disagree



2020–21 Client Survey Results: Data Analytics

Questions



Legend:

- 5 – Strongly Agree
- 4 – Agree
- 3 – Neither Agree Nor Disagree
- 2 – Disagree
- 1 – Strongly Disagree

Note: Surveys for all continuous analytics are sent annually. Continuous analytics that were put into production after completion of the annual survey, if any, will be reflected in the following year survey results.



Other OIA Activities >>

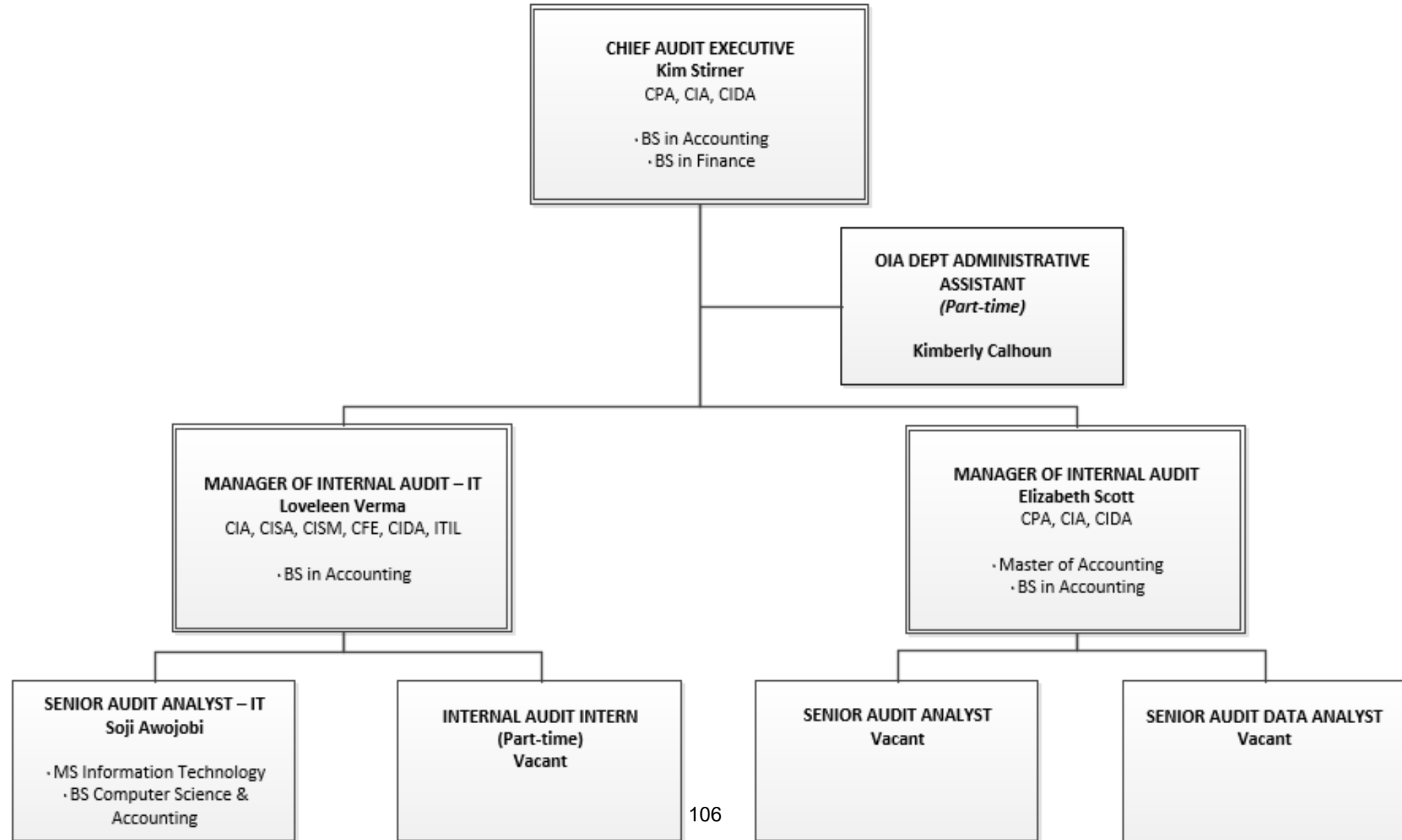


Proposed OIA Department Goals FY 2021–22

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 September/October 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.	In progress
	Have at least one team building event during the fiscal year to enhance the team.		Not started
	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

- ▶ Status of selecting an automated workpaper solution
- ▶ Remaining Audit Committee meeting date in 2021
 - November 29 (Thanksgiving is November 25)
- ▶ **Staffing Update.**

Questions/Comments





**STATE BOARD OF ADMINISTRATION
OF FLORIDA**

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CHAIR

JIMMY PATRONIS
CHIEF FINANCIAL OFFICER

ASHLEY MOODY
ATTORNEY GENERAL

ASHBEL C. WILLIAMS
EXECUTIVE DIRECTOR &
CHIEF INVESTMENT OFFICER

MEMORANDUM

To: Ash Williams
From: Michael McCauley
Date: September 7, 2021
Subject: Quarterly Standing Report - Investment Programs & Governance

GLOBAL PROXY VOTING & OPERATIONS

During the second quarter of 2021 SBA staff cast votes at 6,000 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 65,979 distinct voting items—voting 80.6% “For” and 16.3% “Against/Withheld,” with the remaining 3.1% involving abstentions. Of all votes cast, 17.3 % percent were “Against” the management-recommended vote. SBA proxy voting occurred in 70 countries, with the top five countries comprised of United States (2,339), China (634), Japan (628), Taiwan (233), and the Cayman Islands (190). The table below provides the SBA’s global voting breakdown across all major proposal categories during fiscal year 2021.

Proxy Voting Summary								
Issue Code Category	For		Against & Withhold		Abstain		Other Votes	
	Individ..	% of To..	Individ..	% of To..	Individ..	% of To..	Individ..	% of To..
Audit/Financials	14,867	95.1%	472	3.0%	121	0.8%	172	1.1%
Board Related	40,571	79.6%	9,135	17.9%	898	1.8%	394	0.8%
Capital Management	6,337	76.8%	1,714	20.8%	90	1.1%	112	1.4%
Changes to Company Statutes	3,936	84.3%	365	7.8%	333	7.1%	33	0.7%
Compensation	7,733	65.6%	3,643	30.9%	26	0.2%	395	3.3%
M&A	1,148	95.3%	31	2.6%	14	1.2%	12	1.0%
Meeting Administration	2,362	84.0%	298	10.6%	20	0.7%	132	4.7%
Other	1,940	77.8%	391	15.7%	155	6.2%	8	0.3%
SHP: Compensation	17	39.5%	24	55.8%	2	4.7%		
SHP: Environment	33	31.1%	63	59.4%	1	0.9%	9	8.5%
SHP: Governance	338	54.1%	174	27.8%	35	5.6%	78	12.5%
SHP: Misc	2	33.3%	1	16.7%			3	50.0%
SHP: Social	91	57.6%	63	39.9%	1	0.6%	3	1.9%
Grand Total	79,375	80.3%	16,374	16.6%	1,696	1.7%	1,351	1.4%

CORPORATE GOVERNANCE & PROXY VOTING OVERSIGHT GROUP

The most recent meeting of the Corporate Governance & Proxy Voting Oversight Group (Proxy Committee) occurred on June 28, 2021, and the Committee will meet next on September 28, 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 July, SBA staff participated in a quarterly meeting of the Independent Oversight Committee of the Best Practice Principles Group (BPPG), reviewing final compliance reports from major global proxy advisors. The BPPG was formed in February 2013 to promote greater understanding of the corporate governance research and support services provided to professional investors and other capital markets participants.
- In July, 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 July, SBA staff participated as a speaker of the Institutional Investor Virtual ESG Series, reviewing a range of corporate governance issues.
- In August, 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.

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 July 2021 through early September 2021, SBA staff conducted engagement meetings with several companies owned within Florida Retirement System (FRS) portfolios, including Unilever PLC, Monmouth Real Estate Investment Corporation, Linde AG (Praxair), and Box (Starboard Value).

2021 PROXY SEASON REVIEW

The COVID-19 pandemic affected shareowner-voting activity for a second year in a row, with sustained use of virtual shareowner meetings by many companies. While most of the virtual meetings went smoothly, several companies required investors to submit pre-recorded statements to be played during the virtual meeting, held meetings that were audio-only, or restricted the ability to ask questions.

Within the governance subset of shareowner resolutions, the number of total resolutions declined somewhat year over year and received mixed average support levels depending on the type of proposal. There have been 35 shareowner proposals seeking an independent board chair (44 during 2020), without any of them achieving majority support. Resolutions advocating for special meeting rights also declined year over year (from 39 to 33), as did those asking the board to adopt majority voting as part of non-contested director elections. Proposals to declassify the board of directors, which require a policy change moving to annual election cycles, received high levels of support from management and saw nearly unanimous passage. One type of proposal seeing an uptick was the elimination of supermajority vote

requirements, which increased in number (from eight to 11). Every one of these resolutions passed with strong majority support.

Several burgeoning resolution topics surfaced during the first half of the year, including employee representation on boards and requests for companies to convert to a public benefit corporation (or “PBC”). There were 14 PBC proposals in the first half of the year, mostly at large companies in the financial, industrial, and technology sectors, with their proponents arguing they should not be required to prioritize the interests of shareholders over those of other stakeholders. Two proposals received majority support during the first half of 2021 at Amalgamated Bank and Veeva Systems. As noted by Institutional Shareholder Services (ISS), “the companies targeted by these proposals pushed back against the idea that they could only safeguard the interests of stakeholders or build sustainable businesses by fundamentally changing their corporate structure. At the same time, given the wide leeway that public benefit corporations have to define their public benefit, some shareholders may question whether deprioritizing their interests as shareholders is either necessary or sufficient to ensure protection of workers or the environment.” This type of shareowner proposal received very low levels of support.

Board diversity has been a perennial topic, with increasing support and adoption among corporate boards. During the first half of 2021, investors focused away from gender diversity campaigns and more towards other dimensions of diversity such as racial and ethnic characteristics and under-represented groups. ISS data shows that among companies in the Russell 3000 stock index, only 27% now have no racially or ethnically diverse directors, down sharply from 40% in 2020, and 38% have two or more racially or ethnically diverse directors, compared to 29% last year. Among larger firms in the S&P 500 stock index, more than two-thirds have two or more non-white directors.

From 2018 through 2020, the majority of all U.S. shareowner proposals submitted were on topics that related to environmental and social (“E&S”) issues. This was also the case in 2021, with ISS tracking nearly 500 E&S-related proposals being submitted just in the first half of the year and achieving a new high-water mark for such proposals. A record number of such proposals were also withdrawn, typically occurring after some engagement and negotiated settlement on the topic by shareowners and boards of directors.

For those resolutions actually voted on by investors, almost 40 E&S proposals received majority support. Notably, eight of these proposals were supported by management. This was likely an indication that some companies are becoming more sensitive to their investors’ views on a number of E&S issues. Moreover, many of the largest asset owners and asset managers are increasing their support for most categories of E&S proposals and at times linking to individual director voting patterns. Resolutions tied to human capital management were the largest single category among all E&S proposals, with over 130 proposals filed. These proposals focused on mandatory arbitration, sexual harassment, gender/racial pay gap, diversity and inclusion in the workplace, as well as racial equity. Climate-related proposals were the second most prevalent topic with 84 proposals filed and 24 actually voted on and half of those receiving majority support. Another driver of the elevated number of climate resolutions was the recent change by the Securities & Exchange Commission (SEC) to exclude fewer climate resolutions on corporate ballots.

This proxy season also witnessed the emergence of the “Say on Climate” (SOC) proposal, which is loosely modeled on Dodd Frank “Say on Pay” (or SOP) proposals. SOC proposals were filed at only seven companies in 2021, generally requesting firms to issue a climate transition report and subsequently provide investors an advisory vote approving or disapproving the climate plan. The proposal was somewhat divisive, receiving mixed views either pro or con on the efficacy of such a voting format. Some opponents worry it will create a distorted process for evaluating and gauging a company’s climate record, pointing to the largely ineffective SOP corollary.

HIGHLIGHTED PROXY VOTES

Box, Inc.—for its September 9, 2021 contested annual shareowner meeting, Box was the subject of a proxy contest lodged by activist Starboard Value LP, an 8.4 percent shareholder. Starboard appointed two directors to the board as part of a settlement in 2020. For the 2021 contested meeting, Starboard nominated three directors, including partner Peter Feld, to the ten-member board. Management nominated three directors including Executive Director Aaron Levie, co-founder and CEO of Box, and two non-executive directors, Dana Evan and Peter Leav. Starboard indicated that it would expand the board to 11 directors and reappoint Levie to the board if Levie was removed from the board because of this campaign.

External research and client voting recommendations from Institutional Shareholder Services (ISS) and Glass, Lewis, & Co. (GLC) did not align on the election of directors and but agreed on the majority of the remaining voting items. ISS indicated that its decision not to override the policy-based recommendation to withhold votes from long-tenured incumbent Evan was due to lingering governance issues, including the fact that the classified board structure has not been removed nor is it subject to a sunset requirement.

In the case of a contested election, the SBA staff may choose to vote either with the management or with the dissident proxy card. GLC recommended the use of the dissident card and was in favor of voting for Feld as GLC is in favor of direct shareholder representation. GLC recommended a vote against the other two Starboard directors. ISS recommended that Box stockholders support two of management’s director candidates in its ongoing board fight with Starboard.

ISS and Glass Lewis raised concerns about Box’s corporate governance practices, including the recent \$500 million deal with private equity firm KKR. Starboard noted this was an entrenchment maneuver. Box clearly underperformed its peers and the broader market over each of the pre-Starboard review periods, generally by substantial margins. According to Activist Insight, Starboard stated “that it is ‘fully and directly aligned’ with Box shareholders in that it wants the company to see ‘operational excellence, best-in-class governance and compensation practices, and long-term value creation’ at the software company going forward” in an open letter that was released on August 30, 2021.

SBA staff voted to support all dissident director nominees and also support several other items, including amending the qualified employee stock purchase plan, eliminating the super majority vote requirement to amend certain provisions of the charter, and ratifying Ernst & Young LLP as auditors. SBA staff voted against the advisory note on executive compensation as there were poorly justified adjustments related to COVID-19, including the decision to abandon performance-based LTIs for fiscal 2021 and fiscal 2022 due to the impact of the pandemic.

Monmouth Real Estate Investment Corporation—for its August 31, 2021 contested annual shareowner meeting, SBA staff voted against all proposals, including the proposed merger with EQC, advisory note on golden parachutes, and right to adjourn meeting, using the management proxy card. The proposed merger with EQC faced opposition from Starwood Real Estate Income Trust, Inc. (Starwood) and Blackwells Capital LLC (Blackwells). Both companies solicited votes from Monmouth shareholders against the transaction agreement. As noted in GLC research and client voting recommendations, Starwood submitted a revised competing offer on August 18, 2021 to acquire Monmouth for net cash consideration of \$19.20 per share, reflecting a stated purchase price of \$19.93 per share reduced by the termination fee of \$72 million, or approximately \$0.73 per share, if Monmouth were to terminate the merger agreement with EQC and accept Starwood's proposal. GLC also questioned Monmouth board's decision not to invite Blackwells to participate in the sale process. Blackwells, a 4.2 percent shareholder, had an interest in acquiring Monmouth as evidenced by repeated attempts to engage with Monmouth during the sales process and prior to the sale when the company submitted unsolicited proposals in December 2020.

SBA staff voted against the proposed merger with EQC as this transaction is not in the best interests of the shareholders. Starwood offered a superior competing offer. There were also possible conflicts of interest for this potential sale regarding the involvement with Monmouth's CEO and CFO given their scope and tenure with the company and role as shareholders. SBA voted against the advisory note on golden parachutes (severance agreements) due to the concerns with Monmouth agreeing to provide single-trigger cash payments. As noted in ISS research and voting recommendations, the CEO and Executive Chairman are expected to be terminated in connection with the merger, and the Executive Chairman is entitled to excessive cash- and equity-based transaction bonuses, which are collectively valued at over eight times his salary. Exorbitant payouts may discourage acquirers from seeking the company as a target and result in a lower shareowner value. SBA staff voted against the right to adjourn meeting due to the aforementioned concerns with the underlying transaction.

Kansas City Southern—for its September 3, 2021 contested and postponed annual shareowner meeting, SBA staff abstained voting for the proposed merger with Canadian National Railway Company (CNI). This is a developing situation with regulatory uncertainty and a competing offer. Canadian Pacific (CP) filed a preliminary contested proxy statement on July 29, 2021 after Kansas City Southern (KCS) terminated a sales agreement with CP and approved a sales transaction with CNI on May 20, 2021. CP's contest followed months of agitation against the deal through Surface Transportation Board (STB) filings and press releases. CP subsequently stated that it was contesting the vote on the CNI-KCS deal, as it believed that the proposal did not provide adequate regulatory certainty.

CP reaffirmed its interest in acquiring KCS for 2.884 CP shares and \$90 in cash for each KCS share on August 10, 2021. KCS unanimously determined that the unsolicited proposal received from CP did not constitute a "company superior proposal" on August 12, 2021. KCS added that it was reaffirming its recommendation to shareholders to vote in favor for the pro-competitive, end-to-end merger with CNI, which would create a premier railway for the 21st century and offered unparalleled opportunities and benefits for customers, employees, shareholders, the environment, and the North American economy. KCS announced that the board decided to convene and adjourn the August 19, 2021 special meeting to September 3, 2021 wherein shareholders would vote on the proposed merger agreement with CNI.

Approval of the transaction by STB was required for CNI to acquire KSU. As noted in ISS research and voting recommendations, STB unanimously rejected the voting trust for the proposed merger with CNI on August 31, 2021 determining that the voting trust is "not consistent with the public interest standard under the STB's merger regulations."

In a September 1, 2021 press release, KCS announced that it received an unsolicited proposal from CP reaffirming its interest in acquiring KCS, which reiterated the same terms from the August 10, 2021 offer noted above. The SBA staff agreed with the rationale provided by ISS regarding the vote against the advisory note on golden parachutes. NEOs are entitled to receive problematic excise tax gross-ups pursuant to recently entered agreements, the bonuses are sizeable, and the CFO's severance is recently enhanced without a compelling rationale.

REGULATORY AND MARKET DEVELOPMENTS

SEC Approves NASDAQ Board Diversity Requirements

On August 6, 2021, the Securities and Exchange Commission (SEC) approved a NASDAQ proposal regarding new listing rules on board diversity. Under the new rules, most Nasdaq-listed companies will need to have at least two diverse directors, including one director who self-identifies as a female and one director who self-identifies as an underrepresented minority or as LGBTQ+, or to explain why the company does not have at least two directors on its board that self-identify in such a way. Companies with five or fewer directors will be required to have, or explain the absence of, one diverse director rather than two, and newly listed companies will be given more time to comply with the rules.

These new rules also will require subject companies to disclose diversity statistics about their boards on an annual basis in a prescribed matrix format related to each director's self-identified gender, race, and self-identification as LGBTQ+. The new rules will be phased in, and require compliance with the requirements with respect to one diverse director by the later of (1) the date the company files its proxy statement during the 2023 calendar year, or (2) August 6, 2023. The matrix disclosure rules are effective beginning August 6, 2022. Many public companies already disclose diversity statistics among their board of directors and/or workforce in response to investor demands for such information, and the trend continues toward additional disclosure regardless of regulatory intervention.

Tokyo Stock Exchange Reforms Main Board Listing Requirements

In late July, the Tokyo Stock Exchange (TSE) announced new requirements for companies to stay listed on its top tier main board. Described as the biggest overhaul of Japan's stock markets in a decade, the TSE will strengthen the listing standards for its top category of listed firms in 2022. The new listing criteria include tougher profitability standards, mandatory disclosures in English, and stricter rules for liquidity (35% tradable share ratio) and market capitalization (\$90 million minimum). An estimated one-third of the almost 2,200 companies on its main board do not currently meet the new criteria. The reforms aim to improve the global corporate governance standards and financial quality of Japanese companies and attract foreign investment. Some companies are already taking preemptive actions to meet the new standards through increased share buybacks, increased dividend payout ratio targets, and further reducing cross-shareholdings. For example, automotive components maker, Toyota Boshoku Corporation, has asked Toyota Motor Corp to release part of its share stake to meet the new 35% target. The TSE will rename its first section as the "Prime Market" in April 2022 as a sought-after designation for the highest quality public companies in Japan.

Individual Meetings	10,174
Individual Ballots	27,611
Individual Proposals	98,796
Percent Votes "For"	80.3%
Percent Votes "Against"/"Withhold"	16.6%
Percent Votes Not Voted	1.1%
Percent Ballots Not Voted	0.8%
Proxy Paper ID	9,717
Issue Descriptions	282
Companies	7,967
Portfolios	73
Country of Origin	76
Percent Votes Against Management Recommendat..	17.5%
Percent Votes in Favor of Directors	79.0%
Percent Votes in Favor of Auditors	98.7%
Percent Votes in Favor of Merger/Acquisition Items	95.2%
Percent Votes in Favor of Compensation Items	65.6%
Percent Votes in Favor of SHP Governance Issues	54.1%
Percent Votes in Favor of SHP Environmental Issues	31.1%

Top 5 Countries by # of Individual Proposals	
Country of Origin	
United States	25,864
China	13,267
Japan	9,547
United Kingdom	5,577
Canada	2,659
Select a Measure	
# of Individual Proposals	
Top N Countries	
5	

Proxy Voting Summary								
Issue Code Category	For		Against & Withhold		Abstain		Other Votes	
	Individ..	% of To..	Individ..	% of To..	Individ..	% of To..	Individ..	% of To
Audit/Financials	14,867	95.1%	472	3.0%	121	0.8%	172	1.1%
Board Related	40,571	79.6%	9,135	17.9%	898	1.8%	394	0.8%
Capital Management	6,337	76.8%	1,714	20.8%	90	1.1%	112	1.4%
Changes to Company Statutes	3,936	84.3%	365	7.8%	333	7.1%	33	0.7%
Compensation	7,733	65.6%	3,643	30.9%	26	0.2%	395	3.3%
M&A	1,148	95.3%	31	2.6%	14	1.2%	12	1.0%
Meeting Administration	2,362	84.0%	298	10.6%	20	0.7%	132	4.7%
Other	1,940	77.8%	391	15.7%	155	6.2%	8	0.3%
SHP: Compensation	17	39.5%	24	55.8%	2	4.7%		
SHP: Environment	33	31.1%	63	59.4%	1	0.9%	9	8.5%
SHP: Governance	338	54.1%	174	27.8%	35	5.6%	78	12.5%
SHP: Misc	2	33.3%	1	16.7%			3	50.0%
SHP: Social	91	57.6%	63	39.9%	1	0.6%	3	1.9%
Grand Total	79,375	80.3%	16,374	16.6%	1,696	1.7%	1,351	1.4%

Vote Decision
☒ Null
☒ 1 Year
☒ 3 Years
☒ Abstain
☒ Against
☒ For
☒ Mixed
☒ Take No Action
☒ Unvoted
☒ Withhold

Meeting Date
7/1/2020 to 6/30/2021
Fiscal Year
☒ FY 2017
☒ FY 2018
☒ FY 2019
☒ FY 2020
☒ FY 2021
Ballot Vote Status
All
Region
All
Country of Origin
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 2017	FY 2018	FY 2019	FY 2020	FY 2021
% Difference in Proxies from the Previous FY	5.70%	3.55%	-9.12%	-3.00%	
% Difference in Individual Meetings from the Previous FY	4.61%	3.25%	-8.73%	-2.29%	
% Difference in Individual Proposals from the Previous FY	0.36%	5.09%	-5.60%	-2.95%	
% Difference in Votes in Favor of Directors from the Previous FY	-0.87%	-0.28%	2.39%	-0.58%	
% Difference in Votes in Favor of Auditors from the Previous FY	0.23%	0.31%	0.23%	-0.02%	
% Difference in Votes in Favor of Merger/Acquisition Items from the Previous FY	-10.33%	15.94%	-1.42%	0.40%	
% Difference in Votes in Favor of Compensation Items from the Previous FY	7.95%	0.05%	1.31%	-1.45%	
% Difference in Votes in Favor of SHP Governance Issues from the Previous FY	42.82%	2.19%	-8.70%	13.21%	
% Difference in Votes in Favor of SHP Environmental Issues from the Previous FY	-7.81%	-20.83%	-9.34%	-14.15%	
% Difference in Votes in Favor of SHP Social Issues from the Previous FY	70.24%	26.07%	0.22%	-5.91%	
% Difference in Votes in Favor of All SHP Issues from the Previous FY	40.21%	4.57%	-5.86%	3.38%	
% Difference in Votes "For" from the Previous FY	1.76%	-0.39%	1.97%	0.16%	
% Difference in Votes "Against"/"Withhold" from the Previous FY	-0.64%	-1.61%	-6.07%	-3.43%	

Meeting Level
All
Meeting Type
All

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JIMMY PATRONIS
CHIEF FINANCIAL OFFICER

ASHLEY MOODY
ATTORNEY GENERAL

ASHBEL C. WILLIAMS
EXECUTIVE DIRECTOR & CIO

MEMORANDUM

To: Ashbel C. Williams, Executive Director & CIO

From: Maureen M. Hazen, General Counsel

A handwritten signature in black ink, appearing to read 'Maureen M. Hazen'.

Date: September 7, 2021

Subject: Office of General Counsel: Standing Report
For Period June 1, 2021 – August 31, 2021

SBA Agreements.

During the period covered by this report, the General Counsel's Office drafted, reviewed and negotiated: (i) 25 new agreements – including 3 new Investment Management Agreement for the Global Equity; 2 new Investment Management Agreements for the FRS Investment Plan, 3 Private Equity transactions, 2 Strategic Investments; and 4 new fund investments or manager relationships for Real Estate; (ii) 202 contract amendments, addenda or renewals; and (iii) 2 contract terminations.

SBA Litigation.

(a) Passive. As of August 31, 2021, the SBA was monitoring (as an actual or putative passive member of the class) 581 securities class actions. During the period covered by this report, the SBA collected recoveries in the amount of \$613,276.50 as a passive member in 15 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.

(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 4 Final Orders, received notice of filing of 3 new cases, and continued to litigate 7 cases (including 1 appellate and 4 DOAH 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 25 new public records requests and provided responses to 20 requests. As of August 31, 2021, the General Counsel’s Office continues to work on 7 open requests.

(b) SBA Rule Activities. During the period covered by this report, the SBA engaged in the following. The SBA continued its review of rules applicable to the FRS Investment Plan for any changes necessary due to the SECURE Act. For the 2021 calendar year, the only required changes for the current time are those that need to be made to Rule 19-11.003, concerning required minimum distributions (RMDs). The SECURE Act increases the age at which required minimum distributions must begin from 70 ½ to 72. This is effective for individuals turning 70 ½ after December 31, 2019. SBA staff determined that the other changes mandated by the SECURE Act for DC plans, namely, the new 10 Year Deadline for Beneficiary Distributions (unless a specified exception applies such as in the case of a surviving spouse, or a disabled beneficiary), which changes become effective for governmental plans for plan years beginning after December 31, 2021. SBA staff is currently preparing drafts of the current required changes for submission to OFARR.



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ASHBEL C. WILLIAMS
EXECUTIVE DIRECTOR &
CHIEF INVESTMENT OFFICER

MEMORANDUM

DATE: September 7, 2021

TO: Board of Trustees

FROM: Ken Chambers, Inspector General

SUBJECT: Quarterly Report on SBA Inspector General Activities

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 June 15, 2021 to September 7, 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.

The compliance results for the consultants and investment managers were reported in the previous quarterly report.

Certification forms for broker-dealers were disseminated to the applicable firms in April 2021. All of the broker-dealers completed and returned their IPP certification forms for the 2020 reporting period. An analysis of the 2020 certifications indicated full compliance with the IPPs by the broker-dealers.

SBA Fraud Hotline

Since July 2006, Navex Global has been the independent provider of SBA 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. Additionally, the hotline information is available on the SBA internet site as part of the SBA contact page. Last year, Navex Global upgraded the hotline service to their new Ethicspoint system, which also provides online reporting. The SBA is in the process of transitioning to a new hotline provider, which should be operational soon.

During the quarter, eight complaints were received by the Hotline. All of these complaints concerned an issue that was not applicable to the SBA.

Financial Disclosure Forms

The Commission on Ethics requires certain state employees and officials who meet the reporting requirement to file an annual Financial Disclosure Form. The Financial Disclosure Forms for the year ending December 31, 2020 were due by July 1, 2021. All SBA employees who met this requirement have filed a Financial Disclosure Form with the Commission on Ethics.

Internal Investigations

During the reporting period, one investigation was initiated and completed. The investigation, which concerned allegations of misconduct by an SBA employee, determined that the allegations were substantiated.

cc: Ash Williams



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EXECUTIVE DIRECTOR &
CHIEF INVESTMENT OFFICER

MEMORANDUM

DATE: August 18, 2021

TO: Ash Williams, Executive Director & CIO

FROM: Sooni Raymaker, Chief Risk & Compliance Officer *SR*

SUBJECT: Trustee and Audit Committee Report – August 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 May/June 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 virtual quarterly meeting August 5, 2021. The RCC reviewed a Gartner presentation of emerging risk in Q2 of 2021 based on a survey of 153 business and industry leaders including Banks, Diversified Financials and Government. The ERM team is working collaboratively with risk owners to document ongoing plans to manage enterprise-wide risks. Key risk indicators and trend reporting are in development to help identify rising risk levels in the current operational environment. ERM presented an update on management plans and key risk indicator reporting for future RCC review. ERM is also preparing for the next risk assessment and annual counterparty renewal process this fall.

An enhanced trading counterparty management application has been posted to SBA's website for broker/dealers to complete in order to request a trading relationship with the SBA.

Prospective trading counterparties are now required to provide additional documentation on operational topics related to risk and compliance programs, data security, business continuity/remote work, insurance requirements, audit oversight, third party dependency and anti-money laundering and anti-bribery/corruption programs. Completing the application process does not guarantee a trading relationship with the SBA.

External Manager Operational Due Diligence (ODD)

During the period, the ODD team reviewed and commented on five consultant operational due diligence reports on investment managers as part of the investment approval process, which represents approximately \$1.7 billion in potential investments. The ODD team will be participating in the Global Equity Emerging Manager Small Cap manager search the last week of August 2021.

The ODD team conducted a virtual quarterly meeting with all asset classes and provided an update on the ODD Risk Assessment and the 2020 Annual Certification results. The team also presented to the RCC on August 5, 2021 highlighting results from the 2020 Annual Certification and the 2021 Risk Assessment. The ODD team discussed categories of common re-occurring considerations raised by consultant ODD reports such as: cybersecurity, technology, third party service providers, organization, fund accounting/administration and ODD review of underlying fund of fund managers. Twenty-one 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 participated in five virtual ODD onsite reviews performed by a consultant.

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 will continue to use the conservative rules that currently monitor for any security that has China as a country of incorporation, country of domicile or country of risk for an additional quarter. Furthermore, PMC will monitor for the June 2, 2022 divestment requirement of any currently held prohibited holding.

The SBA Designated Futures, Options and Swap Exchanges list was reviewed and updated for FY21-22 with an effective date of June 30, 2021.

PMC worked with the SBA Center of Excellence to implement a robotic process automation (RPA) of the Florida PRIME reporting process. With the automation of retrieving, downloading, formatting and saving the daily reports, PMC is able to spend additional time on analysis of data rather than creation and saving of data. The automation process went live in June, 2021.

Performance Reporting & Analytics (PRA)

The PRA database management team welcomed Diego Tolmos as the new Data 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.

The PRA team continues to work with SBA Center of Excellence to implement a robotic process automation of daily reconciliation files. Daily Performance Reports have already been automated and the process seems to be working well. The automation of refreshing over 20 files will free up 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 three internal policies. One new investment guideline was added during the review period for the *FRS Centralized Non-Cleared IM Collateral* portfolio.

The SBA Regulatory and Collateral Management Working Group (RWG) met in July and continues to review developments regarding the planned transition of the financial markets away from the London Interbank Offered Rate (LIBOR) and other IBOR reference rates, as well as monitor the phased-in implementation of regulatory margin requirements for non-centrally cleared derivatives transactions, and develop an internal centralized governance process to address the variety of regulatory requests received from counterparties.

Personal Investment Activity (PIA)

During the period, there were 62 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.

Implementation of StarCompliance, the automated personal investment activity system, launched in late May 2021. The team has been actively working with the vendor on requirements gathering and is currently in user acceptance testing. The PIA policy is also undergoing review and revisions to incorporate the system and other policy updates. The system, along with corresponding SBA colleague training, is expected to be fully implemented in late fall.

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 - SBA Approach to Assumption Development
 - Portfolio Analysis
 - Asset-Liability Projection Analysis
 - Liquidity Analysis
 - Public Pension Peer Comparison
- Summary & Conclusions
- Appendix



Executive Summary

Challenges & Potential Solutions for Public Pension Plan Sponsors

Challenges



Challenged But Improving Financial Situation

- Plan is underfunded as of June 30, 2021; sources of governmental revenues may be strained



Uncertainty Lies Ahead

- Wide range of future outcomes; expect a rocky road rather than a smooth line

Potential Solutions



Evaluate Financial Impacts

- How do different portfolios impact key financial measures such as funded ratio and contribution rates; sequence of future returns is important when the Plan is underfunded



Portfolio Construction

- Diversification addresses potential volatility; consider illiquid alternatives if Plan's liquidity is manageable

Scope of Project

- Annual Asset-Liability Management (ALM) review and update
 - 30 year asset-liability projection analysis
 - Review stochastic risk/reward results
 - Review multiple portfolio strategies
 - Conduct liquidity analysis

Executive Summary

Investment Analysis

- We believe the current portfolio is well-diversified with 81% return-seeking assets
- The equity risk premium is 3.92% in this 2021 Asset-Liability Study, compared to 5.15% from 2020; the change is driven by the combination of lower projected equity returns and higher fixed income returns year-over-year
- Asset returns (6.13%) are not expected to keep pace with the actuarial assumed rate of return (7.00%)

Asset-Liability Projection Analysis

- Longer time horizons are expected to reward higher levels of risk; shorter time horizons are not
- The funded ratio is expected to improve with FYE 2021 returns and then remain relatively flat over the course of the projection period in our central expectation (50th percentile outcome)
- Adverse market experience could significantly impact the funded status of the Plan over the projection period, albeit with low likelihood

Liquidity Analysis

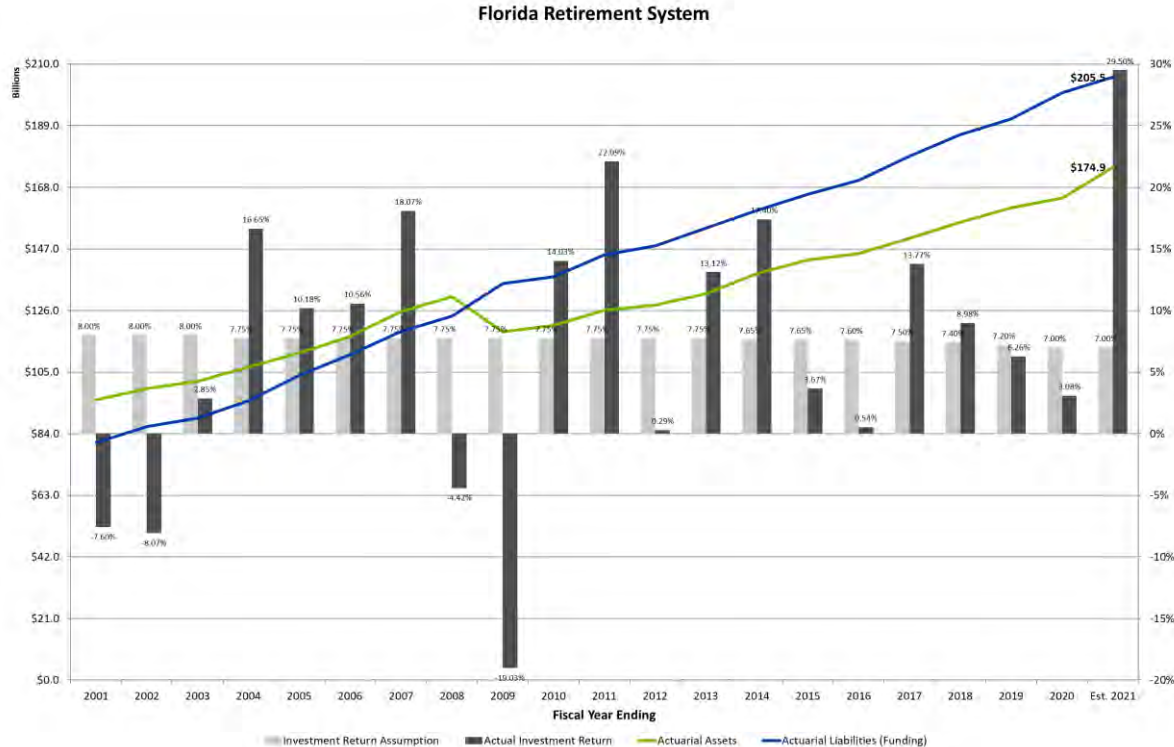
- The current portfolio is projected to have sufficient liquidity in the modeled Base, Recession, and Dark Skies scenarios



Analysis

- Asset-Liability Profile

Florida Retirement System (FRS) Historical Information



Key Takeaways:

- **Blue line** represents the actuarial liabilities over time
 - Adding to the increase in liability has been the decrease in the assumed investment return in recent years (**light gray bar**)
- **Green line** represents the actuarial value of plan assets over time
 - Assets reflect smoothing parameters to the actual return on assets (**dark gray bar**)

Sources: Public PlansData (publicplansdata.org) as of August 2021

Current State Asset-Liability Profile

Asset-Liability Snapshot				
Metric (\$, Billions)	As of 7/1/2020		As of 7/1/2021	
	Value	Fund %	Value	Fund %
Market Value of Assets	\$161.6	80.7%	\$199.6	97.1%
Actuarial Value of Assets	\$164.3	82.0%	\$174.9	85.1%

Liability Metrics

Actuarial Liability (AL) - Funding	\$200.3	\$205.5

Asset-Liability Growth Metrics			
Metric (\$, Billions)	Value	% Liability	% Assets
AL Discount Cost	\$14.4	7.00%	7.21%
AL Normal Cost	\$2.7	1.32%	1.36%
Total Liability Hurdle Rate	\$17.1	8.32%	8.57%
Expected Return on Assets ²	\$12.2	5.95%	6.13%
Total Contributions	\$5.0	2.42%	2.49%
Total Exp. Asset Growth	\$17.2	8.37%	8.62%
Hurdle Rate Shortfall/(Surplus)	-\$0.1	-0.05%	-0.05%
Est. Benefit Payments	\$11.2	5.47%	5.63%

¹ Based on a 7.00% discount rate consistent with the July 1, 2020 valuation results.

² Expected returns are using customized Aon Investments' Q3 2021 Capital Market Assumptions. Assumptions do not include fees/expenses. All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees. Expected returns presented are mode ls and do not represent the returns of an actual client account. Not a guarantee of future results. See capital market assumptions disclosure pages in Appendix.

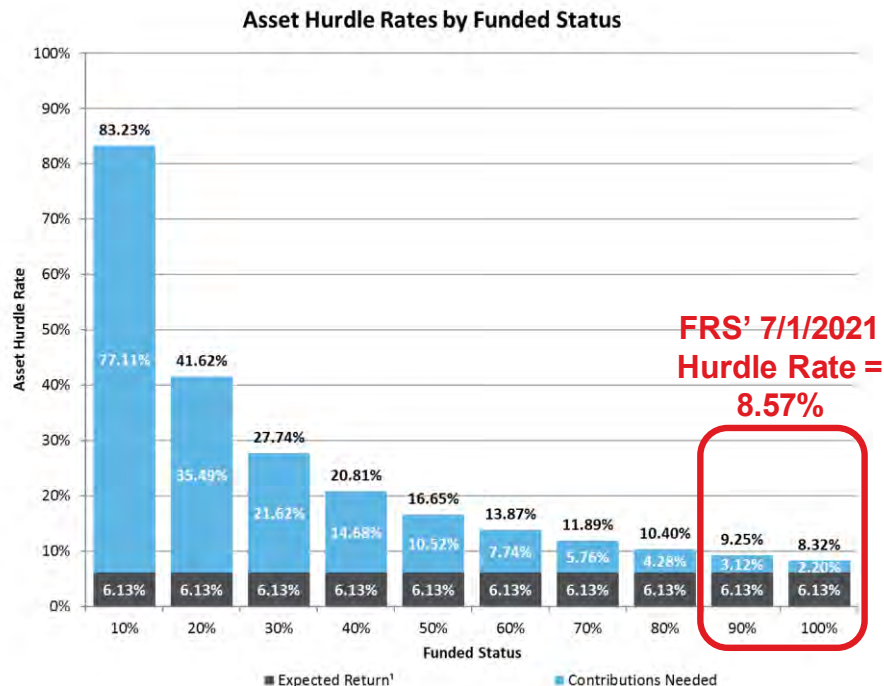
Key Takeaways:

- Pension plan is estimated to be **97.1%** funded on a market value of assets basis as of July 1, 2021
- Asset allocation is **81%** return-seeking assets with 19% risk-reducing/safety assets to withstand stressed markets
- Asset hurdle rate of **8.57%**, via cash funding and investment returns, needed to maintain or improve actuarial funded status

Target Asset Allocation as of 6/30/2021		
Metric (\$, Billions)	Value	Alloc %
Return-Seeking		
- Global Equity	\$105.8	53%
- Private Equity	\$12.0	6%
- Real Estate	\$20.0	10%
- Strategic Allocation	\$24.0	12%
- Total	\$161.7	81%
Risk-Reducing		
- Cash & Short Duration Fixed Income	\$2.0	1%
- Intermediate Duration Fixed Income	\$35.9	18%
- Total	\$37.9	19%
Total	\$199.6	100%

Asset Hurdle Rates

- **Asset Hurdle Rate** is the required rate of asset growth needed to keep pace with the growth of the Plan liabilities
 - Assets must grow at this rate or more in order to maintain or reduce the existing funding shortfall
- Assets can grow via:
 - Investment performance, and/or
 - Funding contributions
- Asset hurdle rates decline as the funded status increases, as shown in the chart to the right



¹ Expected returns are using customized Aon Investments' Q3 2021 Capital Market Assumptions. Assumptions do not include fees/expenses. All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees. Expected returns presented are models and do not represent the returns of an actual client account. Not a guarantee of future results. See capital market assumptions disclosure pages in Appendix.



Analysis

- SBA Approach to Assumption Development

SBA Approach to Assumption Development

Overview

The SBA approach averages the global equity risk premiums¹ from three investment advisors (Aon Investments, Mercer, and Wilshire)

- Callan was previously included in the averaging but removed starting in 2019 because its capital market assumption date did not coincide with the same timeframe as the other consultants and the asset-liability study; Callan only updates their capital market assumptions once a year while the other consultants update quarterly

Building block approach is used

- Price inflation and fixed income returns reflect market conditions and yields
- For all other asset classes (“risk assets”), a risk premium is added to fixed income returns

Average risk premium is used to scale Aon Investments’ expected returns for the “risk assets”

¹Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns

SBA Approach to Assumption Development

Equity Risk Premium¹

The SBA averages the global equity risk premiums from three consulting firms² and then uses that average risk premium to scale Aon Investments' expected returns for the "risk assets"

2021 Average Global Equity Risk Premium = Average (Global Equity Return – U.S. Bond Return) = 3.92%

	Aon Investments	Mercer	Wilshire	Callan ²	Average
2021 Assumptions (15-year geometric average expected returns)					
- As of Date	June 2021	July 2021	June 2021		
- Global Equity	6.75%	5.80%	5.40%	N/A	5.98%
- Core U.S. Bonds	2.20%	2.13%	1.85%	N/A	2.06%
- Global Equity Risk Premium	4.55%	3.67%	3.55%	N/A	3.92%
2020 Global Equity Risk Premium	5.50%	4.77%	5.20%	N/A	5.15%
Change 2021 vs. 2020	-0.95%	-1.10%	-1.65%	N/A	-1.23%
Prior Years:					
- 2019	4.55%	3.70%	3.40%	N/A	3.88%
- 2018	4.10%	3.53%	2.90%	3.93%	3.62%
- 2017	3.75%	4.13%	3.05%	3.93%	3.72%

¹ Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk

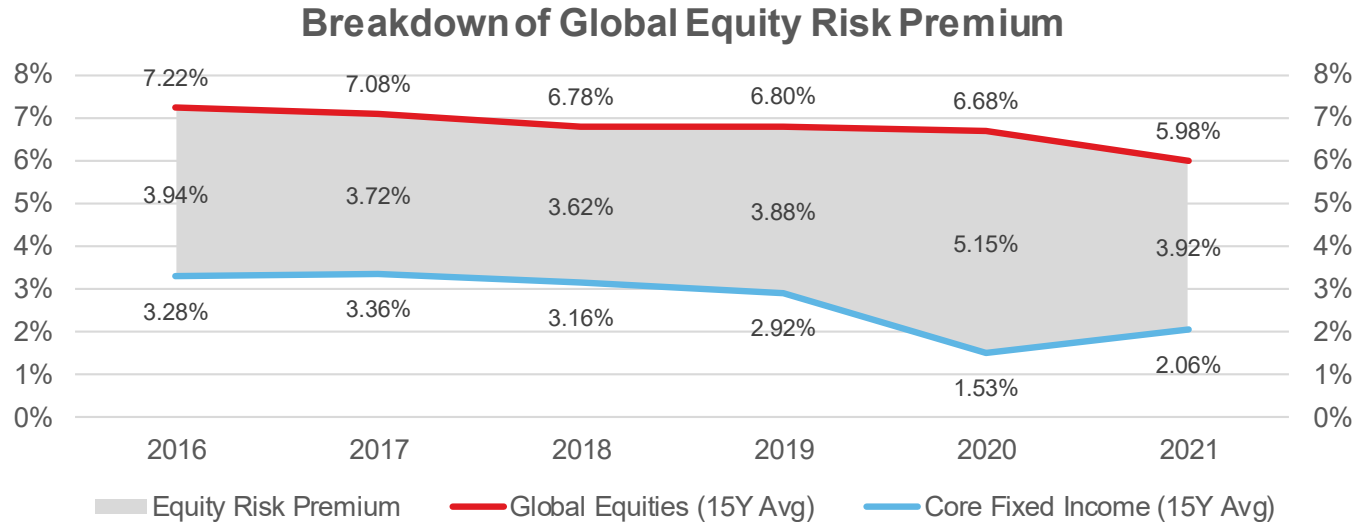
² Callan was previously included in the averaging but removed starting in 2019 because its capital market assumption date did not coincide with the same timeframe as the other consultants and the asset-liability study; Callan only updates their capital market assumptions once a year while the other consultants update quarterly. Calculations may not sum to total due to rounding

SBA Approach to Assumption Development

Breakdown of Equity Risk Premium (ERP) Assumption¹

The decrease in the 2021 equity risk premium was driven by the combination of lower projected equity returns and higher fixed income returns

- Below is a 6-year historical look at the breakdown of the global equity risk premium

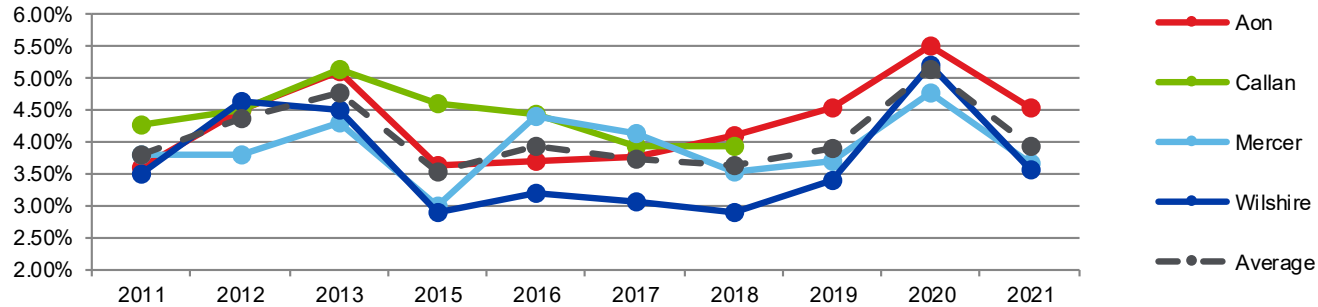


¹Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns

SBA Approach to Assumption Development

Historical Equity Risk Premium (ERP) Assumption¹

Average Global Equity Risk Premium = Average (Global Equity Return – U.S. Bond Return)



Equity Risk Premium ²	Asset-Liability Study/Update ³									
	2011	2012	2013	2015	2016	2017	2018	2019	2020	2021
Aon	3.60%	4.50%	5.10%	3.62%	3.70%	3.75%	4.10%	4.55%	5.50%	4.55%
Callan	4.25%	4.50%	5.15%	4.60%	4.45%	3.93%	3.93%	N/A	N/A	N/A
Mercer	3.80%	3.80%	4.30%	3.00%	4.40%	4.13%	3.53%	3.70%	4.77%	3.67%
Wilshire	3.50%	4.65%	4.50%	2.90%	3.20%	3.05%	2.90%	3.40%	5.20%	3.55%
Average	3.79%	4.36%	4.76%	3.53%	3.94%	3.72%	3.62%	3.88%	5.15%	3.92%

Aon Investments' capital market assumptions for risk assets will be scaled by **-63bps**

¹Equity Risk Premium is defined as the excess return earned over bonds that compensates investors for taking on higher risk; all returns are 15-year geometric average (compounded) expected returns

²Global equity risk premium used starting in 2016; prior years were based on U.S. equity risk premiums

³An asset-liability study was not completed in 2014



- Portfolio Analysis

Spectrum of Aon Model Portfolios

Aon's Model Portfolios reflect Aon's best ideas for a *typical* total return defined benefit plan across a range of circumstances noted below

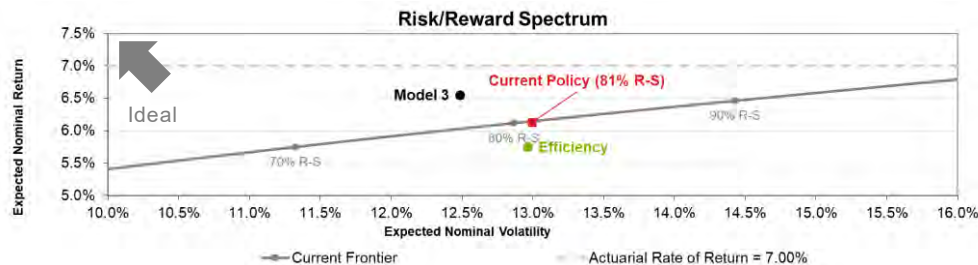
- Intended as a **starting point** for asset allocation analysis and decision-making and to be customized based on client-specific needs and circumstances

	Efficiency	Model 1	Model 2	Model 3 (Opportunity)
Complexity	Simple			Complex
Costs	Low Cost			Higher Cost
Resources	Light Resources			Deep Resources
Governance	Modest Governance			Strong Governance
Liquidity	More Liquid			Less Liquid

As a general statement, moving from left-to-right on the above spectrum increases both investment portfolio return potential and risk-adjusted return potential, based on our capital markets modelling.

Portfolio Analysis

Current Frontier



Key Takeaways:

The current portfolio is well-diversified

- Return-seeking assets are broadly diversified
- Safety asset allocation should withstand stressed markets

Additional diversification via illiquid assets is expected to improve the risk/return profile, although statutory limits preclude Aon's Model 3 portfolio

	Return-Seeking Assets										Risk-Reducing / Safety Assets			
	Expected Nominal Return ¹	Expected Nominal Volatility	Sharpe Ratio	Public Equity	Private Equity	Strategic Allocation ²	Multi Asset Credit	Private Debt	Real Estate ³	Infra- structure	Cash	Core/ Core Plus Bonds	Interm. Duration Gov't Bonds	Interm. Duration Credit
Current Policy (81% R-S)	6.13%	12.99%	0.325	53%	6%	12%	0%	0%	10%	0%	1%	0%	9%	9%
Efficiency	5.75%	12.96%	0.297	61%	0%	0%	8%	0%	12%	0%	1%	18%	0%	0%
Model 3	6.56%	12.15%	0.383	35%	15%	10%	0%	5%	10%	5%	1%	18%	0%	0%
Current Frontier														
60% Return-Seeking	5.36%	9.82%	0.352	39%	4%	9%	0%	0%	7%	0%	1%	39%	0%	0%
70% Return-Seeking	5.75%	11.33%	0.340	46%	5%	10%	0%	0%	9%	0%	1%	29%	0%	0%
80% Return-Seeking	6.12%	12.87%	0.328	52%	6%	12%	0%	0%	10%	0%	1%	19%	0%	0%
90% Return-Seeking	6.47%	14.43%	0.316	59%	7%	13%	0%	0%	11%	0%	1%	9%	0%	0%
100% Return-Seeking	6.80%	16.01%	0.306	65%	7%	15%	0%	0%	12%	0%	0%	0%	0%	0%

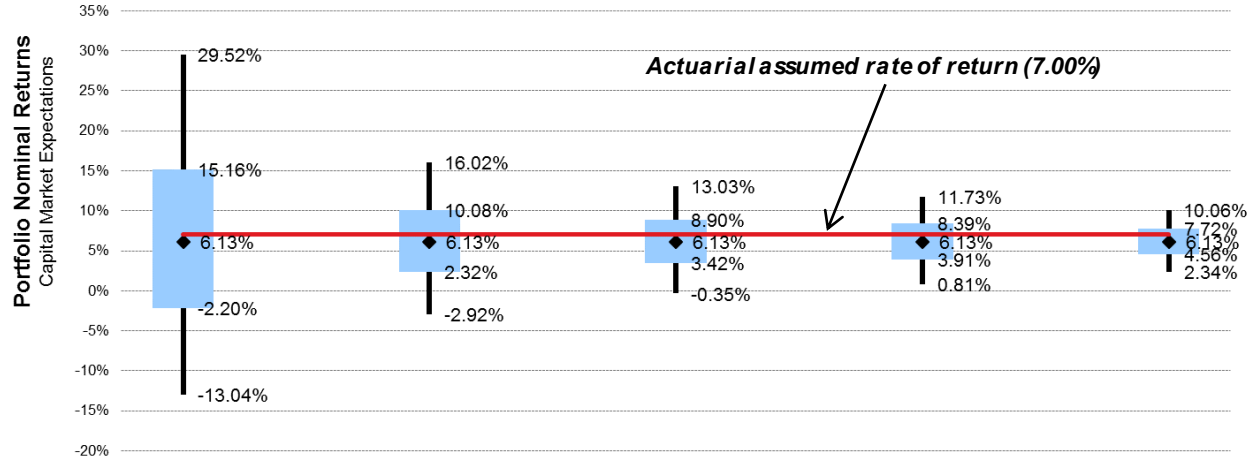
¹ Expected return assumptions are based upon the Aon Investments capital market assumptions adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-63bps adjustment)

² Strategic assumption breakdown is found in the Appendix

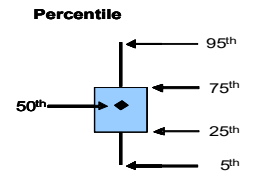
³ Current Real Estate assumption was modeled as 76.5% Core Real Estate / 13.5% Non-Core Real Estate / 10.0% REITs
Percentages in table may not sum to 100% due to rounding

Portfolio Analysis

Range of Nominal Returns



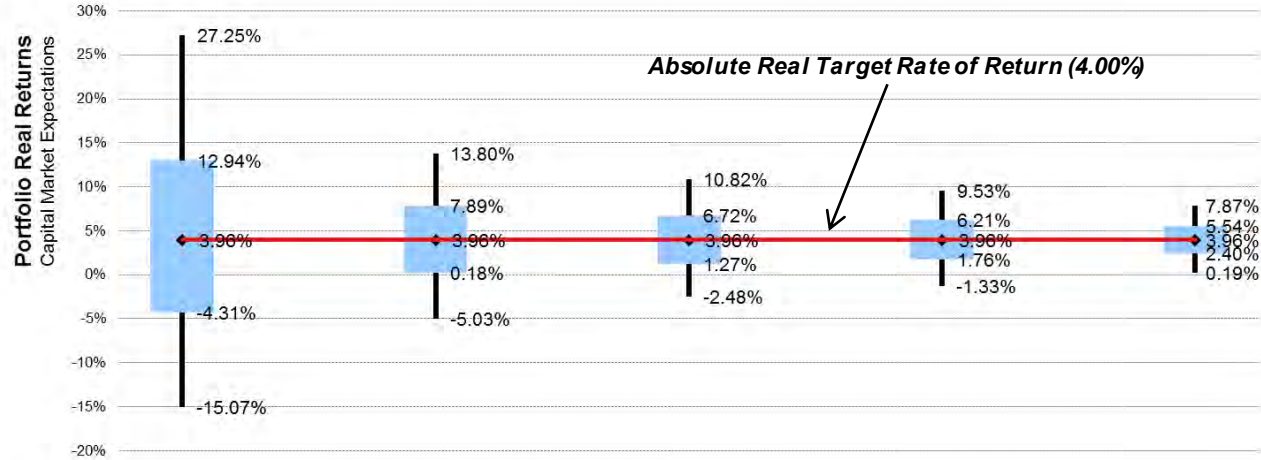
Percentile	Current Policy – 1 Year	Current Policy – 5 Year	Current Policy – 10 Year	Current Policy – 15 Year	Current Policy – 30 Year
5 th	-13.04%	-2.92%	-0.35%	0.81%	2.34%
25 th	-2.20%	2.32%	3.42%	3.91%	4.56%
50 th	6.13%	6.13%	6.13%	6.13%	6.13%
75 th	15.16%	10.08%	8.90%	8.39%	7.72%
95 th	29.52%	16.02%	13.03%	11.73%	10.06%



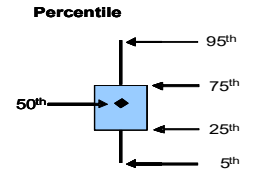
Note: Returns based on Aon Investments' 30 Year Capital Market Assumptions as of June 30, 2021 adjusted for the average global equity risk premium

Portfolio Analysis

Range of Real Returns



Percentile	Current Policy – 1 Year	Current Policy – 5 Year	Current Policy – 10 Year	Current Policy – 15 Year	Current Policy – 30 Year
5 th	-15.07%	-5.03%	-2.48%	-1.33%	0.19%
25 th	-4.31%	0.18%	1.27%	1.76%	2.40%
50 th	3.96%	3.96%	3.96%	3.96%	3.96%
75 th	12.94%	7.89%	6.72%	6.21%	5.54%
95 th	27.25%	13.80%	10.82%	9.53%	7.87%



Note: Returns based on Aon Investments' 30 Year Capital Market Assumptions as of June 30, 2021 adjusted for the average global equity risk premium



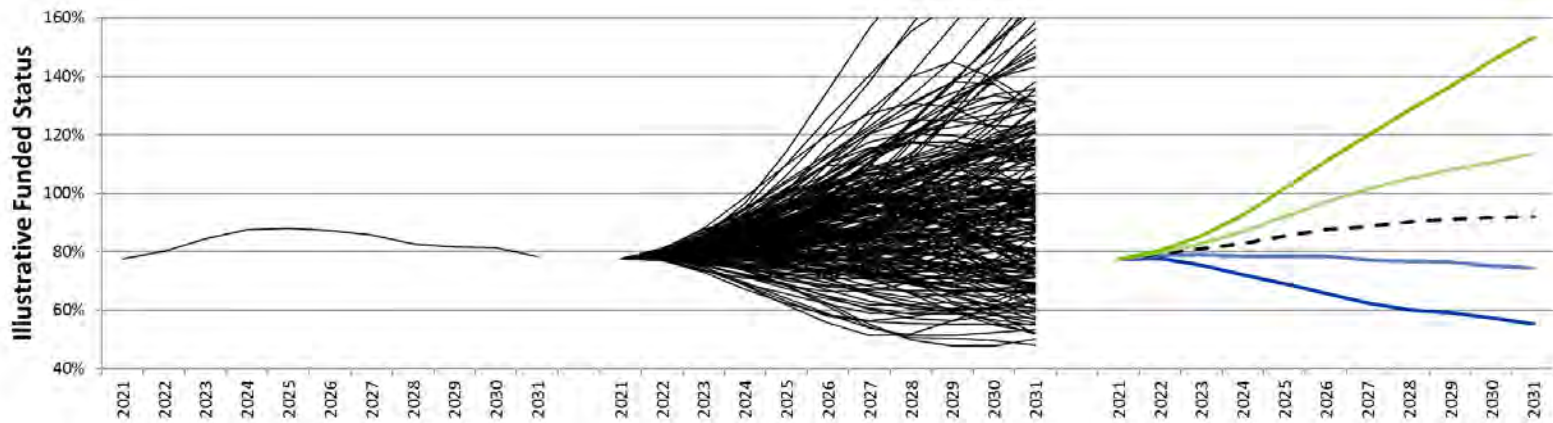
Analysis

- Asset-Liability Projection Analysis

Asset-Liability Simulation Overview

- Thousands of simulations plotted in one graph would be impossible to interpret
- Instead, we rank the simulations at each point over the future
- This produces a distribution of outcomes illustrating the degree of uncertainty of a plan's financial position over the projection period
- Different investment strategies will produce different distributions of outcomes

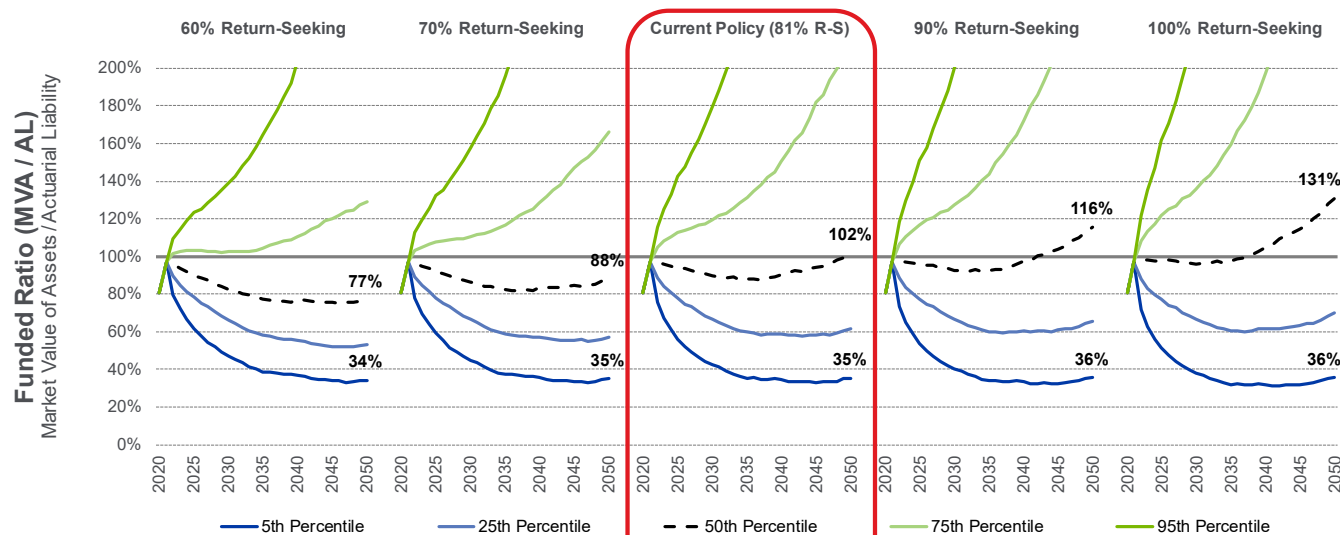
Single Simulation ➡ **Many Simulations** ➡ **Distribution of Outcomes**



* The path of a given scenario will follow a much less smooth pattern than the distribution suggests, as illustrated above

Asset-Liability Projection Analysis

Market Value of Assets / Actuarial Liability Funded Ratio



Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050
5th Percentile	47%	37%	34%	45%	36%	35%	43%	34%	35%	40%	33%	36%	38%	32%	36%
25th Percentile	66%	55%	53%	66%	57%	57%	66%	59%	62%	66%	61%	65%	67%	62%	70%
50th Percentile	83%	77%	77%	86%	83%	88%	90%	91%	102%	93%	97%	116%	96%	105%	131%
75th Percentile	103%	111%	129%	110%	128%	166%	119%	150%	>200%	127%	172%	>200%	136%	198%	>200%
95th Percentile	139%	>200%	>200%	158%	>200%	>200%	179%	>200%	>200%	200%	>200%	>200%	>200%	>200%	>200%

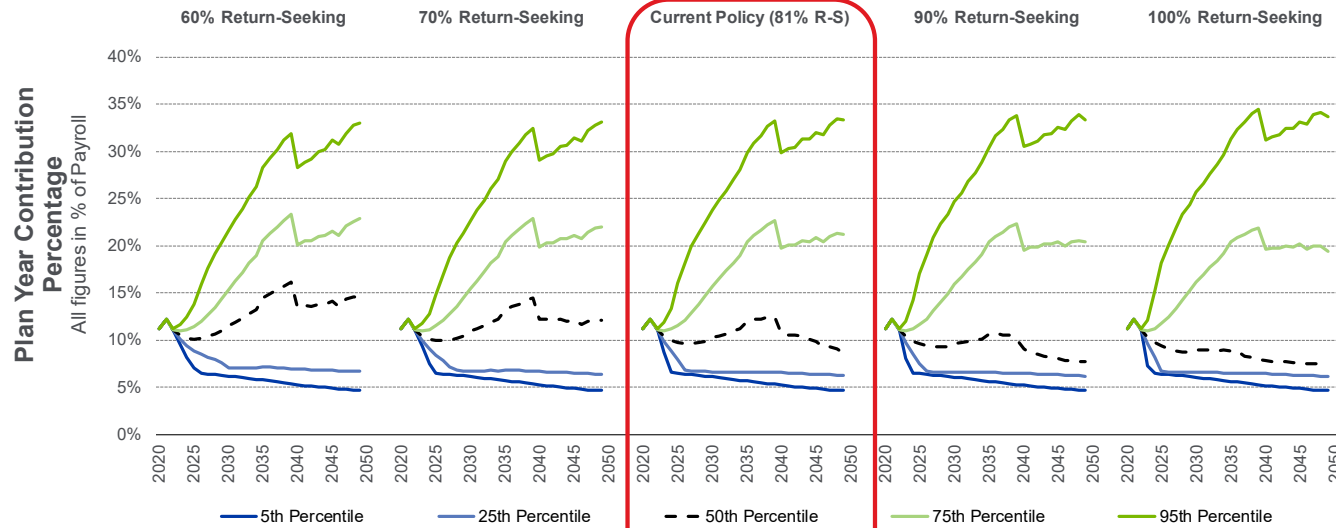
Key Takeaways:

- Under the Current Policy (81% R-S), the funded ratio is expected to increase with FYE 2021 performance, then decline in the near-term before increasing later at the end of the period in the central expectation (50th percentile outcome)
- Higher return-seeking allocations will increase the central trendline of funded ratio, albeit with greater downside risk
- Downside risk (5th percentile outcomes) illustrates a small likelihood of significant funded ratio deterioration over the projection period

* Projections assume constant 7.00% discount rate for pension liabilities for all investment policies studied

Asset-Liability Projection Analysis

Employer Contribution Rate (“Blended Rate”)



Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	2029	2039	2049	2029	2039	2049	2029	2039	2049	2029	2039	2049	2029	2039	2049
5th Percentile	6%	5%	5%	6%	5%	5%	6%	5%	5%	6%	5%	5%	6%	5%	5%
25th Percentile	8%	7%	7%	7%	7%	6%	7%	7%	6%	7%	6%	6%	7%	6%	6%
50th Percentile	11%	16%	15%	10%	14%	12%	10%	12%	9%	9%	10%	8%	9%	8%	7%
75th Percentile	14%	23%	23%	14%	23%	22%	15%	23%	21%	15%	22%	20%	15%	22%	19%
95th Percentile	20%	32%	33%	21%	32%	33%	22%	33%	33%	23%	34%	33%	24%	34%	34%
Probability > 20%	6%	36%	34%	9%	34%	30%	11%	31%	27%	13%	30%	26%	15%	28%	24%

* Projections assume constant 7.00% discount rate for pension liabilities for all investment policies studied

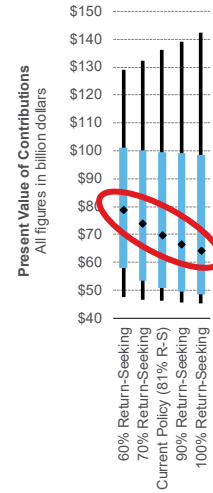
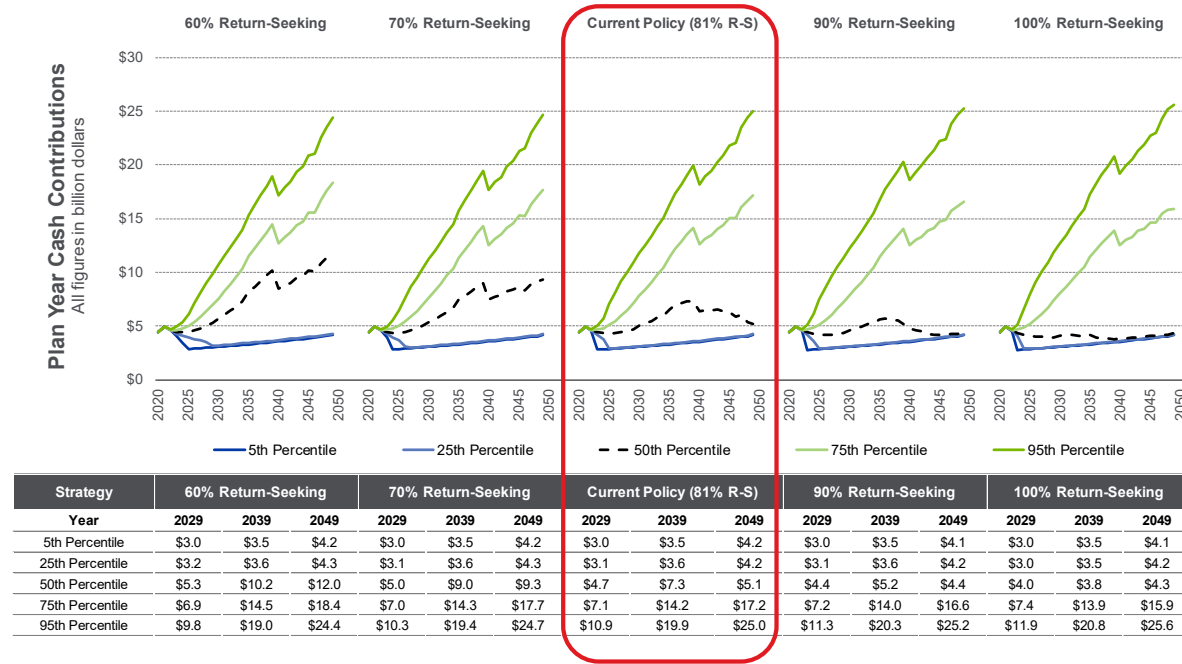
Note: Payroll is estimated to be \$26.8B for Normal Cost purposes and \$37.9B for UAL purposes as of 7/1/2020

Key Takeaways:

- Employer contribution rate is expected to decrease with recent asset performance before increasing back to 12% over the next two decades
- Higher return-seeking allocations will reduce the expected (50th percentile) outcome but with a wider range of outcomes
- 95th percentile results show potential contribution rates in excess of 30% over the next two decades, albeit with low likelihoods

Asset-Liability Projection Analysis

Total Contributions Amounts (Employer + Employee)



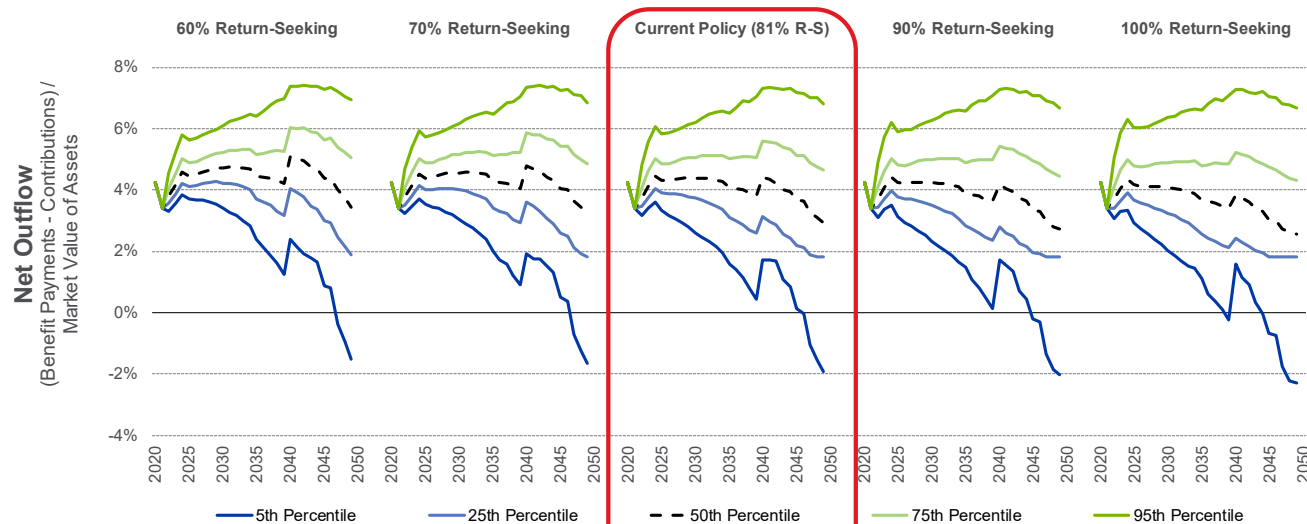
Key Takeaways:

- Total contribution amounts are expected to decline initially before increasing over the next two decades and finally decrease once amortization bases are fully recognized
- Higher return-seeking allocations will reduce the expected (50th percentile) outcome but with a wider range of outcomes

* Projections assume constant 7.00% discount rate for pension liabilities for all investment policies studied

Asset-Liability Projection Analysis

Net Outflow Analysis: (Benefit Payments less Contributions) / Market Value of Assets



Key Takeaways:

- Net outflows are expected to remain in the 3-5% range over the projection period
- Net outflows of 10%+ can put stress on fund liquidity over time; however, it is not likely over the projection period

Strategy	60% Return-Seeking			70% Return-Seeking			Current Policy (81% R-S)			90% Return-Seeking			100% Return-Seeking		
Year	2029	2039	2049	2029	2039	2049	2029	2039	2049	2029	2039	2049	2029	2039	2049
5th Percentile	4%	1%	-2%	3%	1%	-2%	3%	0%	-2%	3%	0%	-2%	2%	0%	-2%
25th Percentile	4%	3%	2%	4%	3%	2%	4%	3%	2%	4%	2%	2%	3%	2%	2%
50th Percentile	5%	4%	3%	5%	4%	3%	4%	4%	3%	4%	4%	3%	4%	3%	3%
75th Percentile	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	4%	5%	5%	4%
95th Percentile	6%	7%	7%	6%	7%	7%	6%	7%	7%	6%	7%	7%	6%	7%	7%
Probability > 10%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%	<1%

* Projections assume constant 7.00% discount rate for pension liabilities for all investment policies studied

Asset-Liability Projection Analysis

Economic Cost Analysis over a 2, 5, 10, and 15-Year Horizon

Economic Cost

Present Value of Contributions plus AL Funding Shortfall/(Surplus)* at 7.00%, \$millions



Key Takeaways:

- Short time horizons (2 years) show largely horizontal economic cost curves – i.e., added risk does not result in a significant expected reward/economic cost reduction
- Longer time horizons (15 years) show largely vertical economic cost curves – i.e., added risk does result in a significant expected reward/economic cost reduction

* Projections assume constant 7.00% discount rate for pension liabilities for all investment policies studied

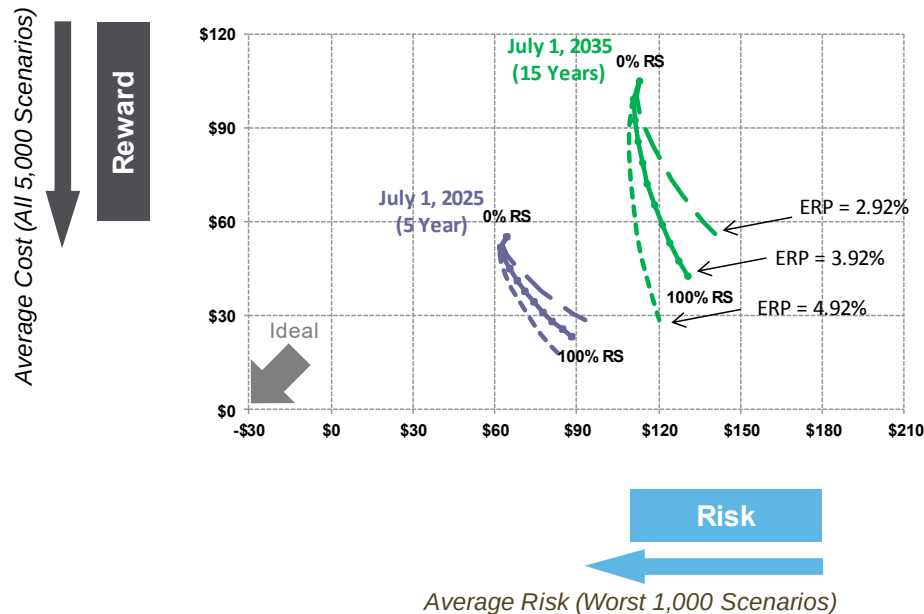
Note: Excludes 50% of surplus in excess of 120% of Actuarial liability, and includes twice the shortfall below 40% of Actuarial liability, on a market value basis

Risk-Reward Analysis

Sensitivity to Equity Risk Premium Assumption

Economic Cost

Present Value of Contributions plus AL Funding Shortfall/(Surplus)* at 7.00%, \$millions



Observation:

- The dashed lines illustrate how the Economic Cost curve shifts under alternative equity risk premium assumptions over a 5 and 15-year time horizon.

* Projections assume constant 7.00% discount rate for pension liabilities for all investment policies studied

Note: Excludes 50% of surplus in excess of 120% of Actuarial liability, and includes twice the shortfall below 40% of Actuarial liability, on a market value basis

Asset-Liability Projection Results

Funded Ratio Analysis (Based on Market Value of Assets)

The **Florida Retirement System** is projected to have the following probability of exceeding key funded ratio thresholds under the Current portfolio mix:

Funded Status	After 5 Years					After 10 Years					After 30 Years				
	60% R-S	70% R-S	Current Policy (81% R-S)	90% R-S	100% R-S	60% R-S	70% R-S	Current Policy (81% R-S)	90% R-S	100% R-S	60% R-S	70% R-S	Current Policy (81% R-S)	90% R-S	100% R-S
100%	30.4%	36.2%	41.0%	44.1%	46.9%	27.5%	34.1%	39.5%	43.3%	46.8%	35.1%	43.3%	50.8%	56.0%	60.5%
90%	50.0%	53.5%	56.3%	57.8%	59.1%	39.3%	45.2%	49.5%	52.5%	54.9%	40.4%	48.9%	55.7%	60.7%	64.3%
80%	71.9%	72.0%	72.0%	71.9%	71.6%	54.1%	57.6%	60.2%	61.7%	63.2%	47.4%	54.8%	61.4%	65.7%	68.9%
70%	87.6%	86.0%	84.5%	83.4%	82.4%	69.1%	70.2%	71.0%	71.6%	71.8%	55.6%	62.4%	68.5%	72.0%	74.9%
60%	95.9%	94.4%	92.7%	91.5%	90.2%	83.1%	82.6%	81.6%	81.2%	80.4%	66.1%	71.8%	76.2%	78.8%	80.9%
50%	99.4%	98.4%	97.6%	96.6%	95.5%	93.2%	92.2%	91.0%	89.9%	88.8%	78.6%	82.1%	84.5%	86.0%	87.2%
40%	99.9%	99.8%	99.6%	99.2%	98.5%	98.3%	97.5%	96.2%	95.1%	94.2%	90.0%	91.5%	92.1%	92.8%	93.0%
30%	100.0%	100.0%	100.0%	99.9%	99.8%	99.9%	99.7%	99.3%	98.7%	98.1%	97.6%	97.6%	97.5%	97.4%	97.1%
20%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	99.9%	99.8%	100.0%	99.9%	99.7%	99.7%	99.4%
10%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Key Takeaways:

- Higher risk portfolios are projected to have more upside potential over longer periods of time
- Lower risk portfolios are expected to have higher downside protection in the near-term

Blue = Greater than 50% chance of surpassing a given threshold



Analysis

- Liquidity Analysis

Liquidity Analysis | Background

- FRS' liquidity analysis is performed under its **Current Policy (81%R-S)** portfolio
 - Intended as a stress-testing model, incorporating the profile of the liabilities as well as expected future contributions
 - Uses different scenarios for economic environments and other relevant events
 - Shows how the portfolio's liquidity profile could evolve with a given investment strategy
- We categorized investments by liquidity into five buckets
 - **Liquid (Risk-Reducing Assets):** less than 3 months needed for return of capital (e.g. publicly traded securities)
 - **Liquid (Return-Seeking Assets):** less than 3 months needed for return of capital (e.g. publicly traded securities)
 - **Quasi-Liquid:** Typical lock-up of 3–12 months. Conservatively, we assumed a 1-year lock-up in most economic environments, 2 years in a Recession scenario, and 3 years in a Dark Skies scenario (e.g. many hedge funds, core real estate)
 - **Illiquid: Potential lock-up of 5–10 years**, depending on economic environment (e.g. closed-ended real estate)
 - **Illiquid: Potential lock-up of 10+ years** (e.g. typical private equity)
- This is intended to be a conservative approximation of the actual liquidity properties of the assets
- Not surprisingly, varying economic scenarios would lead FRS' percentage allocation to alternative assets to differ from its targets due to liquidity differences in asset classes

Liquidity Analysis | Overview

Asset Allocation and Liquidity Category (Current Policy)

Asset Class		Target Asset Allocation				
		Liquid	Quasi-Liquid	Illiquid 5-10 Years	Illiquid 10+ Years	Total
Return-Seeking	Global Equity	53.00%				53.00%
	Private Equity				6.00%	6.00%
	Real Estate	1.00%	7.65%	1.35%		10.00%
	Strategic Allocation		6.00%	6.00%		12.00%
	Subtotal	54.00%	13.65%	7.35%	6.00%	81.00%
Risk-Reducing/ Safety	Intermediate Duration Fixed Income	18.00%				18.00%
	Cash	1.00%				1.00%
	Subtotal	19.00%	0.00%	0.00%	0.00%	19.00%
Total		73.00%	13.65%	7.35%	6.00%	100.00%

27% illiquid assets

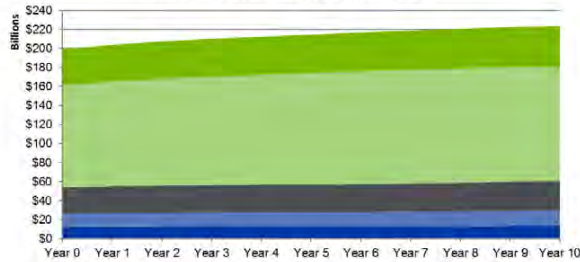
Liquidity Analysis | Summary of Results

Current Policy (Assuming Full Actuarial Contributions)

■ Illiquid: 10+ Years ■ Illiquid: 5-10 Years ■ Quasi-Liquid ■ Liquid (Return-Seeking Assets) ■ Liquid (Risk-Reducing Assets)

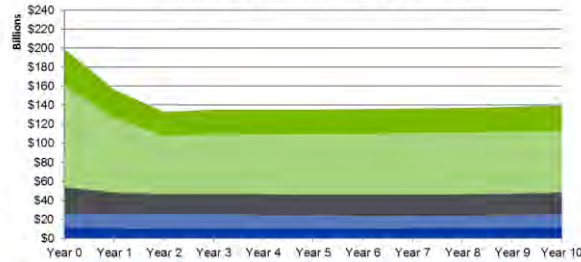
Base Case

Scenario: Base - FRS (in Dollars)



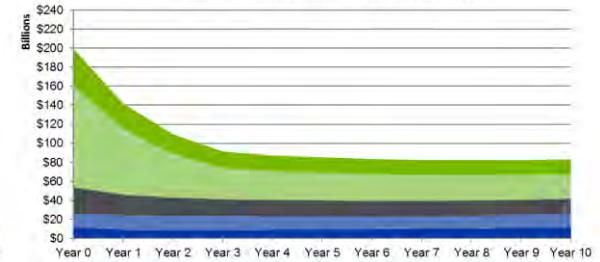
Recession

Scenario: Recession - FRS (in Dollars)

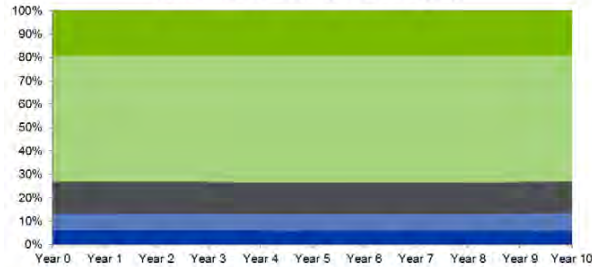


Dark Skies

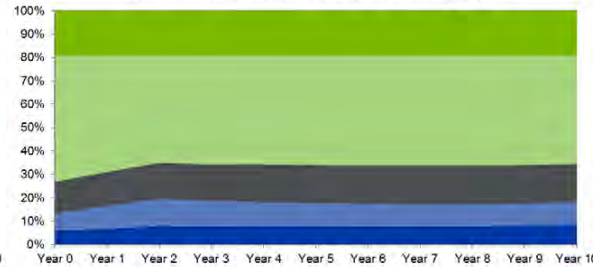
Scenario: Dark Skies - FRS (in Dollars)



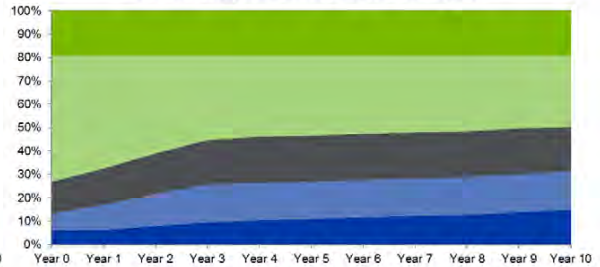
Scenario: Base - FRS (in Percentages)



Scenario: Recession - FRS (in Percentages)



Scenario: Dark Skies - FRS (in Percentages)



Note: Year 0 represents a starting point of June 30, 2021

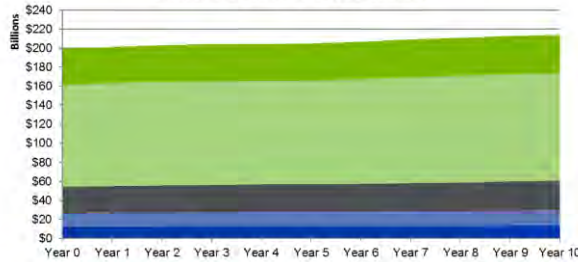
Liquidity Analysis | Summary of Results

Current Policy (5 Years of Normal Cost Only Contributions)

■ Illiquid: 10+ Years ■ Illiquid: 5-10 Years ■ Quasi-Liquid ■ Liquid (Return-Seeking Assets) ■ Liquid (Risk-Reducing Assets)

Base Case

Scenario: Base - FRS (in Dollars)



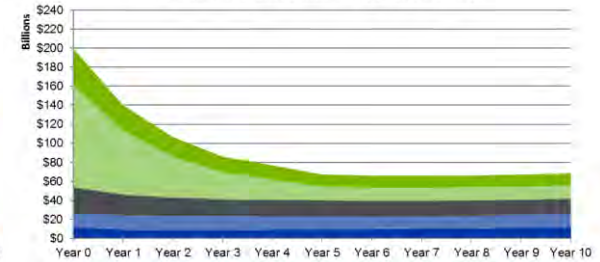
Recession

Scenario: Recession - FRS (in Dollars)

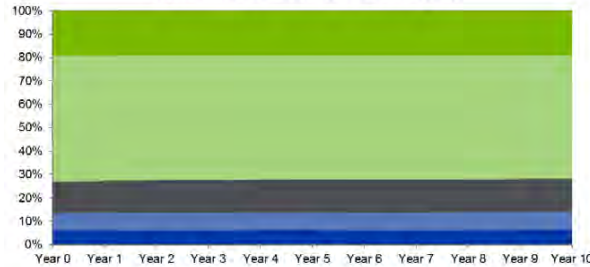


Dark Skies

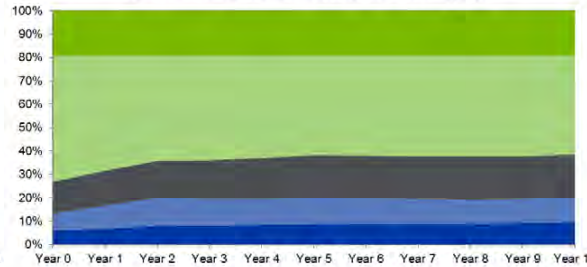
Scenario: Dark Skies - FRS (in Dollars)



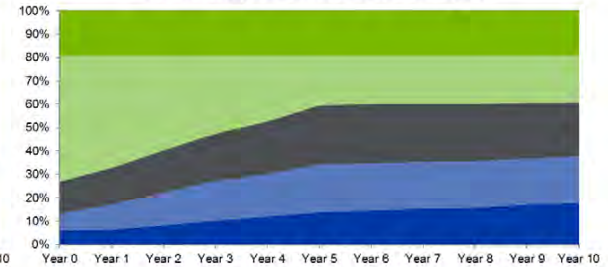
Scenario: Base - FRS (in Percentages)



Scenario: Recession - FRS (in Percentages)



Scenario: Dark Skies - FRS (in Percentages)



Note: Year 0 represents a starting point of June 30, 2021

Conclusions

FRS has sufficient liquidity in the modeled Base Case, Recession, and Dark Skies scenarios

- The total illiquid and quasi-liquid assets can be maintained near the target allocation with no cash flow problems
- In pessimistic scenarios, the allocation could drift enough from the target allocation that FRS may want to rebalance

This analysis is highly sensitive to the assumed contributions

- If FRS receives less contributions than assumed, especially in a Dark Skies environment, then illiquid investments drift even further from target and the potential for liquidity issues increases



Analysis

- Public Pension Peer Comparison

Public Pension Peer Comparison

FRS' Asset Allocation versus Public Peers

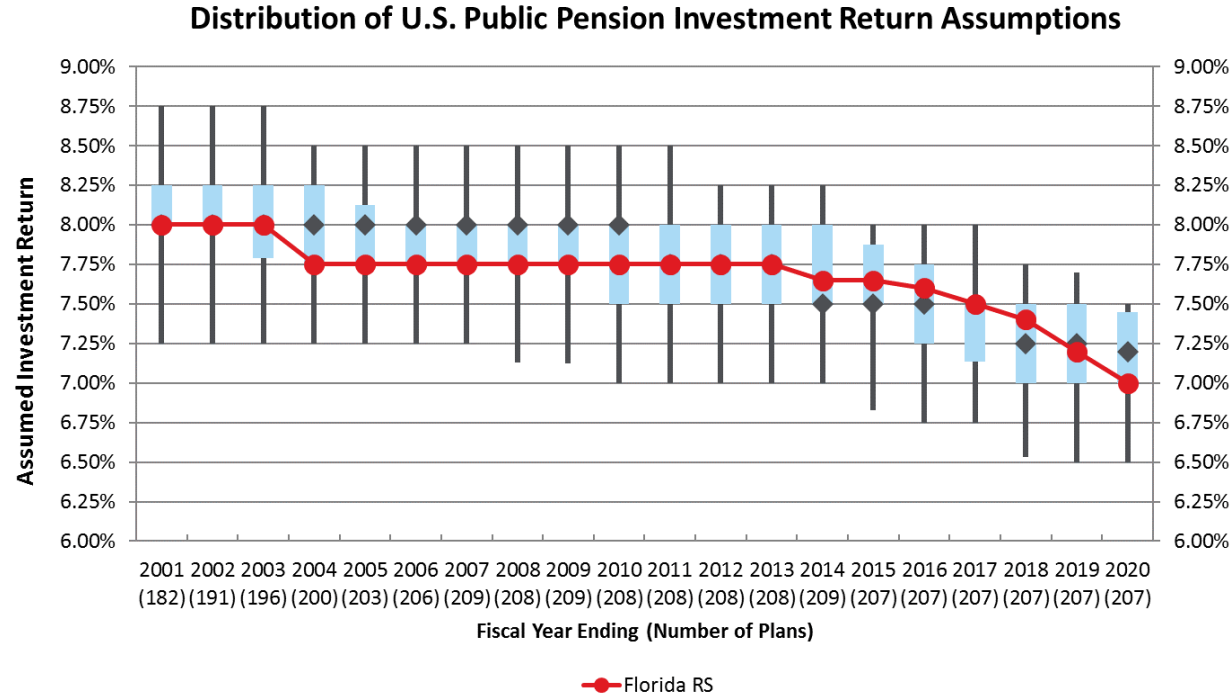
Asset Allocation	FRS	Public Pension Plans (>\$5B)*	Total Public Pension Universe*	Wilshire Report on State Retirement Systems **
Equity Exposure				
Global Equity	53.0%	2.3%	2.8%	
Total U.S. Equity	0.0%	21.4%	22.6%	30.3%
Total Int'l Equity	0.0%	15.3%	15.6%	17.7%
Private Markets	6.0%	9.3%	8.5%	9.6%
Total Equity	59.0%	48.3%	49.5%	57.6%
Fixed Income Exposure				
U.S. Fixed Income	18.0%	24.1%	23.7%	
High Yield Bonds / Bank Loans	0.0%			
Private Debt	0.0%	2.2%	2.1%	
International / Global Fixed Income	0.0%	2.0%	2.2%	
Emerging Market Debt	0.0%	0.8%	1.0%	
Inflation Protected	0.0%			
Total Fixed Income	18.0%	29.1%	29.0%	21.7%
Real Asset Exposure				
Infrastructure	0.0%	2.0%	1.8%	
Commodities	0.0%	2.2%	1.9%	
Real Estate	10.0%	7.4%	7.4%	
Total Real Assets	10.0%	11.6%	11.1%	12.0%
Hedge Funds / Opportunistic	12.0%	4.4%	4.3%	
Multi-Asset / Risk Parity	0.0%	0.2%	0.5%	
Money Market / Cash	1.0%	2.3%	2.2%	
Leverage	0.0%			
Other	0.0%	3.8%	3.3%	8.7%
Net Other	13.0%	10.7%	10.3%	8.7%
Total	100%	100%	100%	100%

* Source: "Greenwich Associates - U.S. Institutional Investors 2020 - Market Trend Data Tables", Greenwich Associates

** Source: <https://www.pionline.com/pension-funds/funding-ratio-state-pension-plans-slips-2020-wilshire>

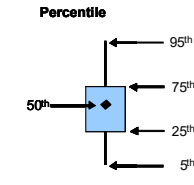
Florida Retirement System (FRS)

Expected Return Assumption versus Peers¹



Key Takeaways:

- Median actuarial assumption for investment return has declined from 8.00% in 2001-2010 to 7.20% based on the latest survey data
- FRS' assumption for FYE 2020 (7.00%) fell at the 25th percentile relative to its peers
- If FRS exceeds (or falls short of) the actuarial return assumption, lower (or higher) funding will be needed in future

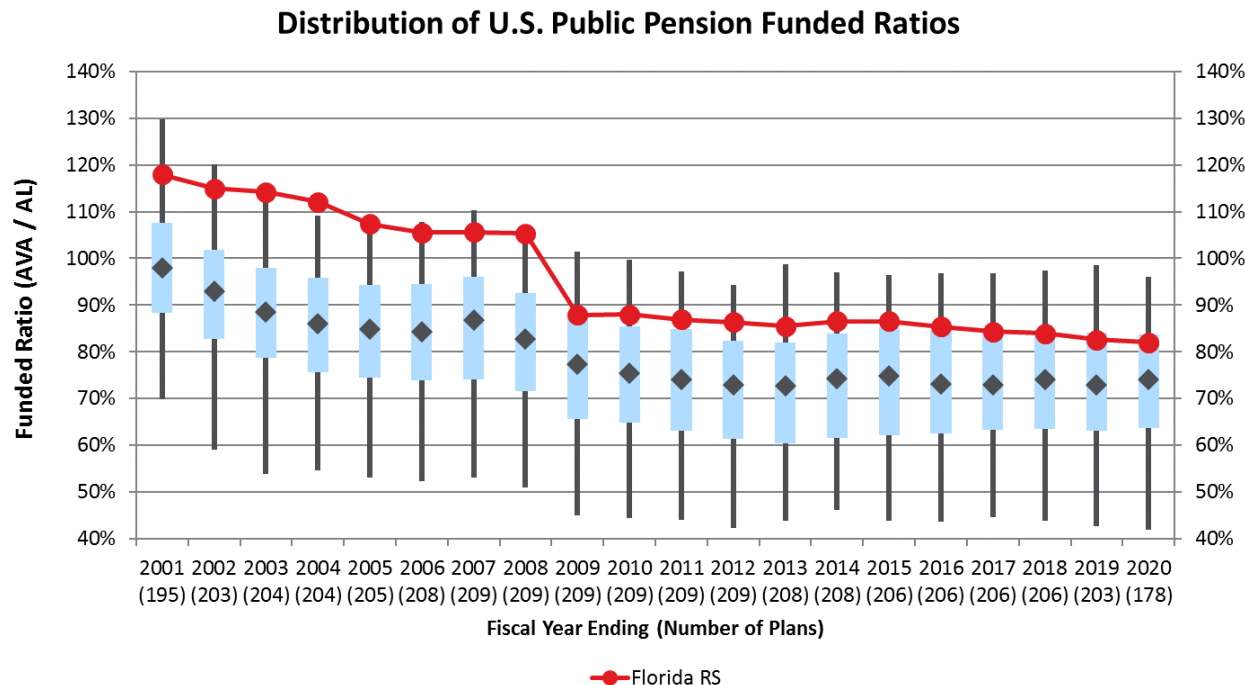


Sources: Public PlansData (publicplansdata.org) as of August 2021; Expected Returns are the assumptions made by the plans included in the data set.

¹ Peers defined as public funds published within publicplansdata.org as of August 2021; Number of plans per year are shown in parentheses

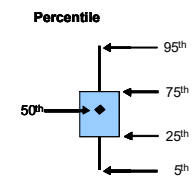
Florida Retirement System (FRS)

Funded Ratio (Based on Actuarial Value of Assets) versus Peers¹



Key Takeaways:

- The median funded ratio as of FYE 2020 was 74% based on the latest survey data
- FRS' FYE 2020 funded ratio (82%) fell just below the 75th percentile relative to its peers

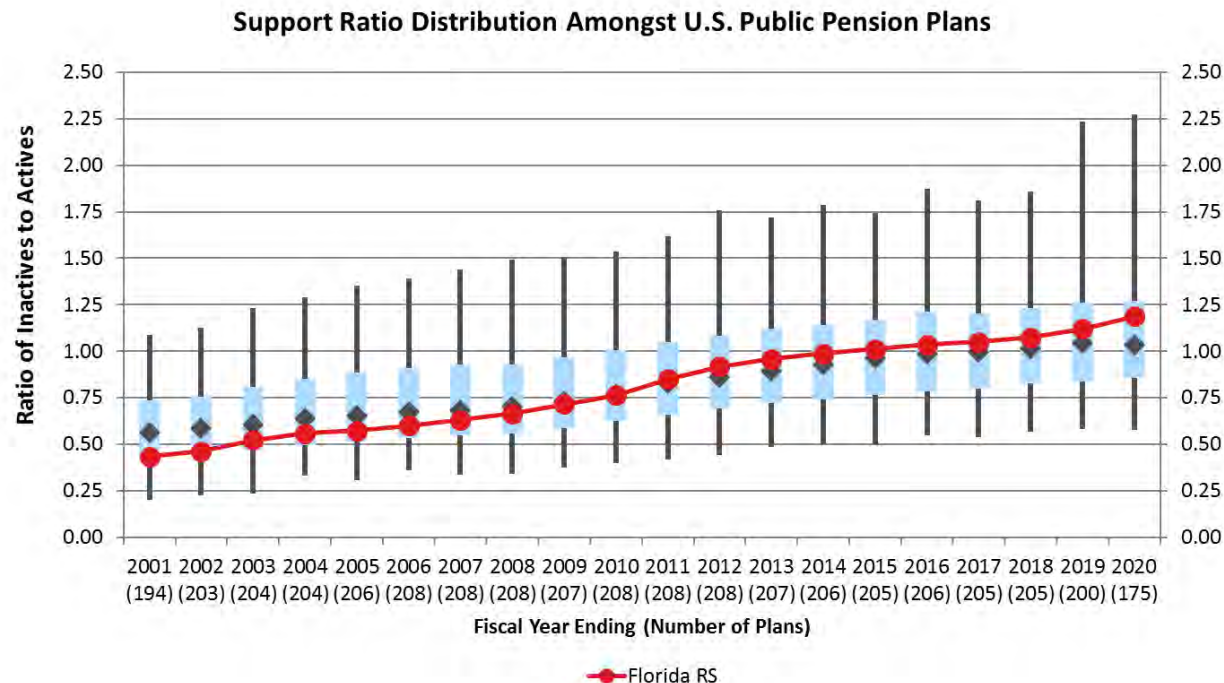


Sources: Public PlansData (publicplansdata.org) as of August 2021

¹ Peers defined as public funds published within publicplansdata.org as of August 2021; Number of plans per year are shown in parentheses

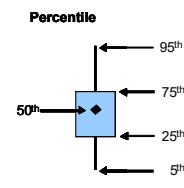
Florida Retirement System (FRS)

Support Ratio versus Peers¹



Key Takeaways:

- “Support Ratio” defined as the ratio of inactive participants to active participants
- The ability for new hires to elect the Investment Plan has subdued the increase in active employees, increasing the Support Ratio over time

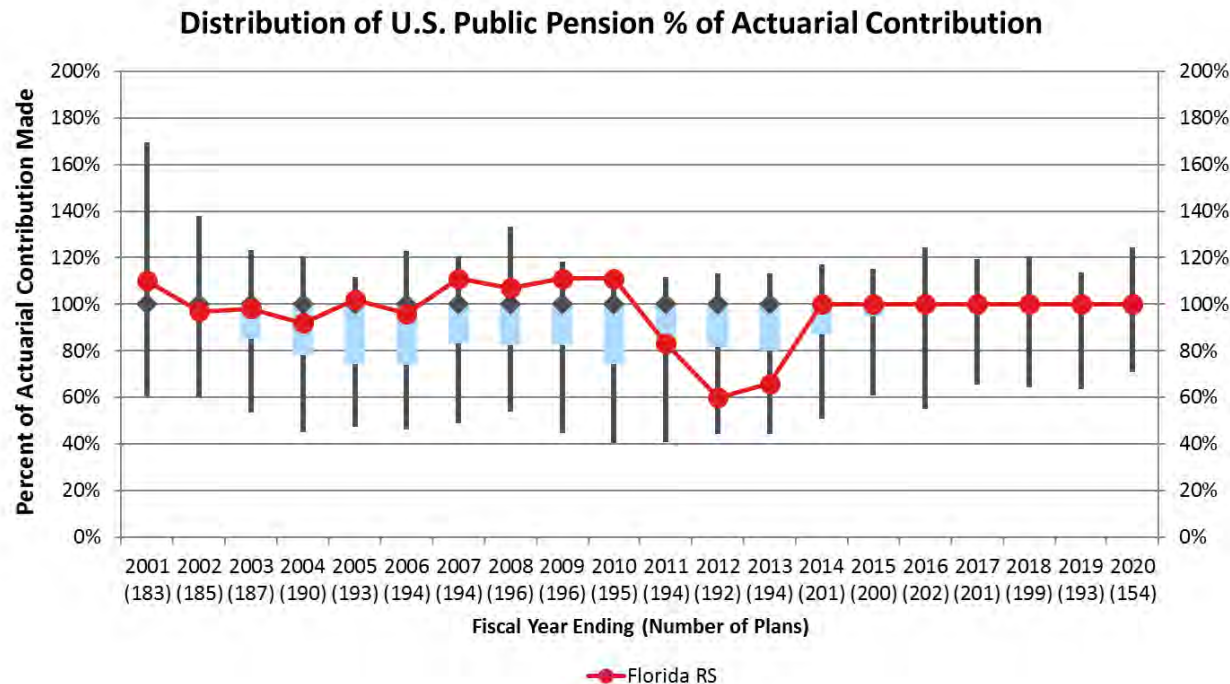


Sources: PublicPlansData (publicplansdata.org) as of August 2021

¹ Peers defined as public funds published within publicplansdata.org as of August 2021; Number of plans per year are shown in parentheses

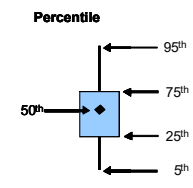
Florida Retirement System (FRS)

Percentage of Actuarial Contribution Made versus Peers¹



Key Takeaways:

- Median contributions of plans within the data, as a percentage of the actuarial amount, have been approximately 100% since FYE 2001
- FRS has made at least the full actuarial contribution in the last 7 fiscal years

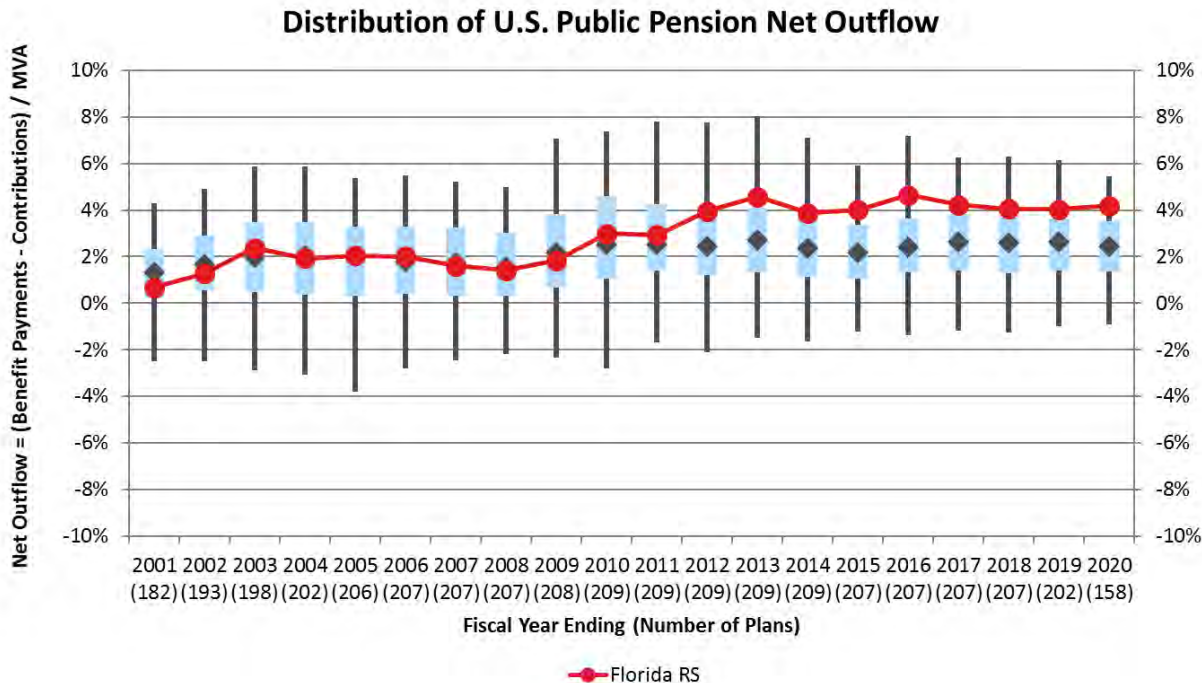


Sources: Public PlansData (publicplansdata.org) as of August 2021

¹ Peers defined as public funds published within publicplansdata.org as of August 2021; Number of plans per year are shown in parentheses

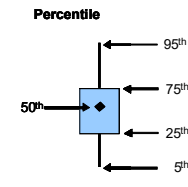
Florida Retirement System (FRS)

Net Outflow versus Peers¹



Key Takeaways:

- The median net outflow as of FYE 2020 was 2.4% based on the latest survey data
- FRS' FYE 2020 net outflow (4.2%) fell between the 75th and 95th percentile relative to its peers



Sources: Public PlansData (publicplansdata.org) as of August 2021

¹ Peers defined as public funds published within publicplansdata.org as of August 2021; Number of plans per year are shown in parentheses



Summary & Conclusions

Summary of Results

All Scenarios \$ billions	30-year Present Value of Gross Contributions (Employee + Employer)		30-year Ending Funded Ratio (MVA / AL)	
	Expected ¹	Downside ²	Expected ¹	Downside ³
Current Policy (81% R-S)	\$69.9	\$136.2	102%	35%
Current Frontier				
0% Return-Seeking	\$112.3	\$118.6	40%	29%
10% Return-Seeking	\$106.6	\$117.4	43%	30%
20% Return-Seeking	\$100.8	\$118.5	47%	32%
30% Return-Seeking	\$95.1	\$120.7	52%	32%
40% Return-Seeking	\$89.7	\$123.5	59%	33%
50% Return-Seeking	\$84.2	\$126.4	67%	34%
60% Return-Seeking	\$78.9	\$129.2	77%	34%
70% Return-Seeking	\$74.1	\$132.3	88%	35%
80% Return-Seeking	\$70.0	\$135.7	101%	35%
90% Return-Seeking	\$66.7	\$139.0	116%	36%
100% Return-Seeking	\$64.2	\$142.4	131%	36%

¹ Expected = 50th percentile outcome or central expectation across all 5,000 simulations

² Downside = 95th percentile outcome across all 5,000 simulations

³ Downside = 5th percentile outcome across all 5,000 simulations

Key Observations:

- The funded ratio is expected to increase initially before remaining relatively flat over the projection period under the Current Policy
- Employer contribution rate is expected to decline initially, gradually increase over the next two decades, and then eventually decline
- Adjusting the return-seeking vs. risk-reducing allocation will exhibit standard risk/reward trade-off of expected costs and risks – longer time horizons will incentivize higher allocations to return-seeking assets

Summary and Conclusions

Investment Analysis

- We believe the current portfolio is well-diversified with 81% return-seeking assets
- The equity risk premium is 3.92% in this 2021 Asset-Liability Study, compared to 5.15% from 2020; the change is driven by the combination of lower projected equity returns and higher fixed income returns year-over-year
- Asset returns (6.13%) are not expected to keep pace with the actuarial assumed rate of return (7.00%)

Asset-Liability Projection Analysis

- Longer time horizons are expected to reward higher levels of risk; shorter time horizons are not
- The funded ratio is expected to improve with FYE 2021 returns and then remain relatively flat over the course of the projection period in our central expectation (50th percentile outcome)
- Adverse market experience could significantly impact the funded status of the Plan over the projection period, albeit with low likelihood

Liquidity Analysis

- The current portfolio is projected to have sufficient liquidity in the modeled Base, Recession, and Dark Skies scenarios



Appendix

- Assumptions & Methods

Actuarial Assumptions and Methods

- Based on actuarial valuation and projections provided by the plan actuary as of July 1, 2020
- Actuarial Assumptions
 - Valuation Rate of Interest = 7.00%
 - Inflation = 2.40%
 - Payroll Growth = 3.25%
 - Actuarial Value of Assets: Reflects a five-year averaging methodology where 20% of the difference between the actual market value and the expected actuarial value of assets is immediately recognized but restricted to a 20% corridor around the Market Value of Assets
 - All other assumptions as documented in the Actuarial Valuation Report as of July 1, 2020, unless noted otherwise
- Actuarially Determined Contribution Calculation = Normal Cost plus a level percent amortization of the unfunded liability using a 3.25% salary scale
 - New amortization bases are established each year, creating a layered 25-year amortization base

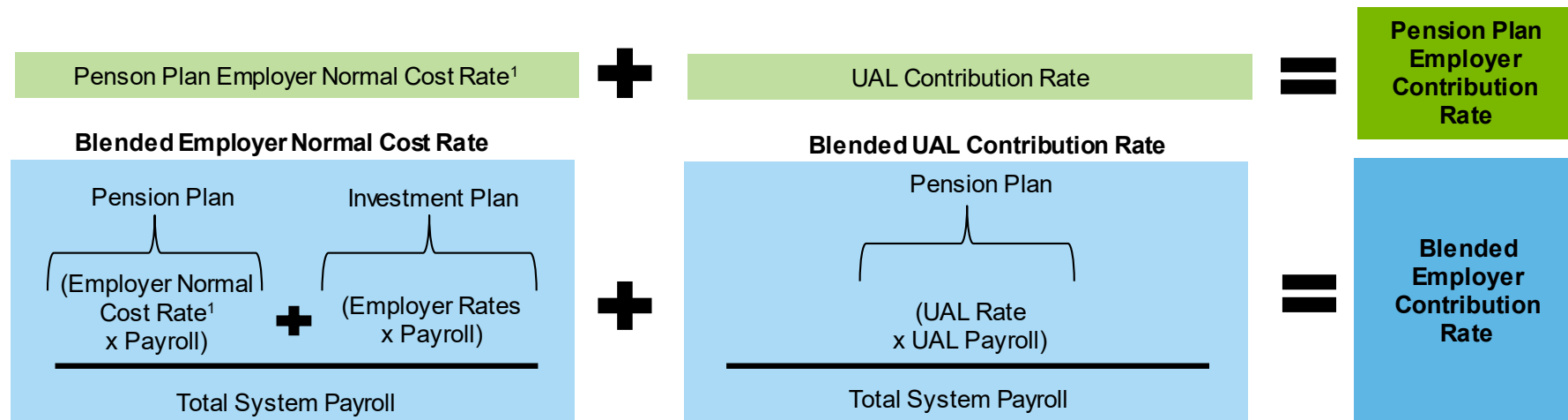
Actuarial Assumptions and Methods (continued)

- Blended Contribution Rate = projected combined amount that would be contributed for both the FRS Pension Plan and the FRS Investment Plan based on the total projected payroll for both plans
 - FRS Investment Plan employer rate is assumed to remain level at 4.70%
- Employee contribution rate is assumed to remain level at 3.00%
- Projection assumptions:
 - Future benefit payments and payroll projections (used for GASB 67 purposes) were supplied by the plan actuary and used in our analysis
 - Per Staff request, 35% of new entrants are assumed to elect the pension plan with 90% of Special Risk new entrants electing the pension plan and approximately 26% of new entrants from other groups electing the pension plan
 - Actual asset experience was factored in using an asset value of \$199.6 billion as of June 30, 2021

Actuarial Assumptions and Methods (continued)

Blended Contribution Rate

- Combined projected contributions for both the FRS Pension Plan and the FRS Investment Plan as percentage of total system payroll
 - Blended Employer Contribution Rate is less than Pension Plan Employer Contribution Rate since UAL amortization is divided by total payroll rather than pension only payroll



¹ Net of expected employee contribution rate of 3.00%

Capital Market Assumption Methodology

- The Aon Asset Model and Economic Scenario Generator (ESG) creates 5,000 simulations of key economic variables and total returns.
- We believe the model is complete and consistent. All the major markets and asset classes are modeled within a consistent framework allowing for the interactions between them to be properly taken into account.
- It is arbitrage free and captures the fact that extreme market events do occur more frequently than would be predicted by simpler statistical models.
- The ESG models the full yield curve as this allows for accurate treatment of liabilities and realistic modeling of the future distribution of interest rates and inflation. This allows us to assess the sensitivities of assets and liabilities to changes in interest and inflation rates.
- The model is calibrated to Aon's globally-consistent Capital Market assumptions every quarter.
- Nominal and real government interest rates are projected using an extended two factor Black-Karasinski model and a 2 factor Vasicek model respectively. The models are mean reverting starting with current yield curves and reverting towards our long-term fair values over the very long-term.
- Credit spreads are modeled stochastically using a Markov based model to determine the probabilities of transition between various credit ratings and default, and a stochastic parameter reflecting the level of risk aversion in the market.
- Return seeking assets (including equities) are modeled using an individual asset class model with its own returns and volatilities but no correlations to other asset classes, and exposure to 6 other economic models to gain the correct correlation structures between returns for each asset class.

Custom FRS Capital Market Assumptions—Q3 2021¹

	Expected Real Return ¹	Expected Nominal Return ¹	Expected Nominal Volatility
Equity			
1 Global Equity IMI	4.2%	6.4%	19.0%
Fixed Income			
2 Cash (Gov't)	-0.2%	1.9%	1.5%
3 Intermediate Gov't Bonds (4-Year Duration)	-0.2%	1.9%	3.5%
4 Intermediate Corporate Bonds (4-Year Duration)	0.7%	2.8%	4.5%
Alternatives			
5 Strategic Allocation (Custom)	4.9%	7.1%	9.0%
6 Real Estate (Custom)	3.1%	5.3%	16.0%
7 Private Equity	5.8%	8.0%	25.5%
Inflation			
8 Inflation	0.0%	2.1%	1.5%

¹ Expected return assumptions are based upon the Aon Investments' capital market assumptions adjusted for the delta in Global Equity Risk Premium (ERP) among three investment advisors: Mercer, Wilshire, and Aon Investments (-63bps adjustment)

² Strategic assumption breakdown is found on the next page

³ Real Estate assumption was modeled as follows:

- 76.50% Core Real Estate
- 13.50% Non-Core Real Estate
- 10.00% REITs

FRS Capital Market Assumptions—Q3 2021

Strategic Investment Allocation

The Strategic Investment allocation was modeled as follows, per Staff input:

Capital Market Assumption	% of Total Asset Allocation	% of Strategic Investment
Commodities	0.36%	3.00%
Global Public Equities	1.20%	10.00%
Hedge Funds - Buy List (Diversified Portfolio of Direct HFs)	1.68%	14.00%
Hedge Funds - CTAs (Buy List)	0.96%	8.00%
Hedge Funds - Distressed Debt (Buy List)	0.36%	3.00%
Hedge Funds - Equity Long/Short (Buy List)	0.36%	3.00%
Hedge Funds - Event Driven (Buy List)	0.12%	1.00%
Hedge Funds - Global Macro (Buy List)	0.24%	2.00%
Infrastructure	1.20%	10.00%
Insurance-Linked Securities (Catastrophe Bonds)	0.96%	8.00%
Non-Core Real Estate	0.30%	2.50%
Private Debt - Commercial Mortgages	0.30%	2.50%
Private Debt - Direct Lending	0.72%	6.00%
Private Equity	0.72%	6.00%
Private Equity - Distressed Debt	1.44%	12.00%
Private Equity - Mezzanine	0.72%	6.00%
Timberland	0.36%	3.00%
Total	12.00%	100.00%

Aon Investments' Capital Market Assumptions—Q3 2021

	Nominal Correlations	1	2	3	4	5	6	7	8
1	Global Equity IMI	1.00	0.07	-0.08	0.05	0.89	0.46	0.67	0.09
2	Cash (Gov't)	0.07	1.00	0.58	0.50	0.10	0.13	0.08	0.42
3	Intermediate Gov't Bonds (4-Year Duration)	-0.08	0.58	1.00	0.82	-0.08	0.02	-0.05	0.08
4	Intermediate Corporate Bonds (4-Year Duration)	0.05	0.50	0.82	1.00	0.17	0.07	0.05	0.06
5	Strategic Allocation (Custom)	0.89	0.10	-0.08	0.17	1.00	0.48	0.71	0.13
6	Real Estate (Custom)	0.46	0.13	0.02	0.07	0.48	1.00	0.37	0.09
7	Private Equity	0.67	0.08	-0.05	0.05	0.71	0.37	1.00	0.07
8	Inflation	0.09	0.42	0.08	0.06	0.13	0.09	0.07	1.00

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2021 (30 Years)

The following capital market assumptions were developed by Aon's Global Asset Allocation Team and represent the long-term capital market outlook (i.e., 30 years) based on data at the end of the second quarter of 2021. The assumptions were developed using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. Our long-term assumptions for other asset classes are based on historical results, current market characteristics, and our professional judgment.

Inflation – Expected Level (2.1%)

Based on Consensus Economics long-term estimates and our near-term economic outlook, we expect U.S. consumer price inflation to be approximately 2.1% during the next 30 years.

Real Returns for Asset Classes

Fixed Income

- **Cash (-0.2%)** – Over the long run, we expect the real yield on cash and money market instruments to produce a real return of -0.2% in a moderate to low-inflationary environment.
- **TIPS (-0.03)** – We expect intermediate duration Treasury Inflation-Protected Securities to produce a real return of about -0.3%.
- **Core Fixed Income (i.e., Market Duration) (0.4%)** – We expect intermediate duration Treasuries to produce a real return of about -0.2%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.6%, resulting in a long-term real return of 0.4%.
- **Long Duration Bonds – Government and Credit (0.5%)** – We expect Treasuries with a duration comparable to the Long Government Credit Index to produce a real return of 0.0%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.5%, resulting in an expected real return of 0.5%.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2021 (30 Years)

- **Long Duration Bonds – Credit (0.8%)** – We expect Treasuries with a duration comparable to the Long Credit Index to produce a real return of 0.0%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 0.8%, resulting in an expected real return of 0.8%.
- **Long Duration Bonds – Government (0.0%)** – We expect Treasuries with a duration of ~12 years to produce a real return of 0.0% during the next 30 years.
- **High Yield Bonds (2.4%)** – We expect intermediate duration Treasuries to produce a real return of about -0.2%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults and downgrades) to be 2.6%, resulting in an expected real return of 2.4%.
- **Bank Loans (2.8%)** – We expect LIBOR to produce a real return of about 0.1%. We estimate the fair value credit spread (credit risk premium - expected losses from defaults) to be 2.7%, resulting in an expected real return of 2.8%.
- **Non-US Developed Bonds: 50% Hedged (-0.1%)** – We forecast real returns for non-US developed market bonds to be -0.1% over a 30-year period after adjusting for a 50% currency hedge. We assume a blend of one-third investment grade corporate bonds and two-thirds government bonds. We also produce assumptions for 0% hedged and 100% hedged non-US developed bonds.
- **Emerging Market Bonds (Sovereign; USD) (2.2%)** – We forecast real returns for emerging market sovereign bonds denominated in US dollars to be 2.2% over a 30-year period.
- **Emerging Market Bonds (Corporate; USD) (2.1%)** – We forecast real returns for emerging market corporate bonds denominated in US dollars to be 2.1% over a 30-year period.
- **Emerging Market Bonds (Sovereign; Local) (2.1%)** – We forecast real returns for emerging market sovereign bonds denominated in local currency to be 2.1% over a 30-year period.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2021 (30 Years)

- **Multi Asset Credit (MAC) (3.4%)** – We assume real returns from beta exposure to high yield, bank loans and emerging market debt to add 2.6% plus 0.8% from alpha (net of fees) over a 30-year period.
- **Private Debt-Direct Lending (3.9%)** – The base building block is bank loans 2.8% + spread 3.0% (net of management fees and performance incentives). There is 100% leverage included in the assumption with the nominal cost of financing at LIBOR + 2.5%.

Equities

- **Large Cap U.S. Equity (4.1%)** – This assumption is based on our 30-year outlook for large cap U.S. company dividends and real earnings growth. Adjustments are made for valuations as needed.
- **Small Cap U.S. Equity (4.6%)** – Adding a 0.5% return premium for small cap U.S. equity over large cap U.S. equity results in an expected real return of 4.6%. This return premium is theoretically justified by the higher risk inherent in small cap U.S. equity versus large cap U.S. equity and is also justified by historical data. In recent years, higher small cap valuations relative large cap equity has reduced the small cap premium.
- **Global Equity (Developed & Emerging Markets) (4.8%)** – We employ a building block process similar to the U.S. equity model using the developed and emerging markets that comprise the MSCI All-Country World Index. Our roll-up model produces an expected real return of 4.8% for global equity.
- **International (Non-U.S.) Equity, Developed Markets (4.8%)** – We employ a building block process similar to the U.S. equity model using the non-U.S. developed equity markets that comprise the MSCI EAFE Index.
- **Emerging Market Stocks (5.3%)** – We employ a building block process similar to the U.S. equity model using the non-U.S. emerging equity markets that comprise the MSCI Emerging Markets Index.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2021 (30 Years)

- **Equity Risk Insurance Premium Strategies-High Beta (3.3%)** – We expect real returns from 50% equity + 50% cash beta of 2.3% plus 1.0% insurance risk premium over the next 30 years.

Alternative Asset Classes

- **Hedge Fund-of-Funds Universe (1.5%)** – The generic category “hedge funds” encompasses a wide range of strategies accessed through “fund-of-funds” vehicles. We also assume the *median* manager is selected and also allow for the additional costs associated with Fund-of-Funds management. A top-tier portfolio of funds (hedge fund-of-funds buy-list) could add an additional 1.2% in return at similar volatility based on alpha, lower fees and better risk management.
- **Hedge Fund-of-Funds Buy List (2.6%)** – The generic category of top-tier “hedge funds” encompasses a wide range of strategies accessed through “fund-of-funds” vehicles. We assume additional costs associated with Funds-of-Funds management. To use this category the funds must be buy rated or we advise on manager selection.
- **Broad Hedge Funds Universe (2.8%)** – Represents a diversified portfolio of direct hedge fund investments. This investment will tend to be less diversified than a typical “fund-of-funds” strategy as there will be fewer underlying managers and will not include the extra layer of fees found in a Fund-of-Funds structure.
- **Broad Hedge Funds Buy List (4.1%)** – Represents a diversified portfolio of top-tier direct hedge fund investments. This investment will tend to be less diversified than a typical “fund-of-funds” strategy as there will be fewer underlying managers and will not include the extra layer of fees found in a Fund-of-Funds structure. To use this category the funds must be buy rated or we advise on manager selection.
- **Core Real Estate (3.3%)** – Our real return assumption for core real estate is based a gross income of about 3.5%, management fees of roughly 1%, 25% leverage and future capital appreciation near the rate of inflation during the next 30 years. We assume a portfolio of equity real estate holdings that is diversified by property and by geographic region.

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2021 (30 Years)

- **Non-Core Real Estate (5.1%)** – Core real estate is levered approximately 100% as the base building block for this assumption. We subtract financing costs for the leverage and 2% management costs. We also assume nominal alpha of 3%. We assume a 50/50 mix of value-add and opportunistic investments.
- **U.S. REITs (2.9%)** – Our real return assumption for U.S. REITs is based on income of about 3.5% and future capital appreciation near the rate of inflation during the next 30 years. REITs are a sub-set of U.S. small/mid cap equity universe.
- **Commodities (2.3%)** – Our commodity assumption is for a diversified portfolio of commodity futures contracts. Commodity futures returns are composed of three parts: spot price appreciation, collateral return, and roll return (positive or negative change implied by the shape of the future curve). We believe that spot prices will converge with CPI over the long run (i.e., 2.1%). Collateral is assumed to be LIBOR cash (0.1%). Also, we believe the roll effect will be near zero, resulting in a real return of about 2.3% for commodities.
- **Private Equity (6.5%)** – Our private equity assumption reflects a diversified fund of funds with exposure to buyouts, venture capital, distressed debt, and mezzanine debt.
- **Infrastructure (4.9%)** – Our infrastructure assumption is formulated using a cash flow based approach that projects cash flows (on a diversified portfolio of assets) over a 30-year period. Income and capital growth as well as gearing levels, debt costs and terms, relevant tax and management expenses are all taken into consideration. Our approach produces an expected real return of 4.9% for infrastructure.
- **Equity Risk Insurance Premium Strategies-Low Beta (2.3%)** – We assume real returns from cash of -0.2% + 2.5% from alpha.
- **Alternative Risk Premia (ARP) (4.0%)** – Real return target LIBOR 0.1% plus 3.9% alpha (net of fees)
- **eLDI (1.6%)** – Combination of various long credit strategies (1/6 real estate debt, 1/3 securitized debt, 1/6 CMOs, 1/3 private placements)

Aon Investments' Capital Market Assumptions

Explanation of Capital Market Assumptions—Q3 2021 (30 Years)

Volatility / Correlation Assumptions

Assumed volatilities are formulated with reference to implied volatilities priced into option contracts of various terms, as well as with regard to historical volatility levels. For asset classes which are not marked to market (for example real estate), we “de-smooth” historical returns before calculating volatilities. Importantly, we consider expected volatility trends in the future – in recent years we assumed the re-emergence of an economic cycle and a loss of confidence in central bankers would lead to an increase in volatility. Correlation assumptions are generally similar to actual historical results; however, we do make adjustments to reflect our forward-looking views as well as current market fundamentals.



Appendix

- 2021 Horizon Survey of Capital Market Assumptions

2021 Horizon Survey Results

What is the Horizon Survey?

Since 2010, Horizon Actuarial Services, LLC has conducted a capital market assumption survey of investment firms to aid in determining reasonable assumptions for a pension plan's expected return on assets

- While Aon does not seek to change our approach based on how we stack up to peers, it is a helpful double-check to make sure we are not too far off from others in the industry

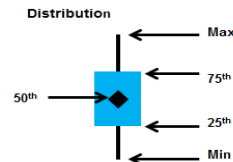
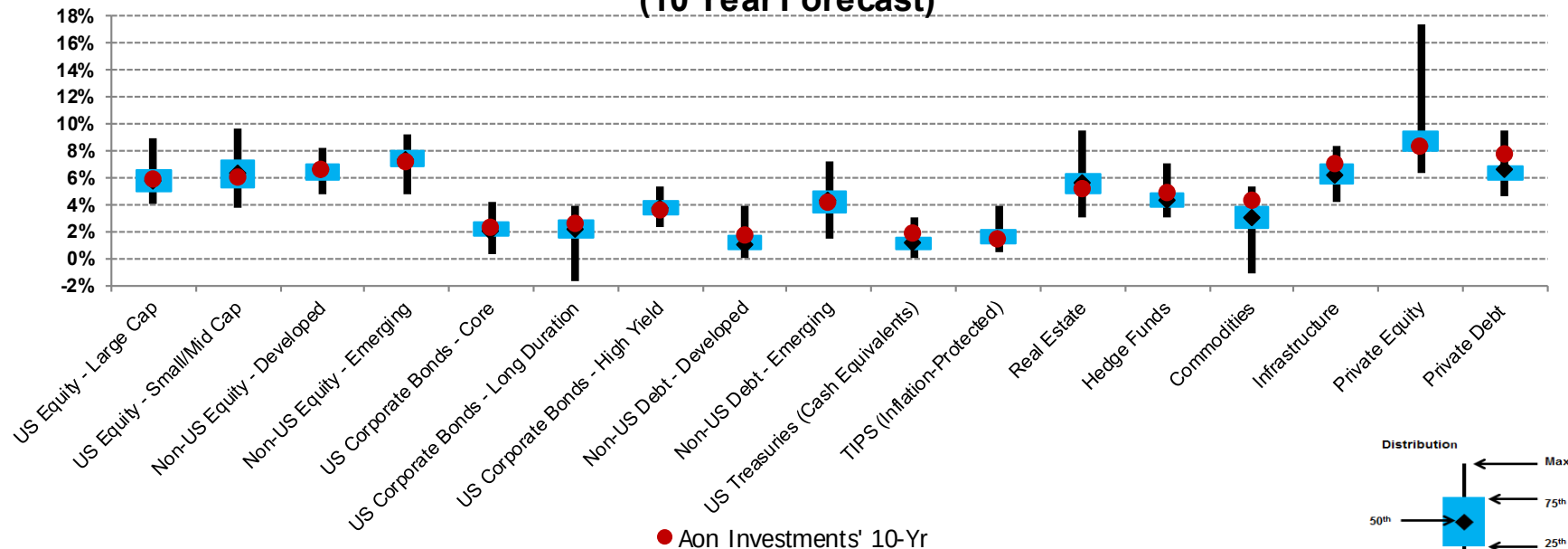
How does Aon compare to the 2021 survey results?

Aon Investments' 2021 10-year forecast assumptions (as of March 31, 2021)

- **Equities:** approximately middle of the pack for U.S. and Non-U.S. equities
- **Fixed Income:** approximately middle of the pack relative to the survey's median level; higher for U.S. Treasuries
- **Alternatives:** approximately middle of the pack relative to the survey's median level; higher for Commodities and Private Debt

Aon Investments' Capital Market Assumptions vs. Horizon Survey

Expected Geometric Returns of 39 Investment Advisors (10 Year Forecast)



SOURCE: Horizon Actuarial Solutions, LLC survey of 2021 capital market assumptions from 39 independent investment advisors
 Expected returns of the survey are annualized over 10-years (geometric).
 Aon Investments' expected returns are annualized over 10-years as of 2Q 2021 (3/31/2021)

Aon Investments vs. Peers (2021 Horizon Survey)—10-Year Forecast

Asset Class	Horizon Survey		Aon Investments		Difference	
	10 Year Horizon		10 Year Forecasts		Aon Investments - Horizon Survey	
	Expected Return	Expected Risk	Expected Return	Expected Risk	Expected Return	Expected Risk
US Equity - Large Cap	5.7%	16.4%	5.8%	17.0%	0.1%	0.6%
US Equity - Small/Mid Cap	6.3%	20.2%	6.0%	23.0%	-0.3%	2.8%
Non-US Equity - Developed	6.5%	18.3%	6.6%	20.0%	0.1%	1.7%
Non-US Equity - Emerging	7.3%	24.3%	7.1%	27.0%	-0.2%	2.7%
US Fixed Income - Core	2.0%	5.5%	2.2%	4.0%	0.2%	-1.5%
US Fixed Income - Long Duration Corp	2.1%	10.4%	2.6%	9.0%	0.5%	-1.4%
US Fixed Income - High Yield	3.7%	9.9%	3.5%	12.0%	-0.2%	2.1%
Non-US Fixed Income - Developed	1.0%	7.2%	1.7%	5.5%	0.7%	-1.7%
Non-US Fixed Income - Emerging	4.2%	11.3%	4.1%	13.0%	-0.1%	1.7%
Treasuries (Cash Equivalents)	1.1%	1.3%	1.8%	1.5%	0.7%	0.2%
TIPS (Inflation-Protected)	1.4%	5.6%	1.4%	3.5%	0.0%	-2.1%
Real Estate	5.6%	17.6%	5.1%	15.0%	-0.5%	-2.6%
Hedge Funds	4.3%	8.1%	4.8%	9.0%	0.5%	0.9%
Commodities	2.9%	17.3%	4.3%	17.0%	1.4%	-0.3%
Infrastructure	6.1%	17.0%	7.0%	14.5%	0.9%	-2.5%
Private Equity	8.3%	22.3%	8.3%	25.0%	0.0%	2.8%
Private Debt	6.5%	11.4%	7.7%	16.5%	1.2%	5.1%
Inflation	2.0%	2.1%	2.1%	1.0%	0.1%	-1.1%

Notes (Horizon Survey):

Source: Horizon Actuarial survey of 2021 capital market assumptions from 39 independent investment advisors

Expected returns are median annualized (geometric).

Notes (Aon Investments' Forecasts):

Aon Investments' Forecasts are for Q2 2021

- US Equity - Small/Mid Cap forecasts represents Aon Investments' forecasts for US Small Cap
- US Fixed Income - Long Duration forecasts represents Aon Investments' forecasts for Long Duration Credit
- Non-US Fixed Income - Developed forecasts represents Aon Investments' forecasts for Non-US Fixed Income - Developed (50% Hedged)
- Non-US Fixed Income - Emerging forecasts represents Aon Investments' forecasts for Emerging Market Bonds - Sovereign USD
- Real Estate forecasts represents Aon Investments' forecasts for Core Real Estate
- Hedge Fund forecasts represents Aon Investments' forecasts for Direct Hedge Funds (Universe)

Leading Methodologies & Reasons for Differences

Leading Methodologies

- Building Block
- Global Capital Asset Pricing Model (Global CAPM)
- Surveys
- Historical data (as a guide to future)
- Black-Litterman (combination of building block and CAPM)

Reasons for Differences

- Methodology
- Time Horizon
- Arithmetic vs. Geometric forecasts*
- Alpha (active management)*
- Inflation
- Investment Fees*
- Asset class definition

* While some firms in the Horizon survey responded with arithmetic forecasts, the results have been converted to geometric forecasts for comparison purposes. Additionally, the return expectations included in the Horizon survey are generally market returns that do not reflect active management. Returns for asset classes where passive investments are not available (e.g., hedge funds and private equity) are net of fees.



- Liquidity Analysis Detail

Background

Aon Investments' Approach to Analyzing Liquidity Risk from Alternatives

- Intended as a stress-testing model
- Develops multi-year projections of assets and spending needs
- Uses different scenarios for economic environments and other relevant events
- Shows how the portfolio's liquidity profile could evolve with a given investment strategy
- Incorporates the profile of the liabilities as well as expected future contributions

Background

Process Inputs and Outputs



Background

Modeling Parameters – Degrees of Illiquidity

We categorized investments by liquidity into five buckets

- Liquid (Risk-Reducing Assets): less than 3 months needed for return of capital (e.g., publicly traded securities)
- Liquid (Return-Seeking Assets): less than 3 months needed for return of capital (e.g., publicly traded securities)
- Quasi-Liquid: Typical lock-up of 3–12 months. Conservatively, we assumed a 1-year lock-up in most economic environments, 2 years in a Recession scenario, and 3 years in a Dark Skies scenario (e.g., many hedge funds, core real estate)
- Illiquid: Potential lock-up of 5–10 years, depending on economic environment (e.g., closed-ended real estate)
- Illiquid: Potential lock-up of 10+ years (e.g., typical private equity)

This is intended to be a conservative approximation of the actual liquidity properties of the assets

We started with the Current Policy allocation, then see how the actual allocations would change in different economic scenarios, continuing new commitments to private assets, as expected.

Assumptions

- Starting assets based on the reported June 30, 2021 (\$199.6 billion)
- The plan's contribution policy is actuarially based, leveraging the 2021 asset-liability study for projection analysis
- Assumes the portfolio starts at the target asset allocation levels for illiquid assets, maintaining close to the Current Policy portfolio targets over the next 10 years

Background

Economic Scenarios

Base Case Scenario

- Markets perform consistent with Aon's Capital Market Assumptions (~50th percentile)

Recession Scenario

- Somewhat pessimistic outlook for the markets (~95th percentile)
- Return-seeking assets decline in the first two years with a modest rebound in later years

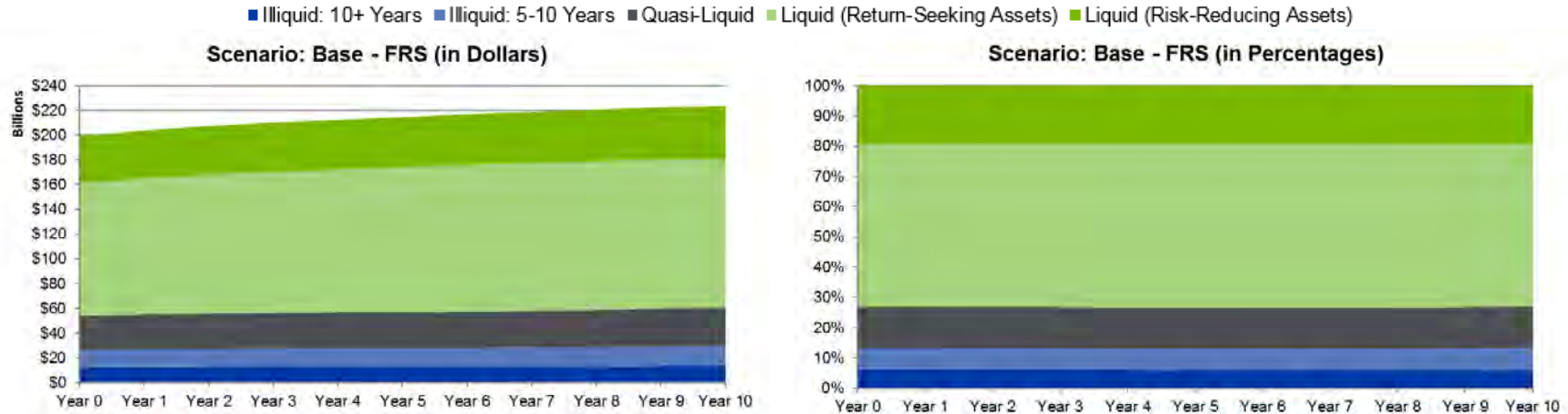
Dark Skies Scenario

- Very pessimistic outlook for markets (~99th percentile)
- Return-seeking assets decline significantly
- The value of public equities declines approximately 50% over three years, without an immediate rebound

Liquidity Analysis: Base Case Economic Scenario

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Base Case economic scenario, assuming commitments are continued as expected



Key Takeaway:

- Total illiquid and quasi-liquid assets are projected to stay near 27% of the Plan and can be maintained near the target with no cash flow problems

Note: Year 0 represents a starting point of June 30, 2021

Liquidity Analysis: Base Case Economic Scenario (continued)

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Base Case economic scenario

Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	54	54	54	54	54	54	54	54	54	54
Total Liquid	73%	73%	73%	73%	73%	73%	73%	73%	73%	73%	73%
Quasi-Liquid	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
Illiquid: 5-10 Year Lock-up	7	7	7	7	7	7	7	7	7	7	7
Illiquid: 10+ Year Lock-up	6	6	6	6	6	6	6	6	6	6	6
Total Quasi + Illiquid	27%	27%	27%	27%	27%	27%	27%	27%	27%	27%	27%

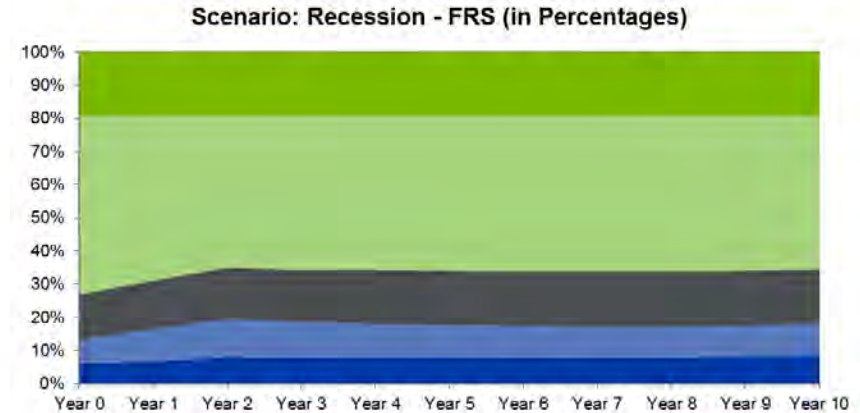
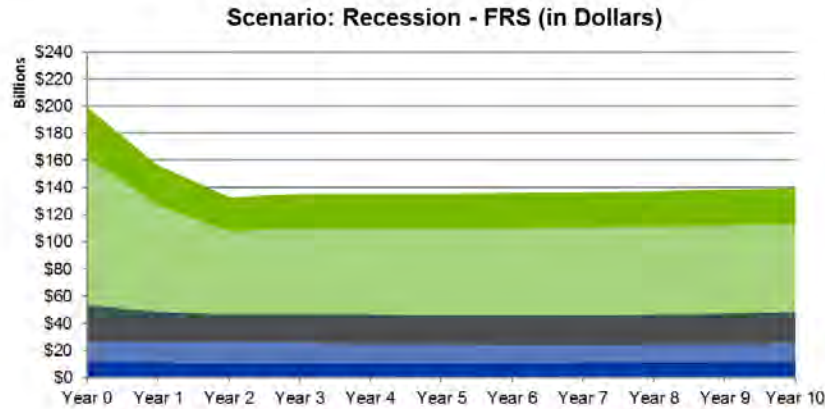
Note: Year 0 represents a starting point of June 30, 2021; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Recession Economic Scenario

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Recession economic scenario, assuming commitments are continued as expected

■ Illiquid: 10+ Years ■ Illiquid: 5-10 Years ■ Quasi-Liquid ■ Liquid (Return-Seeking Assets) ■ Liquid (Risk-Reducing Assets)



Key Takeaways:

- Commitments to illiquid alternatives are maintained at the steady state level, but recessionary markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 35% of the Plan due to shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets to stay close to its target allocation

Note: Year 0 represents a starting point of June 30, 2021

Liquidity Analysis: Recession Economic Scenario (continued)

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Recession economic scenario

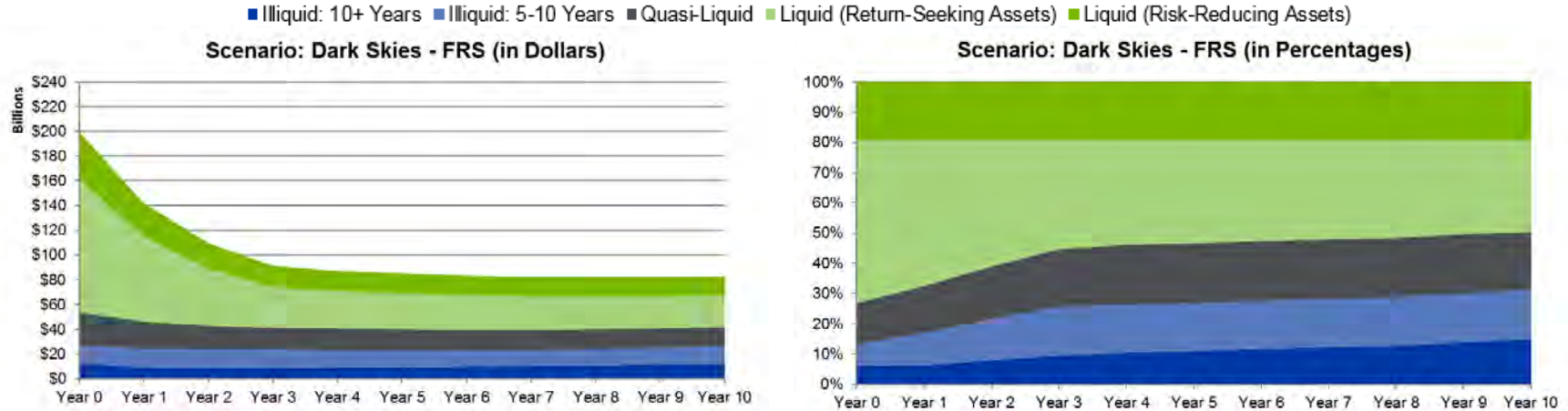
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	50	46	47	47	47	47	47	47	47	46
Total Liquid	73%	69%	65%	66%	66%	66%	66%	66%	66%	66%	65%
Quasi-Liquid	14%	15%	15%	16%	16%	16%	16%	16%	17%	16%	16%
Illiquid: 5-10 Year Lock-up	7	10	12	11	10	10	10	9	9	9	10
Illiquid: 10+ Year Lock-up	6	7	8	8	8	8	8	8	8	8	8
Total Quasi + Illiquid	27%	31%	35%	34%	34%	34%	34%	34%	34%	34%	35%

Note: Year 0 represents a starting point of June 30, 2021; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Dark Skies Economic Scenario

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Dark Skies economic scenario, assuming commitments are continued as expected



Key Takeaways:

- Commitments to illiquid alternatives are maintained at the steady state level, but subpar markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 51% of the Plan due to shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets and/or pare back future commitments to stay closer to the target allocation

Note: Year 0 represents a starting point of June 30, 2021

Liquidity Analysis: Dark Skies Economic Scenario (continued)

Current Policy (Assuming Full Actuarial Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Dark Skies economic scenario

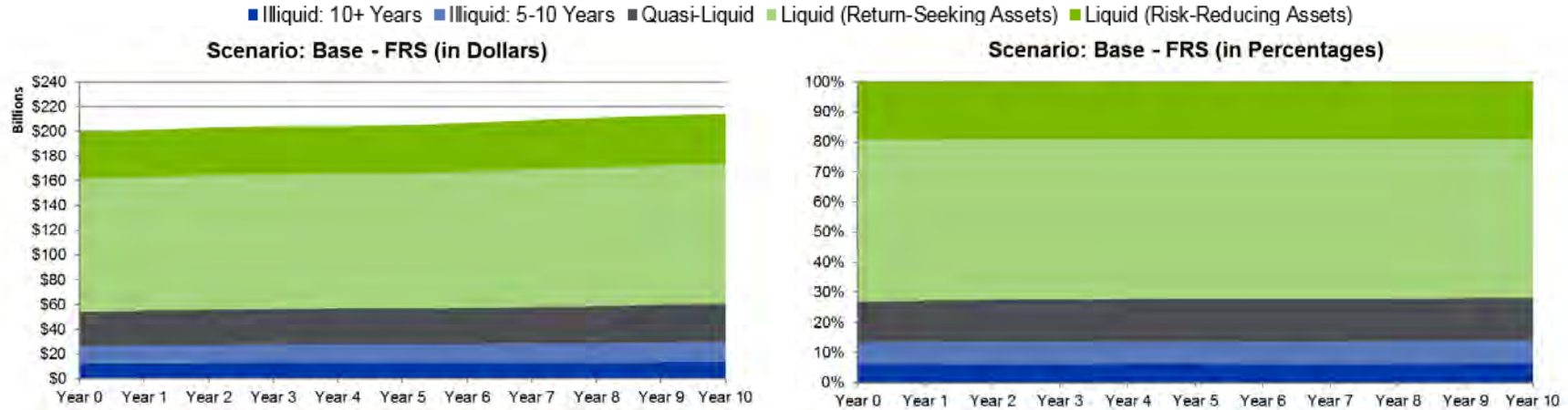
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	49	42	36	35	34	34	33	33	31	30
Total Liquid	73%	68%	61%	55%	54%	53%	53%	52%	52%	50%	49%
Quasi-Liquid	14%	16%	18%	19%	20%	20%	20%	20%	20%	19%	19%
Illiquid: 5-10 Year Lock-up	7	10	14	16	16	16	16	16	16	16	16
Illiquid: 10+ Year Lock-up	6	6	8	10	10	11	12	12	13	14	15
Total Quasi + Illiquid	27%	32%	39%	45%	46%	47%	47%	48%	48%	50%	51%

Note: Year 0 represents a starting point of June 30, 2021; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Base Case Economic Scenario

Current Policy (5 Years of Normal Cost Only Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Base Case economic scenario, assuming commitments are continued as expected



Key Takeaway:

- Total illiquid and quasi-liquid assets are projected to reach as high as 28% of the Plan and can be maintained near the target with no cash flow problems

Note: Year0 represents a starting point of June 30, 2021

Liquidity Analysis: Base Case Economic Scenario (continued)

Current Policy (5 Years of Normal Cost Only Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Base Case economic scenario

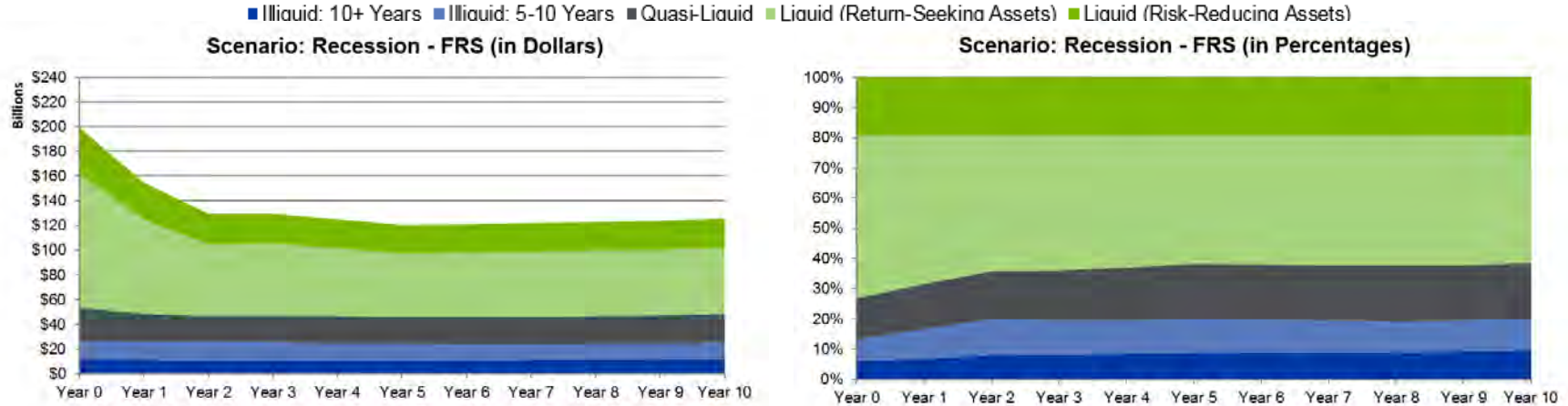
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	54	53	53	53	53	53	53	53	53	53
Total Liquid	73%	73%	72%	72%	72%	72%	72%	72%	72%	72%	72%
Quasi-Liquid	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%	14%
Illiquid: 5-10 Year Lock-up	7	7	7	7	7	7	7	7	7	8	8
Illiquid: 10+ Year Lock-up	6	6	6	6	6	6	6	6	6	6	6
Total Quasi + Illiquid	27%	27%	28%	28%	28%	28%	28%	28%	28%	28%	28%

Note: Year 0 represents a starting point of June 30, 2021; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Recession Economic Scenario

Current Policy (5 Years of Normal Cost Only Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Recession economic scenario, assuming commitments are continued as expected



Key Takeaways:

- Commitments to illiquid alternatives are maintained at the steady state level, but recessionary markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 38% of the Plan due to shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets to stay close to its target allocation

Note: Year 0 represents a starting point of June 30, 2021

Liquidity Analysis: Recession Economic Scenario (continued)

Current Policy (5 Years of Normal Cost Only Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Recession economic scenario

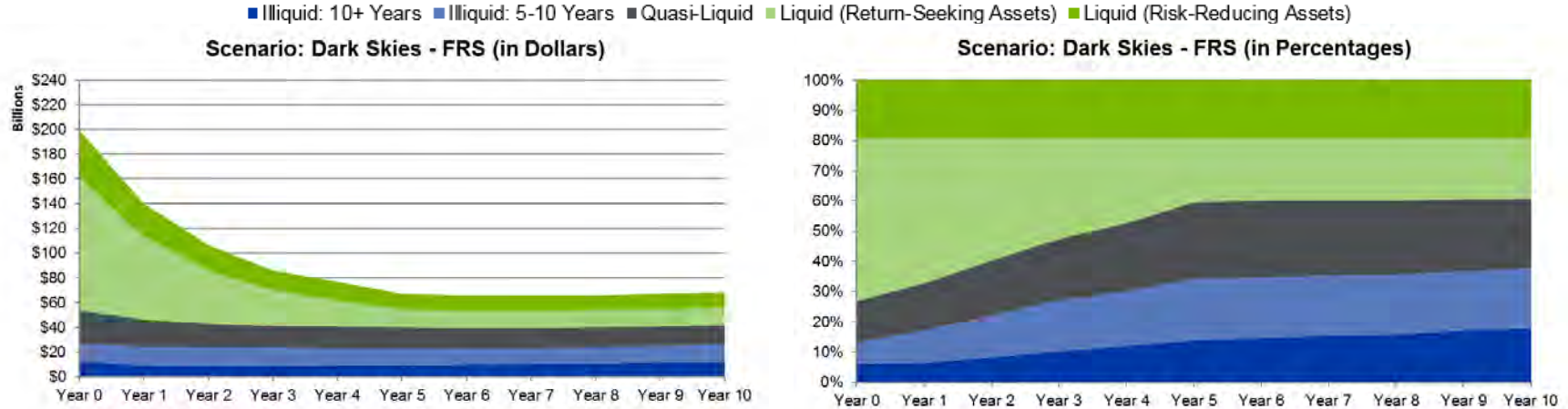
Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	50	45	45	44	43	43	43	43	43	43
Total Liquid	73%	69%	64%	64%	63%	62%	62%	62%	62%	62%	62%
Quasi-Liquid	14%	15%	16%	16%	18%	18%	18%	18%	18%	18%	18%
Illiquid: 5-10 Year Lock-up	7	10	12	11	11	11	11	11	10	10	11
Illiquid: 10+ Year Lock-up	6	7	8	8	8	9	9	9	9	9	9
Total Quasi + Illiquid	27%	31%	36%	36%	37%	38%	38%	38%	38%	38%	38%

Note: Year 0 represents a starting point of June 30, 2021; Percentages may not sum to 100% due to rounding

Liquidity Analysis: Dark Skies Economic Scenario

Current Policy (5 Years of Normal Cost Only Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Dark Skies economic scenario, assuming commitments are continued as expected



Key Takeaways:

- Commitments to illiquid alternatives are maintained at the steady state level, but subpar markets cause the total portfolio to shrink
- Total illiquid and quasi-liquid assets are projected to reach as high as 61% of the Plan due to shrinking market value of the total Plan in this scenario
- There would not be a concern with the ability to pay benefits
- FRS may need to redeem some quasi-liquid assets and/or pare back future commitments to stay closer to the target allocation

Note: Year 0 represents a starting point of June 30, 2021

Liquidity Analysis: Dark Skies Economic Scenario (continued)

Current Policy (5 Years of Normal Cost Only Contributions)

The exhibit below shows the projected liquidity lock-up of the Current Policy allocation in the Dark Skies economic scenario

Asset Allocation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Risk-Reducing Assets	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Liquid Return-Seeking	54	48	41	33	28	22	21	21	21	20	20
Total Liquid	73%	67%	60%	52%	47%	41%	40%	40%	40%	39%	39%
Quasi-Liquid	14%	16%	18%	20%	22%	25%	25%	25%	24%	24%	23%
Illiquid: 5-10 Year Lock-up	7	11	14	17	18	20	20	20	20	20	20
Illiquid: 10+ Year Lock-up	6	7	8	10	12	14	15	15	16	17	18
Total Quasi + Illiquid	27%	33%	40%	48%	53%	59%	60%	60%	60%	61%	61%

Note: Year 0 represents a starting point of June 30, 2021; Percentages may not sum to 100% due to rounding

Recession Scenario

Description

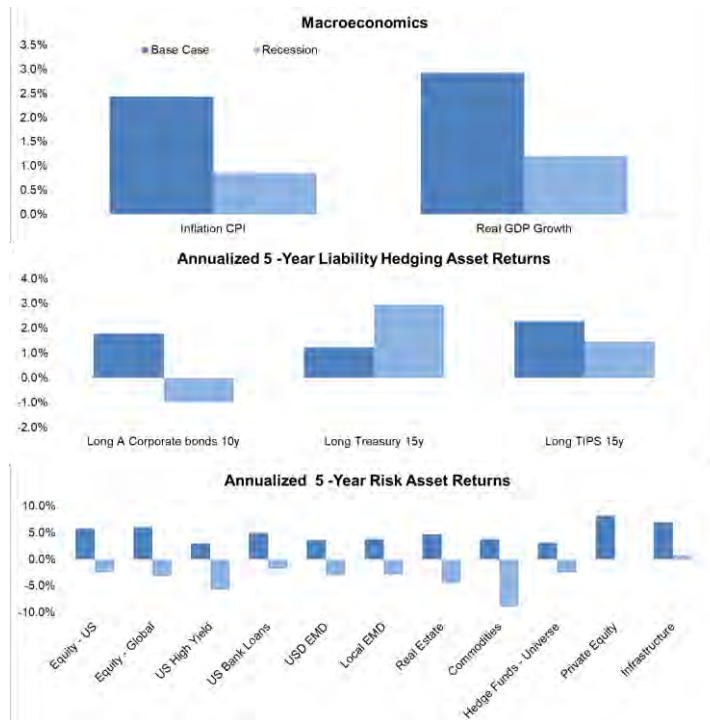
The US economy slips back into recession in 2021

- A resurgence of covid-19 infections driven by new variants and low vaccine take up necessitates further lockdown measures, as existing vaccines prove less effective and it takes time to develop, test and distribute updated vaccines.
- The global economy experiences a deeper recession than the base case, as containment measures weigh heavily on economic activity.
- The US experiences a deep recession in late 2021 and into 2022.
- Inflation turns slightly negative in 2021 and early 2022. However, the period of deflation is short lived and inflation starts to rise in later years as an economic recovery begins to establish itself.
- Treasury yields fall while TIPS yields remain at low levels as the US enters recession. Yields rise in later years as a recovery gets underway. Corporate spreads rise significantly due to the poor economic situation and increased risks of downgrades or defaults.
- Most risk assets make losses in the first two years but rebound in later years as the economy recovers.

Returns from 30 June 2021

Source: Aon

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.



Recession Scenario

Data Table

RECESSION SCENARIO

	Year										
	0	1	2	3	4	5	6	7	8	9	10
Yields (BOY)											
Treasury yield 5y	1.0%	1.6%	2.2%	2.6%	2.9%	2.9%	2.9%	2.9%	2.9%	2.8%	2.8%
Long Treasury yield 15y	1.9%	2.3%	2.7%	2.9%	3.1%	3.1%	3.1%	3.1%	3.0%	3.0%	2.9%
TIPS yield 5y	-1.6%	-1.4%	-1.3%	-1.2%	-1.0%	-1.0%	-0.9%	-0.8%	-0.7%	-0.6%	-0.5%
Long TIPS yield 15y	-0.5%	-0.4%	-0.3%	-0.3%	-0.3%	-0.2%	-0.2%	-0.1%	-0.1%	0.0%	0.1%
Breakeven price inflation 15y	2.4%	2.7%	3.0%	3.2%	3.4%	3.4%	3.3%	3.2%	3.1%	3.0%	2.9%
A Corporate bond yield 5y	1.5%	2.1%	2.6%	3.0%	3.3%	3.4%	3.4%	3.4%	3.4%	3.3%	3.3%
Long A Corporate bond yield 10y	2.4%	2.9%	3.3%	3.6%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
A Corporate spread 5y	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.6%
Long A Corporate spread 10y	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.9%	0.9%	0.9%
Expected nominal return on assets											
Equity - US	-18.7%	-10.6%	10.1%	5.1%	5.1%	5.2%	5.3%	5.3%	5.4%	5.4%	
Equity - Global	-21.4%	-12.2%	10.9%	5.4%	5.4%	5.4%	5.5%	5.6%	5.6%	5.7%	
A Corporate bonds 5y	-6.2%	-0.4%	4.0%	4.8%	3.6%	3.9%	4.0%	4.0%	3.9%	3.9%	
Long A Corporate bonds 10y	-7.9%	-3.7%	0.4%	4.5%	2.2%	2.3%	2.6%	2.8%	3.0%	3.1%	
Treasury 5y	6.1%	0.1%	-1.3%	-0.6%	-0.2%	0.9%	1.0%	1.1%	1.2%	1.2%	
Long Treasury 15y	26.1%	1.7%	-6.8%	-1.5%	-1.6%	-0.2%	0.1%	0.2%	0.4%	0.5%	
Long Treasury 30y	51.6%	2.1%	-6.2%	-3.3%	-4.0%	-2.1%	-2.0%	-1.5%	-1.6%	-1.3%	
TIPS 5y	2.1%	-0.4%	-1.0%	-1.1%	-0.9%	-0.3%	-0.2%	0.0%	0.1%	0.2%	
Long TIPS 15y	15.6%	1.0%	-4.0%	-1.9%	-2.2%	-0.8%	-0.7%	-0.5%	-0.4%	-0.3%	
US High Yield	-8.8%	-21.1%	-6.1%	2.9%	3.1%	3.3%	3.5%	3.6%	3.8%	3.8%	
Bank Loans	-3.1%	-11.5%	-1.5%	4.9%	3.4%	3.2%	3.6%	4.0%	4.3%	4.5%	
USD Emerging Market Debt	-17.3%	-10.1%	7.2%	3.8%	3.5%	3.8%	3.9%	4.0%	4.1%	4.1%	
Local Emerging Market Debt	-17.1%	-9.9%	7.4%	3.9%	3.7%	4.0%	4.1%	4.2%	4.2%	4.3%	
Real Estate	-13.5%	-8.4%	-3.3%	0.2%	4.1%	4.1%	4.2%	4.3%	4.3%	4.4%	
Commodities	-28.4%	-22.5%	6.5%	3.1%	3.1%	3.2%	3.2%	3.3%	3.4%	3.5%	
Hedge Funds - FoHF - Universe	-14.8%	-9.6%	6.0%	4.8%	3.0%	3.1%	3.1%	3.1%	3.1%	3.1%	
Private Equity	-19.0%	-6.5%	13.0%	8.2%	8.4%	8.4%	8.4%	8.3%	8.3%	8.3%	
Infrastructure - US	-5.7%	-1.3%	2.1%	2.9%	6.5%	6.6%	6.6%	6.7%	6.7%	6.8%	
Cash	0.0%	-0.8%	-0.6%	-0.3%	0.0%	0.2%	0.5%	0.7%	0.9%	1.0%	
CPI	0.6%	0.7%	0.8%	1.0%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	

Scenario information as of June 30, 2021

Dark Skies Scenario

Description

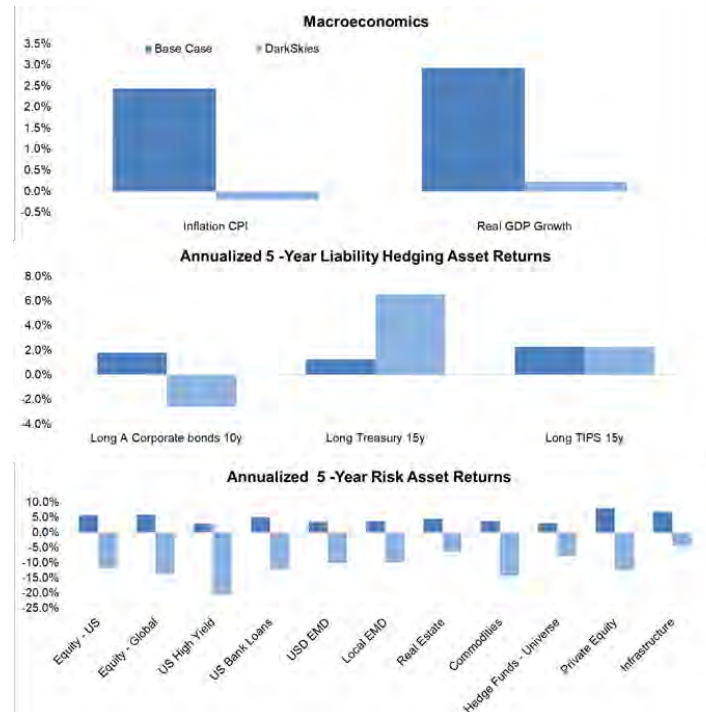
A deep recession followed by a longer period of stagnant growth

- New mutations of covid-19 lead to seasonal waves of infections, which necessitates ongoing containment measures, hampering economic activity.
- Economic weakness in developed and emerging market economies and severe levels of financial distress (due to high debt levels and political crisis) lead to a global recession followed by stagnation.
- The US experiences a protracted deep recession.
- Inflation is pushed into negative territory in 2021 and remains there in 2022, while continued sluggish growth over the following years means that inflation stays close to zero.
- Treasury yields fall and remain at low levels as the US enters recession. Corporate spreads rise significantly due to the poor economic situation and increased risks of downgrades or defaults.
- Risk assets make losses in the first few years. There is no pronounced bounce in growth and the economic situation remains poor for a long time, which weighs on returns in later years.

Returns from 30 June 2021

Source: Aon

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.



Dark Skies Scenario

Data Table

DARK SKIES SCENARIO

	Year										
	0	1	2	3	4	5	6	7	8	9	10
Yields (BOY)											
Treasury yield 5y	1.0%	-0.5%	-1.0%	-1.0%	-0.9%	-0.8%	-0.5%	-0.3%	-0.1%	0.2%	0.4%
Long Treasury yield 15y	1.9%	0.0%	-0.4%	-0.5%	-0.4%	-0.3%	-0.1%	0.1%	0.3%	0.5%	0.7%
TIPS yield 5y	-1.6%	-2.3%	-2.7%	-2.8%	-2.7%	-2.6%	-2.4%	-2.3%	-2.1%	-1.9%	-1.7%
Long TIPS yield 15y	-0.5%	-1.9%	-2.2%	-2.2%	-2.2%	-2.1%	-1.9%	-1.7%	-1.6%	-1.4%	-1.2%
Breakeven price inflation 15y	2.4%	1.8%	1.7%	1.8%	1.7%	1.8%	1.8%	1.9%	1.9%	1.9%	1.9%
A Corporate bond yield 5y	1.5%	4.8%	5.0%	4.7%	4.1%	3.8%	3.8%	3.7%	3.6%	3.5%	3.4%
Long A Corporate bond yield 10y	2.4%	4.2%	4.3%	4.1%	3.7%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
A Corporate spread 5y	0.5%	5.4%	6.0%	5.7%	5.1%	4.6%	4.3%	4.0%	3.7%	3.3%	3.0%
Long A Corporate spread 10y	0.8%	4.3%	4.9%	4.7%	4.2%	3.9%	3.7%	3.4%	3.2%	3.0%	2.8%
Expected nominal return on assets											
Equity - US		-27.7%	-20.1%	-11.2%	2.2%	2.2%	2.5%	2.9%	3.3%	3.6%	4.0%
Equity - Global		-31.4%	-22.8%	-12.8%	2.1%	2.1%	2.5%	2.9%	3.3%	3.7%	4.1%
A Corporate bonds 5y		-10.4%	-0.2%	1.5%	2.6%	1.3%	0.5%	0.8%	1.0%	1.2%	1.5%
Long A Corporate bonds 10y		-13.8%	-2.5%	0.9%	2.7%	0.7%	-0.7%	-0.3%	0.0%	0.3%	0.7%
Treasury 5y		7.5%	1.4%	-1.0%	-1.4%	-1.6%	-1.9%	-1.6%	-1.4%	-1.1%	-0.9%
Long Treasury 15y		34.1%	5.5%	0.3%	-1.1%	-2.0%	-3.3%	-3.0%	-2.7%	-2.4%	-2.2%
Long Treasury 30y		73.0%	5.0%	0.6%	1.5%	-2.9%	-3.9%	-3.8%	-3.5%	-3.5%	-3.3%
TIPS 5y		1.2%	-1.4%	-1.7%	-2.5%	-2.6%	-2.4%	-2.1%	-1.8%	-1.5%	-1.3%
Long TIPS 15y		19.2%	1.0%	-1.2%	-2.9%	-3.3%	-3.9%	-3.6%	-3.3%	-3.0%	-2.7%
US High Yield		-14.4%	-37.4%	-27.9%	-14.9%	-3.4%	-4.1%	-3.3%	-2.6%	-1.8%	-1.0%
Bank Loans		-6.0%	-24.8%	-18.0%	-8.7%	-0.8%	-0.7%	0.0%	0.7%	1.4%	2.0%
USD Emerging Market Debt		-23.8%	-15.7%	-9.2%	0.8%	0.3%	0.2%	0.6%	1.0%	1.4%	1.8%
Local Emerging Market Debt		-23.6%	-15.5%	-9.0%	0.9%	0.5%	0.4%	0.8%	1.2%	1.6%	2.0%
Real Estate		-15.2%	-10.8%	-5.2%	-0.9%	1.2%	1.6%	1.9%	2.3%	2.6%	3.0%
Commodities		-35.5%	-27.5%	-4.0%	1.7%	1.7%	1.9%	2.1%	2.3%	2.6%	2.8%
Hedge Funds - FoHF - Universe		-17.7%	-12.5%	-6.9%	0.1%	0.1%	0.4%	0.7%	1.0%	1.3%	1.6%
Private Equity		-30.9%	-22.4%	-11.7%	4.2%	4.2%	4.6%	5.0%	5.4%	5.8%	6.2%
Infrastructure - US		-12.5%	-8.3%	-4.5%	0.5%	3.1%	3.5%	3.9%	4.3%	4.7%	5.1%
Cash		0.0%	-1.0%	-1.1%	-1.0%	-1.0%	-0.8%	-0.5%	-0.2%	0.0%	0.2%
CPI		-0.9%	-1.0%	0.2%	0.3%	0.4%	0.6%	0.7%	0.9%	1.1%	1.3%

Scenario information as of June 30, 2021



Appendix

- How Do Public Pensions Impact Credit Ratings?

How Do Public Pensions Impact Credit Ratings?

Summary and Conclusions

Pension Impact on Credit Ratings

- Pension plans have a direct impact on the ultimate state or local credit rating
- Rating agencies are not just looking at where public pension plans stand today; they are looking at the expected future trajectory of the plan based on how it is managed

Credit Ratings and Borrowing Costs

- Taxpayers in lower credit rated jurisdictions are paying higher borrowing costs and could save money through healthier pension plan management

Call to Action

- The Big Three (Fitch, Moody's and S&P) value selecting appropriate actuarial assumptions, avoiding excessive risk taking, and developing an adequate funding policy
- While debt priorities and revenue framework to service such debt will vary on a case-by-case basis, every jurisdiction has the ability to thoughtfully develop a funding policy and set appropriate assumptions
- These initial steps will help pension stakeholders better understand the true economic costs, improve the funding outlook for public pensions, and potentially reduce borrowing costs and further taxpayer burden

How Do Public Pensions Impact Credit Ratings?

Call to Action: Plan Sponsors Have Ability to Impact Credit Rating

Below are three specific actions plan sponsors can take today to directly improve the impact a pension plan will have on the credit rating of its locality:

Action	Considerations
 1. Conduct an actuarial assumption audit ▪ Review reasonability of key assumptions: – Salary scale, Mortality, Retirement rates, Turnover rates	▪ Assumptions set to plan-specific expectations will lead to lower contribution volatility ▪ Aggressive assumptions may provide short-term relief but may have long-term consequences
 2. Consider adjustments to expected return assumption ▪ Adjustments should be in line with forward-looking expectations for asset returns	▪ Contributing an actuarial amount? – Yes: Failing to achieve target returns will necessitate increases in future contributions and make what was intended to be a smooth, budget-friendly progression of contribution increases far more volatile – No: The funding gap will widen and become highly volatile as contribution policy will not add enough dollars to replenish losses
 3. Review the plan's funding policy ▪ Look far enough into the future to identify potential pain points	▪ Conduct "tread water"/hurdle rate analysis to ensure short-term contributions are sufficient to keep pace with growth of plan liabilities ▪ Consider asset-liability study to understand range of potential future outcomes rather than a single deterministic scenario



Appendix

- Asset-Liability Management Background

Asset-Liability Management Background

What is an Asset-Liability Study?

What?

- A comprehensive toolkit for making decisions on a fund's **asset allocation and investment risk that align with the liabilities** those funds support

Why?

- Aon believes optimal decisions regarding pension plan management are made when they are based on a **clear understanding of the assets and liabilities** of the plan(s) and how they interact

When?

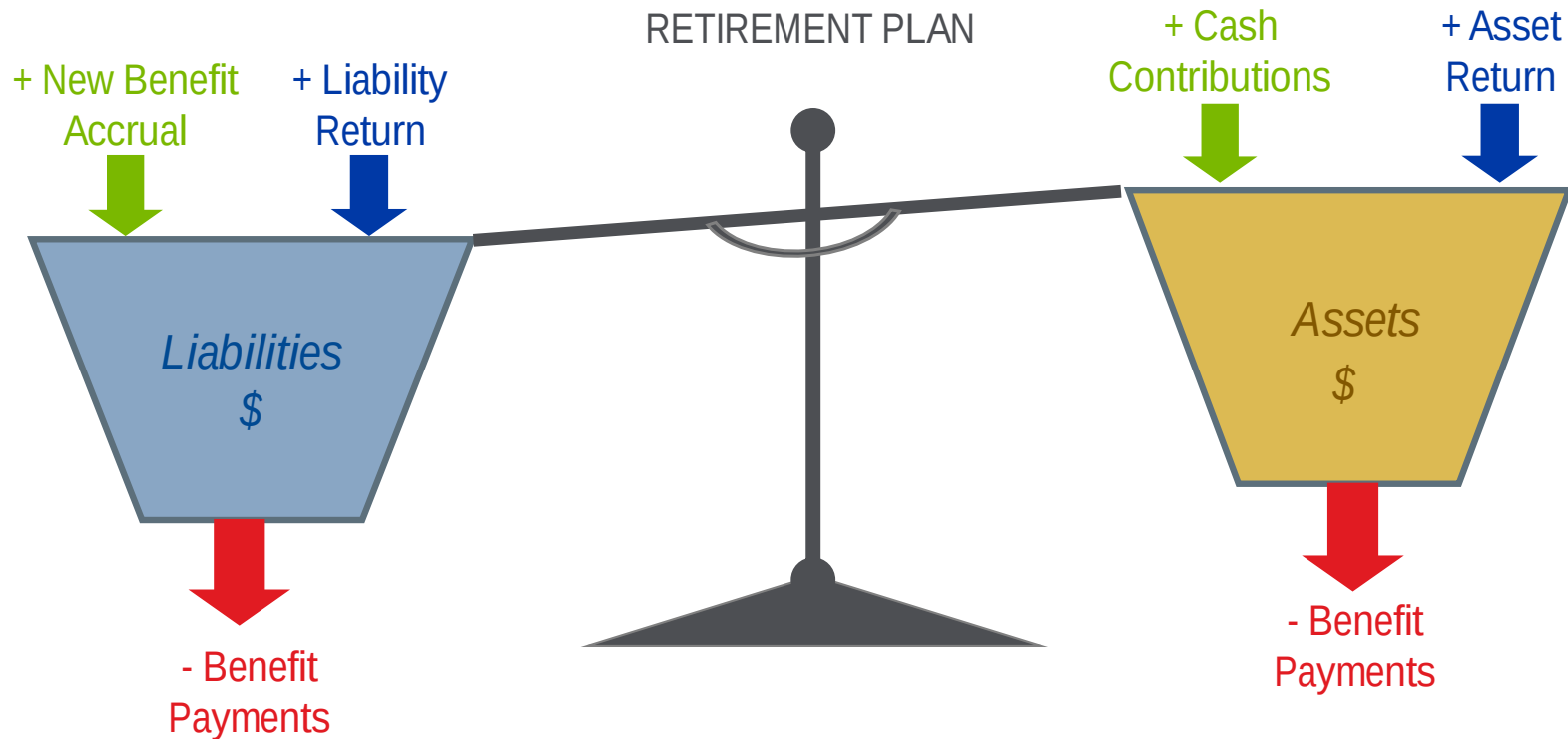
- For a formal review of the asset-liability modeling, Aon suggests conducting asset-liability studies every **3 to 5 years** depending on client specifics, or more frequently should circumstances dictate (e.g., material changes to the liability profile, etc.)

How?

- **Identify future trends** in the financial health of the fund (e.g., funded ratio, contributions, etc.) based on economic uncertainties that may not be evident from an actuarial valuation, which provides only a snapshot at a point in time

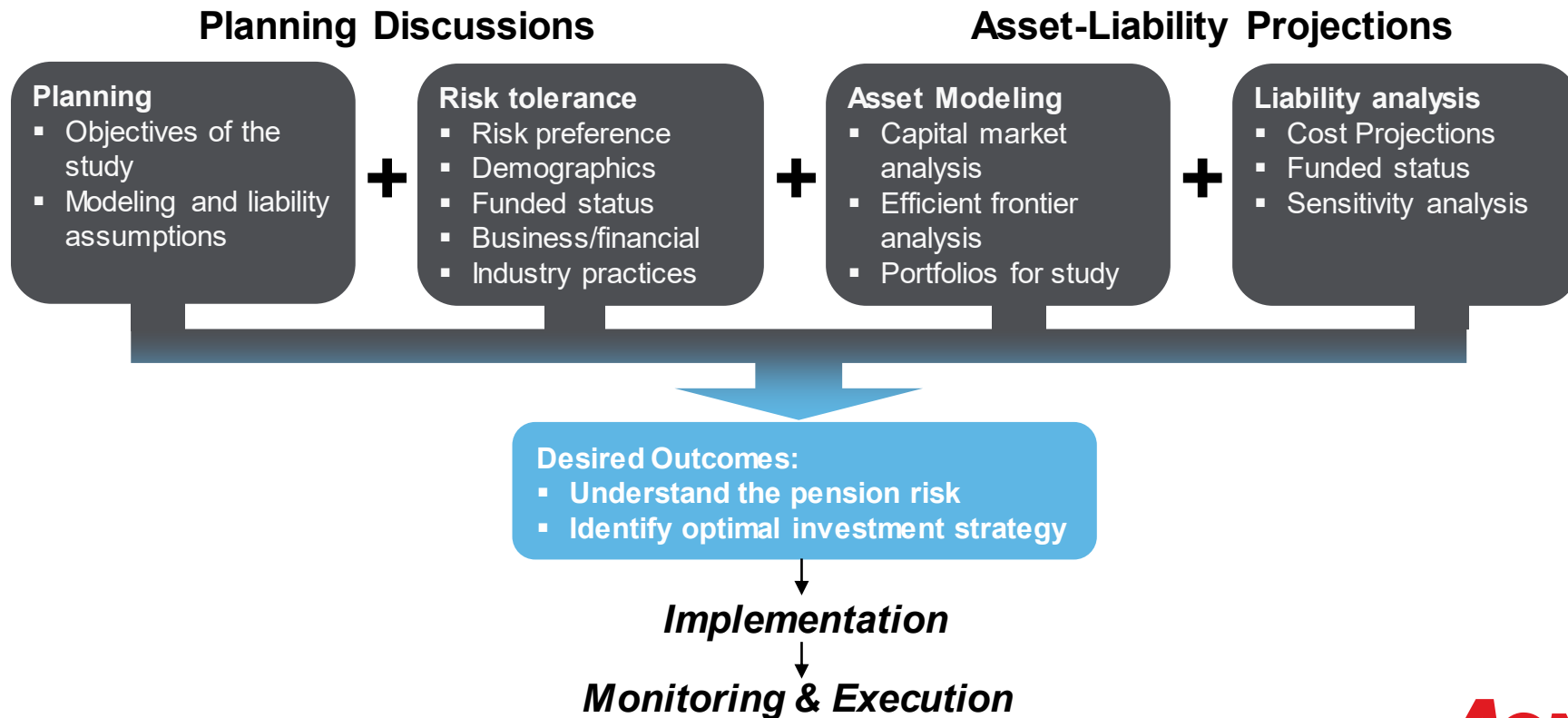
Asset-Liability Management Background

Balance of Liabilities and Assets



Asset-Liability Management Background

Overview of the Asset-Liability Study Process



Asset-Liability Management Background

Modeling Process

Goals of an asset-liability study:

- Understand the pension plan's asset-liability risk, and
- Identify the optimal investment strategies

Stochastic, Monte Carlo simulation analysis used

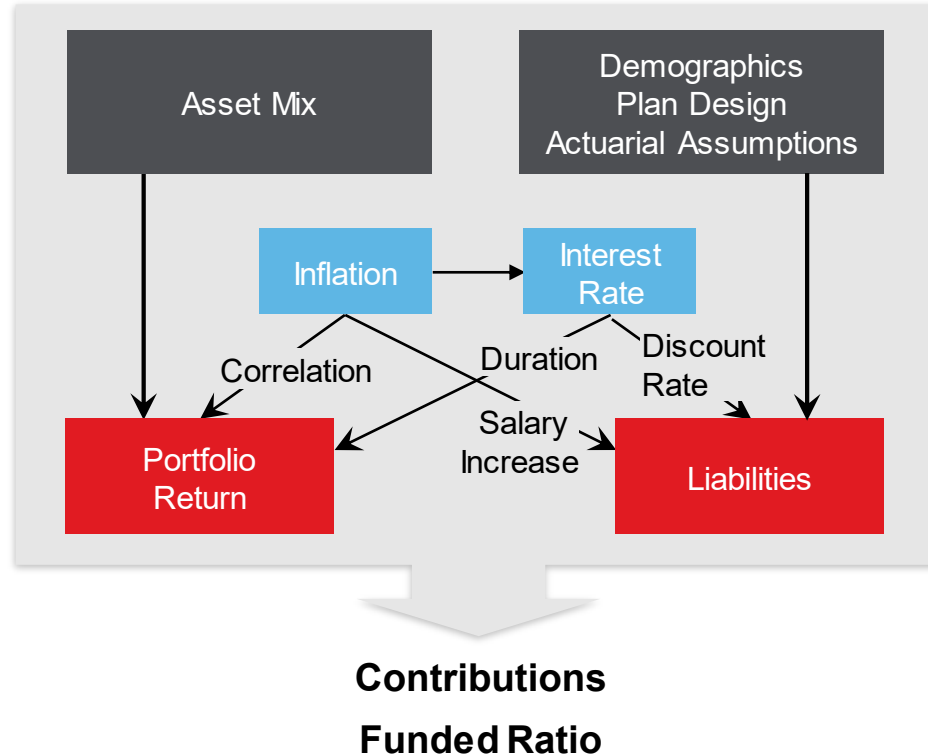
- 5,000 independent economic trials
- Building block approach
 - Starts with inflation and interest rates
 - Using a multi-factor regression analysis, other asset classes are then modeled
- Assets and liabilities are modeled over the projection period
 - Projections include contribution requirements and funded ratios

Asset-liability studies are best-suited to determine the optimal mix of return-seeking (e.g., equity) and fixed income assets for the pension fund

- Asset mix is the single most important investment decision for the plan sponsor
 - Is it worthwhile to have a more aggressive allocation in order to reduce long-term cost in exchange for risk of higher costs in a bad outcome?
 - Is it worthwhile to have a more conservative allocation in order to have a more predictable cost in exchange for potentially higher average costs?

Asset-Liability Management Background

Mechanics of Asset-Liability Modeling Process



Asset and liability modeling integrated in single platform

- Integrates impact of key economic variables

Flexibility in modeling parameters and output to client preferences

Stochastic and deterministic modeling performed

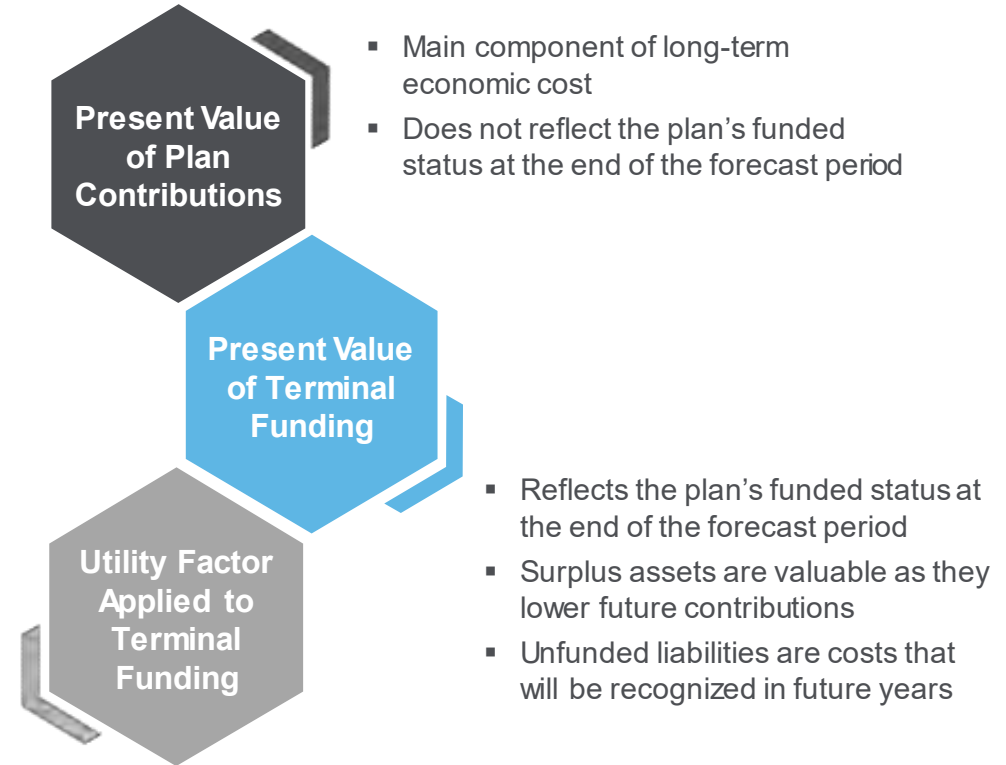
Asset-Liability Management Background

Long-Term Economic Cost of Plan

Long-Term Economic Cost =

- **Present value of plan contributions +**
- **Present value of terminal funding, adjusted by a utility factor**

Terminal Funding	Surplus	Shortfall
Utility Rationale	Declining value, or utility, from very high funded ratios	Increasing "pain" as unfunded amounts grow to high levels
Threshold	PVB / AL	(5 Yrs. of Benefit Payments) / AL
Utility Factor above/below threshold	50%	200%



Asset-Liability Management Background

Utility Factor For Terminal Funded Status

Modest deviations from 100% funding are normal, and no special adjustment is needed for these scenarios – the amount of surplus or unfunded liability can be reflected at its dollar value

As surplus amounts grow to very high levels, there is a declining value, or utility, to the surplus:

- Contributions cannot go below zero
- Long contribution holidays may create a false sense of how much the plan really costs, and lead to confusion when cost levels revert to “normal”
- Large surplus amounts can become a potential target for non-pension applications

As unfunded amounts grow to very high levels, there is an increasing amount of “pain” as contributions rise to unacceptable levels:

- May be viewed as “breaking trust” with future taxpayers
- Freezing of the pension plan becomes a possibility

Asset-Liability Management Background

Risk and Return in an Asset-Liability Context

Traditional:

- Return = Investment performance
- Risk = Annual volatility of investment gains and losses (e.g. weak/negative capital market returns)

Asset-Liability:

- Return = Potential cost reduction or funded status improvement under average economic conditions
- Risk = During the worst economic conditions, contributions need to increase or funded status declines (e.g., stocks decline, inflation/deflation shocks and/or interest rates decline)

Asset-Liability Management Background

Key Factors Affecting the Risk/Reward Trade-off

The key take-away from the asset-liability study is the allocation between equity (“return-seeking”) vs. fixed income (“risk-reducing”)

Major factors affecting the ultimate mix are:

- **Time horizon** (or amortization period of unfunded liability) to fund the liability
 - a longer time horizon supports more risk taking
- **Characteristics of plan participants**
 - a growing population of active participants supports more risk taking; a mature population with significant retirees might need a more conservative policy
- **Funded status**
 - a less funded plan can utilize additional returns from equity investments
- **Nature of plan benefits**
 - a pension with sensitivity to wage inflation growth can benefit from equities in the long-term; an increased need in liquidity due to significant benefit payments in the near future can have a more conservative policy

Asset-Liability Management Background

Limitations of Asset-Liability Modeling

Asset-liability studies are best-suited to determine the optimal mix of return-seeking (e.g., equity) and risk-reducing (e.g., fixed income) assets for the retirement fund

- Asset mix is the single most important investment decision for the plan sponsor
- Studies have found that more than 90% of the variability of a portfolio's return is determined by the asset allocation
- Decisions regarding how to divide allocations among various sub-categories are less important in an asset-liability context and can be addressed in the implementation phase, following the asset-liability study

Asset-liability modeling can capture the likelihood of a strategy meeting the objectives

- It does not 'predict' the future, i.e., we cannot say which of the economic scenarios will actually occur
- The results depend on the assumptions underlying the model and the structure of the model itself

There are elements that cannot be modeled and must be thought of in addition to the results of any analysis:

- E.g., idiosyncratic manager risk, liquidity requirements
- Black swans

Asset-Liability Management Background

Glossary of Terms

- **AVA** – actuarial value of assets (i.e., incorporates smoothing of gains and losses)
- **Asset Growth Rate or “Hurdle Rate”** – The required rate of growth of the assets (through both contributions and investment returns) to keep pace with the growth of the liability
- **Current Frontier** – uses SBA’s mix of asset classes within the return-seeking allocation, then dials the return-seeking allocation up and down from 0% to 100% to illustrate forecasted returns at various return-seeking / safety asset mixes
- **Economic Cost** – present value of forecasted future contributions + present value of funding shortfall / (surplus) at the end of the projection period
- **Liability Growth Rate** – the projected growth of the liability over the coming year as measured by the sum of the normal cost (new benefit accruals) and interest cost (one less year of discounting at the time value of money)
- **MVA** – market value of assets (i.e., un-smoothed / economic reality)
- **Return-Seeking Assets (“R-S”)** – all non “safety” assets
- **Safety Assets** – assets where the primary function is risk control / downside mitigation.
- **Target Asset Allocation** – the allocation of assets between return-seeking assets and safety assets



Appendix

- About This Material

About This Material

This material includes a summary of calculations and consulting related to the finances of Florida State Board of Administration (SBA). The following variables have been addressed:

- Contributions, Economic Cost, Funded Ratio, Liquidity, Net Outflow

This analysis is intended to assist the Investment Committee with a review of the associated issues and options, and its use may not be appropriate for other purposes. This analysis has been prepared solely for the benefit of the Investment Committee. Any further dissemination of this report is not allowed without the written consent of Aon Investments USA Inc.

Our calculations were generally based on the methodologies identified in the actuary's valuation report for SBA. We believe the methodology used in these calculations conforms to the applicable standards identified in the report.

Models are used to develop alternative scenarios based on the underlying valuation model and project financial results under those scenarios. The models were developed by experts outside and within Aon. Where outside models were used, the models were reviewed by experts within Aon. The models were selected as appropriate for these projections by the undersigned.

Experience different than anticipated could have a material impact on the ultimate costs of the benefits. In addition, change in plan provisions or applicable laws could have a significant impact on cost. Actual experience may differ from our modeling assumptions.

Our calculations were based on data provided by the plan actuary. The actuarial assumptions and methods and plan provisions reflected in these projections are the same as those used for the 2020/21 fiscal year actuarial valuation for SBA as noted in the actuarial report, except where noted in this report. Unless specifically noted, our calculations do not reflect any other changes or events after July 1, 2020. Reflecting events after July 1, 2020 would impact the results of the projection.

In conducting these projections, we have relied on plan design, demographic and financial information provided by other parties, including the plan's actuary and plan sponsor. While we cannot verify the accuracy of all of the information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy or completeness of the information and believe that it has produced appropriate results.

These projections have been conducted in accordance with generally accepted actuarial principles and practices, including applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. The undersigned actuary is familiar with the near-term and long-term aspects of pension valuations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All sections of this report are considered an integral part of the actuarial opinions.

To our knowledge, no colleague of Aon Investments USA Inc. providing services to SBA has any direct financial interest or indirect material interest in SBA. Thus, we believe there is no relationship existing that might affect our capacity to prepare and certify this report for SBA.

Aon Investments USA Inc.

Phil Kivarkis FSA, CFA

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Suite 700
Chicago, IL 60601
ATTN: Aon Investments Compliance Officer

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Global Equity

Meghan Brown, Senior Portfolio Manager
Denise Hale, Director of Reporting & Analytics
Tim Taylor, Senior Investment Officer

Investment Advisory Council
September 20, 2021



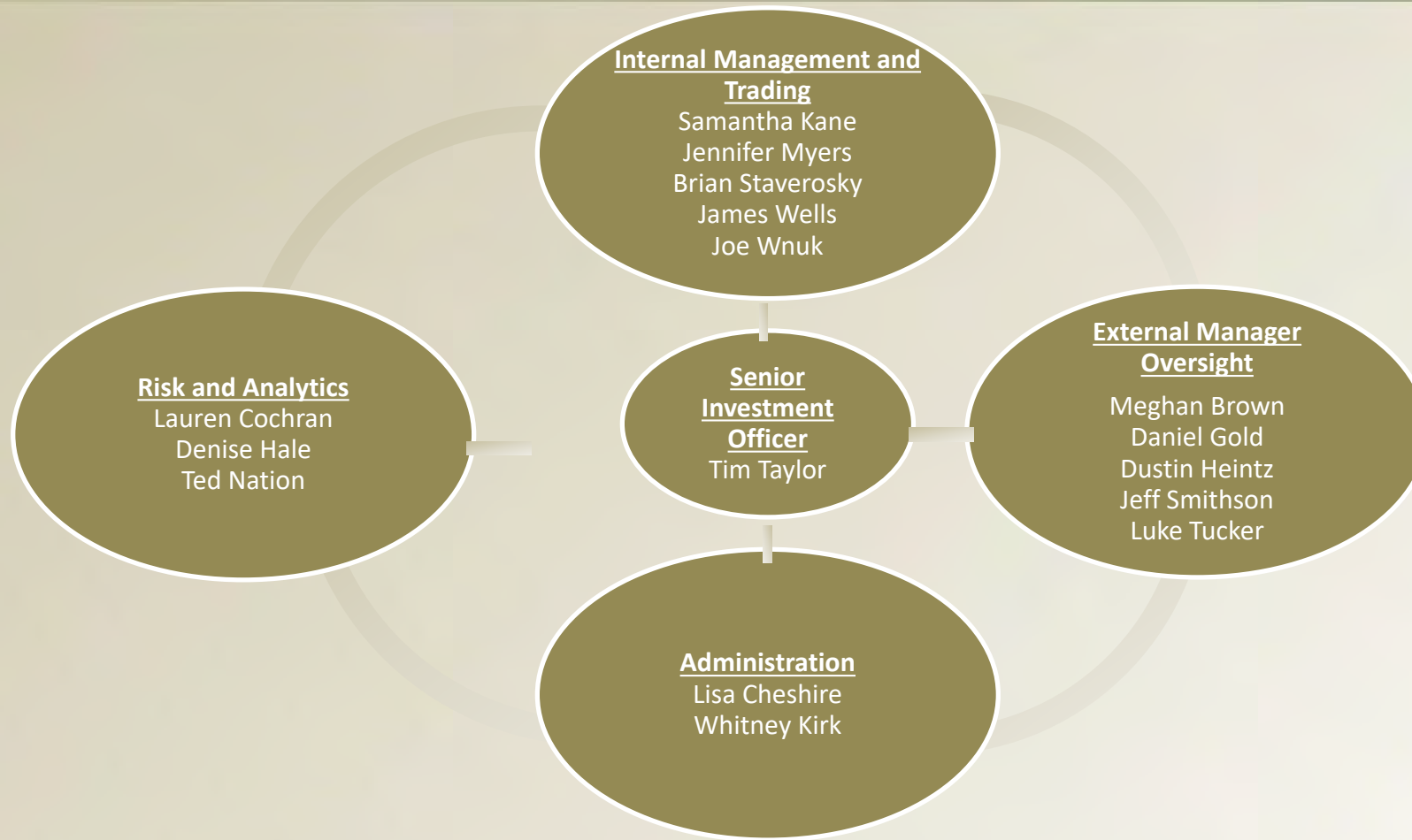
Global Equity Presentation

- Overview
 - Global Equity Staff
 - Investment Policy Defines Objectives
 - Market and Industry Dynamics
 - Work Plan and Looking Forward
- Global Equity By the Numbers
 - Top-Down Look: Global Equity's Role in the Total FRS
 - Delivering on Objectives & Historical Characteristics
 - Structure Details
- Performance Review
 - Aggregate Returns
 - Performance of Active Aggregates

Overview



Experienced Staff with Complementary Skills



Financial Operations

Accounting

General Counsel

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Risk Management & Compliance

Corporate Governance

Information Technology

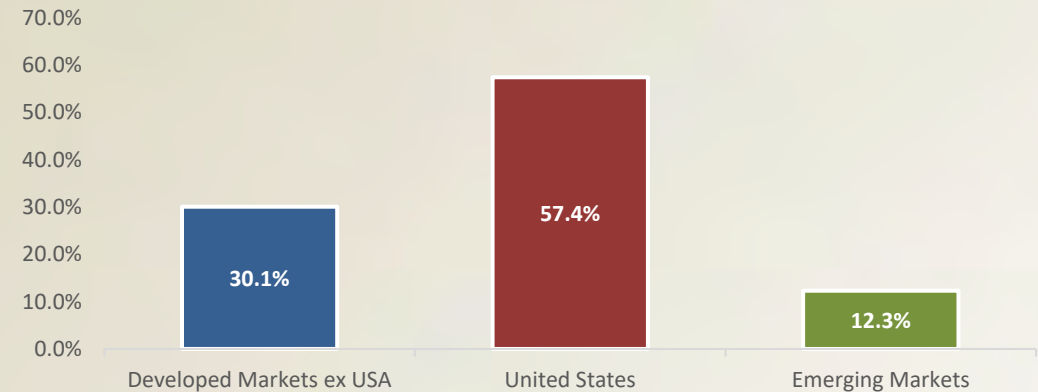
Global Equity Investment Policy Statement

- Invest to achieve or exceed the return of the Benchmark over a long period of time
 - Remain well-diversified relative to the Benchmark
 - Maintain a reliance on low-cost passive strategies scaled according to:
 - The degree of efficiency in underlying securities markets
 - Capacity in effective active strategies
 - Ongoing total fund liquidity requirements

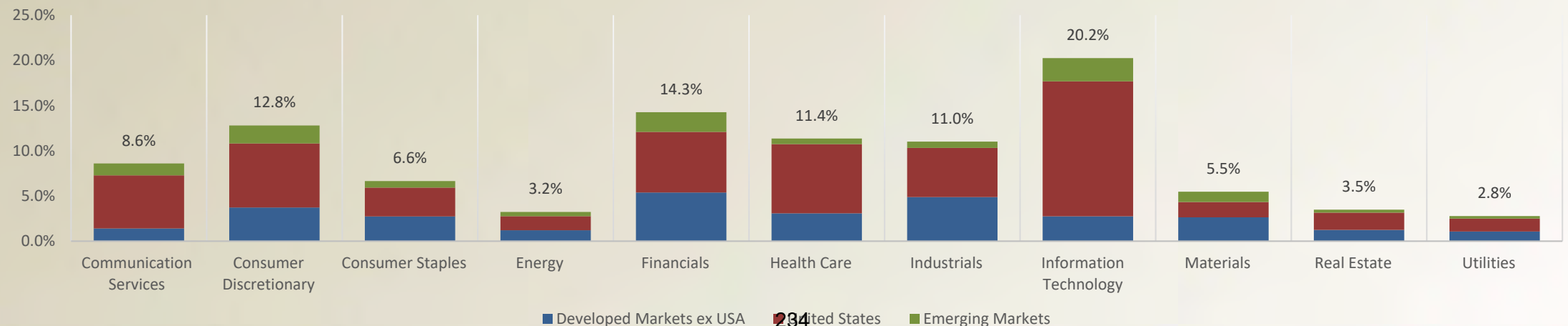
Investment Policy Benchmark

- SBA Custom MSCI All Country World Investable Market Index (MSCI ACWI IMI)
 - Large-, mid- and small-capitalization stocks
 - In US-dollar terms
 - Reflects provisions of Protecting Florida's Investments Act Legislation (PFIA)
 - Includes over 50 countries and over 9,200 securities

Benchmark Regional Weights (%)



Benchmark Sector Weights (%)

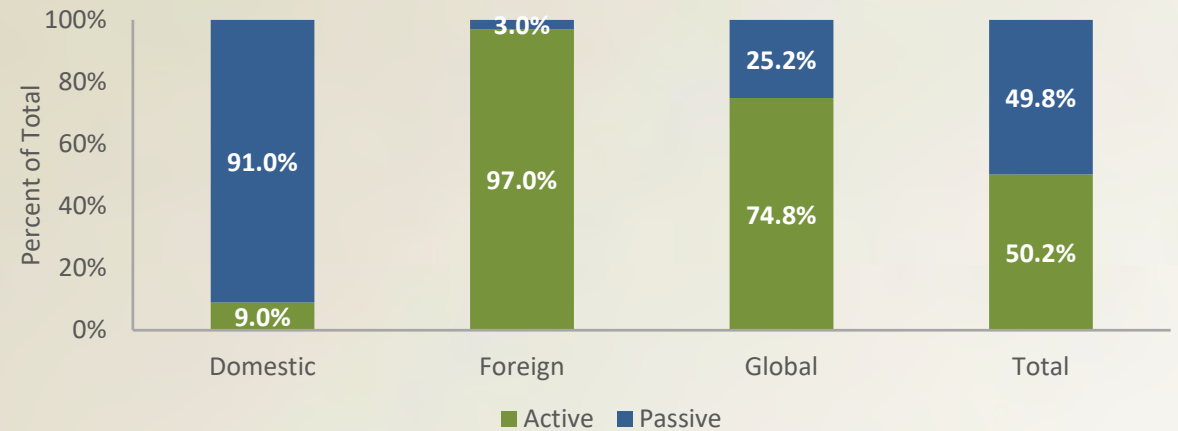


Investment Policy: Implementation Snapshot

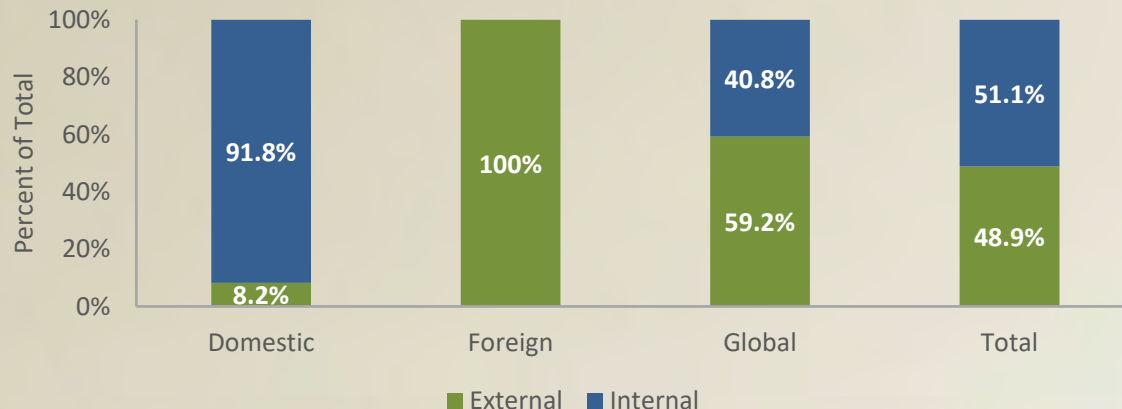
Well Diversified vs. Benchmark

- Total AUM: \$108bn
- 10,000+ Securities
- 64 Countries
- 46 Currencies
- 7 Internal Strategies
- 58 Externally Managed Strategies

Invest to Achieve or Exceed Equity Benchmark



Focus on Return and Low Costs



Opportunistically Invest in Active Strategies

	Market Value	Inception
Active Currency	\$2,950M Notional	2014
US Microcap	\$405M	2014
Schiehallion	\$356M	2019

Objectives Drive What We Do

	What We Do	Pitfalls We Strive to Avoid
Provide Beta	Invest 49.8% of assets passively	Becoming an index fund
Manage Costs	Aggressively, and fairly, negotiate fees	Overpaying for non-unique alpha
Diversify Sources of Alpha	Implement/Fund strategies with varying philosophies, processes, geographic focus and sector exposures	Relying on a specific market condition or environment to drive relative performance
Maintain Low Active Risk	Focus on aggregate construction using multiple risk lenses to ensure diversification	Taking uncompensated or concentrated risk, or not identifying a notable risk
Be Selectively Opportunistic	Invest in Currency, US Microcap, China-A, Public/Private Fund and Internal Factor Strategies	Allowing scale to dampen opportunism
Provide Liquidity	Consistently raise funds with emphasis on enhancing risk/return profile and minimizing transaction costs	Sacrificing excess return potential by not funding or limiting less liquid strategies

Navigating 2020-2021's Dynamic Market Environment

Provide Beta	Strong and consistently rising equity markets are challenging for passive managers (cash drag), combined with continued pressure on historical sources of value-add (e.g. Sec Lending).
Manage Costs	- Industry pressure on fees have cost benefits but create manager and industry risk, particularly when combined with poor active performance records. - Advancements continued with respect to inexpensively capturing factor exposures expected to outperform.
Diversify Sources of Alpha	- Growth outperformance vs. Value stalled at "re-opening" trade spurred by vaccine announcements, however reasserted itself on fears related to the COVID delta-variant and other factors. - Low interest-rate environment, uncertainty over global economic growth, historical spreads of growth to value stocks and numerous other uncertainties warrant a diversified portfolio.
Maintain Low Active Risk	Market volatility surged early in 2020 and remained elevated from historically low levels.
Be Selectively Opportunistic	- Increasing challenges to traditional active management. - Benchmark concentration, growth of passive and ETF industry.
Provide Liquidity	Challenge of low liquidity persists in market segments with rich alpha potential.

Meeting Objectives By Navigating Dynamic Market Environments

	Recent Market Dynamics	Actions Taken in FY2021
Provide Beta	Pressure on passive value-add sources	Continued to develop internal passive management resources, focusing on staff development and efficient trading to minimize transaction costs.
Manage Costs	Fee pressure	- Aggressively negotiated fees for newly funded strategies. - Percentage of assets internally managed continued to rise, including active mandates targeting potential alpha-generating factors.
Diversify Sources of Alpha	- Growth vs. Value Spread "Re-opening" Trade	- New fundings included three International Small Cap, one Developed Standard, one Emerging Markets and one US Large Cap strategy. - Modest reallocations/restructurings across aggregates.
Maintain Low Active Risk	Elevated market volatility	- After adding to equities in the first-half of 2020 in response to a dramatic selloff, profits were realized and provided to other asset classes after surging markets prompted asset allocation rebalances. - Risk managed within policy bounds as active returns remained relatively constant.
Be Selectively Opportunistic	Challenges to traditional active management	Exited dedicated Frontier Markets aggregate to focus resources on alternative, equity-related, non-traditional opportunistic strategies.
Provide Liquidity	Liquidity vs. Alpha tradeoff	Raised over \$10 Billion in Fiscal Year 2021.

Meeting Objectives: Looking Forward

Selected Elements of FY2022 Work Plan

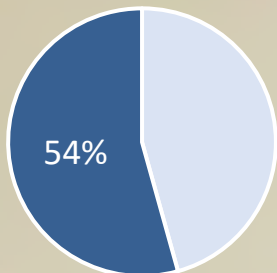
Provide Beta	• Continue to strive for best execution for internal passive and active strategies, and support staff development related to this important function.
Manage Costs	• Further evaluate opportunities to manage strategies internally. • Continue to negotiate and, as appropriate, renegotiate fees.
Diversify Sources of Alpha	• Maintain focus on monitoring and periodically restructuring sub-aggregates as needed, and identifying and monitoring external managers with excellent potential.
Maintain Low Active Risk	• Enhance analytics capabilities with efficient investment in human capital and systems.
Be Selectively Opportunistic	• Continue efforts to identify and review opportunistic strategies that may improve the risk/return profile of the asset class.
Provide Liquidity	• Use liquidity draws to rebalance / reposition the aggregate and address modest structural biases. • Maintain significant exposure to liquid portfolios while selectively adding to less-liquid strategies.

Global Equity By The Numbers



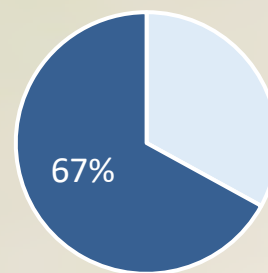
Top Down View: Global Equity's Role in the Total Fund

% of Total FRS Assets



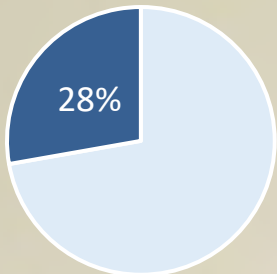
Policy Range:
45% - 75%, With 53% Target

% Contribution to Total FRS 3-Yr Absolute Return



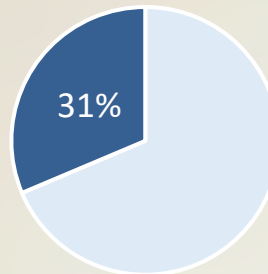
Policy Goal:
Seek Absolute Returns

% of Total FRS Assets Internally Managed by GE



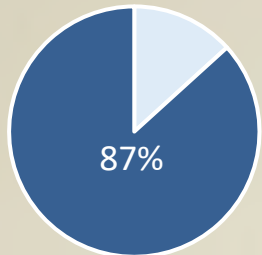
Policy Goal:
Reliance on Low Cost (Passive) Strategies

% Contribution to Total FRS 3-Year Excess Return



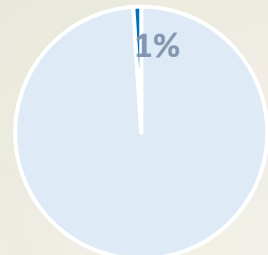
Policy Goal:
Exceed Returns of Benchmark

% of Liquidity Provided by GE in Last 3 Years



Policy Goal:
Meet Ongoing Funding Requirements
Amount Raised in 3 Years:
\$19bn

% Contribution to Total FRS Active Risk



Policy Goal:
Passive with Active Risk
in Less Efficient Markets

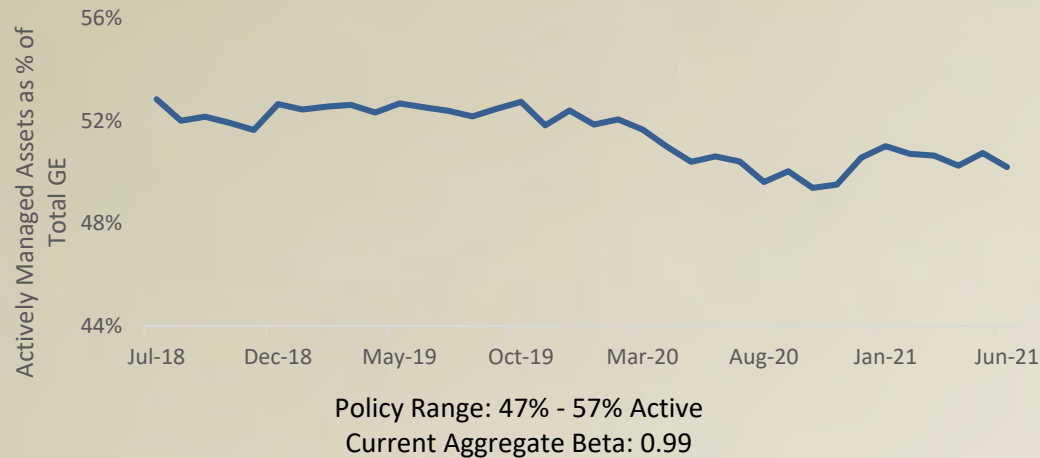
■ GE = ■ Rest of Fund

241

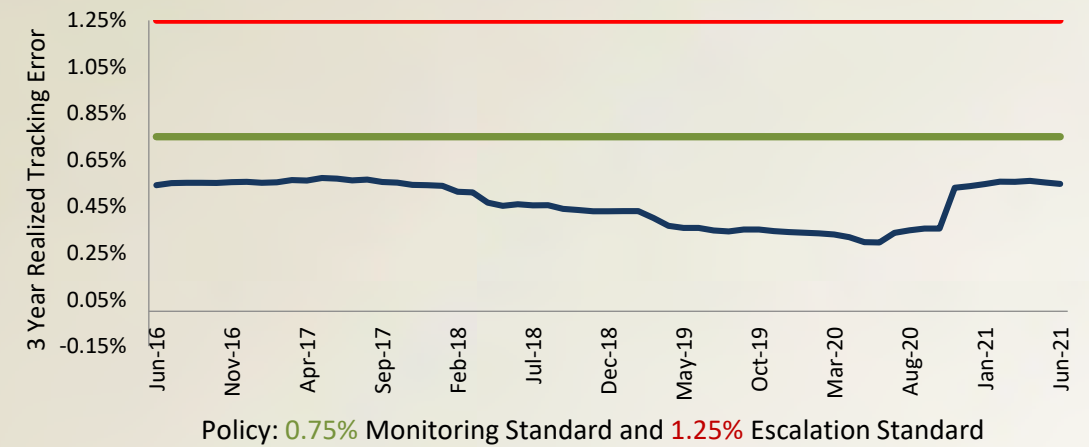
Note: As of June 30, 2021. 3 Year Returns include GE Liquidity and Cash Equitization accounts. % of Active Risk is a measure of GE contribution to total fund, based on 1 year predicted risk.

Delivering on Policy and Objectives

Provide Alpha and Beta: % Actively Managed



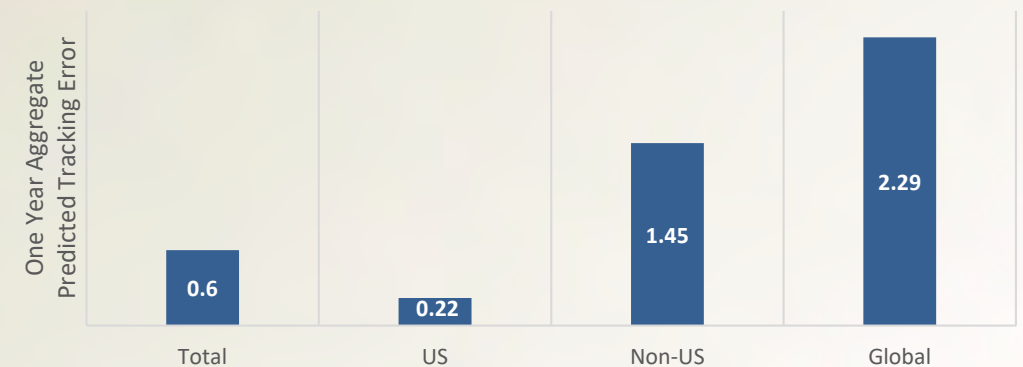
Maintain Low Active Risk: Tracking Error Over Time



Take Risk Where Rewarded: Information Ratio



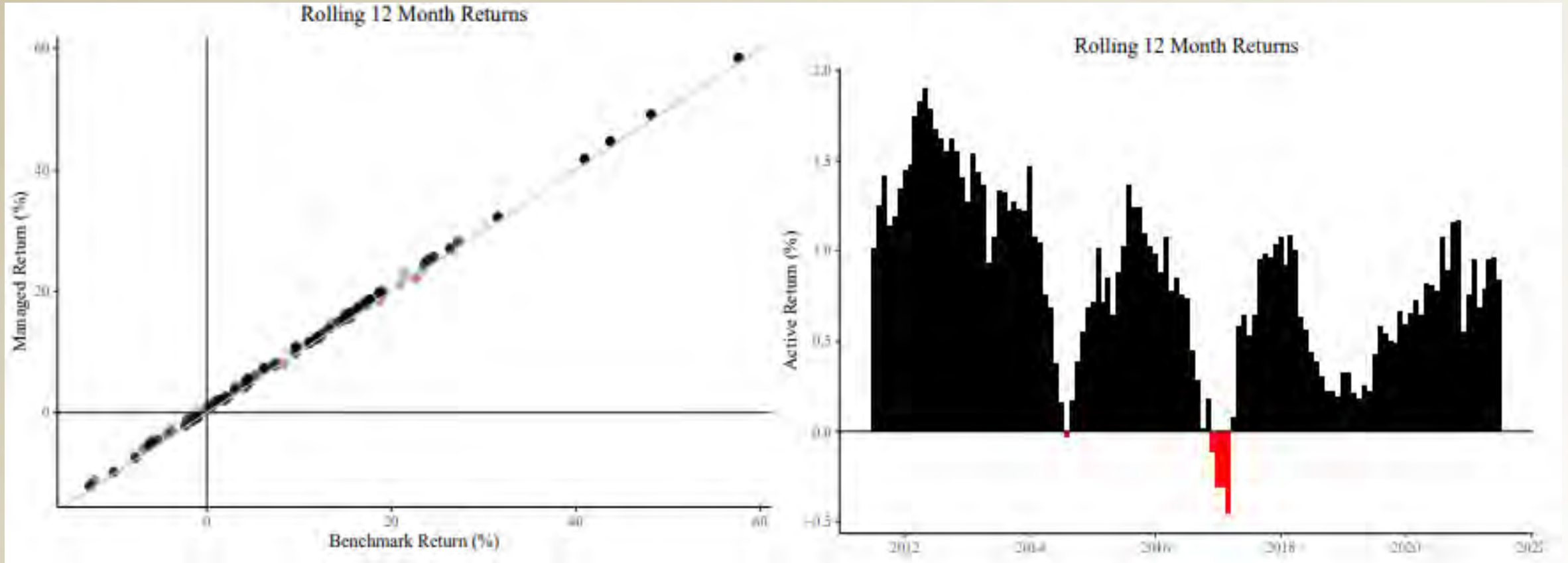
Low Active Risk: Take Tracking Error Where Rewarded



Range Predicted Tracking Error for Individual Strategies: 0.04% to 17.62%

Structured for Performance Consistency

Global Equity Outperformed Benchmark, net of fees, in 116 of 121 Rolling One-Year Periods



Structured to Perform in a Variety of Market Conditions

BATTING AVERAGE: % OF MONTHS GE RETURNS EXCEED BENCHMARK



Note: Based on Global monthly returns since inception and MSCI Indices.

Diversify Sources of Alpha and Risk: Strategy Types

Diversified for Market Conditions

<u>Defensive Active</u> Low Beta High Yield Earnings Stability	<u>Core Active</u> Multifactor Quant Quality Emphasis Regional Strategies	<u>Upmarket Active</u> High Growth Pro - Cyclical
Currency Overlay		
Passive		

Diversified by Investment Process

	Fundamental Approach			Traditional Quantitative Approach			Factor/Other
	Growth	Core	Value	Growth	Core	Value	
US LC		☒			☒		
US Small Cap	☒	☒	☒	☒	☒	☒	☒
Developed LC	☒	☒	☒		☒		☒
Developed SC	☒	☒	☒		☒		☒
Emerging	☒	☒	☒		☒		☒
Global	☒	☒	☒		☒		☒
Currency		☒	245		☒		☒

Diversify Alpha: Active Management Structure

Higher Active Exposures In Segments Where Risk Is Rewarded

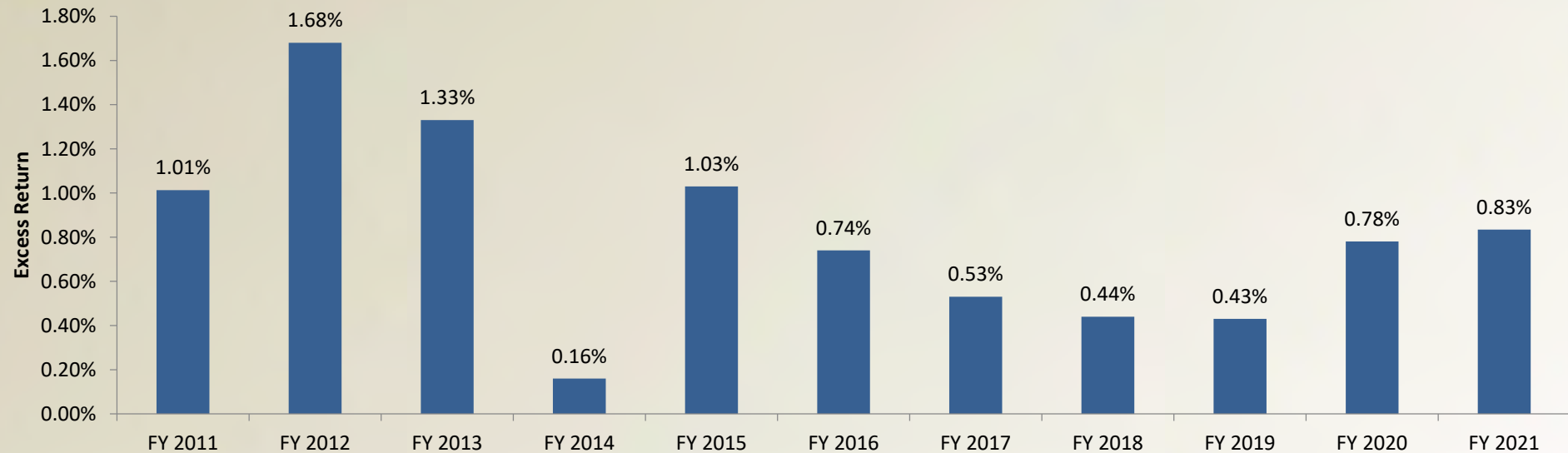
	Total AUM (\$mm)	% Active	Average Active Mandate Size (\$mm)	# of Active Strategies
US LC	\$50,823	4.4%	\$753	3
Developed LC	\$21,937	90.0%	\$1,975	10
Emerging	\$12,586	100.0%	\$839	15
Global	\$12,323	74.8%	\$1,844	5
Developed SC	\$4,820	100.0%	\$536	9
US SC	\$3,720	70.7%	\$239	11
Currency	\$2,950 (Notional)	100.0%	\$983	3

Note: As of June 30, 2021. US All Cap passive strategy assets allocated the US LC and SC groups in-line with the benchmark large cap/small cap split. US SC includes microcap. Emerging includes EM SC and China A share strategies.

Performance Review

Performance: Total Global Equity

	2Q 21	CYTD	1 Yr	3 Yr	5 Yr	Incept Jul 2010
GE Return	7.50	13.24	41.78	14.94	15.17	12.48
Benchmark	7.16	12.66	40.95	14.27	14.57	11.65
Excess Return	0.34	0.58	0.83	0.67	0.60	0.83
Tracking Error			0.92	0.56	0.50	0.52
Info Ratio			0.59	1.00	1.00	1.39



Note: As of June 30, 2021. GE Inception July 2010.

Performance: Returns by Approach and Region

	Weight (% of Asset Class)	One Year Excess Return	Three Year Excess Return	Five Year Excess Return
<u>By Approach</u>				
Passively Managed Strategies	49.8%	0.07%	0.05%	0.10%
Actively Managed Strategies	50.2%	1.71%	0.88%	0.70%
<u>By Region</u>				
US	50.3%	0.29%	-0.39%	-0.17%
Foreign	38.0%	2.90%	1.85%	1.44%
Global	11.4%	-3.30%	-1.28%	-1.29%

Note: As of June 30, 2021.

Performance: By Active Aggregate

Key Drivers of One Year Returns

- Foreign Developed Standard**
 A successful year with notable contributions from value-oriented managers who have faced a difficult environment for a very long time. Contributions also came from disruptive growth stocks that benefited greatly during a pandemic that prompted dramatic changes to our everyday lives.
- Emerging Markets**
 An underweight to China proved positive as investor sentiment soured due to an increased level of regulatory activity in certain sectors such as Information Technology.
- Dedicated Global**
 The aggregate was penalized by its defensive, low-beta characteristics in a period that the market raced ahead.
- Foreign Developed Small Cap**
 The aggregate benefited at various times from growth, momentum and value-oriented factors as leadership varied widely during the period.
- Currency**
 Positions in Emerging Markets and Cyclical currencies outperformed the US dollar, reversing the pattern of performance that took place as the pandemic took hold in 2020.
- US Small Cap**
 Underweights to the defensive Utilities, Real Estate and Healthcare sectors boosted outperformance in a highly speculative market.
- US Large Cap**
 This aggregate outperformed in Q2 2021, the first full period since it was repositioned and style benchmarks were eliminated. Full-year alpha was boosted as market leadership finally shifted away from a handful of mega-cap, growth stocks.

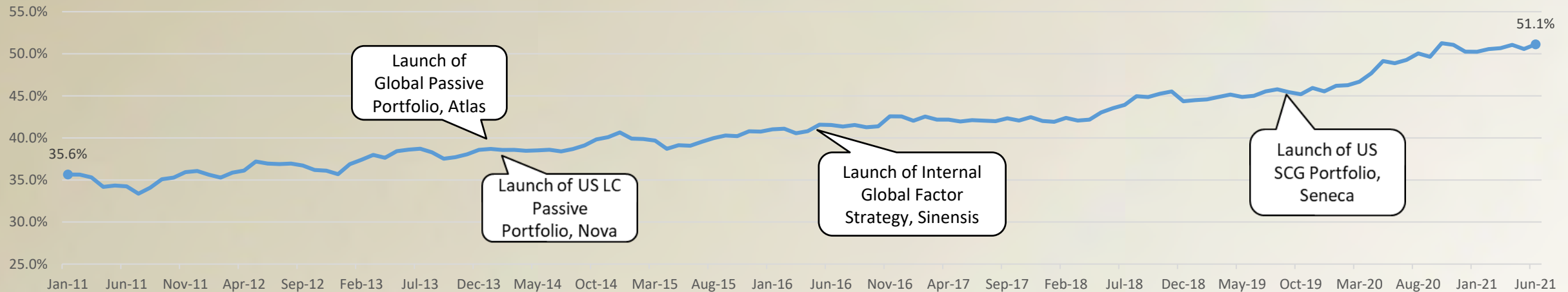
Active Strategy Grouping	Weight (% of Asset Class)	One Year Excess Return	Three Year Excess Return	Five Year Excess Return
Foreign Developed Standard	20.2%	3.11%	2.34%	2.45%
Emerging Markets	12.2%	3.10%	2.47%	0.61%
Dedicated Global	8.5%	-4.54%	-1.90%	-1.81%
Foreign Developed Small Cap	4.4%	1.48%	-0.02%	0.01%
Currency	3.0%	0.42%	0.13%	-0.08%
US Small Cap	2.4%	0.24%	0.34%	-0.07%
US Large Cap	2.1%	7.16%	-2.47%	-0.99%

Appendix



Process: Internal Asset Management

% Internally Managed Assets over Time



Benefits of GE's Internal Management Program

- Explicit cost advantage in that asset management fees are not paid to external investment firms
- Fixed cost of running passive money spread over large asset base
- Ability to leverage skills gained in directly managing money to analyze external managers
- Capability to internally manage equity transitions and liquidity raises
- Opportunity to support trading needs of other asset classes
- Ability to manage cash flows associated with Currency program

Florida State Board of Administration

Review of Public Equity Markets

September 2021

Agenda

- SBA's Public Markets Investment Program
- Review of Equities
- Recent Activity

SBA's Public 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).

SBA's Global Equity Investment Program

Mercer's General Observations

- FRS is very intensive in its manager due diligence, selection and monitoring
- The global equity asset class is managed in a prudent, risk-controlled fashion.
- Appropriate levels of delegation are given to the staff
- FRS is a significant user of passive management albeit slightly less than peers (48% of Portfolio vs. 52% of peers¹)
- Active risk levels are monitored against predetermined ranges
- The Plan effectively uses internal resources to keep costs low (46% of Portfolio vs. 40% of peers¹)
- Results have been favorable over all time periods measured

¹ Source: Data as of 12/31/2019 – CEM 2020 Survey

Review of Equities

Asset Allocation – Passive versus Active

- The SBA uses more internal passive management and external active management relative to peers.

	FRS ¹	Peers
Internal Passive	44.5%	26.3%
Internal Active	1.3%	13.6%
External Passive	3.9%	25.9%
External Active	50.3%	34.3%

¹ May not add to 100% due to rounding.

Source: Data as of 12/31/2019 – CEM 2020 Survey

SBA's Public Markets Investment Programs

Guiding Principles

- In 2016, Mercer conducted a structural review of the Global Equity Asset Class and concluded Global Equity incorporates many of the best practices in institutional fund management and is appropriate given the FRS's size and negative cash flow position. Specifically, Mercer believes there are a number of key areas that should be evaluated for best practices, with some key observations for SBA:
 - Active/Passive Allocations. The SBA is utilizing active/passive management across sub-asset classes effectively.
 - Use of Internal Management. The SBA has been cost effective in their use of internal passive management within the US Equities and Dedicated Global Equities space, unlike many of their peers.
 - Active Risk Budget. The risk budgeting monitoring standards for the FRS Pension Plan for the Global Equity asset class is a monitoring standard of 0.75% and an escalation standard of 1.25% and staff has stayed well within these bounds over time.
 - Investment Manager Review. Overall we believe the sub-asset classes to be well diversified in terms of manager style and risk.
 - Benchmarking/Market-Capitalization Weighted Exposures. Except in unique circumstances, the staff has incurred very little misfit risk relative to its asset class benchmarks.
 - Potential Alpha Opportunities. The Global Equity staff continually researches and capitalizes on potential alpha opportunities which has included exposures to China A shares, frontier markets, emerging markets small cap, US microcap, and a currency overlay program.
 - Performance Summary. The SBA has realized strong risk-adjusted returns historically. These strong risk-adjusted returns are attributable to the SBA's thoughtful approach to portfolio construction through employing passive mandates in more efficient markets, allocating assets to a diversified yet high conviction active manager base, and deploying assets in higher alpha potential market segments.

Review of Equities

Review of Equities

Asset Allocation – Region

- In July 2010 the SBA consolidated its separate allocations to US and Foreign Equity asset classes into a single Global Equity asset class benchmarked to the FSB ACWI IMI ex Iran and Sudan.
- Compared to peers, the SBA has a smaller allocation dedicated global equity.

Product ¹	FRS	Large Plan Peers	US Public Plans	MSCI ACWI IMI
US Equity	49.9%	42.5%	46.8%	55%
Developed Market ex US	30.4%	23.8%	29.0%	33%
Emerging Markets	11.2%	7.4%	7.4%	12%
Global Equity ²	8.3%	25.4%	14.0%	-
Other	0.0%	0.9%	2.7%	0.0%

¹ May not add to 100% due to rounding

² The lower allocation to global equities is due to a greater use of dedicated strategies.

Source: Data as of 12/31/2019 – CEM 2020 Survey

Review of Equities

Asset Allocation – Passive versus Active

- On an absolute basis, the SBA uses passive management for most of its US allocation and active management for most Non-US Equity. The majority of dedicated Global Equity mandates are fully active and all Emerging Market mandates are fully active.
- Compared to peers, the SBA uses more passive management for its US Equity allocation and more active management for its Non-US Equity allocation.

Product	FRS	Peers ¹
US Equity		
Passive	84.6%	71.6%
Active	15.4%	28.4%
Developed Market ex US		
Passive	12.7%	24.3%
Active	87.3%	75.8%
Emerging Markets		
Passive	0.0%	18.4%
Active	100.0%	81.6%
Global Equity		
Passive	28.4%	56.0%
Active	71.6%	44.0%

¹ May not add to 100% due to rounding
Source: Data as of 12/31/2019 – CEM 2020 Survey

Review of Equities

Performance: Global Equity versus Peers

- Relative to peers, the SBA outperformed in domestic, global, and emerging markets equity, but modestly lagged within international equity.

5-year average net return by major asset class



■ Your fund	11.0%	6.8%	5.6%	9.0%
■ U.S. Public average	10.6%	6.4%	5.8%	9.0%
■ Peer average	10.8%	6.9%	5.5%	8.7%
Your % of assets	26.7%	18.1%	5.8%	4.6%

Source: Data as of 12/31/2019 – CEM 2020 Survey

Review of Equities

Fees: Global Equity versus Peers

- Relative to peers, FRS fees are cheaper in all sub-asset classes, except in external passive management for Developed Market ex-US.

Product	FRS	Median Peer
US Equity		
External Active	26.1	36.6
External Passive	n/a	1.0
Developed Market ex US		
External Active	25.1	39.1
External Passive	3.0	2.9
Emerging Markets		
External Active	47.5	56.2
External Passive	n/a	11.9
Global Equity		
External Active	41.9	41.9
External Passive	n/a	n/a

Fees in basis points

Source: Data as of 12/31/2019 – CEM 2020 Survey

Review of Equities

Performance: US, Non-US, & Dedicated Global Equity

- Over the 3- and 5-year periods, the FRS US Equity allocation has delivered negative risk-adjusted returns (negative information ratio). However, performance relative to peers ranks favorably over both periods. Over the 5-year time period, the information ratio ranked just below the peer group median.
- Over the 3- and 5-year period, the FRS Non-US Equity portfolio has delivered strong risk-adjusted returns with an information ratio ranking in the top decile among its peer group universe over both periods.
- Over the 3- and 5-year period, the FRS Dedicated Global Equity allocation has delivered negative risk-adjusted returns (negative information ratio). Additionally, over both periods, the information ratio ranked in the bottom half among peers.

Periods Ending 6/30/2021	Year to Date Return (Rank)	1 Year Return (Rank)	3 Years Return (Rank)	5 Years Return (Rank)	Inception (April 1988) Return (Rank)
FRS US Equity ^{1, 2}	15.54% (45)	44.46% (53)	18.34% (25)	17.72% (31)	11.26%
Benchmark	15.11%	44.16%	18.73%	17.89%	11.21%
Value Added	0.43%	0.30%	-0.40%	-0.17%	0.05%
Information Ratio³	--	--	-0.93	-0.46	--
Tracking Error³	--	--	0.33%	0.28%	--
					Inception (October 1992) Return (Rank)
FRS Non-US Equity ^{2, 4}	10.25% (46)	40.10% (27)	11.32% (42)	12.66% (39)	7.86%
Benchmark	9.52%	37.20%	9.46%	11.23%	6.75%
Value Added	0.73%	2.90%	1.86%	1.43%	1.11%
Information Ratio³	--	--	1.25	1.09	--
Tracking Error³	--	--	1.35%	1.19%	--
					Inception (June 2003) Return (Rank)
FRS Dedicated Global Equity ^{2, 5}	12.74% (52)	35.61% (90)	13.62% (46)	13.52% (51)	9.12% (82)
Benchmark	12.80%	38.91%	14.90%	14.81%	9.80%
Value Added	-0.06%	-3.30%	-1.28%	-1.29%	-0.68%
Information Ratio³	--	--	-0.62	-0.70	--
Tracking Error³	--	--	2.23%	1.86%	--

¹ Compared to the Public Funds >\$1B – US Equity universe; rankings are based on gross-of-fees FRS performance.

² Returns are shown net of fees.

³ Calculated using monthly returns

⁴ Compared to the Public Funds >\$1B – Non-US Equity universe; rankings are based on gross-of-fees FRS performance.

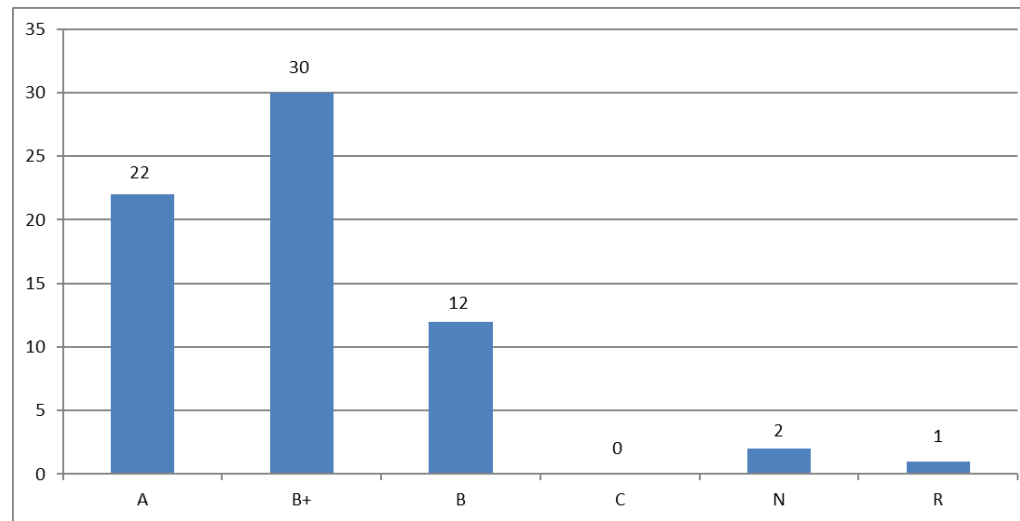
⁵ Compared to the Public Funds >\$1B – Global Equity universe; rankings are based on gross-of-fees FRS performance

Recent Activity

Mercer Research Rating Review

Breakdown of Strategies by Rating

- Of the 67 external global equity strategies in the Plan, 52 strategies, or 78%, are rated “B+” and above.
- The graph below shows the breakdown of the strategies by the Mercer Rating:



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

R = Mercer does not maintain formal ratings in category, but has reviewed the strategy.

Recent Activity

- Emerging Markets Small Cap Equity Search
- US Small Cap Equity Search
- Regularly working with staff conducting ongoing performance and manager monitoring
- Increased focus on operational due diligence
- Ongoing manager reviews



Services provided by Mercer Investments LLC.

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State Board of Administration

Fixed Income Update

Katy Wojciechowski

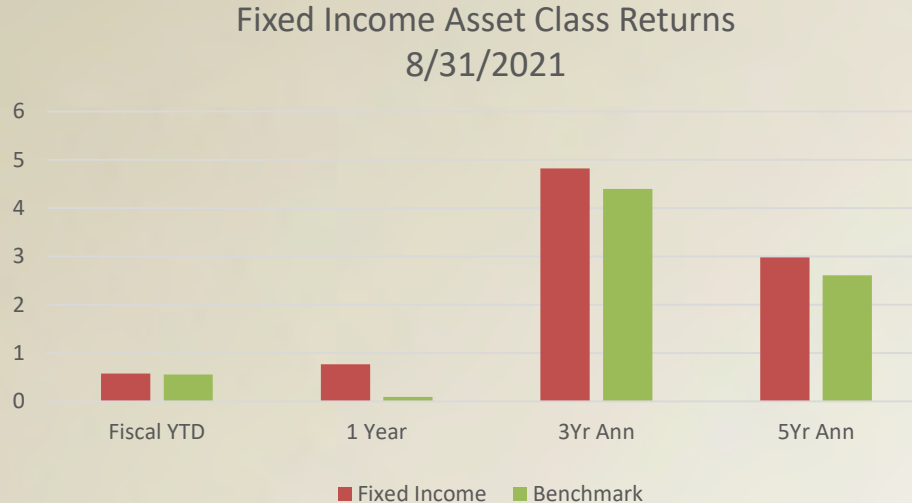
Senior Investment Officer Fixed Income

Investment Advisory Council

September 20, 2021

Asset Class Portfolio Performance

- Asset class outperformed Benchmark over ALL time periods with low risk and high Information Ratio. For FY ended 6/30/2021, FI produced returns of 1.08%, for an outperformance of 1.03%



Fixed Income Review and Outlook

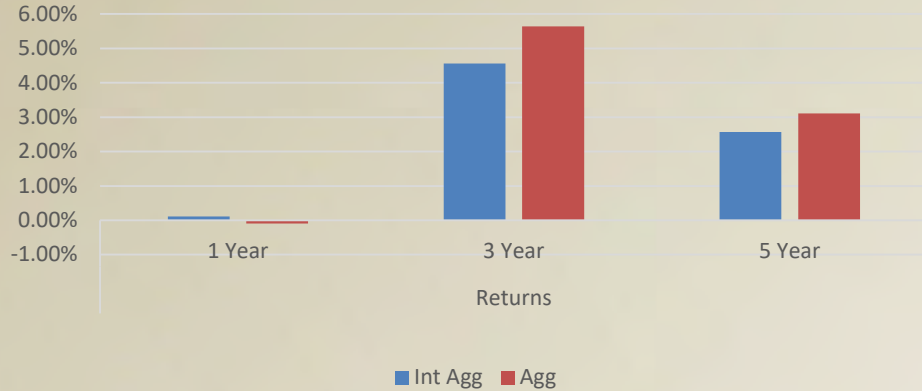
September 2021

- 12 Month Returns for the Fixed Income benchmark – Bloomberg Intermediate Aggregate through 8/31/2021 were 0.0955%. **Benchmark returns fiscal YTD are 0.56%, while asset class returns are +0.58% for an outperformance of 0.02%.**
- Annual Absolute and Excess Returns were positive for spread sectors except MBS, as demand for yield continued
 - **Ten year Treasury yields dropped from 1.46% to 1.37% in the quarter. Yield on the entire Benchmark is now 1.16% with a 4.24yr duration.**
 - Yield on the broader Barclay's Aggregate is 1.43% with a duration of 6.70yrs.

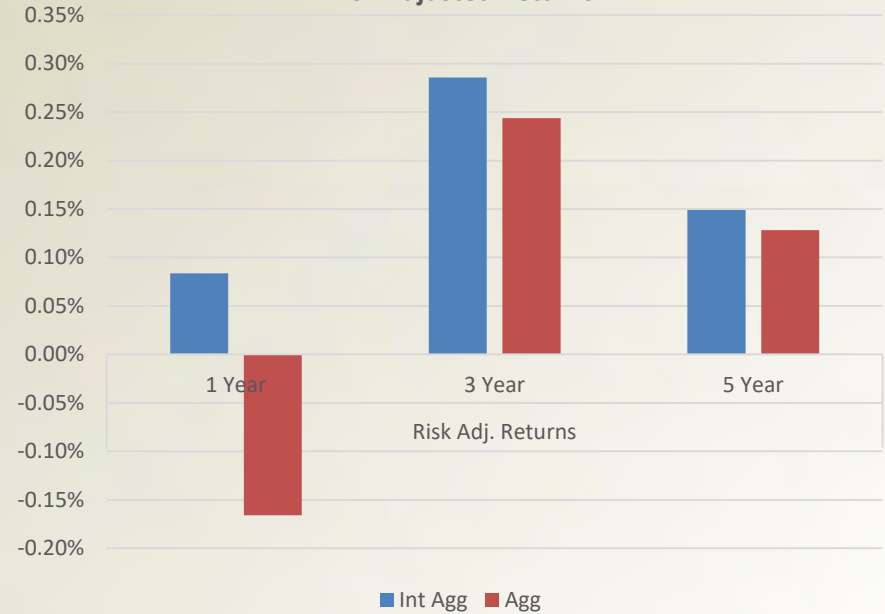
Benchmark Comparison

as of 09/06/2021

Benchmark Returns



Risk Adjusted Returns



Fixed Income Review

September 2021

Fixed Income offers little “Income”

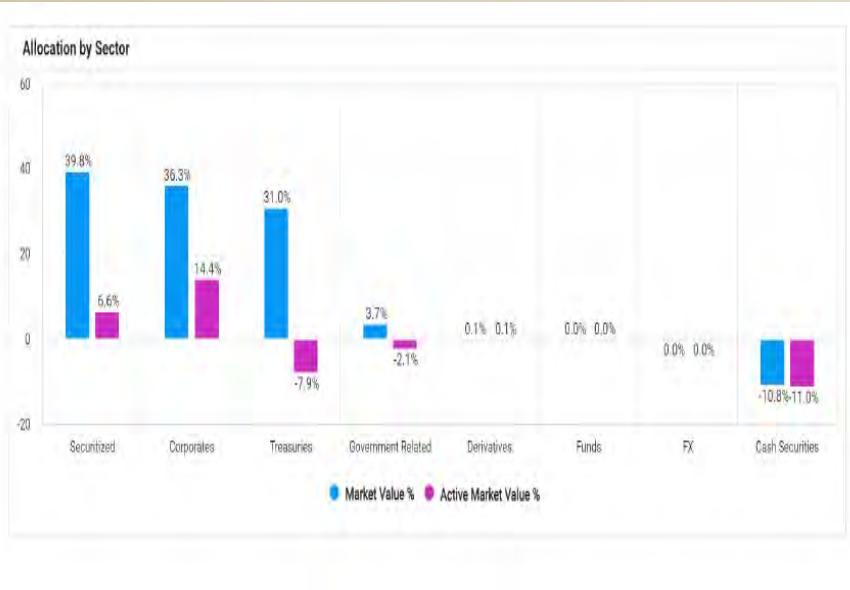
With that, a small move up in rates wipes out all of the carry for the year



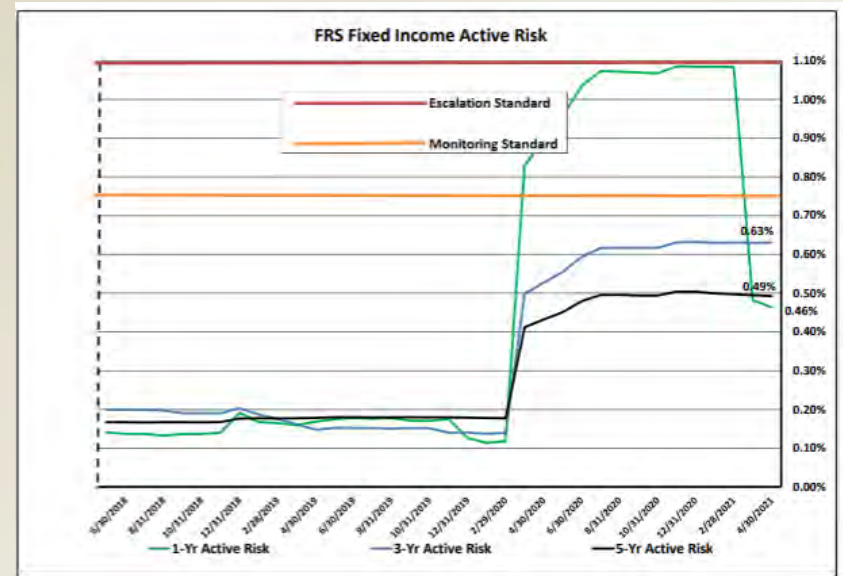
Fixed Income Review

September 2021

- Portfolio continues to overweight Spread Product



- But overall Active Risk continues contained at total allocation level



Fixed Income Review

September 2021

Looking Forward: Pockets of Value

- Continue to maintain active allocation
- Add exposure to out of benchmark structured products or other in a dedicated strategy
 - *Continuing to research opportunities outside of our benchmark, barbellling liquidity with yield*
 - Consider opportunity to reduce risk to a rising rate environment within overall allocation
 - *Increased allocation to Short Duration Credit manager*
 - Execute on tactical opportunities in out of Benchmark sectors – Core Plus opportunities
 - *Continuing to discuss opportunities ex-US, off benchmark, given limited opportunities in US Fixed Income. Considering derivative opportunities to increase ability to be nimble*

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State Board of Administration

Real Estate Update

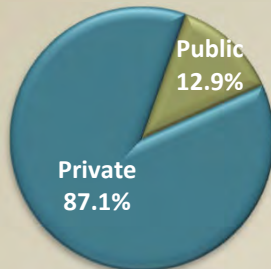
Steve Spook
Senior Investment Officer

Investment Advisory Council Meeting
September 20, 2021

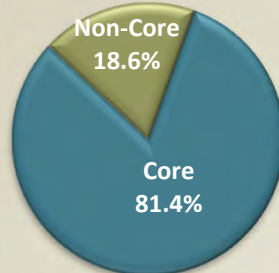


Real Estate Portfolio Sector Allocation as of 03/31/2021

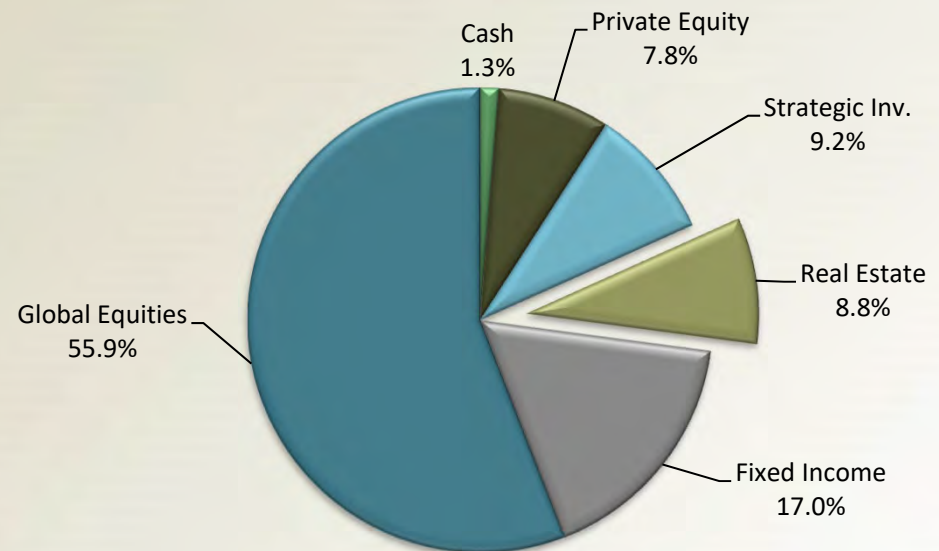
Total RE Portfolio



Private Market



**Florida Retirement System
Defined Benefit Fund**



Source: IBP 03/31/21 Report

Private Market Leverage as of 03/31/2021

Private Portfolio
Market Value \$21,098 M

Private Market Leverage
30.7%

Principal
Investments
25.7%

Pooled Funds
41.1%

Pooled Funds Leverage

Closed-End Funds

57.8%

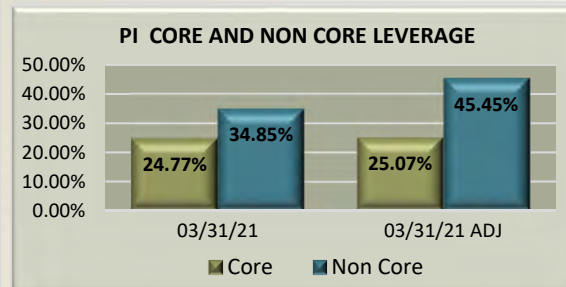
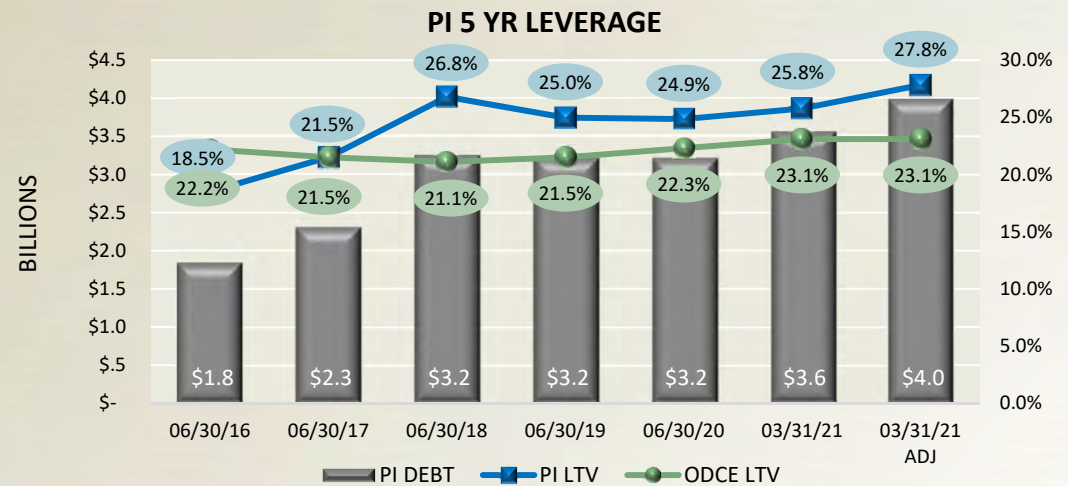
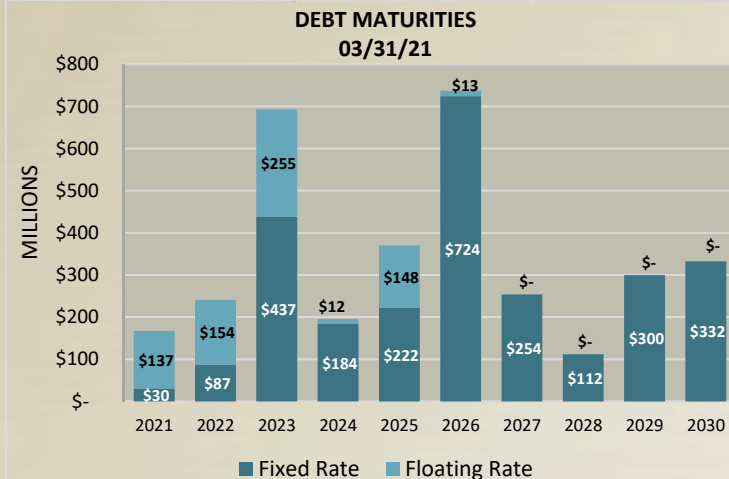
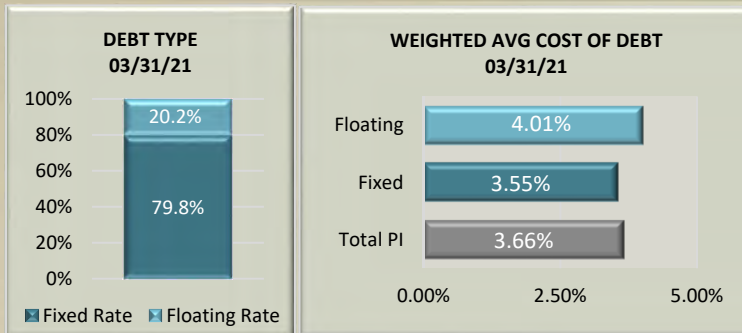
Open-End Funds

27.3%

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

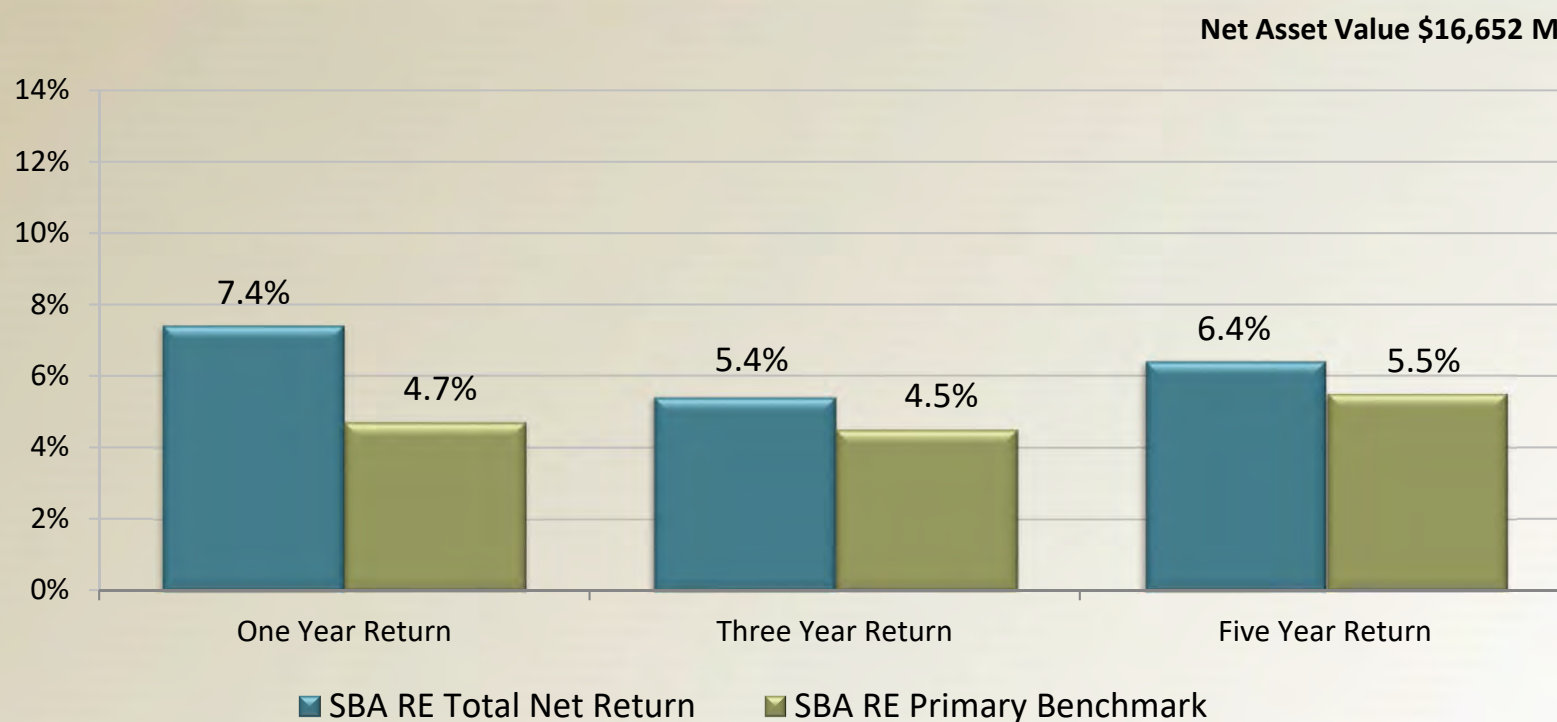


Investment Portfolio Guidelines

- 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

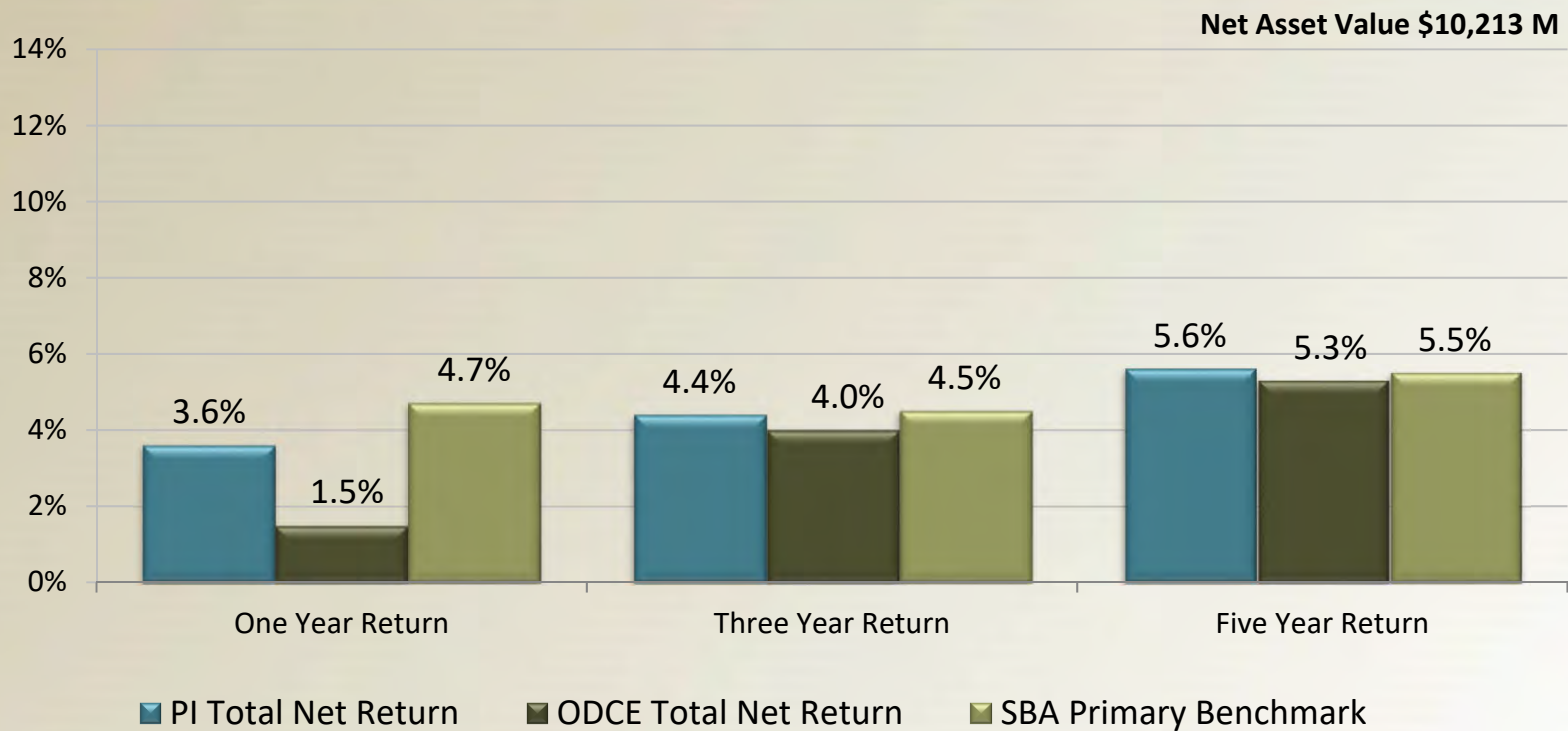
Data Through 03/31/2021



Source: The Townsend Group

Principal Investments Performance

Data Through 03/31/2021



Source: The Townsend Group

Externally Managed Portfolio Performance

Data Through 03/31/2021

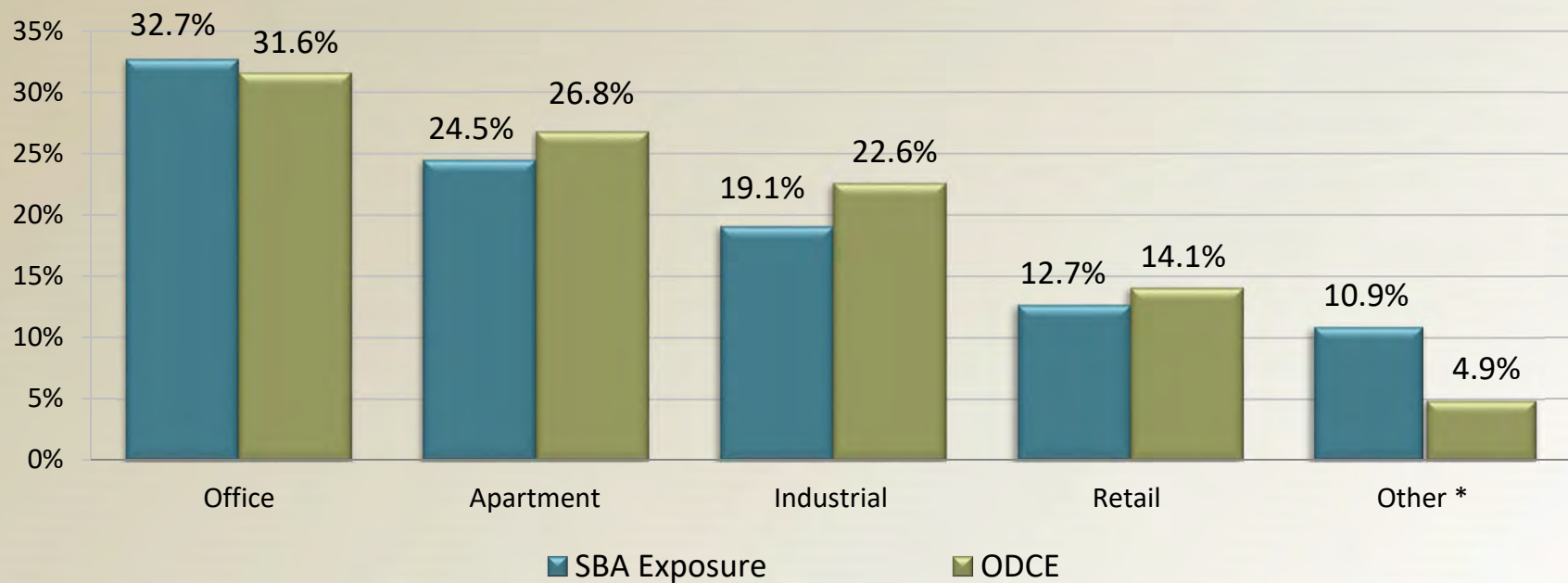


Source: The Townsend Group

Private Market Property Type Diversification

as of 03/31/2021

Target NFI-ODCE +/- 15%

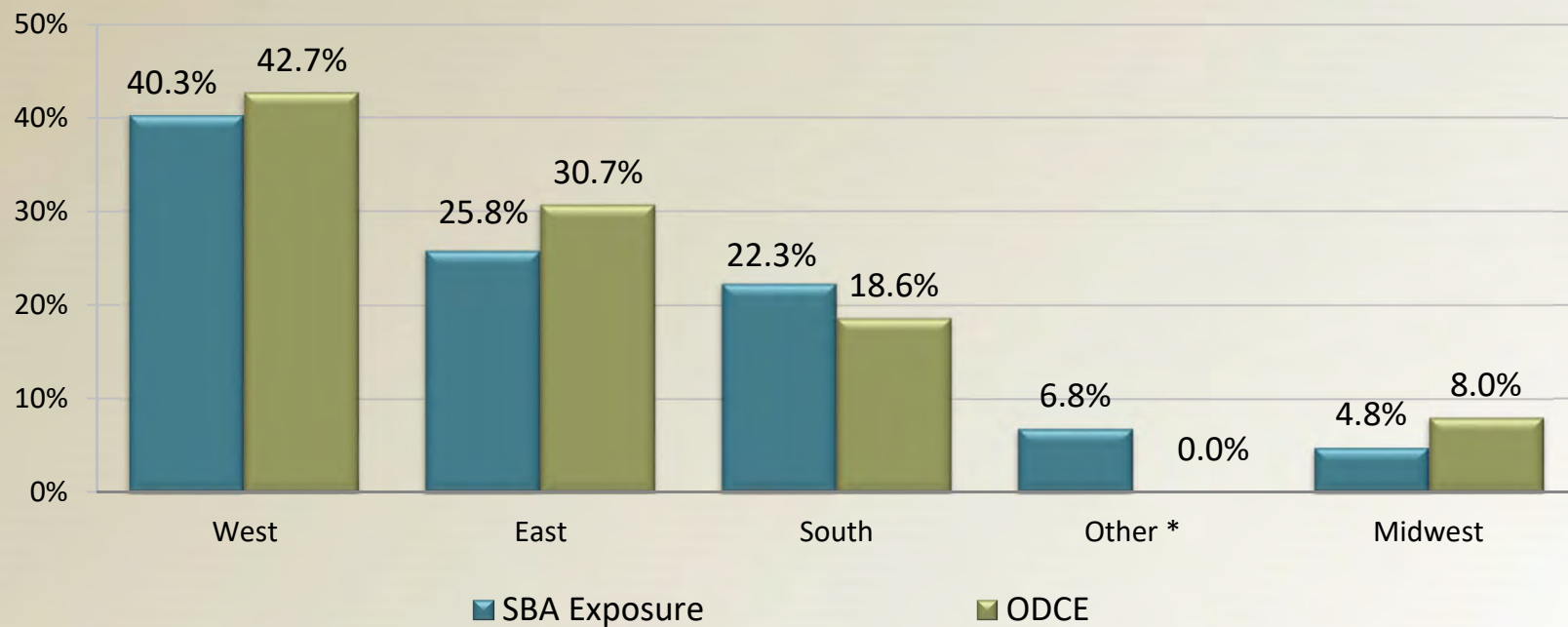


* Other includes Agriculture, Senior Housing, Self-Storage, Hotel, Land

Private Market Geographic Diversification

as of 03/31/2021

Target NFI-ODCE +/- 15%



* Other includes International Investments

Recent Activity

(Since Last IAC Report)

Principal Investments

Acquisitions (Price/Equity)

- Industrial (2)	\$227 million/\$159 million
- Manufactured Housing	\$187 million/\$122 million
- Medical Office	\$11 million/\$5 million

Dispositions (Price/Equity)

- Industrial	\$7 million/\$6 million

Externally Managed:

New Commitments

- Closed-end US fund focused on Alternatives	\$75 million
- Closed-end US fund focused on Alternatives	\$100 million
- Closed-end Asia focused fund	\$100 million

State Board of Administration

Strategic Investments Asset Class Review

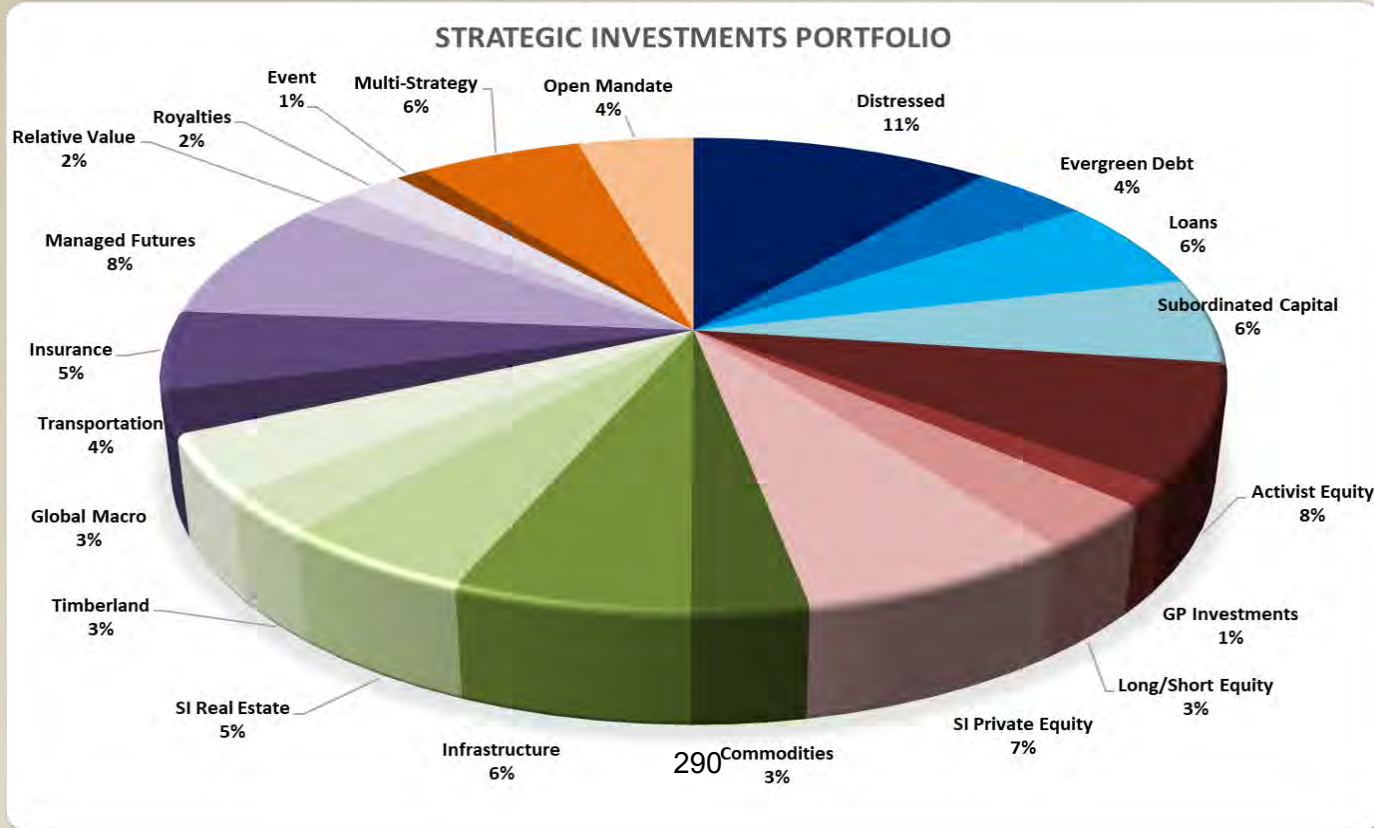
Trent Webster

Senior Investment Officer – Strategic Investments

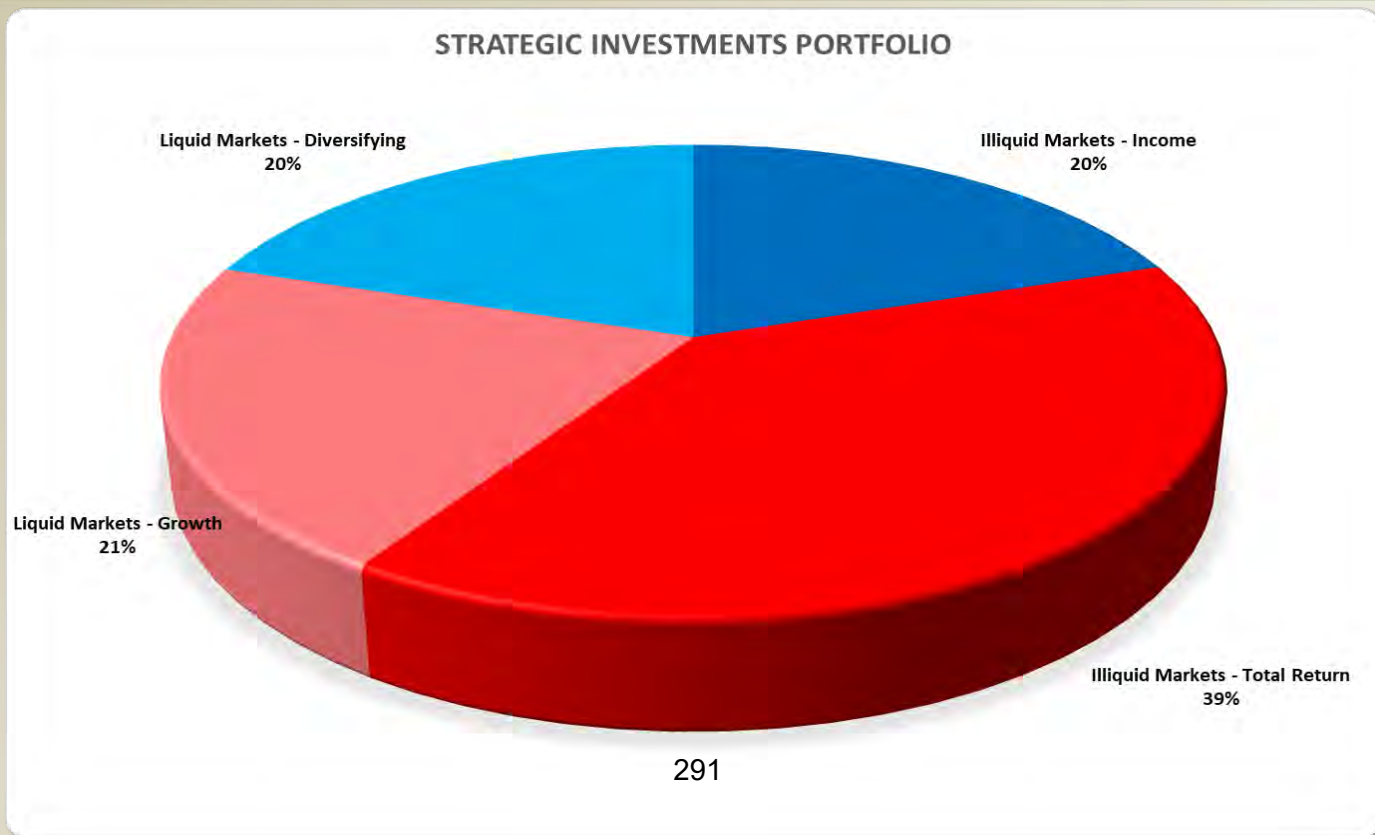
Investment Advisory Council Meeting

September 20, 2021

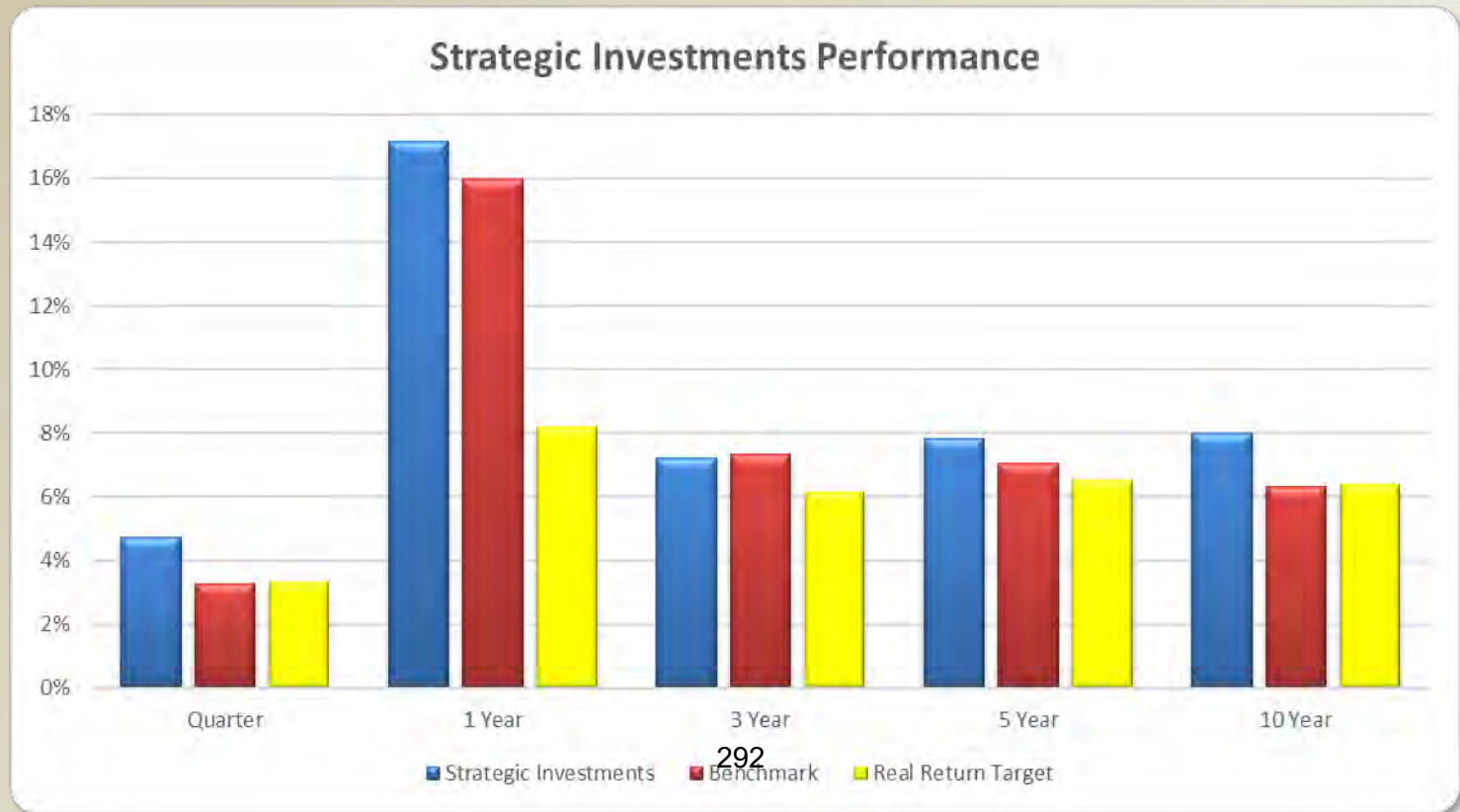
Portfolio



Portfolio



Performance



Recent Activity

- Quarterly cash inflow of \$94 million
- Fiscal year cash outflow of \$1.18 billion
- Five funds totaling \$950 million were closed in the most recent quarter
- Zero funds have closed this quarter
- Nine funds totaling \$1.575 billion are in the pipeline

Pipeline

- Five Debt funds – Three Loan, one Distressed, one Subordinated Capital
- Three Real Asset funds – One Infrastructure, one Real Estate, one Transportation
- One Flexible Mandates fund – Open Mandate
- Three new relationships
- Nine private markets strategies
- No hedge funds

Investment Themes

- Credit Markets
 - Rapid recovery, but
 - *A lot* of debt in the system
 - Will the Fed come to the rescue if there is a blip in the markets?
- Insurance markets hardening
- Opportunities in aircraft as leisure travel set to accelerate
- Activists in Japan
- Commodities boom coming

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State Board of Administration

Private Equity Asset Class Update

John Bradley, SIO Private Equity

Investment Advisory Council

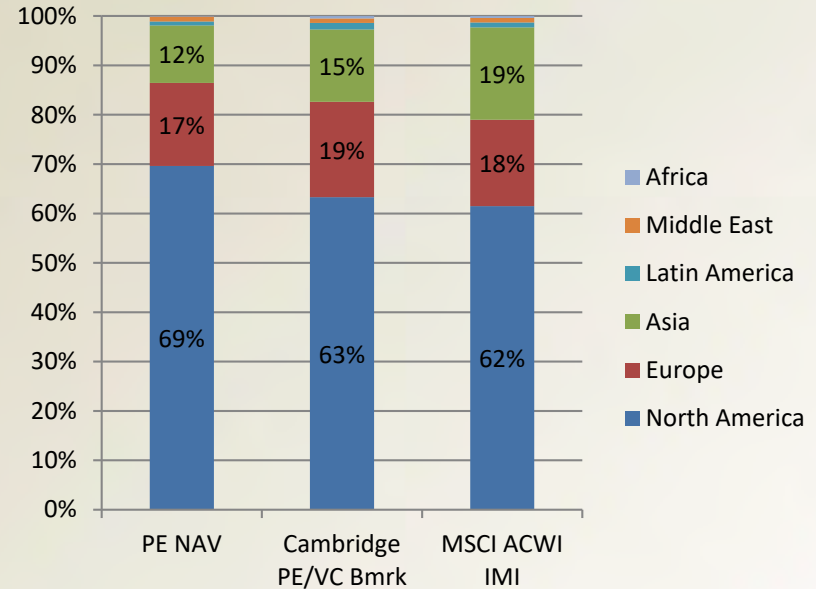
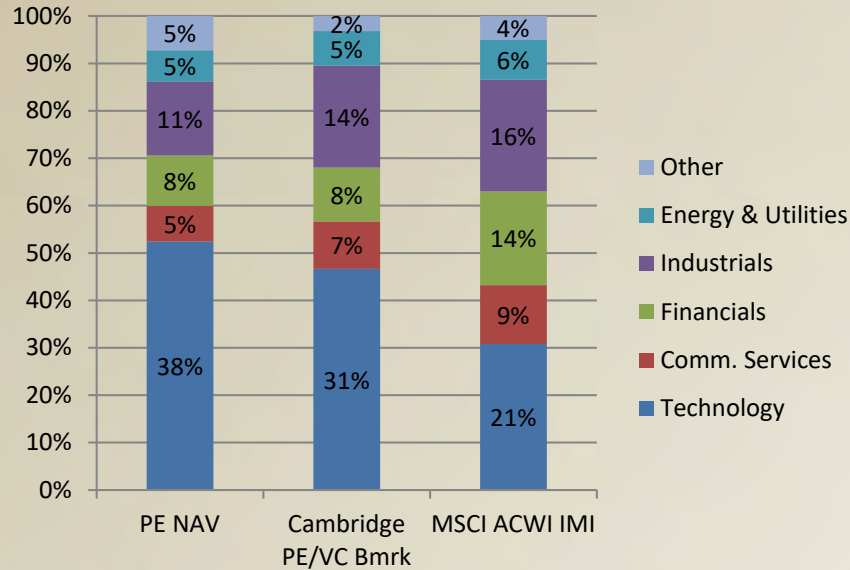
September 20, 2021

Market/Portfolio Update

- Market/Portfolio Update:
 - Market
 - PE activity continues to surge following the COVID decline in 2020. Deal flow, volume, exits and fundraisings are all reaching post GFC highs.
 - Venture-backed IPOs set a record in the 2nd quarter of 2021 with 44 IPOs raising \$20.8 billion
 - Portfolio
 - PE portfolio up 13.3% in Q1 2021; up 65.7% for the 1 year-ended 3/31/21
 - Venture capital portfolio continues its strong run, up 111.1% for the 1 year ended 3/31/21
 - 2021 net cash flow through 8/31/21: \$1.2 billion (60% or \$728 million from venture)

Sector and Geographic Exposure

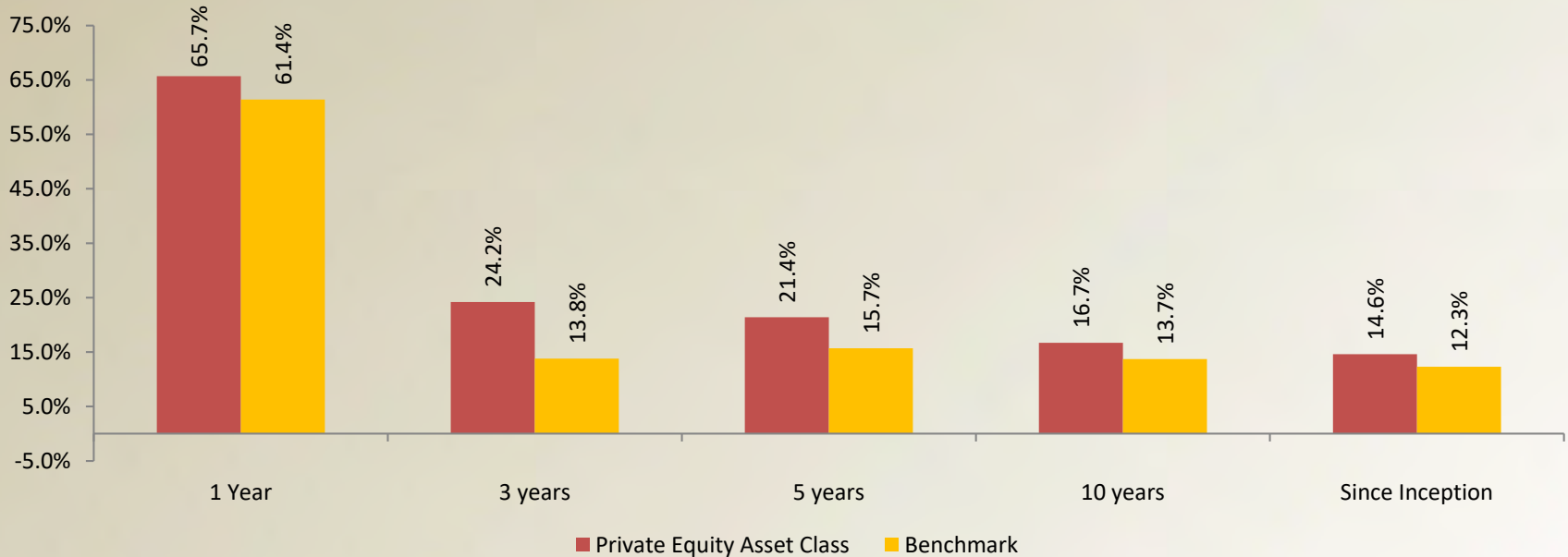
As of March 31, 2021



Source: Cambridge Associates

Private Equity Asset Class Performance

Asset Class - Net Managed and Benchmark Returns (IRRs) as of March 31, 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 March 31, 2021

	<u>1yr</u>	<u>3yr</u>	<u>5yr</u>	<u>10yr</u>	<u>Since Inception</u>	<u>Cambridge Median</u>
U.S. Buyouts	51.3%	19.2%	20.2%	15.8%	13.1%	12.5%
Non-U.S. Buyouts	56.7%	20.7%	20.0%	16.4%	13.7%	14.7%
U.S. Venture	111.1%	41.4%	27.4%	21.7%	17.6%	16.2%
U.S. Growth Equity	66.1%	24.8%	21.5%	18.3%	15.9%	16.5%
Non-U.S. Growth Equity	41.7%	18.1%	16.6%	11.8%	12.3%	15.0%
Distressed/Turnaround	49.0%	15.0%	15.9%	13.6%	19.6%	9.7%
Secondaries	36.4%	12.9%	14.2%	12.5%	15.7%	17.7%
Total PE Asset Class	65.7%	24.2%	21.4%	16.7%	14.6%	13.2%

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 \$1.2 billion to 12 funds through August 31, 2021
 - \$781 million to 6 buyout funds
 - Small 26%, Middle-Market 42%, Large 32%
 - \$175 million to 3 venture funds
 - \$200 million to 2 distressed funds
 - \$40 million to one secondary fund
 - Geographic Focus
 - US 62%, Europe 0%, Asia 17%, Global 21%

Appendix

Private Equity Aggregates

Dollar-Weighted Performance (IRRs) as of March 31, 2021

	<u>Inception Date</u>	<u>Market Value (in Millions)</u>	<u>1yr</u>	<u>3yr</u>	<u>5yr</u>	<u>10yr</u>	<u>Since Inception</u>
Total Private Equity	1/27/1989	\$17,935.2	65.7%	24.2%	21.3%	16.1%	11.0%
Custom Iran- and Sudan-free ACWI IMI +300bps			61.4%	13.8%	15.7%	13.7%	11.2%
Private Equity Legacy Portfolio	1/27/1989	\$2.6	0.0%	-4.2%	-4.8%	-15.6%	3.7%
Custom Iran- and Sudan-free ACWI IMI +300bps			60.1%	12.3%	15.7%	13.7%	12.4%
Private Equity Asset Class Portfolio	8/31/2000	\$17,932.6	65.7%	24.2%	21.4%	16.7%	14.6%
Custom Iran- and Sudan-free ACWI IMI +300bps			61.4%	13.8%	15.7%	13.7%	12.4%

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 June 30, 2021)

- **Assets:** **\$14.8 B (28.9% increase since June 30, 2020)**
 - 5.77% - 2nd Quarter 2021 Return
 - 9.22% - Calendar Year 2021 to Date Return
 - 28.40% - Fiscal Year (July 20 – June 21)
- **Members:** **261,385 (up 12.1% since June 30, 2020)**
 - Active – 180,836 (28% of active FRS membership)
 - Inactive – 80,549
- **Average Acct Balance:** **\$56,597 (8% increase since June 30, 2020)**
- **Average Age:** **46**
 - Males – 47 (35% of members)
 - Females – 45 (65% of members)
- **Average Yrs of Service:** **5 Years (active members)**
- **Retirees:** **162,529 (8% increase since June 30, 2020)**
- **Distributions:** **\$15.4 B**
 - Lump Sum Payouts – 40%
 - Rollovers ~~50~~60%

FRS Investment Plan Performance by Asset Class

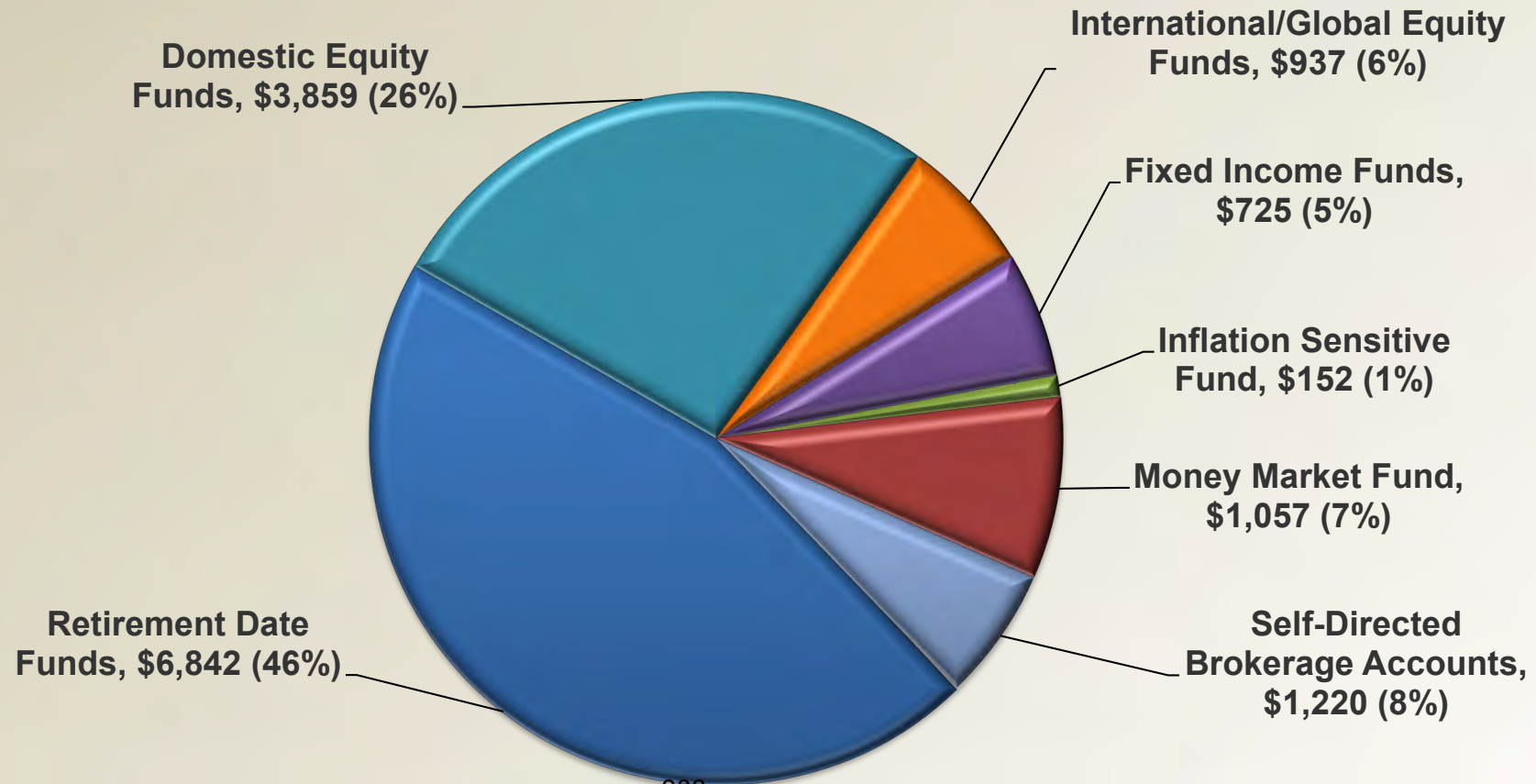
(as of June 30, 2021)

	QTD	FYTD	1 Yr	3 Yr	5 Yr	Incept.
Total Fund	5.77%	28.40%	28.40%	11.50%	11.48%	7.75%
Money Market	0.04%	0.20%	0.20%	1.46%	1.38%	1.52%
Multi-Assets	4.81%	16.58%	16.58%	5.36%	5.03%	2.44%
Fixed Income	2.11%	2.88%	2.88%	6.06%	4.05%	4.86%
Domestic Equities	8.25%	45.93%	45.93%	17.47%	17.67%	11.46%
Global & International Equities	6.15%	38.75%	38.75%	11.38%	12.80%	8.87%
Retirement Date Funds	5.54%	27.26%	27.26%	11.13%	10.98%	7.75%
Real Estate	5.23%	11.66%	11.66%	6.45%	n/a	6.60%
TF x RDFs	6.00%	29.52%	29.52%	11.85	11.93	8.26%

FRS Investment Plan AUM by Asset Class

(as of June 30, 2021 in \$ millions)

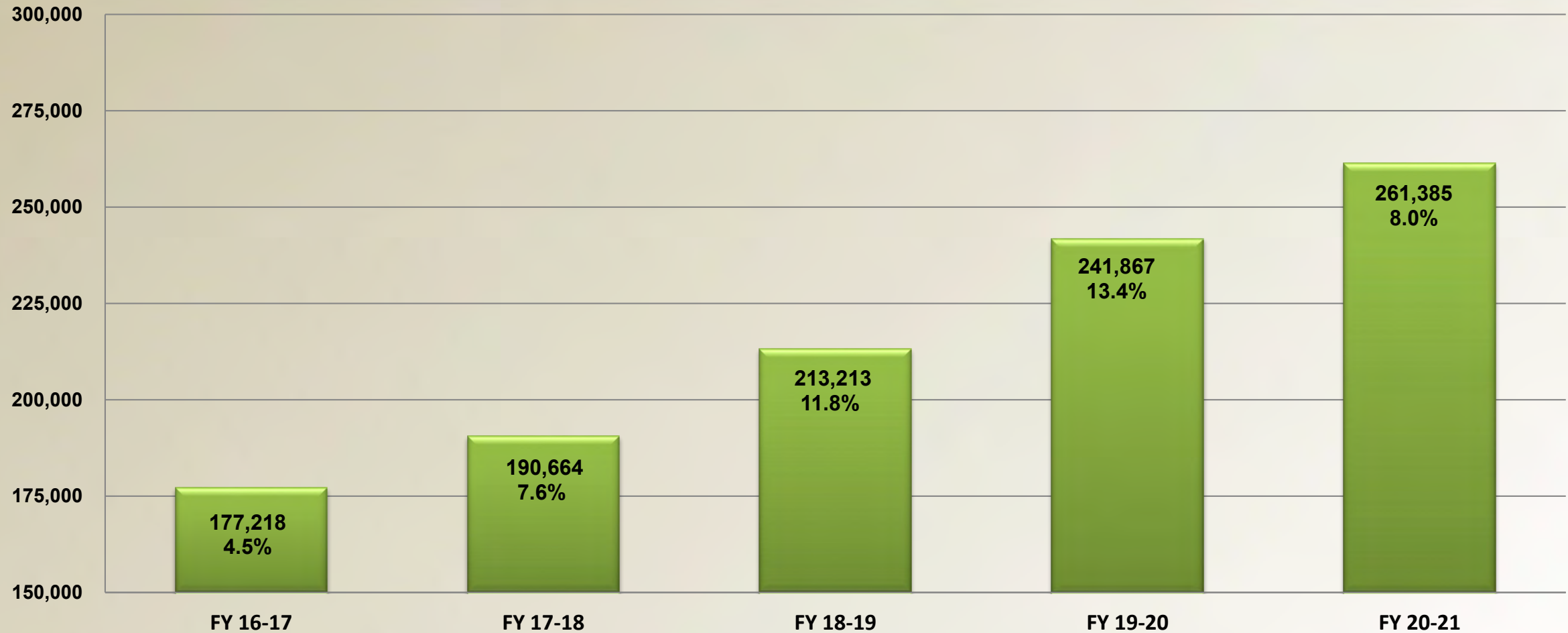
Total Assets: \$14.8 Billion



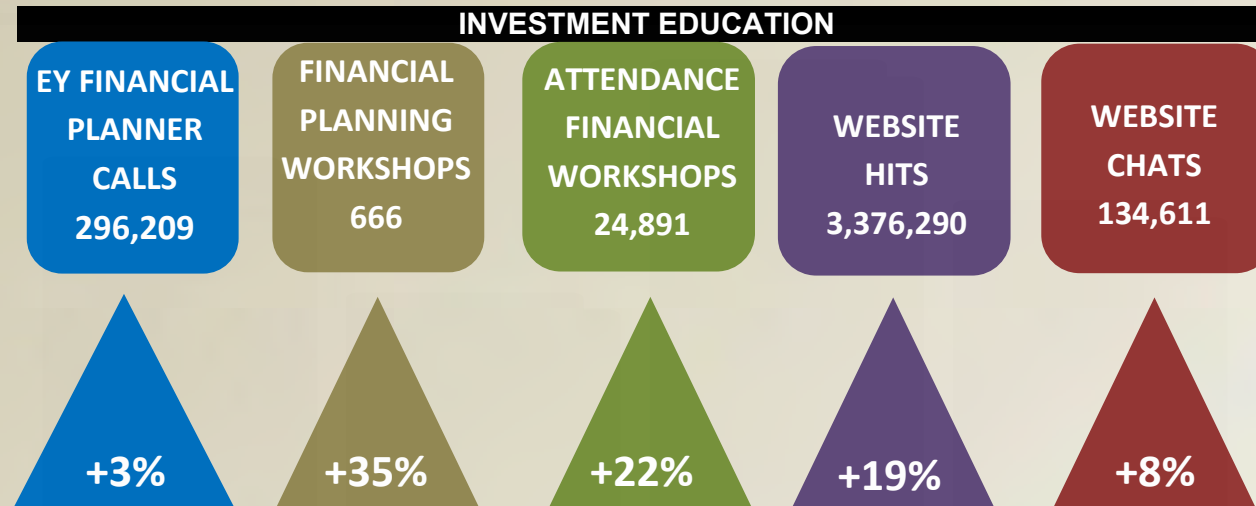
308
Asset allocation is a result of member investment selection

FRS Investment Plan Membership Growth

Percent Membership Growth Year to Year



MyFRS Financial Guidance Program (as of June 30, 2021)



(% change from previous 12 months)

22 Annuities purchased last 12 months (\$2.09 million)
171 Total Annuities purchased inception to date (\$21.8 million)

Questions?



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Investment Programs & Governance (IP&G)

Michael McCauley
Senior Officer

Investment Advisory Council Meeting – September 20, 2021

Corporate Governance/Proxy Voting Summary

- FY21 voting levels show slight decline in total number of meetings and vote count
- SEC approved NASDAQ Board Diversity Requirements
- Japanese Stock Listing Reforms



2021 Proxy Season

- The COVID-19 pandemic affected shareowner-voting activity for a second year in a row, with sustained use of virtual shareowner meetings by many companies.
- Governance resolutions declined marginally somewhat year-over-year and receive mixed average support levels depending on the type of proposal.
- New resolutions introduced on employee representation on boards and requests for companies to convert to a public benefit corporation or “PBC.”
- There were a record number of environmental and social (E&S) resolutions submitted, which represented the majority of all U.S. shareowner proposals. A record number of E&S proposals received majority support from the largest asset owners and managers.

Appendix

SBA Corporate Governance Statistics

Individual Meetings	10,174
Individual Ballots	27,611
Individual Proposals	98,796
Percent Votes "For"	80.3%
Percent Votes "Against" / "Withhold"	16.6%
Percent Votes Not Voted	1.1%
Percent Ballots Not Voted	0.8%
Proxy Paper ID	9,717
Issue Descriptions	282
Companies	7,967
Portfolios	73
Country of Origin	76
Percent Votes Against Management Recommendation	17.5%
Percent Votes in Favor of Directors	79.0%
Percent Votes in Favor of Auditors	98.7%
Percent Votes in Favor of Merger/Acquisition Items	95.2%
Percent Votes in Favor of Compensation Items	65.6%
Percent Votes in Favor of SHP Governance Issues	54.1%
Percent Votes in Favor of SHP Environmental Issues	31.1%

Top 10 Countries by # of Individual Meetings

Country of Origin	
United States	2,965
China	1,523
Japan	893
United Kingdom	365
India	330

Select a Measure

of Individual Meetings

Top N Countries

10

Proxy Voting Summary

Issue Code Category	For		Against & Withhold		Abstain		Other Votes	
	Individ..	% of To..	Individ..	% of To..	Individ..	% of To..	Individ..	% of To..
Audit/Financials	14,867	95.1%	472	3.0%	121	0.8%	172	1.1%
Board Related	40,571	79.6%	9,135	17.9%	898	1.8%	394	0.8%
Capital Management	6,337	76.8%	1,714	20.8%	90	1.1%	112	1.4%
Changes to Company Statutes	3,936	84.3%	365	7.8%	333	7.1%	33	0.7%
Compensation	7,733	65.6%	3,643	30.9%	26	0.2%	395	3.3%
M&A	1,148	95.3%	31	2.6%	14	1.2%	12	1.0%
Meeting Administration	2,362	84.0%	298	10.6%	20	0.7%	132	4.7%
Other	1,940	77.8%	391	15.7%	155	6.2%	8	0.3%
SHP: Compensation	17	39.5%	24	55.8%	2	4.7%		
SHP: Environment	33	31.1%	63	59.4%	1	0.9%	9	8.5%
SHP: Governance	338	54.1%	174	27.8%	35	5.6%	78	12.5%
SHP: Misc	2	33.3%	1	16.7%			3	50.0%
SHP: Social	91	57.6%	63	39.9%	1	0.6%	3	1.9%
Grand Total	79,375	80.3%	16,374	16.6%	1,696	1.7%	1,351	1.4%

Vote Decision

- ☒ Null
- ☒ 1 Year
- ☒ 3 Years
- ☒ Abstain
- ☒ Against
- ☒ For
- ☒ Mixed
- ☒ Take No Action
- ☒ Unvoted
- ☒ Withhold

Meeting Date

7/1/2020 to 6/30/2021

Fiscal Year

- ☒ FY 2017
- ☒ FY 2018
- ☒ FY 2019
- ☒ FY 2020
- ☒ FY 2021

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 2017	FY 2018	FY 2019	FY 2020	FY 2021
% Difference in Proxies from the Previous FY		5.70%	3.55%	-9.12%	-3.00%
% Difference in Individual Meetings from the Previous FY		4.61%	3.25%	-8.73%	-2.29%
% Difference in Individual Proposals from the Previous FY		0.36%	5.09%	-5.60%	-2.95%
% Difference in Votes in Favor of Directors from the Previous FY		-0.87%	-0.28%	2.39%	-0.58%
% Difference in Votes in Favor of Auditors from the Previous FY		0.23%	0.31%	0.23%	-0.02%
% Difference in Votes in Favor of Merger/Acquisition Items from the Previous FY		-10.33%	15.94%	-1.42%	0.40%
% Difference in Votes in Favor of Compensation Items from the Previous FY		7.95%	0.05%	1.31%	-1.45%
% Difference in Votes in Favor of SHP Governance Issues from the Previous FY		42.82%	2.19%	-8.70%	13.21%
% Difference in Votes in Favor of SHP Environmental Issues from the Previous FY		-7.81%	-20.83%	-9.34%	-14.15%
% Difference in Votes in Favor of SHP Social Issues from the Previous FY		70.24%	26.07%	0.22%	-5.91%
% Difference in Votes in Favor of All SHP Issues from the Previous FY		40.21%	4.57%	-5.86%	3.38%
% Difference in Votes "For" from the Previous FY		1.76%	-0.39%	1.97%	0.16%
% Difference in Votes "Against" / "Withhold" from the Previous FY		-0.64%	-1.61%	-6.07%	-3.43%

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State Board of Administration of Florida

Major Mandate Review Second Quarter 2021

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1. Executive Summary
2. Pension Plan Review
3. Investment Plan Review
4. CAT Fund Review
5. Lawton Chiles Endowment Fund Review
6. Florida PRIME Review
7. Appendix

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Executive Summary

- The major mandates each produced generally strong returns relative to their respective benchmarks over both short- and long-term time periods ending June 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 Lawton Chiles Endowment Fund outperformed its 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

- The Pension Plan assets totaled \$199.6 billion as of June 30, 2021, which represents a \$11.0 billion 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.

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FRS Pension Plan Change in Market Value Periods Ending 6/30/2021

Summary of Cash Flows		
	Second Quarter	Fiscal YTD*
Beginning Market Value	\$188,580,636,479	\$160,714,203,703
+/- Net Contributions/(Withdrawals)	\$(1,828,420,748)	\$(7,536,029,498)
Investment Earnings	\$12,848,282,655	\$46,422,324,180
= Ending Market Value	\$199,600,498,385	\$199,600,498,385
Net Change	\$11,019,861,906	\$38,886,294,682

*Period July 2020 – June 2021

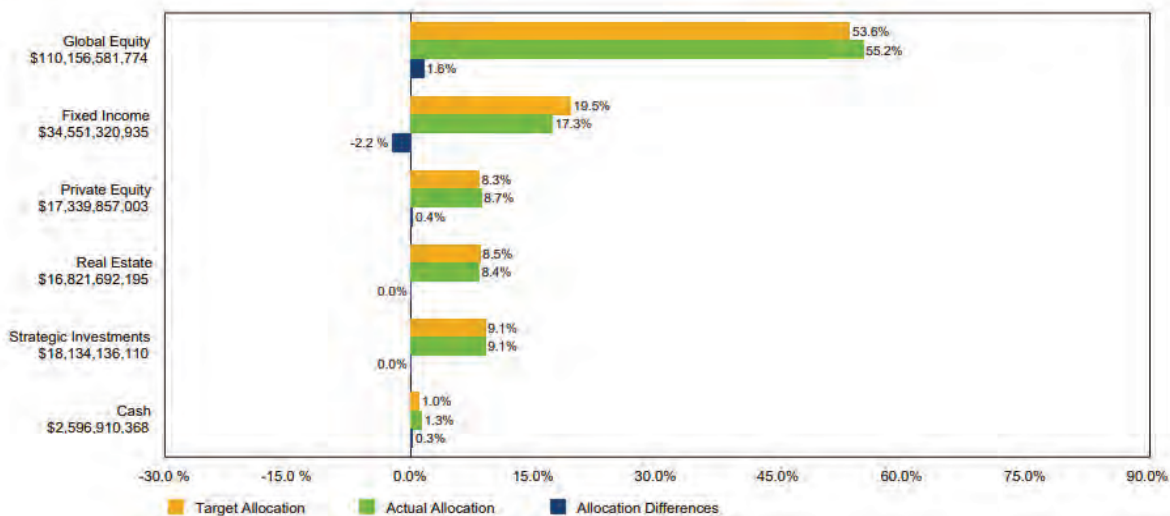
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Asset Allocation as of 6/30/2021

Total Fund Assets = \$199.6 Billion

	Market Value (\$)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	199,600,498,385	100.0	100.0		
Global Equity	110,156,581,774	55.2	53.6	45.0	70.0
Fixed Income	34,551,320,935	17.3	19.5	10.0	26.0
Private Equity	17,339,857,003	8.7	8.3	2.0	9.0
Real Estate	16,821,692,195	8.4	8.5	4.0	16.0
Strategic Investments	18,134,136,110	9.1	9.1	0.0	16.0
Cash	2,596,910,368	1.3	1.0	0.3	5.0



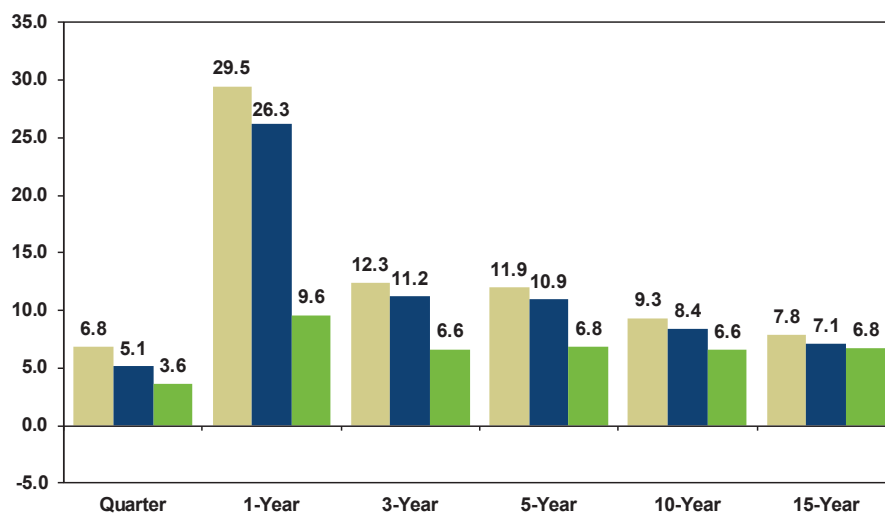
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FRS Pension Plan Investment Results

Periods Ending 6/30/2021

■ Total FRS Pension Plan ■ Performance Benchmark ■ Absolute Nominal Target Rate of Return

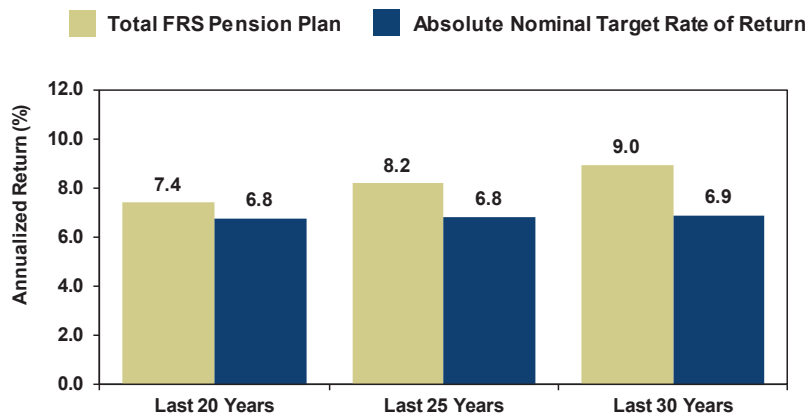


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FRS Pension Plan Investment Results Periods Ending 6/30/2021

Long-Term FRS Pension Plan Performance Results vs. SBA's Long-Term Investment Objective

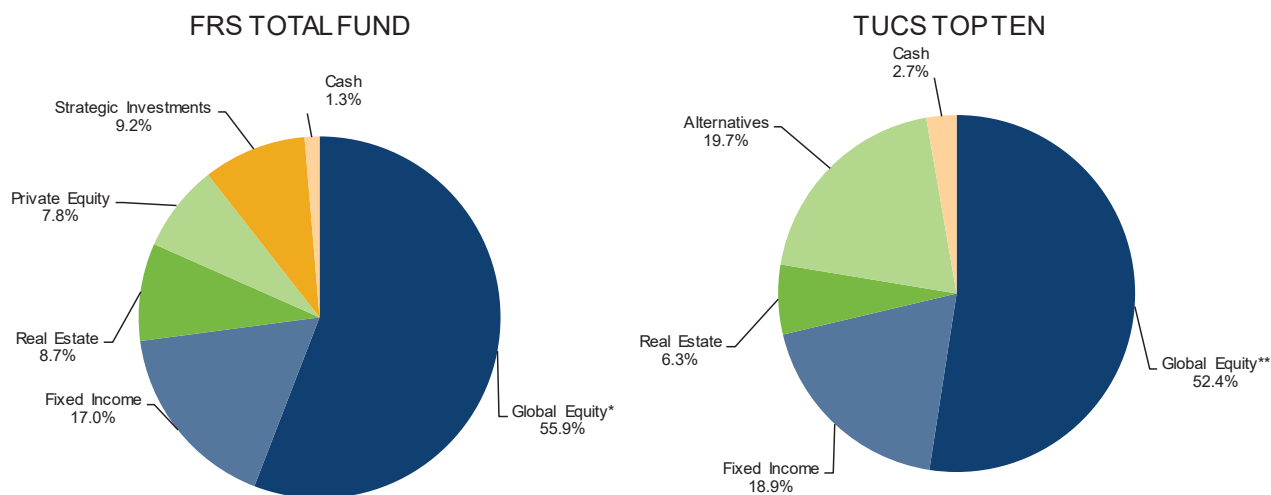


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Comparison of Asset Allocation (TUCS Top Ten) As of 3/31/2021

FRS Pension Plan vs. Top Ten Defined Benefit Plans



*Global Equity Allocation: 27.5% Domestic Equities; 21.3% Foreign Equities; 6.1% Global Equities; 1.0% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.

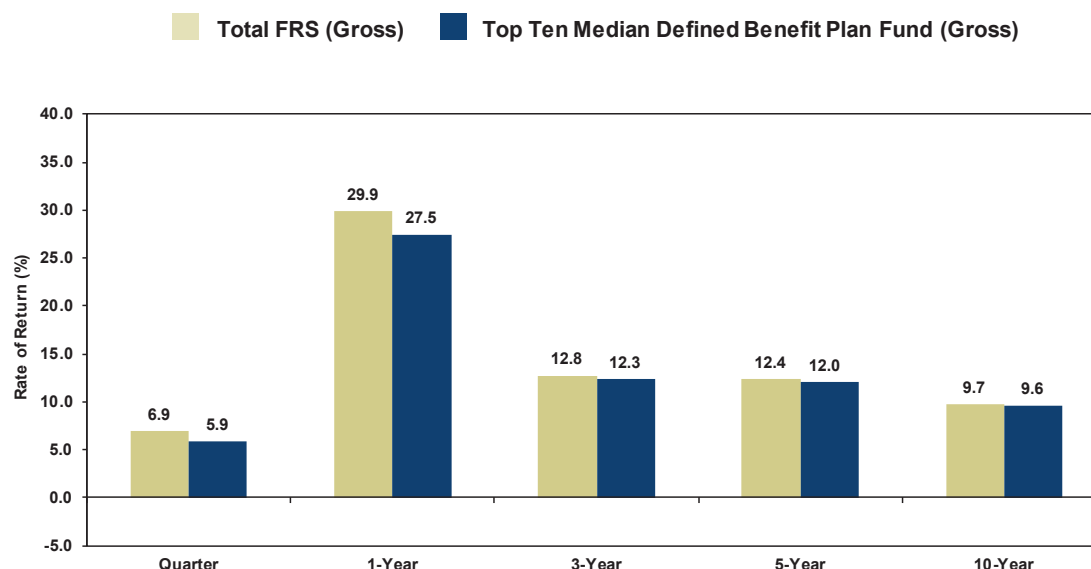
**Global Equity Allocation: 31.3% Domestic Equities; 21.1% Foreign Equities.

Note: The TUCS Top Ten Universe includes \$1,915.5 billion in total assets. The median fund size was \$180.5 billion and the average fund size was \$191.6 billion.
Note: Due to rounding, percentage totals displayed may not sum perfectly.

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FRS Results Relative to TUCS Top Ten Defined Benefit Plans Periods Ending 6/30/2021

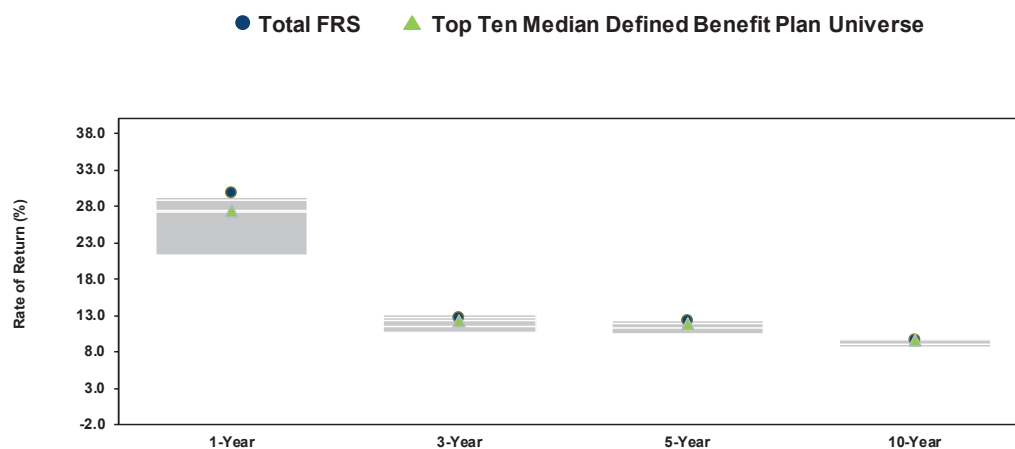


Note: The TUCS Top Ten Universe includes \$2,018.9 billion in total assets. The median fund size was \$193.1 billion and the average fund size was \$201.9 billion.

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Top Ten Defined Benefit Plans FRS Universe Comparison (TUCS) Periods Ending 6/30/2021



FRS Percentile Ranking 1 25 5 37

Note: The TUCS Top Ten Universe includes \$2,018.9 billion in total assets. The median fund size was \$193.1 billion and the average fund size was \$201.9 billion.

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Investment Plan: Executive Summary

- 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.

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Total Investment Plan Returns & Cost

Periods Ending 6/30/2021*

	One-Year	Three-Year	Five-Year	Ten-Year
FRS Investment Plan	28.4%	11.5%	11.5%	8.5%
<i>Total Plan Aggregate Benchmark**</i>	<i>27.3%</i>	<i>11.0%</i>	<i>10.9%</i>	<i>8.1%</i>
FRS Investment Plan vs. Total Plan Aggregate Benchmark	1.1	0.5	0.6	0.4

Periods Ending 12/31/2019***

	Five-Year Average Return****	Five-Year Net Value Added	Expense Ratio
FRS Investment Plan	7.1%	0.2%	0.32%*****
<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.

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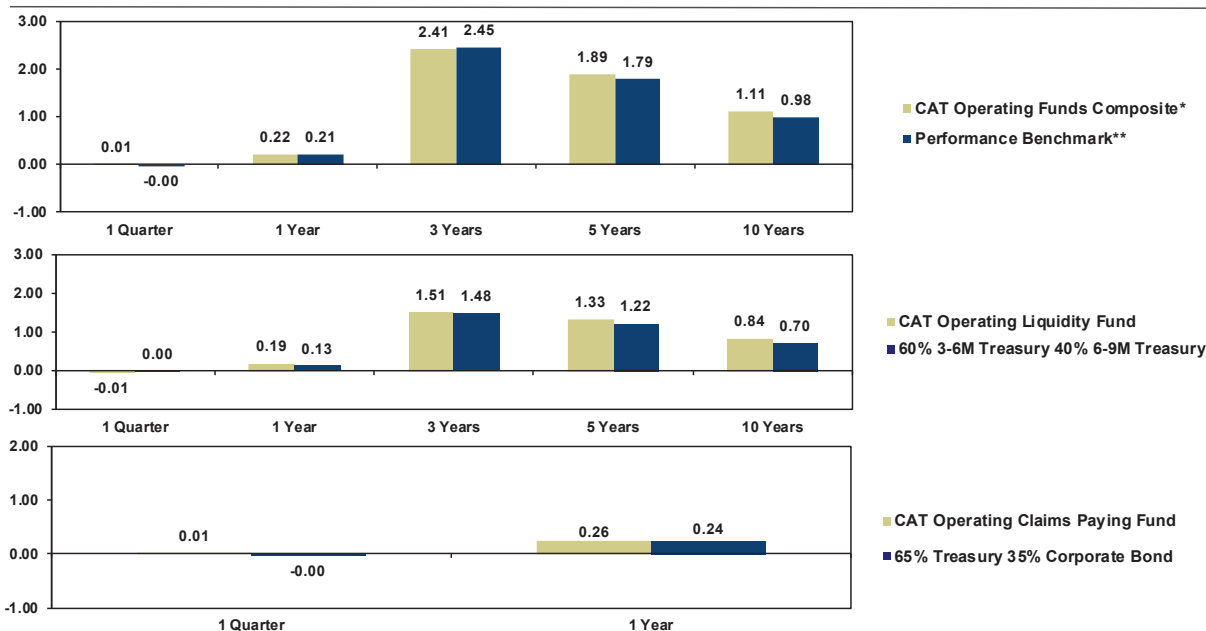
CAT Fund: Executive Summary

- 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.

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CAT Operating Funds Investment Results Periods Ending 6/30/2021



*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.

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Lawton Chiles Endowment Fund: Executive Summary

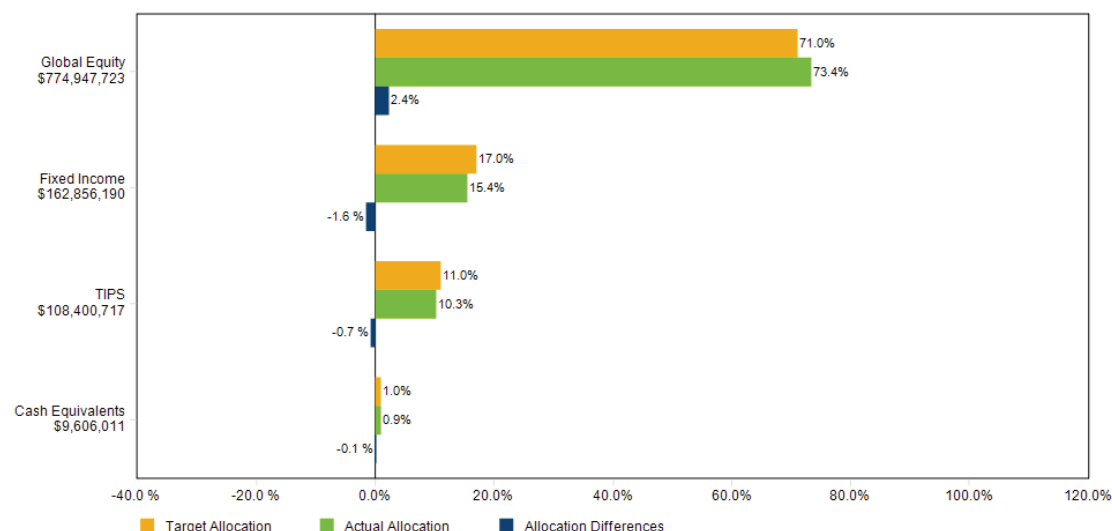
- Established in July 1999, the Lawton Chiles Endowment Fund (LCEF) was created to provide a source of funding for child health and welfare programs, elder programs and research related to tobacco use.
 - The investment objective is to preserve the real value of the net contributed principal and provide annual cash flows for appropriation.
 - The Endowment's investments are diversified across various asset classes including global equity, fixed income, inflation-indexed bonds (TIPS) and cash.
- The Endowment assets totaled \$1.1 billion as of June 30, 2021.
- The Endowment's return outperformed its Target over the trailing quarter, one-, three-, five-, and ten-year time periods.

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Asset Allocation as of 6/30/2021 Total LCEF Assets = \$1.1 Billion

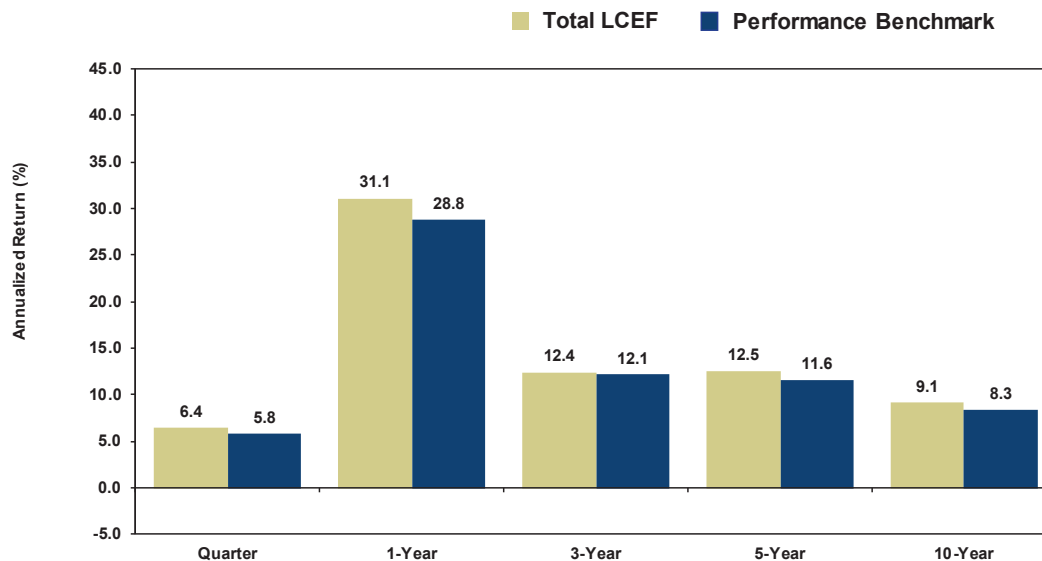
	Market Value (\$)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
LCEF Total Fund	1,055,810,641	100.0	100.0		
Global Equity	774,947,723	73.4	71.0	61.0	81.0
Fixed Income	162,856,190	15.4	17.0	12.0	22.0
TIPS	108,400,717	10.3	11.0	6.0	16.0
Cash Equivalents	9,606,011	0.9	1.0	0.0	10.0



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LCEF Investment Results Periods Ending 6/30/2021



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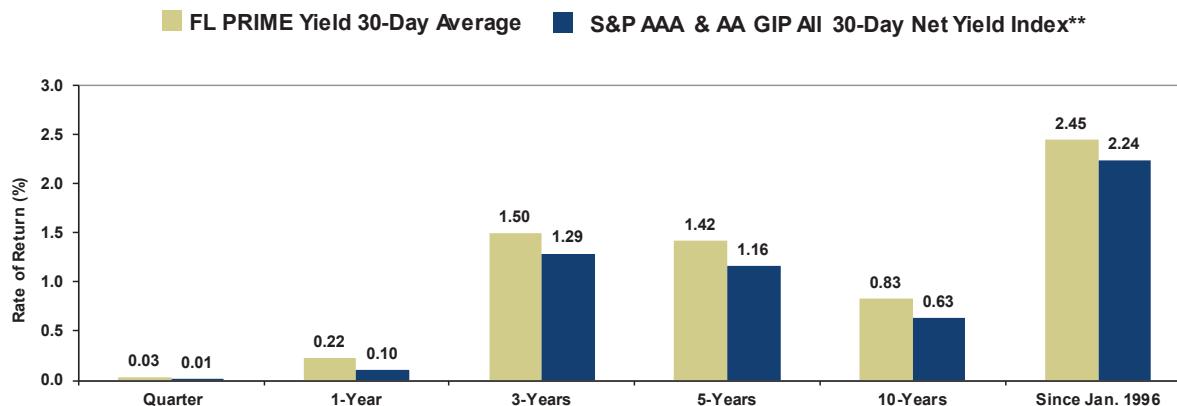
Florida PRIME: Executive Summary

- 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 June 30, 2021, the total market value of Florida PRIME was \$17.4 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.

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Florida PRIME Investment Results Periods Ending 6/30/2021



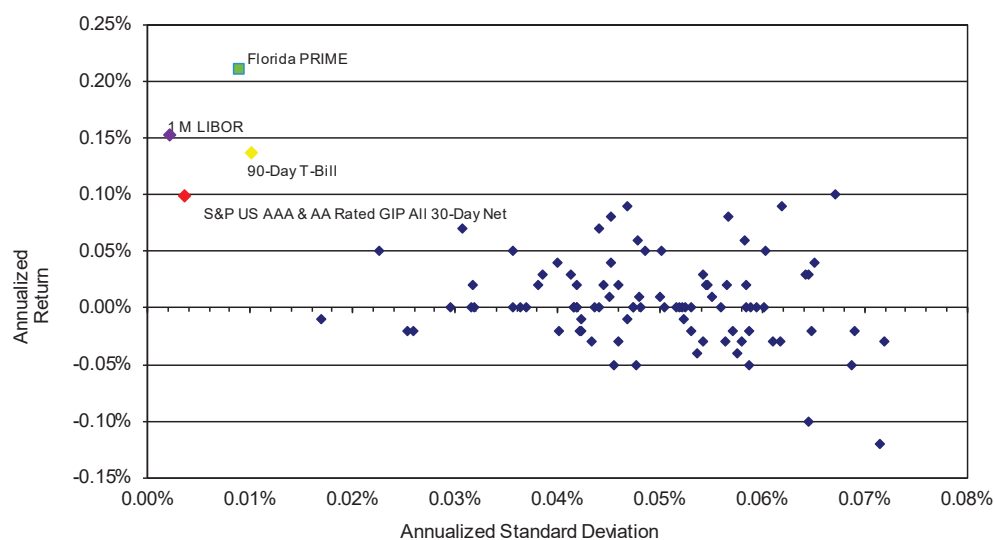
*Returns less than one year are not annualized.

**S&P AAA & AA GIP All 30-Day Net Yield Index for all time periods shown.

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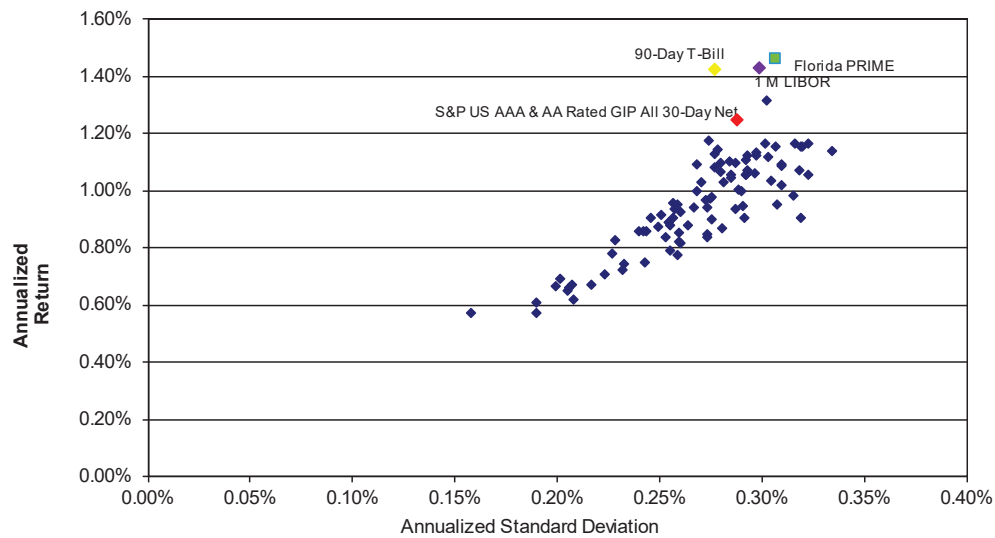
Florida PRIME Risk vs. Return 1 Years Ending 6/30/2021



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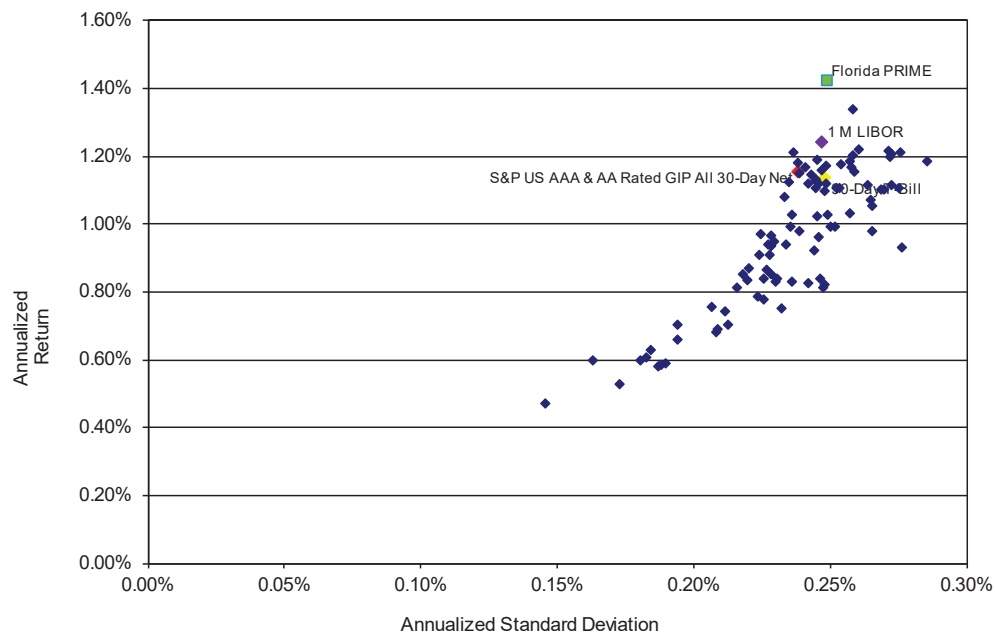
Florida PRIME Risk vs. Return 3 Years Ending 6/30/2021



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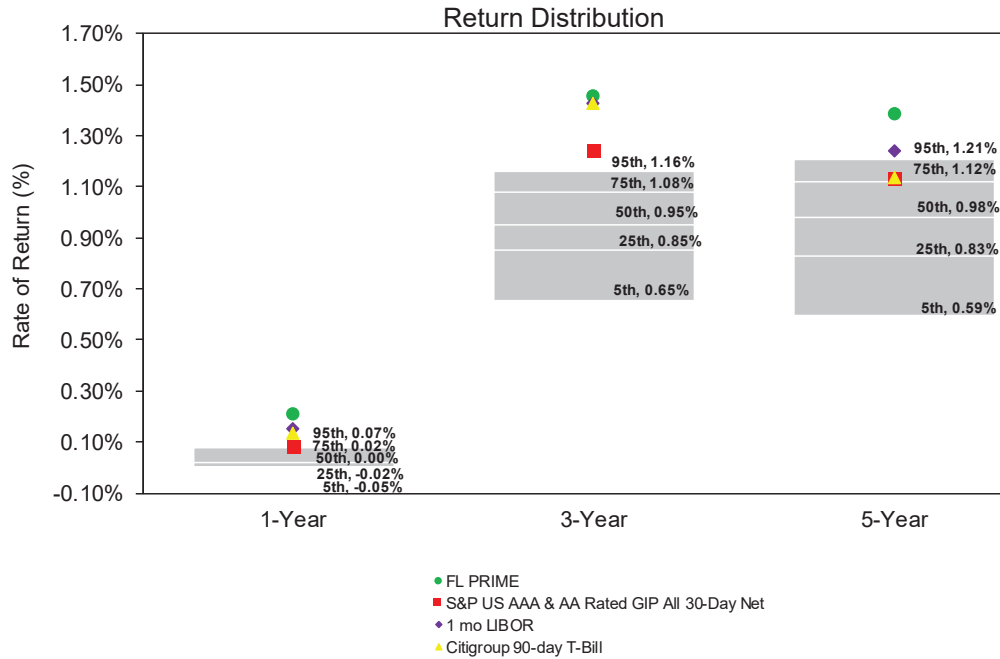
Florida PRIME Risk vs. Return 5 Years Ending 6/30/2021



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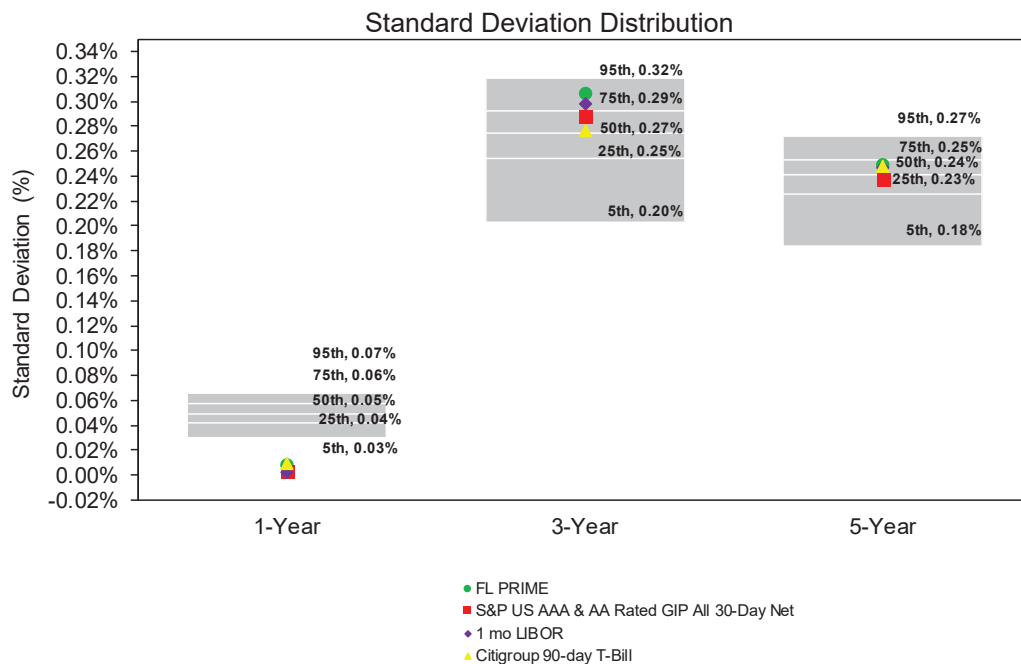
Return Distribution Periods Ending 6/30/2021



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Standard Deviation Distribution Periods Ending 6/30/2021



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Appendix

FRS Investment Plan Costs

Investment Category	Investment Plan Fee*	Average Mutual Fund Fee**
Domestic Equity	0.16%	0.87%
International Equity	0.32%	0.95%
Diversified Bonds	0.14%	0.45%
Target Date	0.14%	0.45%
Money Market	0.06%	0.24%
Inflation Protected Securities	0.36%	0.35%

*Average fee of multiple products in category as of 6/30/2021.

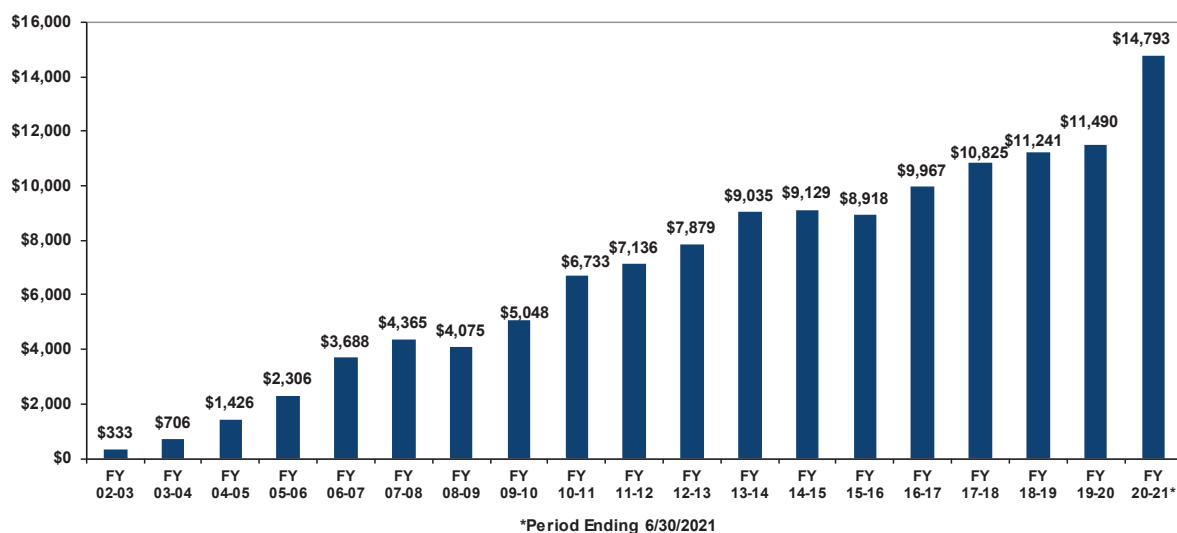
**Source: Aon's annual mutual fund expense analysis as of 12/31/2020.

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Investment Plan Fiscal Year End Assets Under Management

By Fiscal Year (\$ millions)

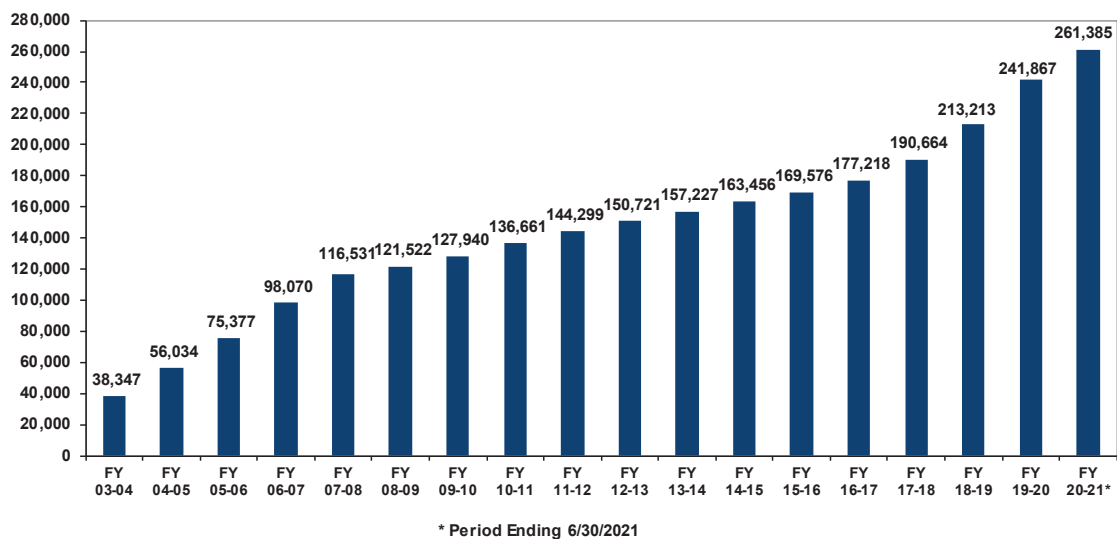


Source: Investment Plan Administrator

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Investment Plan Membership



Source: Investment Plan Administrator

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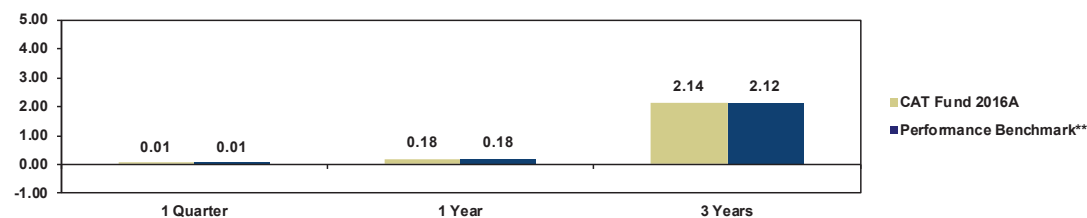
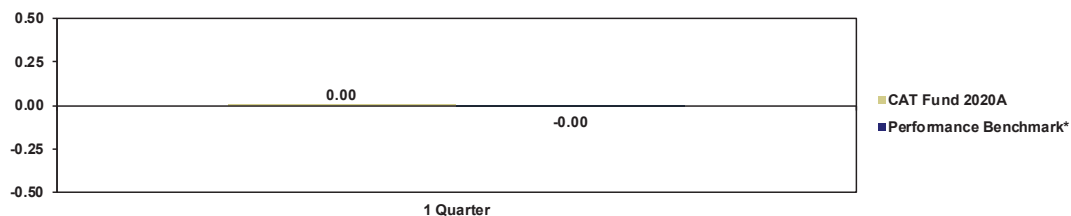
Florida Hurricane Catastrophe Funds Background and Details

- 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 with CAT 2016 A Fund and CAT 2020 A Fund are internally managed portfolios.
 - CAT 2013 A Fund was liquidated during 4Q 2020
- As of June 30, 2021, the total value of:
 - The CAT Operating Funds was \$12.5 billion
 - The CAT 2016 A Fund was \$0.04 billion
 - The CAT 2020 A Fund was \$3.5 billion
- History of the CAT Funds Benchmarks: *The CAT Operating Funds were benchmarked to the IBC First Tier through February 2008. From March 2008 to December 2009, it was the Merrill Lynch 1-Month LIBOR. From January 2010 to June 2010, it was a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Gross Index. From July 2010 to September 2014, it was a blend of the average of the 3-Month Treasury Bill rate and the iMoneyNet First Tier Institutional Money Market Funds Net Index. Effective October 2014, it is a blend of the average of the Merrill Lynch 1-Yr U.S. Treasury Bill Index and the iMoneyNet First Tier Institutional Money Market Funds Net Index. 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. 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 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.*

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CAT 2020 A and 2016 A Funds Investment Results Periods Ending 6/30/2021



*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.

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CAT Operating Funds Characteristics Period Ending 6/30/2021

Maturity Analysis	
1 to 30 Days	0.42%
31 to 60 Days	0.00
61 to 90 Days	1.59
91 to 120 Days	6.42
121 to 150 Days	3.41
151 to 180 Days	4.86
181 to 270 Days	8.36
271 to 365 Days	4.85
366 to 455 Days	5.69
>= 456 Days	64.40
Total % of Portfolio:	100.00%

Bond Rating Analysis	
AAA	68.29%
AA	20.97
A	10.74
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

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CAT 2020 A Fund Characteristics

Period Ending 6/30/2021

Maturity Analysis	
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	0.43
271 to 365 Days	1.15
366 to 455 Days	6.71
>= 456 Days	91.68
Total % of Portfolio:	100.00%

Bond Rating Analysis	
AAA	56.72%
AA	27.49
A	15.79
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

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CAT 2016 A Fund Characteristics

Period Ending 6/30/2021

Maturity Analysis	
1 to 30 Days	100.00%
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	0.00
366 to 455 Days	0.00
>= 456 Days	0.00
Total % of Portfolio:	100.00%

Bond Rating Analysis	
AAA	100.00%
AA	0.00
A	0.00
Baa	0.00
Other	0.00
Total % of Portfolio	100.00%

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Florida PRIME Characteristics Quarter Ending 6/30/2021

Cash Flows as of 6/30/2021	Second Quarter	Fiscal YTD*
Opening Balance	\$18,705,825,286	\$15,158,791,358
Participant Deposits	\$4,965,103,750	\$27,843,433,600
Gross Earnings	\$6,404,945	\$39,622,120
Participant Withdrawals	(\$6,234,206,888)	(\$25,594,930,513)
Fees	(\$1,428,672)	(\$8,837,517)
Closing Balance (3/31/2021)	\$17,441,698,421	\$17,441,698,421
Change	(\$1,264,126,865)	\$2,282,907,063

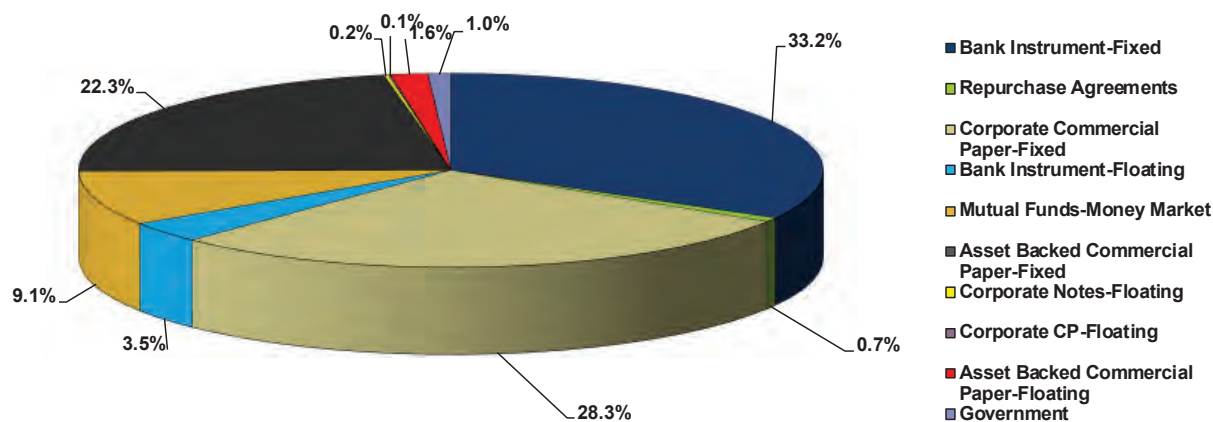
*Period July 2020 – June 2021

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Florida PRIME Characteristics Quarter Ending 6/30/2021

Portfolio Composition



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Florida PRIME Characteristics Period Ending 6/30/2021

Effective Maturity Schedule	
1-7 Days	43.5%
8 - 30 Days	10.6%
31 - 90 Days	29.9%
91 - 180 Days	8.3%
181+ Days	7.7%
Total % of Portfolio:	100.0%

S & P Credit Quality Composition	
A-1+	63.1%
A-1	36.9%
Total % of Portfolio:	100.0%

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FRS Pension Plan | Second Quarter 2021

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.bcvportal.com/category/videos/key-topics-by-investor-type>)



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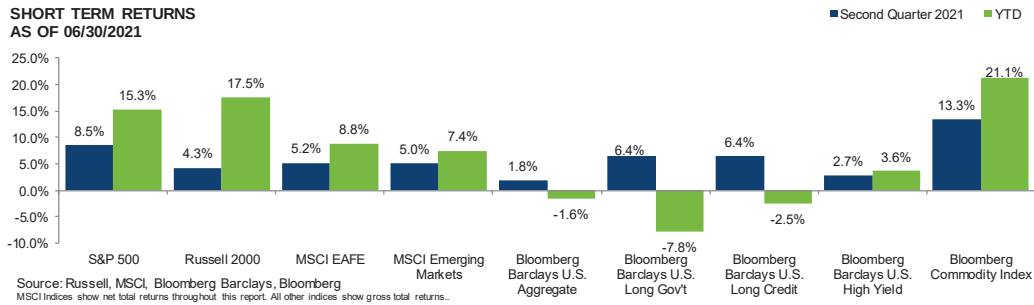
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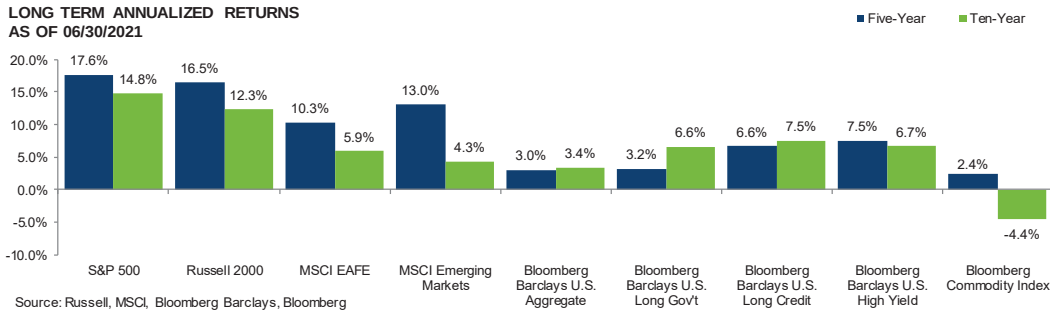
Market Environment

Market Highlights

SHORT TERM RETURNS AS OF 06/30/2021



LONG TERM ANNUALIZED RETURNS AS OF 06/30/2021



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Market Highlights

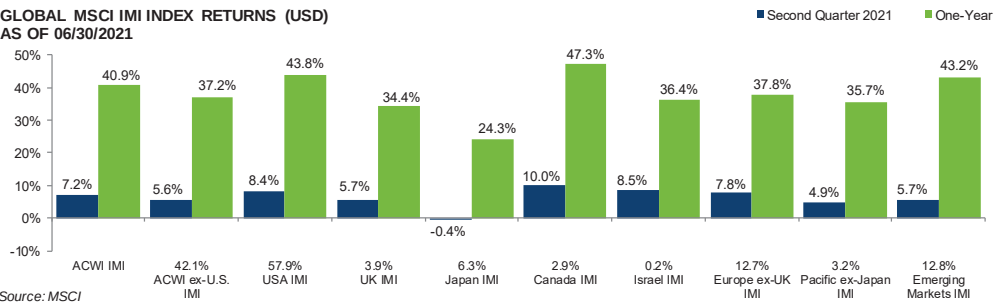
Returns of the Major Capital Markets						
	Second Quarter	YTD	1-Year	3-Year ¹	5-Year ¹	10-Year ¹
Equity						
MSCI All Country World IMI	7.18%	12.68%	40.94%	14.24%	14.55%	9.90%
MSCI All Country World	7.39%	12.30%	39.26%	14.57%	14.61%	9.90%
Dow Jones U.S. Total Stock Market	8.29%	15.27%	44.29%	18.69%	17.86%	14.66%
Russell 3000	8.24%	15.11%	44.16%	18.73%	17.89%	14.70%
S&P 500	8.55%	15.25%	40.79%	18.67%	17.65%	14.84%
Russell 2000	4.29%	17.54%	62.03%	13.52%	16.47%	12.34%
MSCI All Country World ex-U.S. IMI	5.60%	9.58%	37.18%	9.42%	11.20%	5.65%
MSCI All Country World ex-U.S.	5.48%	9.16%	35.72%	9.38%	11.08%	5.45%
MSCI EAFE	5.17%	8.83%	32.35%	8.27%	10.28%	5.89%
MSCI EAFE (Local Currency)	4.79%	12.75%	27.08%	7.53%	10.01%	8.09%
MSCI Emerging Markets	5.05%	7.45%	40.90%	11.27%	13.03%	4.28%
Equity Factors						
MSCI World Minimum Volatility (USD)	5.96%	7.43%	19.13%	10.68%	9.13%	10.33%
MSCI World High Dividend Yield	4.41%	11.08%	28.42%	10.21%	9.73%	8.86%
MSCI World Quality	10.85%	14.17%	37.98%	21.00%	19.04%	14.53%
MSCI World Momentum	6.95%	7.46%	32.26%	17.52%	18.05%	14.52%
MSCI World Enhanced Value	2.78%	16.85%	38.41%	6.51%	10.42%	7.26%
MSCI World Equal Weighted	5.78%	12.39%	40.50%	10.90%	12.62%	9.17%
MSCI World Index Growth	10.95%	11.27%	40.00%	21.54%	19.94%	13.89%
Fixed Income						
Bloomberg Barclays Global Aggregate	1.31%	-3.21%	2.63%	4.23%	2.34%	2.05%
Bloomberg Barclays U.S. Aggregate	1.83%	-1.60%	-0.33%	5.34%	3.03%	3.39%
Bloomberg Barclays U.S. Long Gov't	6.43%	-7.82%	-10.42%	7.97%	3.18%	6.62%
Bloomberg Barclays U.S. Long Credit	6.45%	-2.49%	4.32%	10.73%	6.85%	7.55%
Bloomberg Barclays U.S. Long Gov't/Credit	6.44%	-4.64%	-1.86%	9.92%	5.45%	7.30%
Bloomberg Barclays U.S. TIPS	3.25%	1.73%	6.51%	6.53%	4.17%	3.40%
Bloomberg Barclays U.S. High Yield	2.74%	3.62%	15.37%	7.45%	7.48%	6.66%
Bloomberg Barclays Global Treasury ex U.S.	0.63%	-5.33%	2.86%	2.80%	1.05%	0.80%
JP Morgan EMBI Global (Emerging Markets)	3.93%	-1.00%	6.81%	6.48%	4.44%	5.34%
Commodities						
Bloomberg Commodity Index	13.30%	21.15%	45.61%	3.90%	2.40%	-4.44%
Goldman Sachs Commodity Index	15.72%	31.40%	57.37%	-2.72%	1.73%	-6.48%
Hedge Funds						
HFRI Fund-Weighted Composite ²	4.02%	10.03%	27.43%	8.69%	7.93%	5.12%
HFRI Fund of Funds ²	2.68%	4.75%	18.07%	6.25%	6.09%	3.84%
Real Estate						
NAREIT U.S. Equity REITS	12.02%	21.96%	38.02%	10.10%	6.31%	9.41%
NCREIF NF1 - ODCE	3.93%	6.10%	8.02%	5.52%	6.57%	9.60%
FTSE Global Core Infrastructure Index	2.61%	8.39%	20.44%	10.30%	9.22%	9.60%
Private Equity						
Burgiss Private IQ Global Private Equity ³			27.32%	17.72%	16.13%	13.88%

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Global Equity Markets

GLOBAL MSCI IMI INDEX RETURNS (USD)
AS OF 06/30/2021



- Global equities climbed higher as the economic rebound and falling yields were enough to overcome the worry of emerging COVID-19 variants and uncertainty surrounding the future of U.S. monetary policy. The MSCI All Country World Investable Market Index (ACWI IMI) returned 7.2% for the quarter.
- The U.S. led for the quarter, returning 8.4% compared to 5.6% for non-U.S. equities and outperformed over the trailing one-year period.
- On a regional basis, Canadian equities were the strongest for the quarter, as the Canada IMI returned 10.0%. The index was led higher by its two largest sectors, Financials and Energy. The Energy sector gained 14.0% over the quarter due to rising oil prices.
- Europe ex-UK had a strong quarter as lockdown restrictions eased. All sectors generated positive returns, but Consumer Staples and Health Care were the top contributors to quarterly performance.
- Emerging Markets returned 5.7% for the second quarter but trailed many developed regions.

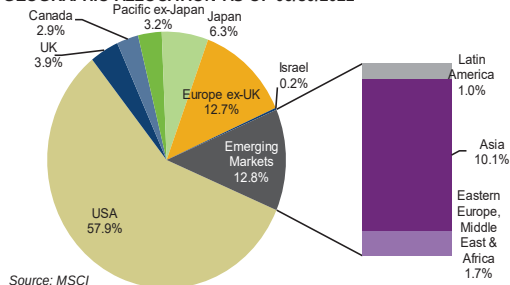
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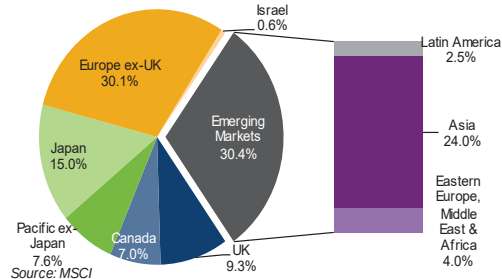
Global Equity Markets

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 06/30/2021



MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 06/30/2021

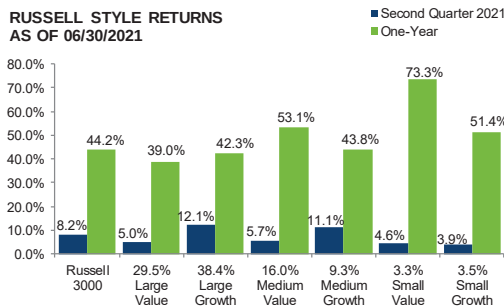


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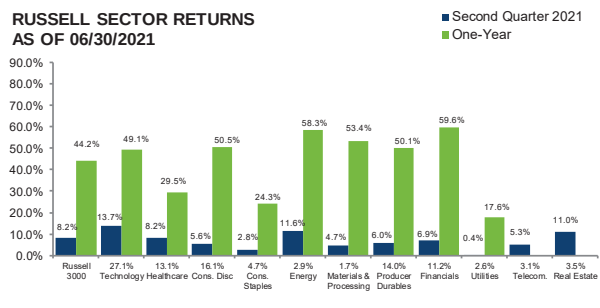
U.S. Equity Markets

**RUSSELL STYLE RETURNS
AS OF 06/30/2021**



Source: Russell Indexes

**RUSSELL SECTOR RETURNS
AS OF 06/30/2021**



Source: Russell Indexes/New sectors like Telecommunication and Real Estate One-Year chart excluded due to lack of historical data

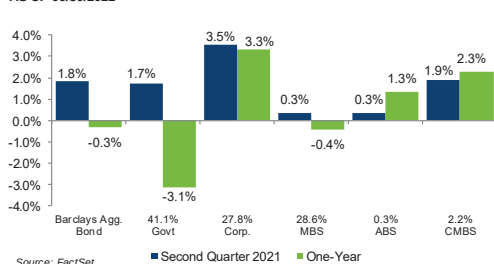
- U.S. equities were up over the quarter, supported by continued progress on the vaccination front and improving economic activity. U.S. Treasury yields declined throughout the quarter, which weighed on much of the reflation trade and value-oriented sectors. Sectors that benefit from falling interest rates, such as Technology and Real Estate, fared well during the second quarter.
- The Russell 3000 Index returned 8.2% during the second quarter and 44.2% over the trailing one-year period. All sectors generated positive returns over the quarter, led by strong returns from the Technology and Energy sectors, which returned 13.7% and 11.6% respectively. Utilities returned the least at 0.4%.
- Large and medium cap stocks outperformed small caps over the quarter. Growth stocks outperformed value within large and medium cap stocks. Over the trailing one-year period growth eclipsed value within large cap stocks but medium and small cap value still led their growth counterparts.

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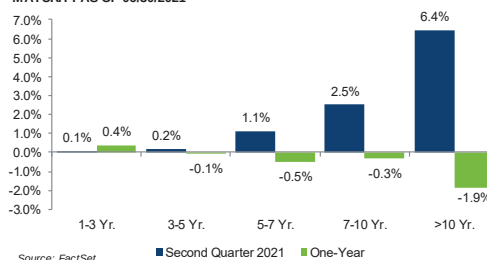
U.S. Fixed Income Markets

**BLOOMBERG BARCLAYS AGGREGATE RETURNS BY SECTOR
AS OF 06/30/2021**



Source: FactSet

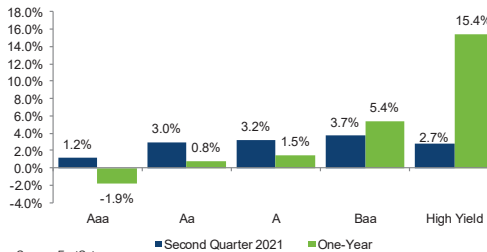
**BLOOMBERG BARCLAYS AGGREGATE RETURNS BY MATURITY
AS OF 06/30/2021**



Source: FactSet

- The Bloomberg Barclays U.S. Aggregate Bond Index rose by 1.8% over the quarter.
- Credit markets benefited from risk-on sentiment during the quarter, with corporate bonds up 3.5% by quarter-end, followed by CMBS bonds which rose by 1.9%.
- Across durations, longer maturity bonds (10+ years) rose the most at 6.4%.
- Within investment grade bonds, lower-credit quality outperformed higher quality issues, with Baa bonds as the best performer returning 3.7%. High yield bonds rose by 2.7%.

**BLOOMBERG BARCLAYS AGGREGATE RETURNS BY QUALITY
AND HIGH YIELD RETURNS AS OF 06/30/2021**



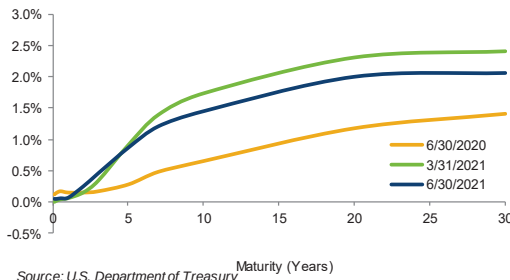
Source: FactSet

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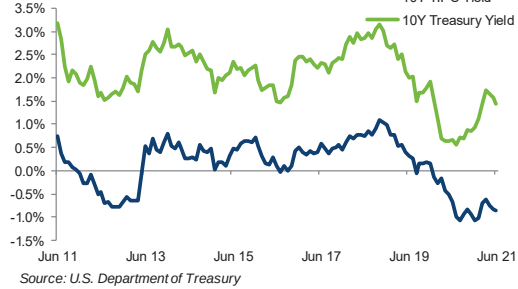


U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



U.S. 10-YEAR TREASURY AND TIPS YIELDS



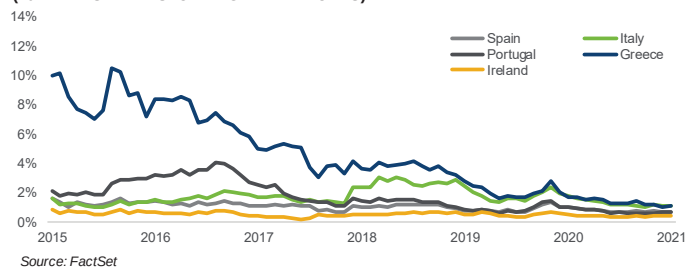
- The U.S. Treasury curve flattened with yields rising at shorter end but falling across medium to longer maturities, despite an uptick in inflation. The US Federal Reserve (Fed) left interest rates unchanged and held its current pace of asset purchases. However, hawkish sentiment emerged with various members voicing a preference to tighten policy sooner rather than later. The dot plot from the June FOMC meeting showed rate hikes could start in 2023.
- The 10-year U.S. Treasury yield ended the quarter 29bps lower at 1.45% and the 30-year yield decreased by 35bps to 2.06%.
- The 10-year TIPS yield fell by 24bps over the quarter to -0.87%.

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European Fixed Income Markets

EUROZONE PERIPHERAL BOND SPREADS
(10-YEAR SPREADS OVER GERMAN BUNDS)



- European government bond spreads over 10-year German bunds generally widened across the Euro Area. The European Commission upgraded the eurozone's growth forecast to 4.3% this year and 4.4% in 2022 from the previous estimates of 3.8% in both years, citing increasing vaccinations and easing lockdown restrictions.
- German government bund yields rose by 9bps to -0.21% over the quarter. The Eurozone economy fell into a double-dip recession due to varying levels of lockdown stringency in response to a third wave of coronavirus. The economy contracted by 0.6% in Q1 2021. Germany was Europe's worst-hit major economy as it contracted by 1.7%, as falling household consumption failed to offset higher manufacturing exports. Elsewhere, the French economy expanded by 0.4% over the same period.
- Portuguese government bond yields rose by 18bps to 0.39% and Italian government bond yields rose by 17bps to 0.83%.

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Credit Spreads

Spread (bps)	06/30/2021	03/31/2021	06/30/2020	Quarterly Change (bps)	One-Year Change (bps)
U.S. Aggregate	32	31	68	1	-36
Long Gov't	0	1	1	-1	-1
Long Credit	118	126	202	-8	-84
Long Gov't/Credit	71	76	120	-5	-49
MBS	27	12	70	15	-43
CMBS	59	71	132	-12	-73
ABS	22	35	68	-13	-46
Corporate	80	91	150	-11	-70
High Yield	268	310	626	-42	-358
Global Emerging Markets	257	267	393	-10	-136

Source: FactSet, Bloomberg Barclays

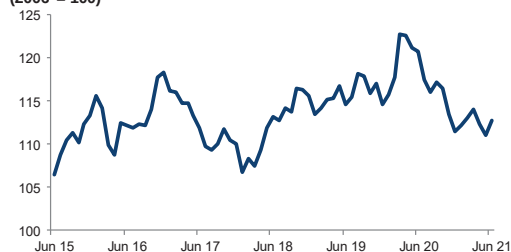
- Credit spreads continued to tighten during the quarter, with credit spreads over U.S. treasuries narrowing across the board in the second quarter.
- High Yield credit spreads and ABS spreads narrowed the most in Q2 2021, decreasing by 42bps and 13bps over the quarter.

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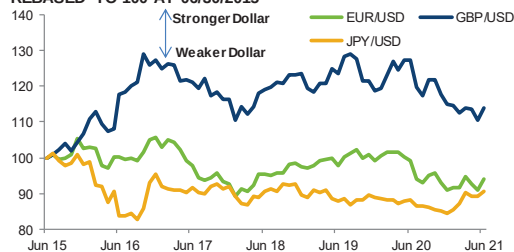
Currency

TRADE WEIGHTED U.S. DOLLAR INDEX
(2006 = 100)



Source: Federal Reserve

U.S. DOLLAR RELATIVE TO EUR, GBP AND JPY
REBASED TO 100 AT 06/30/2015



Source: FactSet

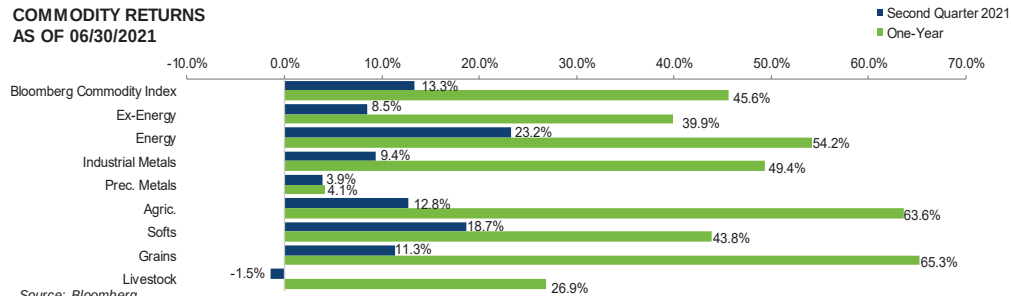
- The U.S. Dollar depreciated against the Euro and Sterling but appreciated against the Yen. The U.S. dollar fell 1.1% on a trade-weighted basis.
- Sterling fell by 0.6% on a trade-weighted basis over the quarter. The Bank of England unanimously kept its base rate unchanged at 0.1% amid fears of rising inflation. The Monetary Policy Committee also upgraded both UK inflation and growth forecasts. The Sterling appreciated by 0.1% against the U.S. dollar.
- The U.S. dollar depreciated by 0.9% against the Euro whilst it appreciated by 0.4% against the Yen.
- The Bank of Japan kept its interest rate unchanged at -0.1% and target for long-term yields around 0%. It also extended its pandemic relief programme by six months.

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Commodities

COMMODITY RETURNS AS OF 06/30/2021



Source: Bloomberg

Note: Softs and Grains are part of the wider Agriculture sector

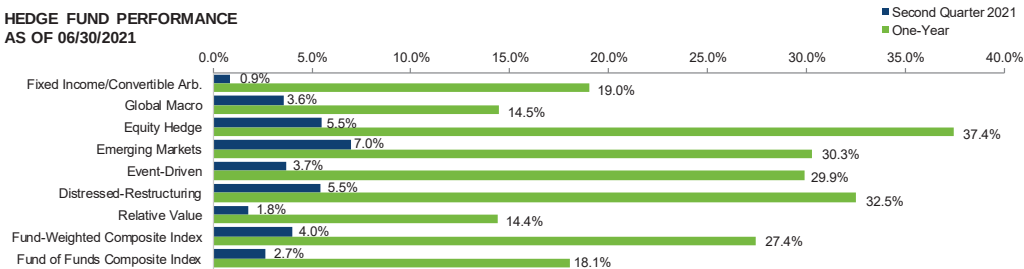
- Commodities had another strong quarter with the Bloomberg Commodity Index up 13.3%. Energy continued to be the standout as consumer demand steadily returned around the world. Agricultural prices also saw large increases over the quarter. Industrial metals continued their positive trend while precious metals rebounded from their first quarter slump.
- Energy was the best performing sector as it rose by 23.2% over the quarter and 54.2% over the trailing one-year period. Crude oil prices rose to their highest level in three years, touching \$76 a barrel as the OPEC+ group failed to reach an agreement on raising crude oil production. In July, OPEC+ producers agreed on a slight increase in production for July which amounted to a rise of 2m barrels a day following increases in May and June. Currently, production curbs stands at just under 6m b/d.
- The price of Brent crude oil rose by 18.2% to \$75/bbl. while WTI crude oil spot prices rose by 24.2% to \$73/bbl.

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Hedge Fund Markets Overview

HEDGE FUND PERFORMANCE AS OF 06/30/2021



Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.

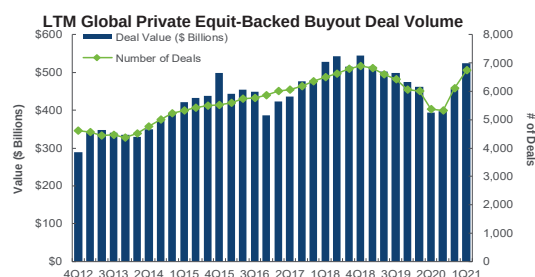
Source: HFR

- Hedge fund performance was positive across all strategies in the second quarter.
- HFR Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 4.0% and 2.7% respectively.
- Over the quarter, Emerging Markets and Equity Hedge strategies were the best performers, returning 7.0% and 5.5% respectively.

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Private Equity Market Overview – 1Q 2021



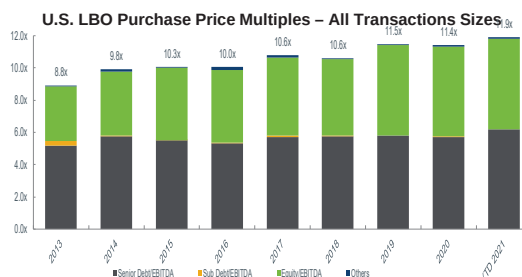
Source: Preqin

- Fundraising:** In 1Q 2021, \$250.1 billion was raised by 641 funds, which was a decrease of 22.0% on a capital basis and 10.5% 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.¹
- Buyout:** Global private equity-backed buyout deals totaled \$176.4 billion in 1Q 2021, which was up 3.8% on a capital basis and down 0.8% by number of deals from 4Q 2020.¹ Through 1Q 2021, the average purchase price multiple for all U.S. LBOs was 11.9x EBITDA, an increase of 0.5x over 2020's average and higher than the five-year average (10.8x).² Large cap purchase price multiples stood at 11.9x through 1Q 2021, up compared to 2020's level of 11.3x.² In Europe, the average purchase price multiple across European transactions of greater than €500M averaged 12.0x EBITDA on an LTM basis as of 1Q 2021, down from the 12.6x multiple seen at the end of 4Q 2020. Purchase prices for transactions of greater than €1.0 billion decreased to 12.5x on an LTM basis from 13.1x seen at the end of 2020. Globally, exit value totaled \$180.8 billion from 720 deals during the first quarter, down from the \$193.1 billion in exits from 719 deals during 4Q 2020. However, 1Q 2021's totals were significantly higher than Q1 2020's total of \$72.4 billion in value across 473 deals.¹
- Venture:** During the first quarter, 1,735 venture-backed transactions totaling \$62.1 billion were completed in the U.S., which was an increase on a capital basis over the prior quarter's total of \$38.4 billion across 1,657 deals. This was 140.2% higher than the five-year quarterly average of \$25.9 billion and marked the strongest quarter on record.³ Total U.S. venture-backed exit activity totaled approximately \$118.1 billion across an estimated 447 completed transactions in 1Q 2021, down from the \$149.4 billion across 401 exits in 4Q 2020. Through 1Q 2021, U.S. exit activity represented 39.2% of 2020's total.⁴
- Mezzanine:** Two funds closed on \$200 million during the first quarter. This was down significantly from the prior quarter's total of \$17.9 billion raised by 17 funds, and down from 1Q 2020's total of \$3.0 billion raised by 8 funds. Estimated dry powder was \$51.3 billion at the end of 1Q 2021, down slightly from the \$51.8 billion seen at the end of 4Q 2020.¹

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Private Equity Market Overview – 1Q 2021



- Distressed Debt:** The TTM U.S. high-yield default rate was 3.9% at March 2021, which was a decrease from the 4.5% seen at year-end 2020.⁵ During the quarter, \$12.5 billion was raised by 18 funds, a significant drop from the \$38.9 billion raised by 26 funds in 4Q 2020. Distressed funds have raised 17.1% of 2020's total through 1Q 2021.¹ Dry powder was estimated at \$143.6 billion at the end of 1Q 2021, which was up from the \$135.1 billion seen at the end of 4Q 2020. This remained above the five-year annual average level of \$115.0 billion.¹
- Secondaries:** 16 funds raised \$17.5 billion during the quarter, down significantly from the \$32.0 billion raised by 14 funds in 4Q 2020. This was down 20.8% from 1Q 2020.¹ At the end of 1Q 2021, there were an estimated 93 secondary and direct secondary funds in market targeting roughly \$43.4 billion.¹ The average discount rate for all private equity sectors finished the quarter at 9.1%, continuing the rebound from the 11.8% discount at the end of 4Q 2020 and from the 18.0% discount at the end of 1Q 2020.⁶
- Infrastructure:** \$21.8 billion of capital was raised by 26 funds in 1Q 2021 compared to \$24.0 billion of capital raised by 41 partnerships in 4Q 2020. At the end of the quarter, dry powder stood at an estimated \$262.2 billion, up from 4Q 2020's total of \$233.8 billion. Infrastructure managers completed 516 deals with an estimated aggregate deal value of \$75.9 billion in 1Q 2021 compared to 648 deals totaling \$84.5 billion a quarter ago.¹
- Natural Resources:** During 1Q 2021, four funds closed on \$1.4 billion compared to eight funds totaling \$1.5 billion in 4Q 2020. Energy and utilities industry managers completed approximately 29 deals totaling an estimated \$6.7 billion through 1Q 2021, which represented 41.0% of energy and utilities deal value during all of 2020.¹

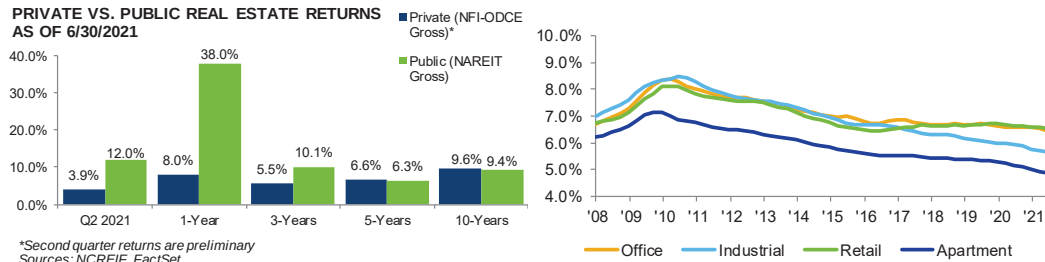
Sources: ¹ Preqin ² Standard & Poor's ³ PwC/ICB Insights MoneyTree Report ⁴ PitchBook/NVCA Venture Monitor ⁵ Fitch Ratings ⁶ Thomson Reuters ⁷ UBS
Notes: FY=Fiscal year ended 12/31; YTD=Year to date; LTM=Last 12 months (aka trailing 12 months); PPM=Purchase Price Multiples: Total Purchase Price ÷ EBITDA.

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U.S. Commercial Real Estate Markets

PRIVATE VS. PUBLIC REAL ESTATE RETURNS AS OF 6/30/2021



*Second quarter returns are preliminary
Sources: NCREIF, FactSet

- U.S. Core Real Estate returned 3.9%* in the second quarter, equating to an 8.0% total gross return year-over-year, including a 3.9% 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. Following a sharp contraction in GDP of -3.3% in 2020, the IMF now projects the global economy to expand by 6.0% in 2021. The recovery is forecasted to be swifter and more resilient than the recovery following the 2008 global financial crisis thanks to unprecedented fiscal and monetary policy responses. Real estate capital markets are liquid with transaction volumes picking back up, led in part by ample debt availability.
- Global property markets, as measured by the FTSE EPRA/NAREIT Developed Real Estate Index, returned 6.1% (USD) in aggregate during the second quarter and experienced a cumulative increase of 34.8% over the trailing 1-year period. REIT market performance was driven by Asia Pacific (5.3% USD), North America (11.4% USD), and Europe (8.8% USD). The U.S. REIT markets (FTSE NAREIT Equity REITs Index) returned 12.0% in the second quarter. The U.S. 10-year treasury bond yields decreased 29 bps to 1.45% during the quarter.
- There are now overarching and compelling dynamics benefitting the overall real estate market. Bonds have repriced to record low yields, and now real estate yields present an attractive spread to risk free rates. Rising costs for key real estate construction inputs are driving up replacement costs and are anticipated to quell near-term supply.
- Technology is changing consumption trends and lifestyle preferences globally, driving demand for certain property sectors consistently across regions. The acute circumstances of a recession driven by a virus magnified this effect in 2020. Looking forward, investors should assess what changes to our routines/habits may stick, what regions will they most impact, and how do those impact property specific demand drivers. Townsend is forecasting certain changes to persist post-COVID and has actively re-evaluated our investment strategy to align with the changing economy.
- 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

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Total Fund

As of June 30, 2021

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 \$199.6 billion as of June 30, 2021, which represents a \$11.0 billion increase 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.

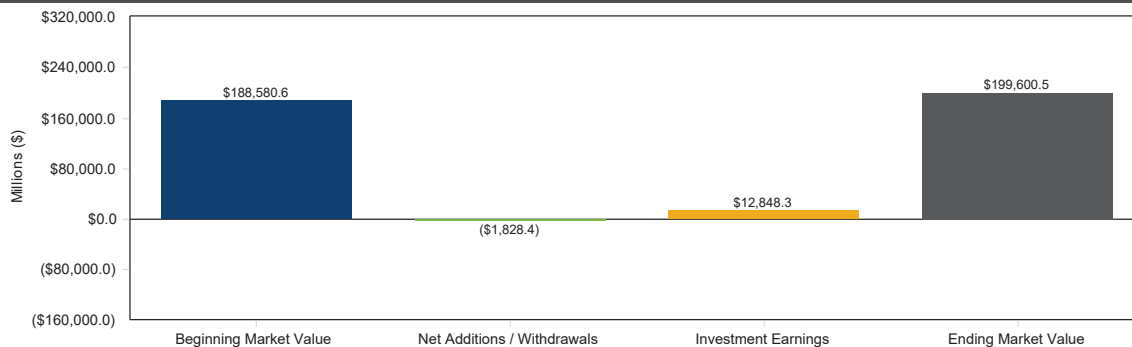


Total Fund

As of June 30, 2021

Total Plan Asset Summary

Change in Market Value From April 1, 2021 to June 30, 2021



Summary of Cash Flow

	1 Quarter	Fiscal YTD*
Beginning Market Value	188,580,636,479	160,714,203,703
+ Additions / Withdrawals	-1,828,420,748	-7,536,029,498
+ Investment Earnings	12,848,282,655	46,422,324,180
= Ending Market Value	199,600,498,385	199,600,498,385

*Period July 2020 - June 2021

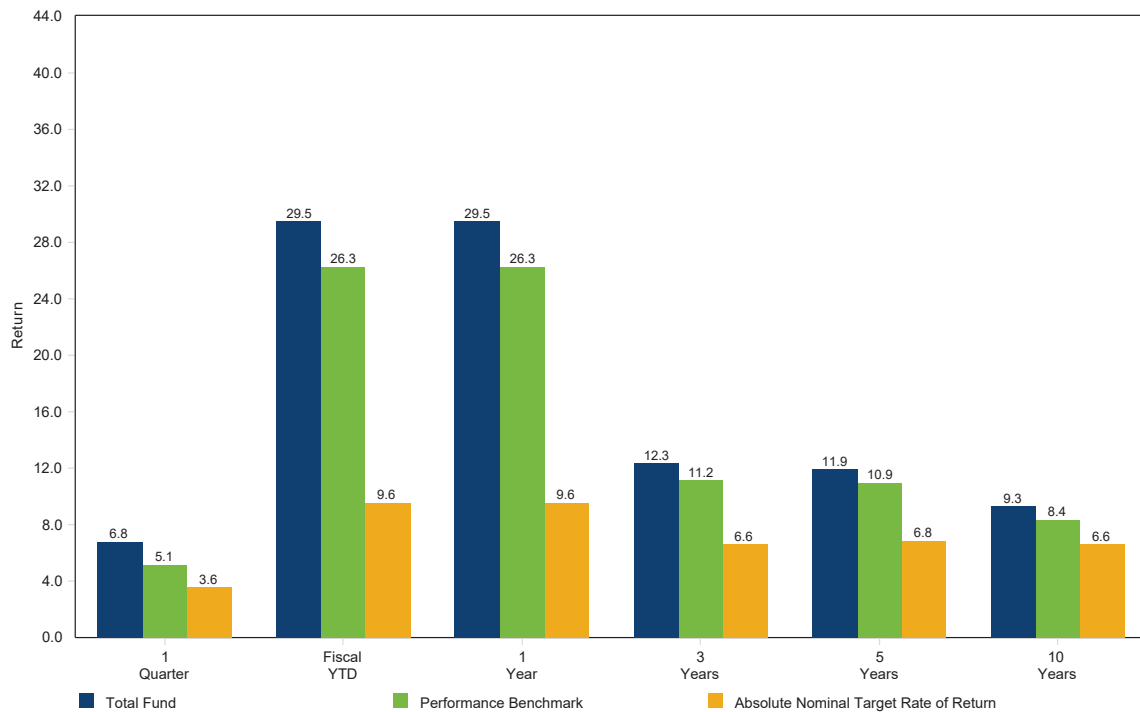


Total Fund

As of June 30, 2021

Total Plan Performance Summary

Return Summary



As of June 30, 2021

Asset Allocation & Performance

	Allocation			Performance(%)					
	Market Value (\$)	%	Policy(%)	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years
Total Fund	199,600,498,385	100.0	100.0	6.8 (12)	29.5 (22)	29.5 (22)	12.3 (11)	11.9 (10)	9.3 (10)
Performance Benchmark				5.1 (61)	26.3 (54)	26.3 (54)	11.2 (33)	10.9 (34)	8.4 (39)
Absolute Nominal Target Rate of Return				3.6 (97)	9.6 (97)	9.6 (97)	6.6 (97)	6.8 (96)	6.6 (91)
Global Equity*	110,156,581,774	55.2	53.6	7.5	41.8	41.8	15.0	15.2	10.8
Asset Class Target				7.2	40.9	40.9	14.3	14.6	9.9
Domestic Equities	54,542,665,127	27.3		8.3	44.5	44.5	18.3	17.7	14.6
Asset Class Target				8.2	44.2	44.2	18.7	17.9	14.7
Foreign Equities	41,208,256,987	20.6		6.5	40.1	40.1	11.3	12.7	7.1
Asset Class Target				5.6	37.2	37.2	9.5	11.2	5.7
Global Equities	12,325,114,483	6.2		7.3	35.6	35.6	13.6	13.5	10.0
Benchmark				7.6	38.9	38.9	14.9	14.8	10.4
Fixed Income	34,551,320,935	17.3	19.5	1.0	0.9	0.9	4.8	2.9	3.2
Asset Class Target				0.8	0.0	0.0	4.4	2.5	2.9
Private Equity	17,339,857,003	8.7	8.3	22.9	68.5	68.5	26.4	22.9	17.1
Asset Class Target				7.7	44.0	44.0	17.3	17.6	14.7
Real Estate	16,821,692,195	8.4	8.5	3.6	8.6	8.6	5.7	6.6	10.0
Asset Class Target				2.7	4.6	4.6	4.6	5.6	8.7
Strategic Investments	18,134,136,110	9.1	9.1	4.7	17.2	17.2	7.2	7.8	8.0
Short-Term Target				3.3	16.0	16.0	7.3	7.0	6.3
Cash	2,596,910,368	1.3	1.0	0.0	0.1	0.1	1.3	1.2	0.7
Bank of America Merrill Lynch 3-Month US Treasury Index				0.0	0.1	0.1	1.3	1.2	0.6

Benchmark and universe descriptions can be found in the Appendix.

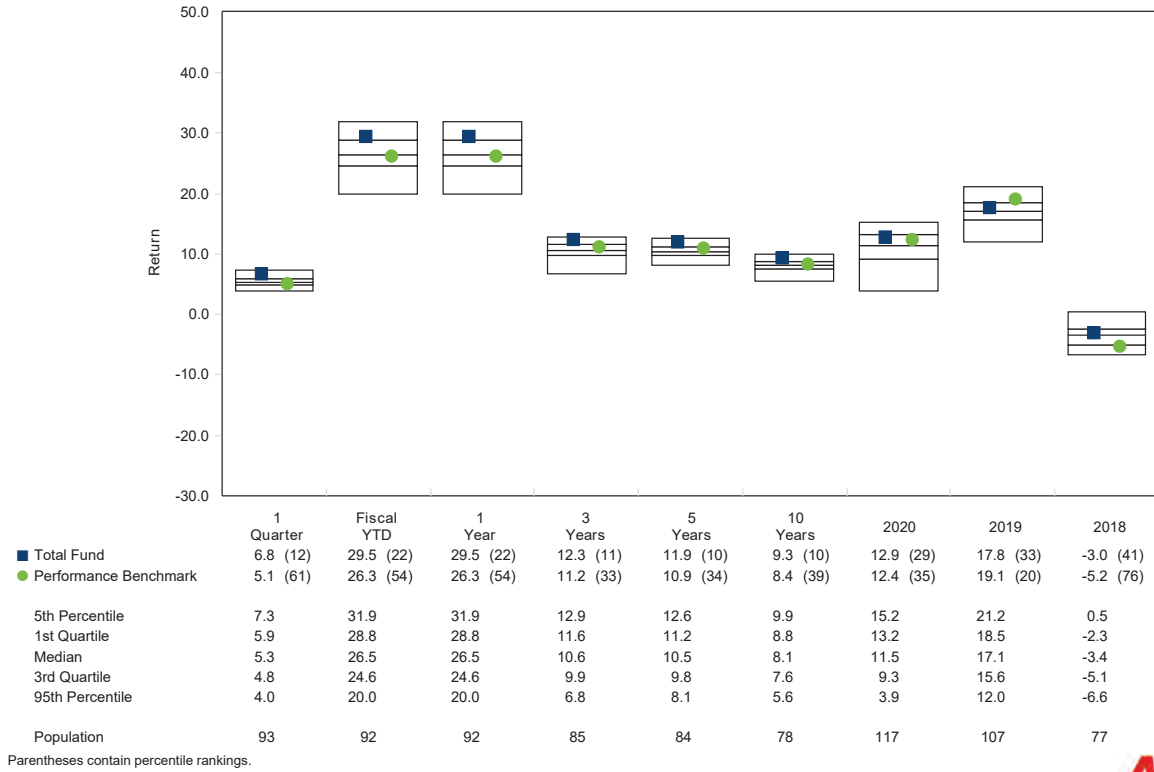
* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.



As of June 30, 2021

Plan Sponsor Peer Group Analysis

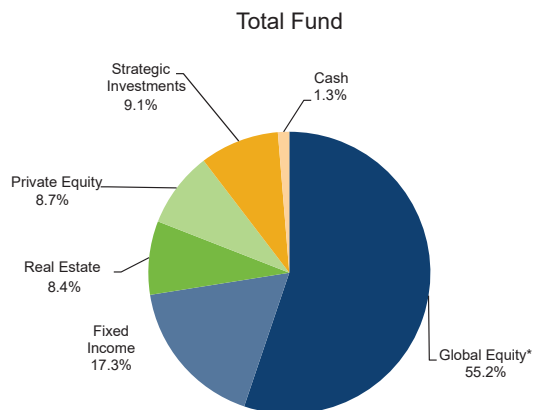
All Public Plans > \$1B-Total Fund



Total Fund

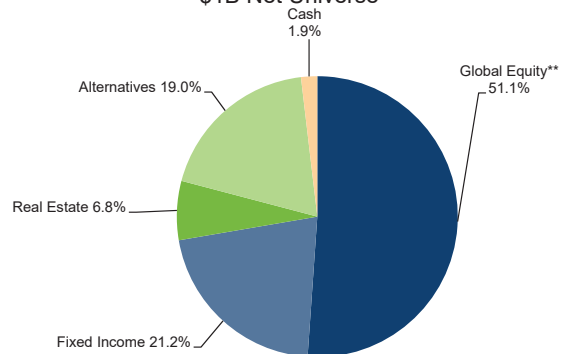
As of June 30, 2021

Universe Asset Allocation Comparison



*Global Equity Allocation: 27.3% Domestic Equities; 20.8% Foreign Equities; 6.2% Global Equities; 0.9% Global Equity Liquidity Account. Percentages are of the Total FRS Fund.

BNY Mellon Public Funds > \$1B Net Universe



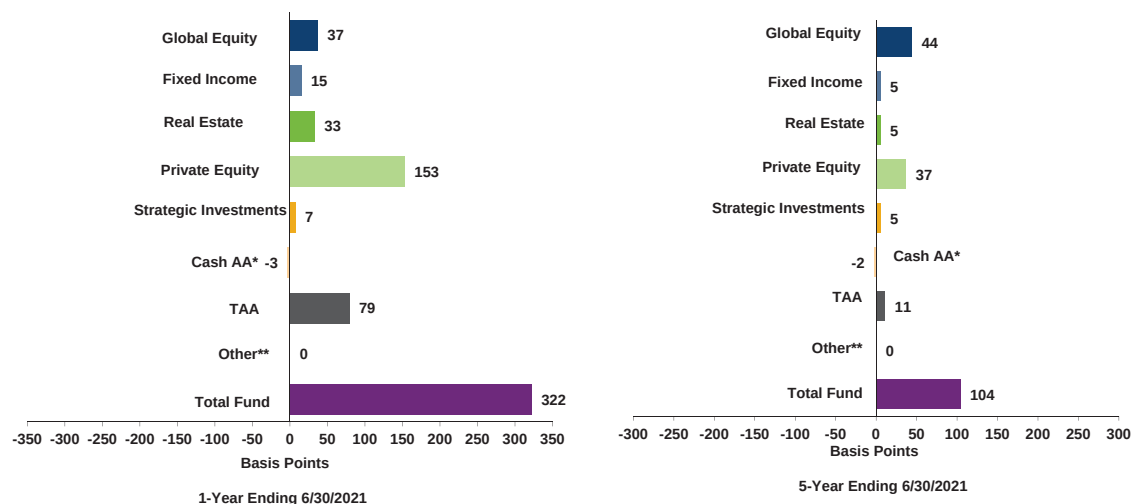
**Global Equity Allocation: 31.6% Domestic Equities; 19.5% Foreign Equities.



Total Fund

As of June 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.

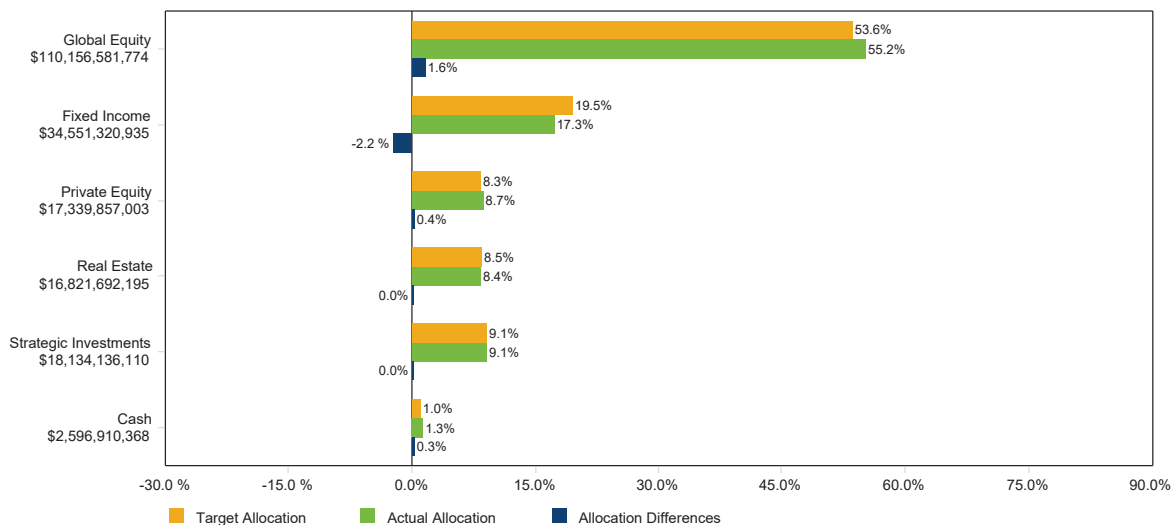


Total Fund

As of June 30, 2021

Asset Allocation Compliance

	Market Value (\$)	Current Allocation (%)	Target Allocation (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	199,600,498,385	100.0	100.0		
Global Equity	110,156,581,774	55.2	53.6	45.0	70.0
Fixed Income	34,551,320,935	17.3	19.5	10.0	26.0
Private Equity	17,339,857,003	8.7	8.3	2.0	9.0
Real Estate	16,821,692,195	8.4	8.5	4.0	16.0
Strategic Investments	18,134,136,110	9.1	9.1	0.0	16.0
Cash	2,596,910,368	1.3	1.0	0.3	5.0



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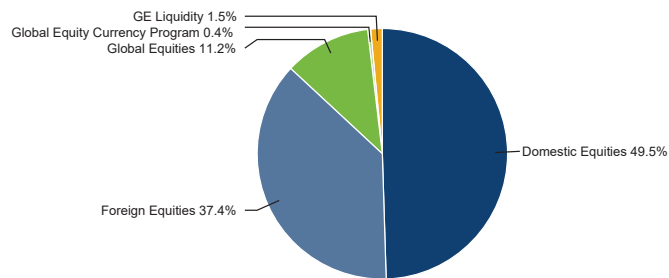


Global Equity

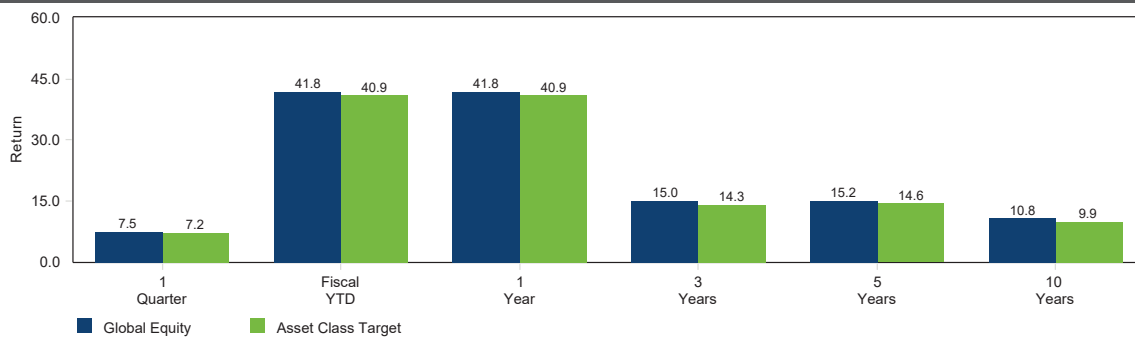
Global Equity* Portfolio Overview

Current Allocation

June 30, 2021 : \$110,157M



Return Summary



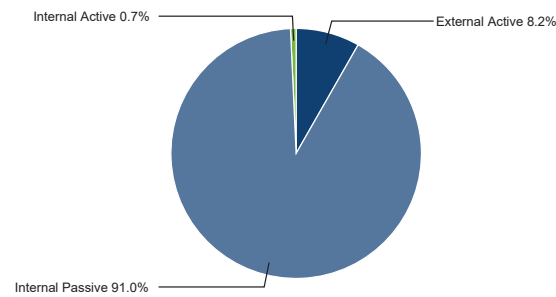
* Global Equity became an asset class in July 2010. The historical return series prior to July 2010 was derived from the underlying Domestic Equities, Foreign Equities, and Global Equities components.



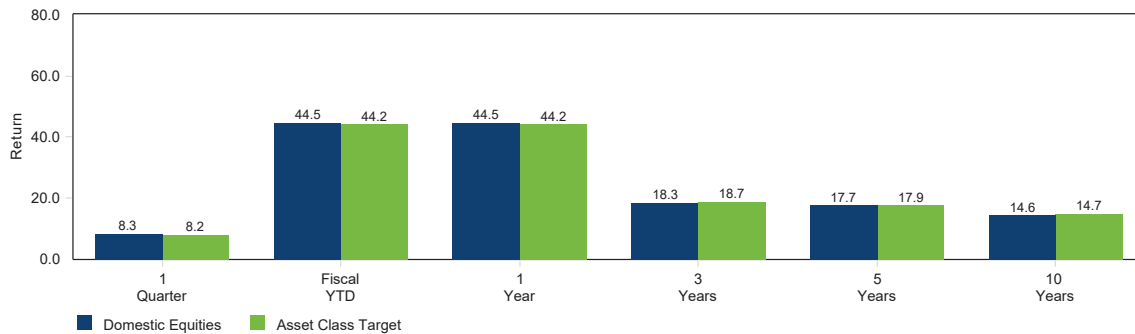
Domestic Equities

Domestic Equities Portfolio Overview

Current Allocation
June 30, 2021 : \$54,543M

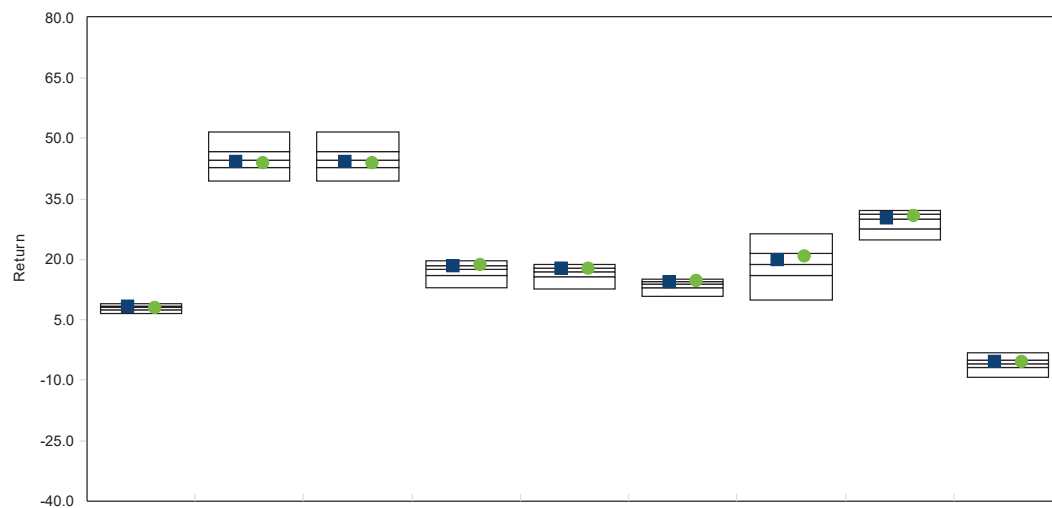


Return Summary



Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-US Equity Segment



	1 Quarter	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	2020	2019	2018
Domestic Equities	8.3 (30)	44.5 (53)	44.5 (53)	18.3 (26)	17.7 (32)	14.6 (24)	19.9 (40)	30.4 (38)	-5.2 (33)
Asset Class Target	8.2 (33)	44.2 (55)	44.2 (55)	18.7 (21)	17.9 (26)	14.7 (19)	20.9 (29)	31.0 (28)	-5.2 (38)
5th Percentile	9.1	51.8	51.8	19.8	18.9	15.1	26.4	32.2	-3.1
1st Quartile	8.4	46.7	46.7	18.4	17.9	14.4	21.5	31.2	-5.0
Median	8.0	44.5	44.5	17.4	17.0	13.8	18.9	30.1	-5.9
3rd Quartile	7.4	42.7	42.7	15.9	15.7	13.1	16.1	27.7	-6.9
95th Percentile	6.6	39.4	39.4	13.1	12.8	10.8	10.0	25.0	-9.2
Population	58	53	53	48	45	31	55	52	53

Parentheses contain percentile rankings.



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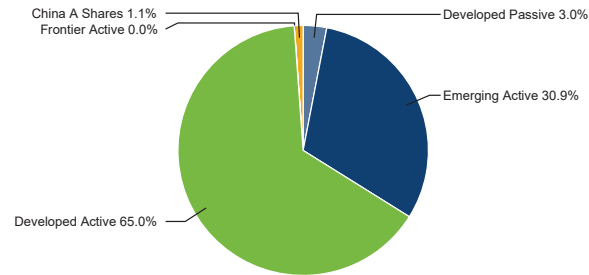


Foreign Equities

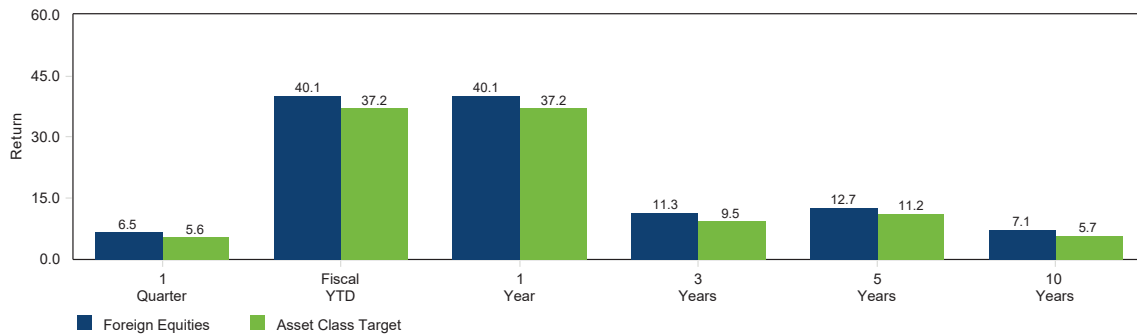
Foreign Equities Portfolio Overview

Current Allocation

June 30, 2021 : \$41,208M

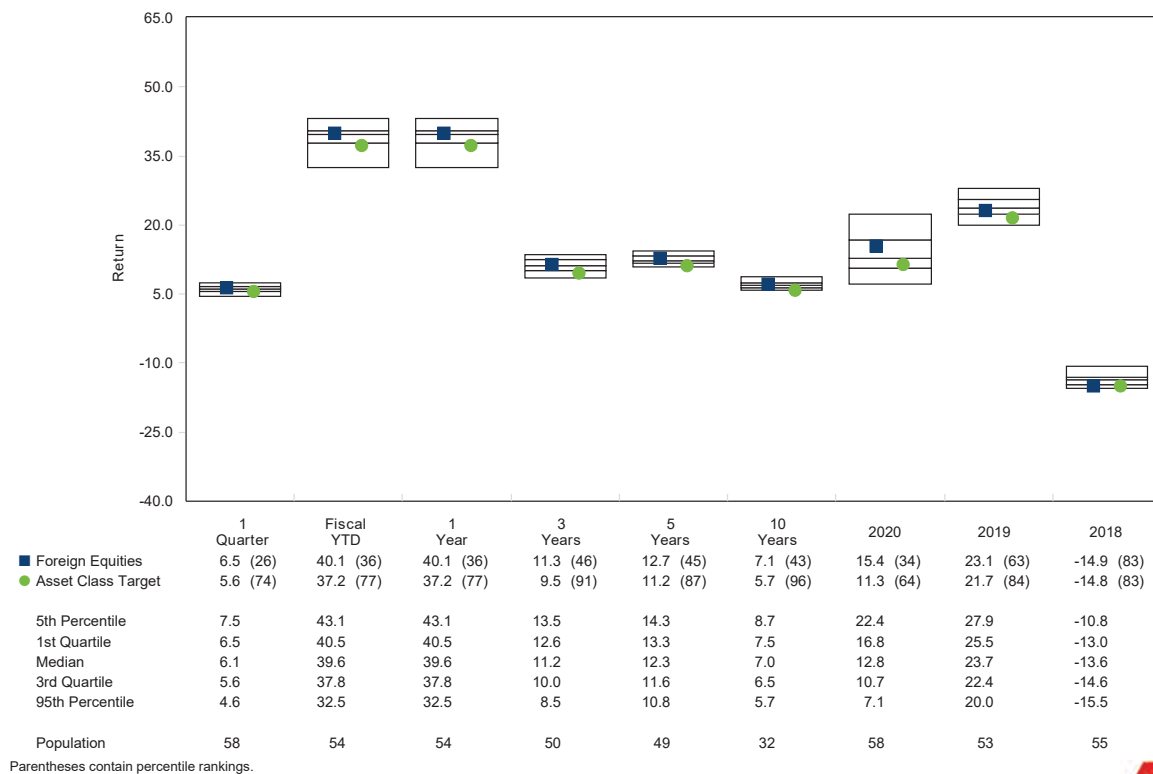


Return Summary



Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-Intl. Equity Segment



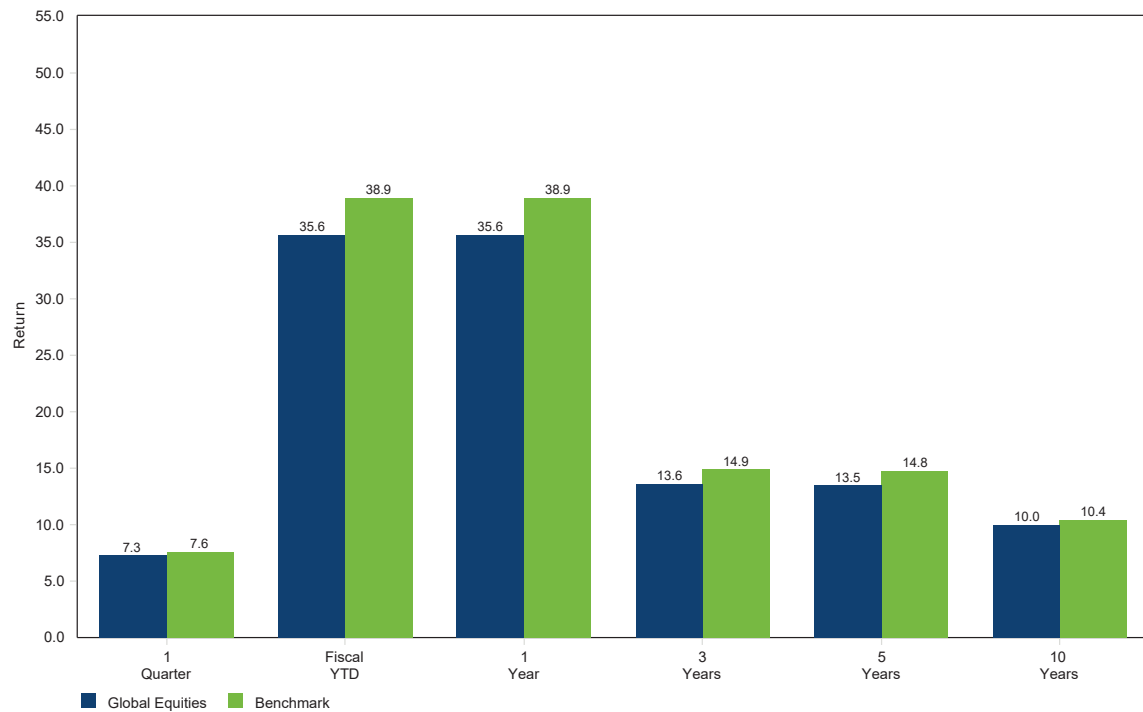
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Global Equities

Global Equities Performance Summary

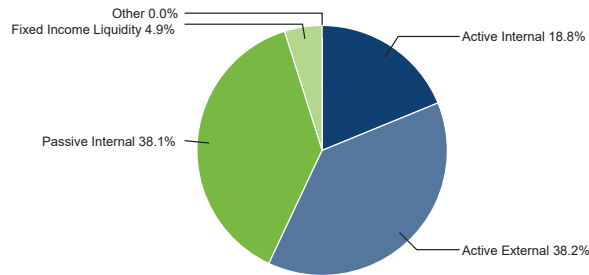
Return Summary

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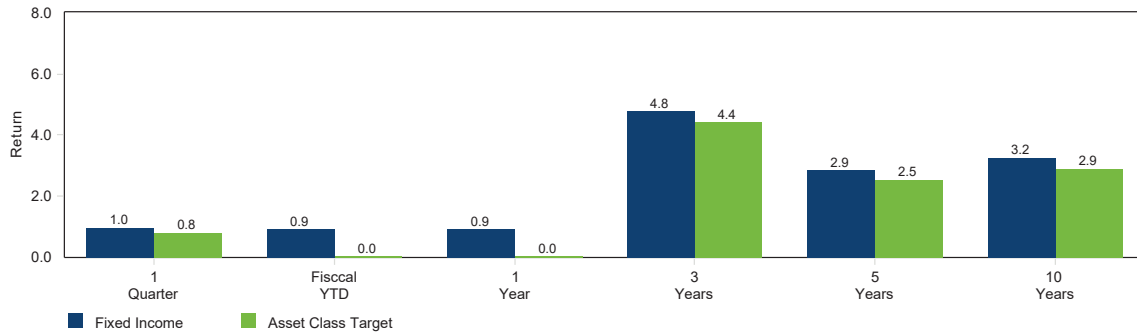
Fixed Income

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Fixed Income Portfolio Overview

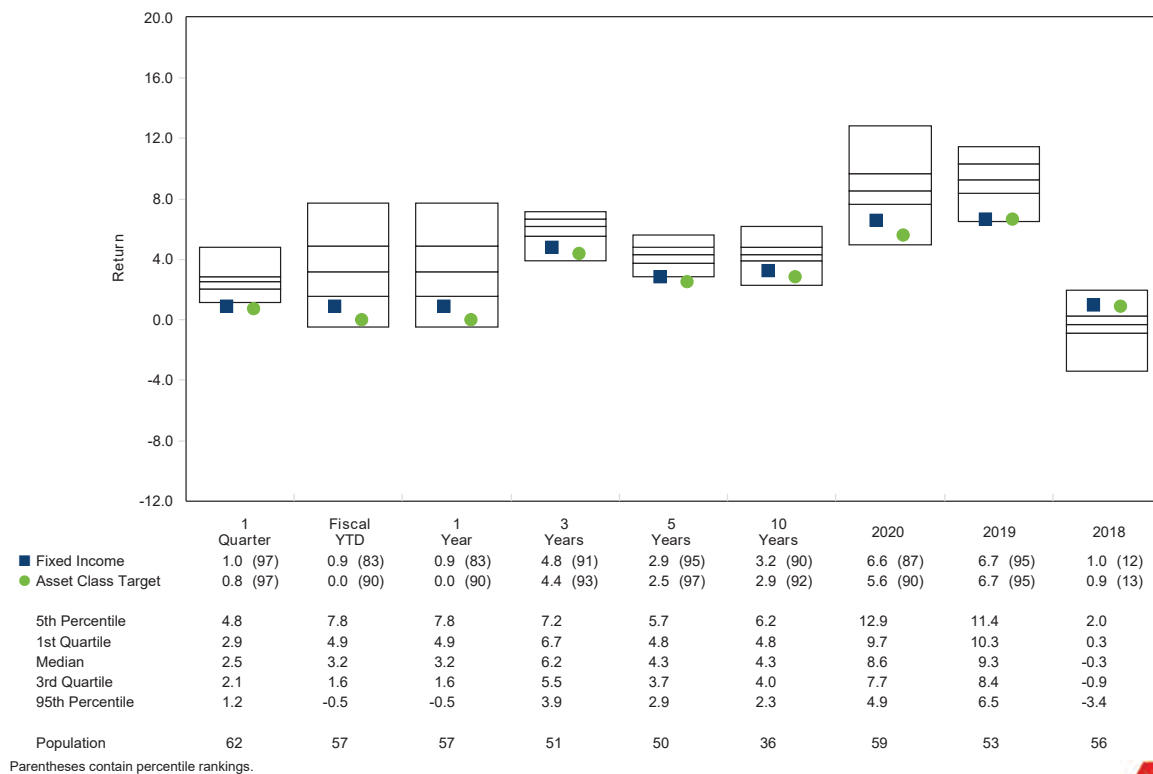
Current Allocation
June 30, 2021 : \$34,551M

Return Summary



Plan Sponsor Peer Group Analysis

All Public Plans > \$1B-US Fixed Income Segment



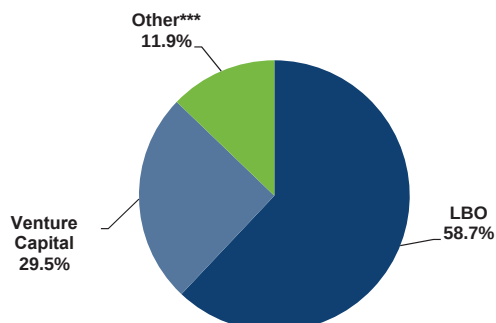


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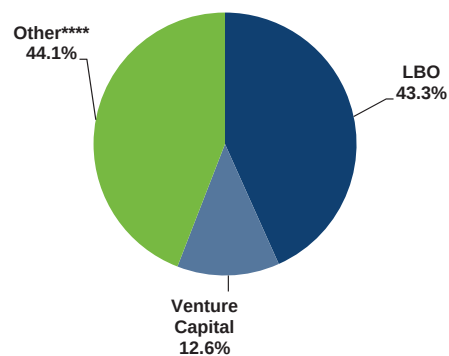


Overview

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.

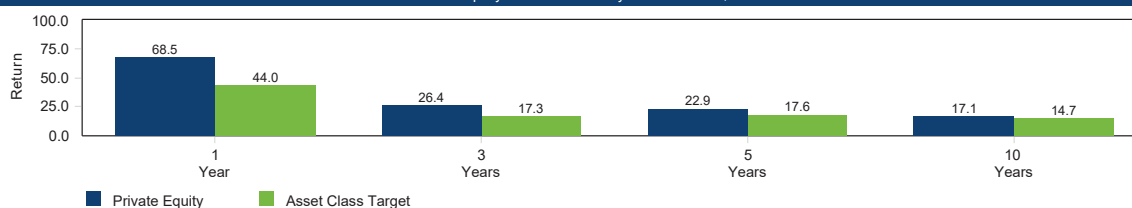
****Other for the Preqin data consists of Distressed PE, Growth, Mezzanine, and other Private Equity/Special Situations. Preqin universe is comprised of 10,000 private equity funds representing \$4.8 trillion.



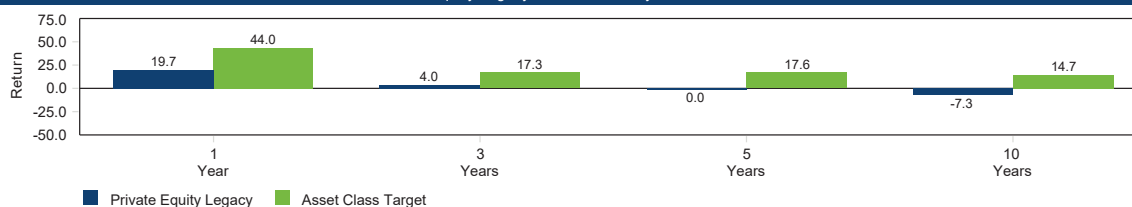
Private Equity

Time-Weighted Investment Results

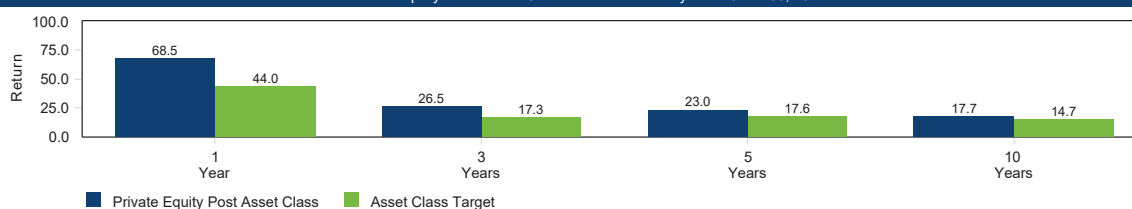
Private Equity Return Summary as of June 30, 2021



Private Equity Legacy Return Summary as of June 30, 2021



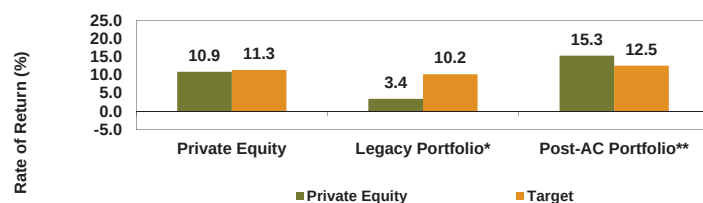
Private Equity Post Asset Class Return Summary as of June 30, 2021



Dollar-Weighted Investment Results

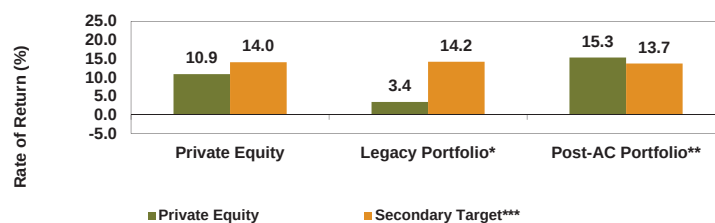
As of June 30, 2021

Since Inception



As of June 30, 2021

Since Inception



*The Inception Date for the Legacy Portfolio is January 1989.

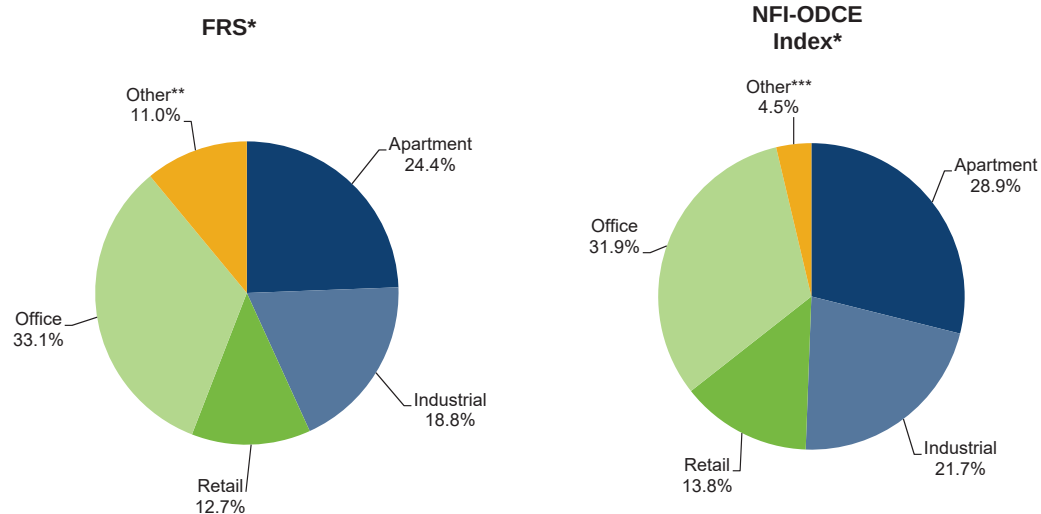
**The Inception Date for the Post-AC Portfolio is September 2000.

***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

Overview



*Property Allocation data is as of March 31, 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.

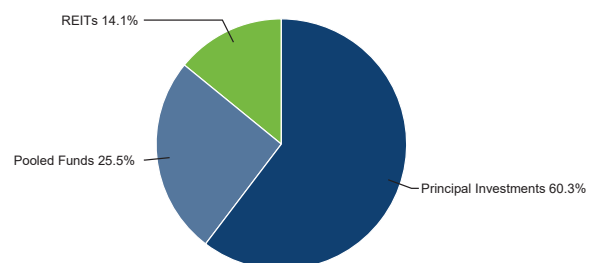
***Other for the NFI-ODCE Index consists of Hotel, Senior Living, Healthcare, Mixed Use, Single Family Residential, Parking, Timber/Agriculture, Land and Infrastructure.



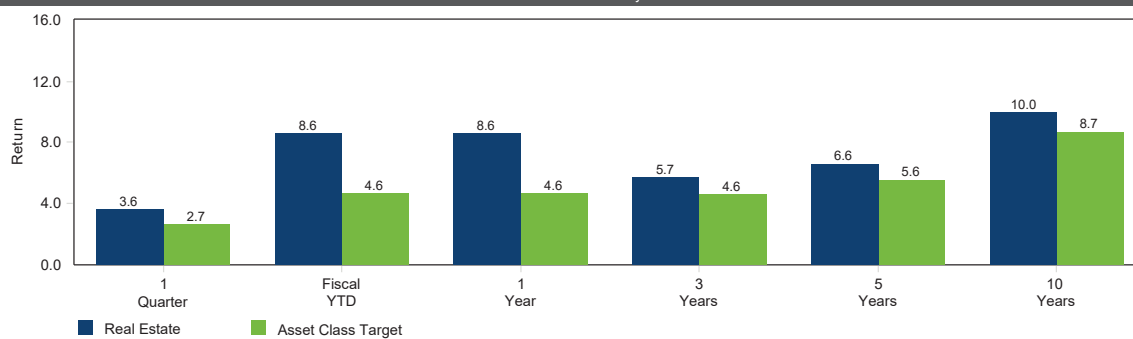
Real Estate Portfolio Overview

Current Allocation

June 30, 2021 : \$16,822M

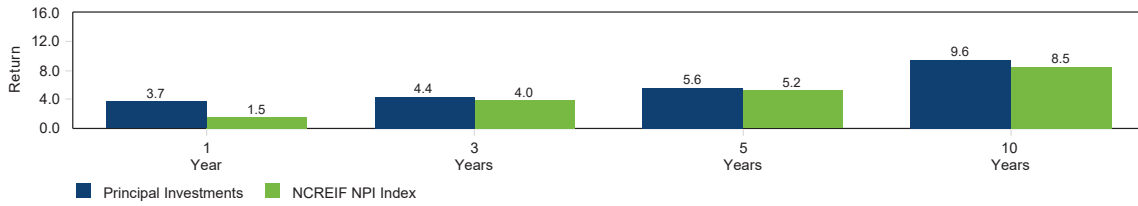


Return Summary

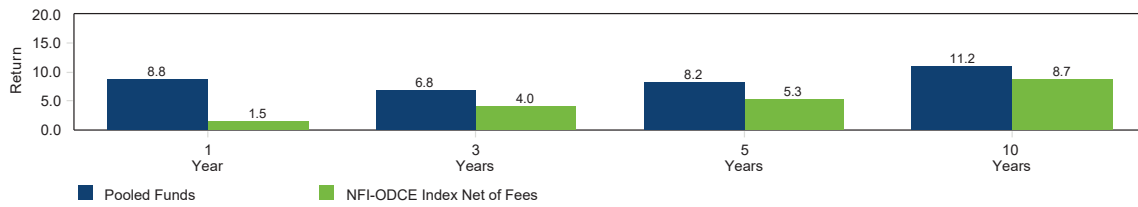


Real Estate

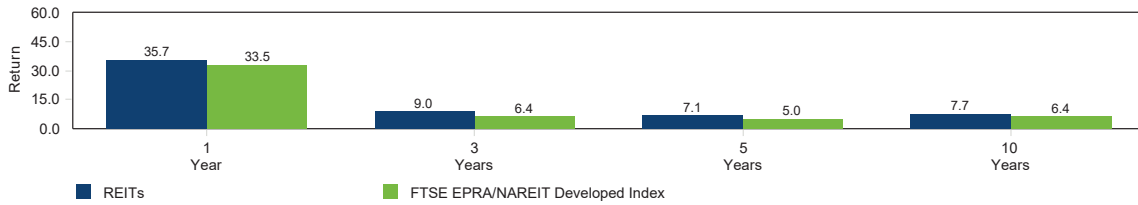
Principal Investments Return Summary as of June 30, 2021



Pooled Funds Return Summary as of June 30, 2021



REITs Return Summary as of June 30, 2021

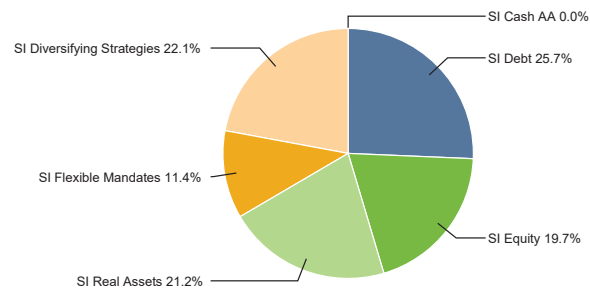


Strategic Investments

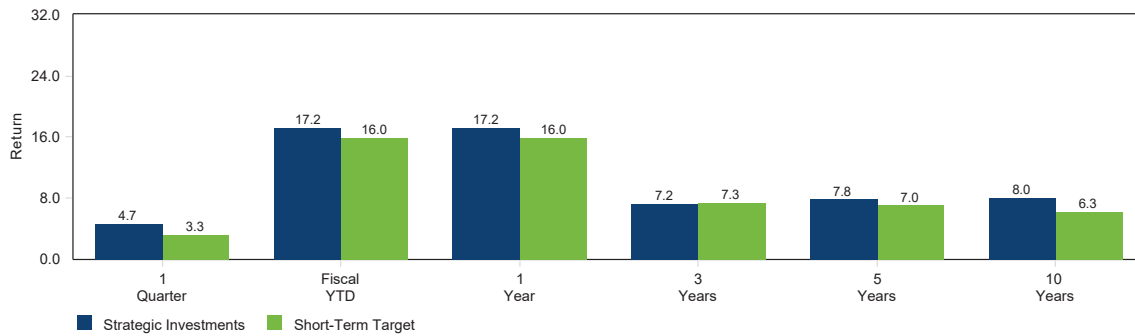


Strategic Investments Portfolio Overview

Current Allocation
June 30, 2021 : \$18,134M



Return Summary

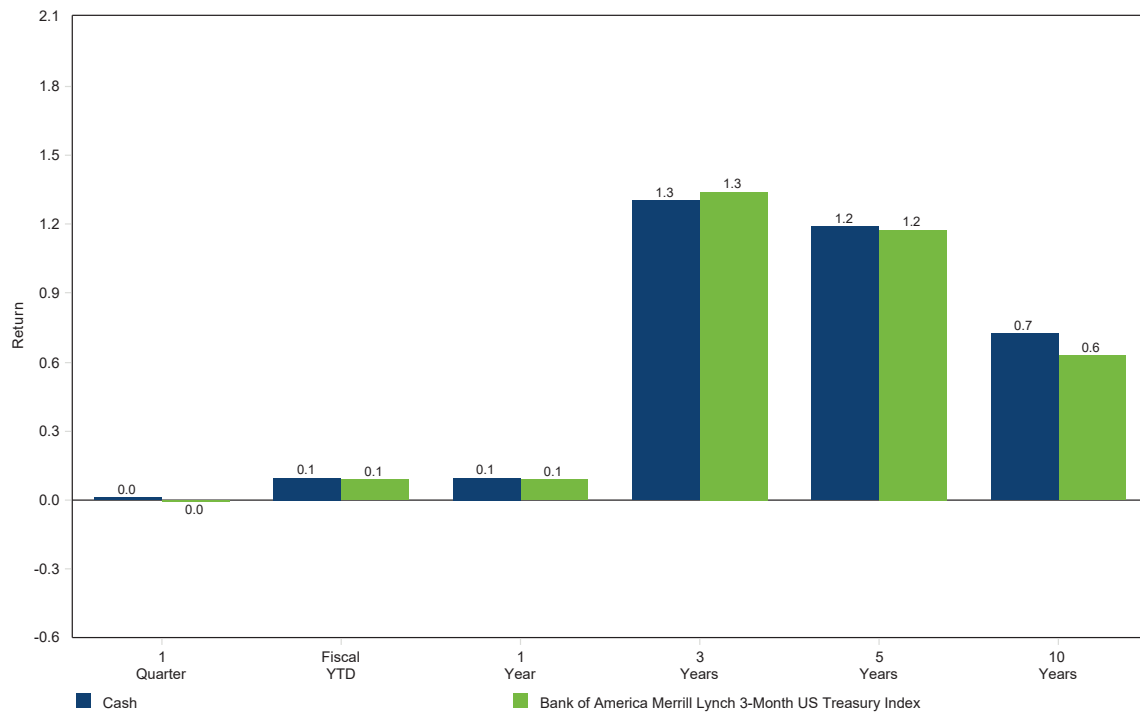


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Cash

Cash Performance Summary

Return Summary



Appendix

As of June 30, 2021

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).



As of June 30, 2021

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.



As of June 30, 2021

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.



As of June 30, 2021

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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Aon Investments USA Inc.
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FRS Investment Plan | Second Quarter 2021

Quarterly Investment Review

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FRS Investment Plan

As of June 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	14,793,477,095	100.0	5.8	9.2	28.4	11.5	11.5	8.5
Total Plan Aggregate Benchmark			5.5	9.1	27.3	11.0	10.9	8.1
Retirement Date	6,842,324,104	46.3						
FRS Retirement Fund	750,941,339	5.1	4.4 (11)	5.6 (40)	17.7 (41)	8.8 (30)	7.7 (43)	5.7 (61)
Retirement Custom Index			4.1 (26)	5.3 (44)	16.5 (48)	8.4 (36)	7.4 (45)	5.4 (68)
FRS 2020 Retirement Date Fund	624,187,016	4.2	4.7 (14)	6.3 (30)	19.8 (42)	9.3 (69)	9.0 (63)	6.8 (82)
2020 Retirement Custom Index			4.4 (37)	6.2 (41)	19.1 (51)	9.1 (70)	8.7 (69)	6.6 (84)
FRS 2025 Retirement Date Fund	979,913,104	6.6	5.1 (18)	7.3 (24)	23.2 (35)	10.2 (59)	10.2 (46)	7.7 (76)
2025 Retirement Custom Index			4.8 (38)	7.2 (28)	22.6 (43)	10.0 (67)	9.9 (56)	7.5 (82)
FRS 2030 Retirement Date Fund	926,557,069	6.3	5.4 (33)	8.3 (37)	26.3 (38)	10.9 (69)	11.1 (52)	8.5 (74)
2030 Retirement Custom Index			5.2 (58)	8.2 (43)	25.8 (53)	10.8 (74)	10.8 (64)	8.3 (77)
FRS 2035 Retirement Date Fund	892,860,702	6.0	5.7 (59)	9.2 (73)	29.1 (73)	11.5 (88)	12.0 (62)	9.3 (73)
2035 Retirement Custom Index			5.5 (75)	9.1 (74)	28.7 (76)	11.5 (89)	11.7 (79)	9.0 (77)
FRS 2040 Retirement Date Fund	820,124,103	5.5	6.0 (72)	10.0 (85)	31.7 (83)	12.1 (87)	12.6 (69)	9.6 (76)
2040 Retirement Custom Index			5.8 (86)	9.9 (85)	31.5 (87)	12.1 (88)	12.4 (77)	9.4 (80)
FRS 2045 Retirement Date Fund	814,533,489	5.5	6.2 (77)	10.6 (88)	34.0 (83)	12.6 (91)	13.1 (76)	9.8 (74)
2045 Retirement Custom Index			6.0 (85)	10.6 (88)	33.8 (85)	12.5 (91)	13.0 (78)	9.6 (83)
FRS 2050 Retirement Date Fund	533,376,665	3.6	6.4 (77)	11.2 (83)	35.6 (77)	12.9 (88)	13.3 (74)	9.9 (85)
2050 Retirement Custom Index			6.2 (87)	11.1 (84)	35.4 (80)	12.8 (88)	13.1 (76)	9.7 (88)
FRS 2055 Retirement Date Fund	341,543,966	2.3	6.5 (68)	11.3 (79)	36.1 (77)	13.0 (86)	13.4 (81)	-
2055 Retirement Custom Index			6.3 (82)	11.2 (83)	35.7 (80)	12.8 (89)	13.2 (83)	-
FRS 2060 Retirement Date Fund	158,286,651	1.1	6.5 (69)	11.3 (79)	36.2 (76)	13.1 (83)	-	-
2060 Retirement Custom Index			6.3 (82)	11.2 (83)	35.7 (80)	12.8 (89)	-	-



As of June 30, 2021

Asset Allocation & Performance

	Allocation		Performance(%)					
	Market Value (\$)	%	1 Quarter	Year To Date	1 Year	3 Years	5 Years	10 Years
Cash	1,057,170,733	7.1	0.0	0.1	0.2	1.5	1.4	0.8
FRS Money Market Fund	1,057,170,733	7.1	0.0 (1)	0.1 (1)	0.2 (1)	1.5 (1)	1.4 (1)	0.8 (1)
iMoneyNet 1st Tier Institutional Net Index			0.0 (21)	0.0 (10)	0.0 (45)	1.2 (18)	1.1 (17)	0.6 (19)
Real Assets	152,332,198	1.0						
FRS Inflation Sensitive Fund	152,332,198	1.0	4.8	6.3	16.6	5.4	5.0	2.7
FRS Custom Multi-Assets Index			4.4	5.8	14.9	4.9	4.6	2.2
Fixed Income	724,632,707	4.9	2.1 (1)	-0.6 (81)	2.9 (23)	6.1 (1)	4.0 (3)	3.9 (1)
Total Bond Index			1.8 (3)	-0.9 (95)	1.5 (57)	5.5 (2)	3.6 (5)	3.6 (1)
FRS U.S. Bond Enhanced Index Fund	282,857,616	1.9	1.9 (32)	-1.6 (28)	-0.2 (5)	5.4 (35)	3.1 (10)	3.5 (33)
Blmbg. Barc. U.S. Aggregate			1.8 (32)	-1.6 (29)	-0.3 (8)	5.3 (38)	3.0 (17)	3.4 (33)
FRS Core Plus Bond Fund	441,775,091	3.0	2.6 (22)	-0.5 (44)	4.1 (33)	6.5 (39)	4.6 (30)	4.7 (29)
FRS Custom Core-Plus Fixed Income Index			2.0 (76)	-0.7 (54)	2.3 (69)	5.9 (70)	3.9 (66)	4.3 (43)
Domestic Equity	3,859,318,519	26.1	8.2 (34)	15.5 (46)	45.9 (33)	17.5 (42)	17.7 (35)	14.4 (28)
Total U.S. Equities Index			8.2 (36)	15.5 (46)	45.7 (34)	17.3 (43)	17.1 (40)	14.0 (33)
FRS U.S. Stock Market Index Fund	1,592,040,352	10.8	8.2 (53)	15.1 (43)	44.2 (24)	18.8 (49)	18.0 (47)	14.8 (42)
Russell 3000 Index			8.2 (53)	15.1 (43)	44.2 (25)	18.7 (50)	17.9 (48)	14.7 (43)
FRS U.S. Stock Fund	2,267,278,166	15.3	8.4 (33)	16.0 (38)	48.5 (24)	-	-	-
Russell 3000 Index			8.2 (37)	15.1 (46)	44.2 (40)	-	-	-



As of June 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	937,231,739	6.3	6.2 (36)	9.6 (45)	38.8 (45)	11.4 (33)	12.8 (30)	7.7 (23)
Total Foreign and Global Equities Index			5.8 (41)	9.9 (42)	37.3 (50)	10.1 (45)	11.7 (44)	6.7 (38)
FRS Foreign Stock Index Fund	314,494,899	2.1	5.7 (44)	9.7 (44)	37.4 (50)	9.7 (49)	11.5 (46)	6.5 (41)
MSCI All Country World ex-U.S. IMI Index			5.6 (45)	9.6 (45)	37.2 (51)	9.4 (51)	11.2 (51)	6.2 (46)
FRS Global Stock Fund	406,550,780	2.7	8.3 (26)	10.8 (64)	46.2 (25)	20.4 (15)	19.6 (15)	13.7 (12)
MSCI All Country World Index Net			7.4 (38)	12.3 (47)	39.3 (49)	14.6 (42)	14.6 (38)	10.1 (48)
FRS Foreign Stock Fund	216,186,060	1.5	7.0 (1)	6.5 (96)	40.1 (18)	13.8 (1)	14.5 (1)	8.3 (1)
MSCI All Country World ex-U.S. Index			5.5 (22)	23.4 (1)	53.4 (1)	14.0 (1)	13.9 (1)	7.0 (1)
FRS Self-Dir Brokerage Acct	1,220,467,095	8.3						

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 June 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 June 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 Money Market Fund	0.7 (1)	2.4 (1)	2.2 (1)	1.2 (1)	0.6 (1)	0.2 (1)	0.1 (1)	0.2 (1)	0.3 (1)	0.2 (1)
iMoneyNet 1st Tier Institutional Net Index	0.5 (17)	2.1 (22)	1.8 (17)	0.9 (17)	0.3 (19)	0.0 (20)	0.0 (23)	0.0 (23)	0.1 (23)	0.1 (23)
Real Assets										
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
Fixed Income										
Total Bond Index	8.0 (3)	9.8 (1)	-0.1 (94)	4.4 (2)	4.7 (8)	0.3 (81)	4.7 (1)	-1.1 (84)	6.0 (36)	6.7 (1)
FRS U.S. Bond Enhanced Index Fund	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)
Bimbg. Barc. U.S. Aggregate	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)
FRS Core Plus Bond Fund	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 Custom Core-Plus Fixed Income Index	8.6 (51)	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)
Domestic Equity	7.6 (78)	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)
Total U.S. Equities Index	20.0 (40)	30.1 (41)	-6.5 (45)	20.8 (48)	13.7 (29)	0.7 (35)	11.5 (42)	35.2 (43)	16.9 (33)	0.3 (38)
FRS U.S. Stock Market Index Fund	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)
Russell 3000 Index	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	-	-	-	-	-	-	-	-	-	-
International/Global Equity										
Total Foreign and Global Equities Index	15.2 (41)	23.7 (37)	-13.5 (28)	28.6 (50)	4.5 (42)	-2.6 (49)	-3.2 (42)	21.6 (33)	18.6 (53)	-11.3 (23)
FRS Foreign Stock Index Fund	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)
MSCI All Country World ex-U.S. IMI Index	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)
FRS Global Stock Fund	11.1 (54)	21.6 (52)	-14.8 (41)	27.8 (56)	4.4 (42)	-4.6 (56)	-4.2 (51)	21.0 (36)	16.4 (72)	-12.2 (30)
MSCI All Country World Index Net	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)
FRS Foreign Stock Fund	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)
MSCI All Country World ex-U.S. Index	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)
FRS Self-Dir Brokerage Acct	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)

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 June 30, 2021

Asset Allocation

Asset Allocation as of 6/30/2021

	U.S. Equity	Non-U.S. Equity	U.S. Fixed Income	Real Assets	Cash	Brokerage	Total	% of Total
FRS Retirement Fund	110,388,377	101,377,081	246,308,759	292,867,122			750,941,339	5.1%
FRS 2020 Retirement Date Fund	117,347,159	108,608,541	182,262,609	215,968,708			624,187,016	4.2%
FRS 2025 Retirement Date Fund	243,998,363	225,380,014	260,656,886	249,877,842			979,913,104	6.6%
FRS 2030 Retirement Date Fund	278,893,678	256,656,308	214,961,240	176,045,843			926,557,069	6.3%
FRS 2035 Retirement Date Fund	308,036,942	283,929,703	175,893,558	125,000,498			892,860,702	6.0%
FRS 2040 Retirement Date Fund	316,567,904	291,964,181	129,579,608	82,012,410			820,124,103	5.5%
FRS 2045 Retirement Date Fund	338,845,931	312,780,860	95,300,418	67,606,280			814,533,489	5.5%
FRS 2050 Retirement Date Fund	231,485,473	213,350,666	42,670,133	45,870,393			533,376,665	3.6%
FRS 2055 Retirement Date Fund	149,254,713	137,642,218	24,932,710	29,714,325			341,543,966	2.3%
FRS 2060 Retirement Date Fund	69,171,266	63,789,520	11,554,926	13,770,939			158,286,651	1.1%
Total Retirement Date Funds	\$ 2,163,989,806	\$ 1,995,479,092	\$ 1,384,120,847	\$ 1,298,734,360	\$ -	\$ -	\$ 6,842,324,104	46.3%
FRS Money Market Fund					1,057,170,733		1,057,170,733	7.1%
Total Cash	\$ -	\$ -	\$ -	\$ -	\$ 1,057,170,733	\$ -	\$ 1,057,170,733	7.1%
FRS Inflation Adjusted Multi-Assets Fund				152,332,198			152,332,198	1.0%
Total Real Assets	\$ -	\$ -	\$ -	\$ 152,332,198	\$ -	\$ -	\$ 152,332,198	1.0%
FRS U.S. Bond Enhanced Index Fund			282,857,616				282,857,616	1.9%
FRS Core Plus Bond Fund			441,775,091				441,775,091	3.0%
Total Fixed Income	\$ -	\$ -	\$ 724,632,707	\$ -	\$ -	\$ -	\$ 724,632,707	4.9%
FRS U.S. Stock Market Index Fund	1,592,040,352						1,592,040,352	10.8%
FRS U.S. Stock Fund	2,267,278,166						2,267,278,166	15.3%
Total Domestic Equity	\$ 3,859,318,519	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,859,318,519	26.1%
FRS Foreign Stock Index Fund		314,494,899					314,494,899	2.1%
FRS Global Stock Fund		406,550,780					406,550,780	2.7%
FRS Foreign Stock Fund		216,186,060					216,186,060	1.5%
Total International/Global Equity	\$ -	\$ 937,231,739	\$ -	\$ -	\$ -	\$ -	\$ 937,231,739	6.3%
FRS Self-Dir Brokerage Acct						1,220,467,095	1,220,467,095	8.3%
Total Self-Dir Brokerage Acct						\$ 1,220,467,095	\$ 1,220,467,095	8.3%
Total Portfolio	\$ 6,023,308,325	\$ 2,932,710,831	\$ 2,108,753,553	\$ 1,451,066,558	\$ 1,057,170,733	\$ 1,220,467,095	\$ 14,793,477,095	100.0%
Percent of Total	40.7%	19.8%	14.3%	9.8%	7.1%	8.3%	100.0%	

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 June 30, 2021

Multi Timeperiod Statistics

	3 Years Return	3 Years Standard Deviation	3 Years Sharpe Ratio	3 Years Tracking Error	3 Years Information Ratio	3 Years Up Market Capture	3 Years Down Market Capture
FRS Investment Plan	11.50	13.22	0.78	0.56	0.93	103.31	102.07
FRS Retirement Fund	8.75	8.06	0.90	0.47	0.69	102.95	101.74
FRS 2020 Retirement Date Fund	9.26	9.29	0.85	0.51	0.35	101.39	100.72
FRS 2025 Retirement Date Fund	10.19	10.82	0.82	0.48	0.36	101.04	100.35
FRS 2030 Retirement Date Fund	10.90	12.21	0.79	0.48	0.23	100.63	100.26
FRS 2035 Retirement Date Fund	11.53	13.43	0.77	0.48	0.13	100.37	100.20
FRS 2040 Retirement Date Fund	12.11	14.61	0.76	0.47	0.07	100.25	100.24
FRS 2045 Retirement Date Fund	12.57	15.55	0.75	0.47	0.08	100.25	100.20
FRS 2050 Retirement Date Fund	12.86	16.16	0.74	0.48	0.11	100.15	99.95
FRS 2055 Retirement Date Fund	13.04	16.29	0.75	0.46	0.39	100.63	100.02
FRS 2060 Retirement Date Fund	13.11	16.30	0.75	0.48	0.50	100.80	99.93
FRS Money Market Fund	1.46	0.30	0.86	0.07	3.34	118.68	-1,044.00
FRS Inflation Sensitive Fund	5.36	9.16	0.46	1.07	0.41	104.53	101.89
FRS U.S. Bond Enhanced Index Fund	5.43	3.54	1.16	0.17	0.53	102.02	102.72
FRS Core Plus Bond Fund	6.53	4.90	1.03	1.69	0.40	117.20	129.13
FRS U.S. Stock Market Index Fund	18.80	19.43	0.91	0.05	1.12	100.18	100.04
FRS U.S. Stock Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRS Foreign Stock Index Fund	9.72	18.05	0.53	0.94	0.30	101.12	100.25
FRS Global Stock Fund	20.39	18.90	1.00	3.47	1.49	112.02	92.61
FRS Foreign Stock Fund	13.78	18.69	0.71	8.34	-0.03	95.79	93.76

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 June 30, 2021

Multi Timeperiod Statistics

	5 Years Return	5 Years Standard Deviation	5 Years Sharpe Ratio	5 Years Tracking Error	5 Years Information Ratio	5 Years Up Market Capture	5 Years Down Market Capture
FRS Investment Plan	11.48	10.59	0.96	0.50	1.20	103.64	101.19
FRS Retirement Fund	7.68	6.54	0.97	0.42	0.71	102.58	100.24
FRS 2020 Retirement Date Fund	8.99	7.56	1.01	0.45	0.66	102.17	100.12
FRS 2025 Retirement Date Fund	10.17	8.78	1.01	0.43	0.68	101.80	100.02
FRS 2030 Retirement Date Fund	11.11	9.90	0.99	0.44	0.57	101.31	99.91
FRS 2035 Retirement Date Fund	12.03	10.88	0.99	0.47	0.67	101.51	99.89
FRS 2040 Retirement Date Fund	12.64	11.81	0.96	0.45	0.41	100.77	99.86
FRS 2045 Retirement Date Fund	13.08	12.55	0.95	0.44	0.23	100.33	99.75
FRS 2050 Retirement Date Fund	13.30	13.02	0.93	0.45	0.30	100.38	99.58
FRS 2055 Retirement Date Fund	13.39	13.11	0.93	0.44	0.44	100.62	99.59
FRS 2060 Retirement Date Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRS Money Market Fund	1.38	0.25	1.83	0.06	4.66	124.96	-1,044.00
FRS Inflation Sensitive Fund	5.03	7.46	0.53	1.09	0.39	103.51	99.28
FRS U.S. Bond Enhanced Index Fund	3.10	3.29	0.60	0.13	0.53	101.75	101.18
FRS Core Plus Bond Fund	4.61	4.20	0.81	1.37	0.54	119.26	119.20
FRS U.S. Stock Market Index Fund	17.96	15.65	1.06	0.05	1.35	100.23	100.00
FRS U.S. Stock Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FRS Foreign Stock Index Fund	11.51	14.92	0.72	0.93	0.31	100.68	99.16
FRS Global Stock Fund	19.63	15.40	1.16	3.45	1.29	112.30	90.36
FRS Foreign Stock Fund	14.50	15.46	0.88	6.72	0.08	98.05	92.49

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

As of June 30, 2021

Benchmark Descriptions

Retirement Date Benchmarks - A weighted average composite of the underlying components' benchmarks for each fund.

iMoneyNet 1st Tier Institutional Net Index - An index made up of the entire universe of money market mutual funds. The index currently represents over 1,300 funds, or approximately 99 percent of all money fund assets.

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 June 30, 2021

Descriptions of Universes

Retirement Date Funds - Target date universes calculated and provided by Lipper.

FRS Money Market 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

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LCEF Total Fund

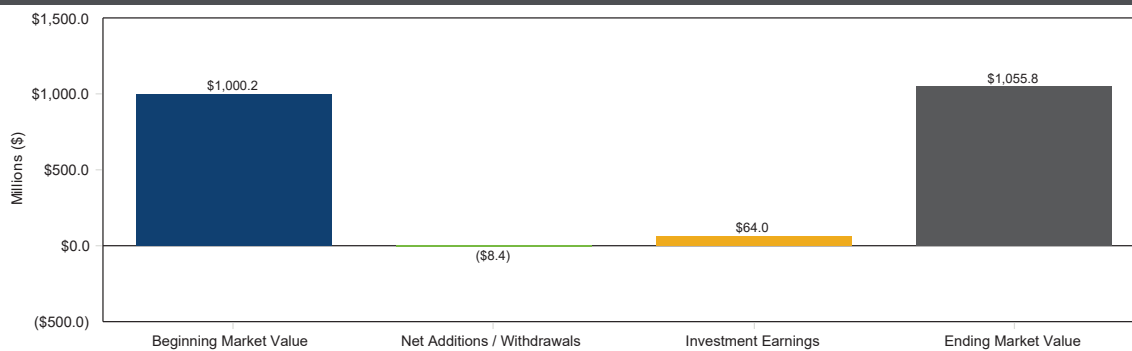


LCEF Total Fund

As of June 30, 2021

Total Plan Asset Summary

Change in Market Value From April 1, 2021 to June 30, 2021



Summary of Cash Flow

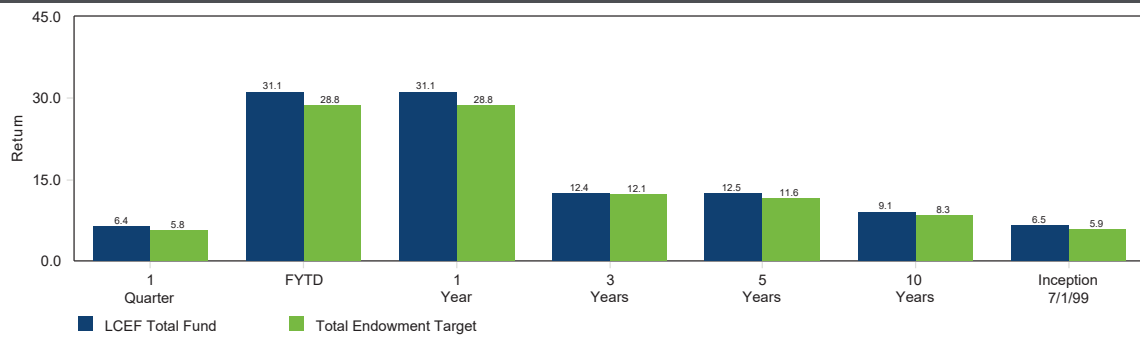
	1 Quarter	FYTD*	1 Year
Beginning Market Value	1,000,201,984	811,698,985	811,698,985
+ Additions / Withdrawals	-8,422,141	-8,422,141	-8,422,141
+ Investment Earnings	64,030,798	252,533,796	252,533,796
= Ending Market Value	1,055,810,641	1,055,810,641	1,055,810,641

*Period July 2020 - June 2021

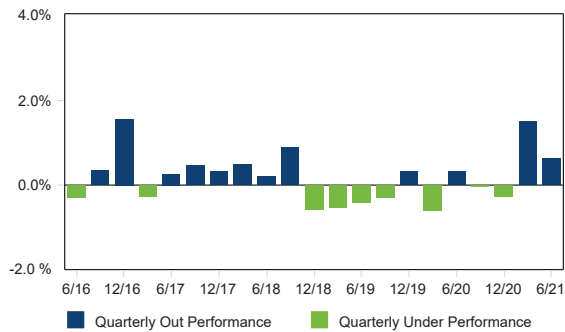


Total Plan Performance Summary

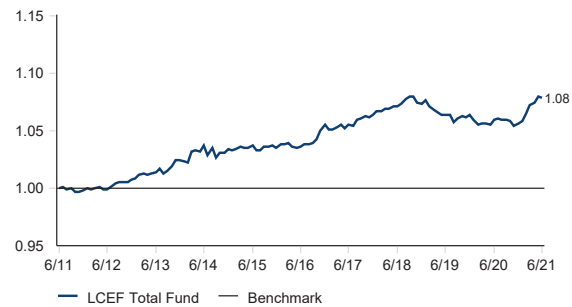
Return Summary



Quarterly Excess Performance



Ratio of Cumulative Wealth - 10 Years



Asset Allocation & Performance

	Allocation			Performance(%)					
	Market Value (\$)	%	Policy(%)	1 Quarter	FYTD	1 Year	3 Years	5 Years	10 Years
LCEF Total Fund	1,055,810,641	100.0	100.0	6.4 (9)	31.1 (18)	31.1 (18)	12.4 (20)	12.5 (11)	9.1 (13)
Total Endowment Target				5.8 (25)	28.8 (33)	28.8 (33)	12.1 (25)	11.6 (23)	8.3 (34)
Global Equity*	774,947,723	73.4	71.0	7.9	43.5	43.5	14.7	15.8	12.0
Global Equity Target				7.2	41.0	41.0	14.3	14.7	10.8
Fixed Income	162,856,190	15.4	17.0	1.8	-0.3	-0.3	5.4	3.1	3.5
Bimbg. Barc. U.S. Aggregate				1.8	-0.3	-0.3	5.3	3.0	3.4
TIPS	108,400,717	10.3	11.0	3.2	6.6	6.6	6.6	4.3	3.5
Barclays U.S. TIPS				3.2	6.5	6.5	6.5	4.2	3.4
Cash Equivalents	9,606,011	0.9	1.0	0.0	0.3	0.3	1.7	1.5	1.0
S&P US AAA & AA Rated GIP 30D Net Yield Index				0.0	0.1	0.1	1.3	1.2	0.6

Benchmark and universe descriptions are provided in the Appendix.

*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities' and Foreign Equities' historical performance.



As of June 30, 2021

Calendar Year Performance

	Performance(%)									
	Year To Date	2020	2019	2018	2017	2016	2015	2014	2013	2012
LCEF Total Fund	11.0 (11)	14.0 (38)	20.1 (28)	-6.1 (64)	18.5 (7)	9.2 (10)	-1.4 (45)	5.2 (34)	14.7 (45)	13.2 (27)
Total Endowment Target	8.8 (47)	14.8 (29)	21.2 (18)	-7.0 (84)	17.7 (13)	7.0 (38)	-1.6 (47)	4.3 (58)	12.8 (69)	12.2 (60)
Global Equity*	15.5	15.2	25.0	-8.5	24.5	11.4	-1.9	5.3	27.1	20.4
Global Equity Target	12.7	16.4	26.4	-9.8	24.1	8.4	-2.4	3.9	24.1	19.4
Fixed Income	-1.6	7.8	8.7	0.1	3.7	2.7	0.6	6.0	-1.8	4.6
Bimbg. Barc. U.S. Aggregate	-1.6	7.5	8.7	0.0	3.5	2.6	0.5	6.0	-2.0	4.2
TIPS	1.7	11.1	8.5	-1.1	3.2	4.8	-1.2	3.5	-8.7	7.2
Barclays U.S. TIPS	1.7	11.0	8.4	-1.3	3.0	4.7	-1.4	3.6	-8.6	7.0
Cash Equivalents	0.1	0.9	2.6	2.3	1.2	0.7	0.5	0.2	0.2	1.3
S&P US AAA & AA Rated GIP 30D Net Yield Index	0.0	0.6	2.2	1.8	0.9	0.4	0.1	0.0	0.1	0.1

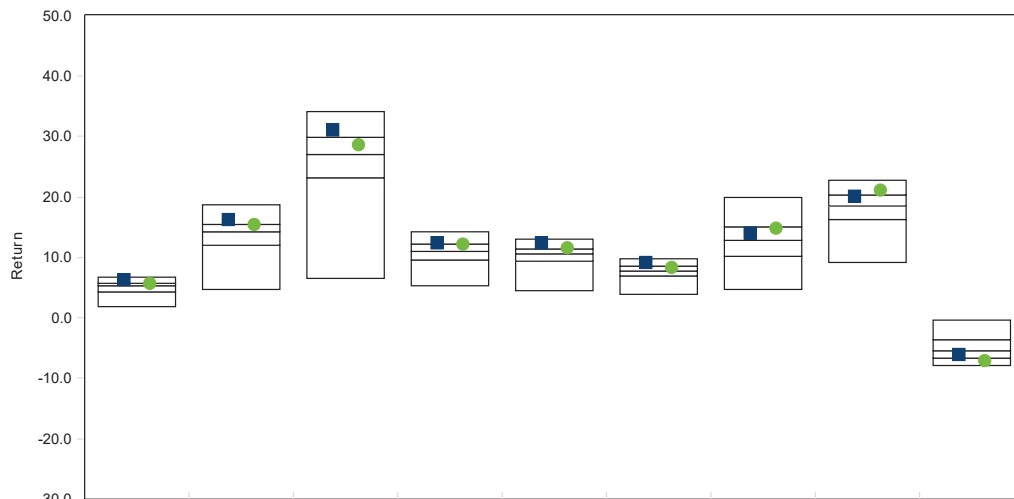
*Global Equity became an asset class in September 2012 by merging the Domestic Equities and Foreign Equities asset classes. The return series prior to September 2012 is a weighted average of Domestic Equities' and Foreign Equities' historical performance.



As of June 30, 2021

Plan Sponsor Peer Group Analysis

All Endowments-Total Fund



	1 Quarter	FYTD	1 Year	3 Years	5 Years	10 Years	2020	2019	2018
■ LCEF Total Fund	6.4 (9)	16.4 (15)	31.1 (18)	12.4 (20)	12.5 (11)	9.1 (13)	14.0 (38)	20.1 (28)	-6.1 (64)
● Total Endowment Target	5.8 (25)	15.6 (23)	28.8 (33)	12.1 (25)	11.6 (23)	8.3 (34)	14.8 (29)	21.2 (18)	-7.0 (84)
5th Percentile	6.8	18.8	34.1	14.3	13.0	9.9	19.9	22.7	-0.4
1st Quartile	5.7	15.4	29.9	12.1	11.5	8.5	15.1	20.3	-3.7
Median	5.2	14.2	27.0	11.0	10.6	7.8	12.9	18.5	-5.3
3rd Quartile	4.4	12.1	23.1	9.6	9.5	7.0	10.1	16.3	-6.6
95th Percentile	1.9	4.7	6.5	5.2	4.5	4.0	4.7	9.1	-7.8
Population	277	262	271	254	239	169	374	368	299

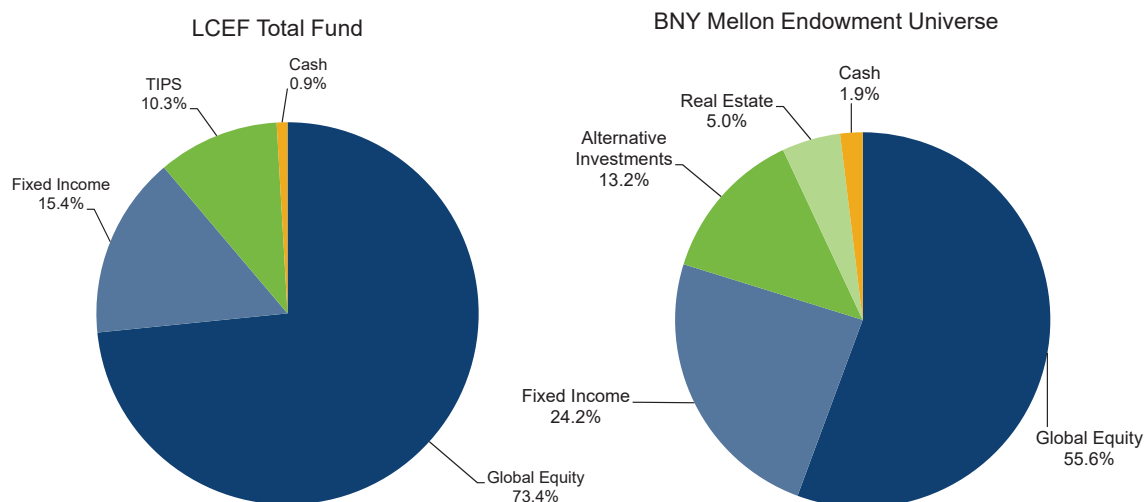
Parentheses contain percentile rankings.



LCEF Total Fund

As of June 30, 2021

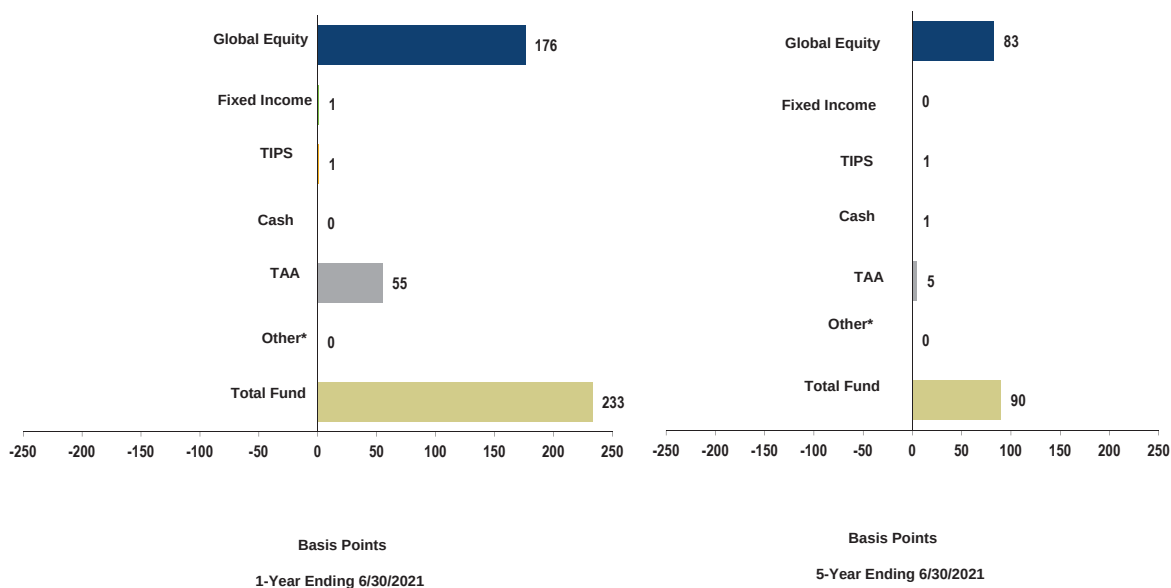
Universe Asset Allocation Comparison



LCEF Total Fund

As of June 30, 2021

Attribution



*Other includes differences between official performance value added due to methodology and extraordinary payouts.





Appendix



As of June 30, 2021

Benchmark Descriptions

LCEF Total Fund

Total Endowment Target - A weighted blend of the individual asset class target benchmarks.

Total Global Equity

MSCI ACWI IMI ex-Tobacco - From 7/1/2014 forward, a custom version of the MSCI ACWI IMI excluding tobacco-related companies. From 10/1/2013 to 6/30/2014, a custom version of the MSCI ACWI IMI adjusted to reflect a 55% fixed weight in the MSCI USA IMI and a 45% fixed weight in the MSCI ACWI ex-USA IMI, and excluding certain equities of tobacco-related companies. From 9/1/2012 to 9/30/2013, a custom version of the MSCI ACWI IMI excluding tobacco-related companies. Prior to 9/1/2012, the benchmark is a weighted average of both the Domestic Equities and Foreign Equities historical benchmarks.

Total Domestic Equities

Russell 3000 Index ex-Tobacco - Prior to 9/1/2012, an index that measures the performance of the 3,000 stocks that make up the Russell 1000 and Russell 2000 Indices, while excluding tobacco companies.

Total Foreign Equities

MSCI ACWI ex-US IMI ex-Tobacco - Prior to 9/1/2012, a capitalization-weighted index representing 46 countries, but excluding the United States. The index includes 23 developed and 24 emerging market countries, and excludes tobacco companies.

Total Fixed Income

Barclays Aggregate Bond Index - A market value-weighted index consisting of the Barclays Credit, Government, and Mortgage-Backed Securities Indices. The index also includes credit card, auto, and home equity loan-backed securities. This index is the broadest available measure of the aggregate investment grade U.S. fixed income market.

Total TIPS

Barclays U.S. TIPS - A market value-weighted index consisting of U.S. Treasury Inflation-Protected Securities with one or more years remaining until maturity with total outstanding issue size of \$500 million or more.

Total Cash Equivalents

S&P U.S. AAA & AA Rated GIP 30-Day Net Yield Index - An unmanaged, net-of-fees, market index representative of the Local Government Investment Pool. On 10/1/2011, the S&P U.S. AAA & AA Rated GIP 30-Day Net Yield Index replaced the S&P U.S. AAA & AA Rated GIP 30-Day Gross Yield Index, which was previously used from 4/30/08 - 9/30/11. Prior to 4/30/08, it was the average 3-month T-bill rate.



As of June 30, 2021

Universe Descriptions

LCEF Total Fund

A universe comprised of 463 total endowment portfolio returns, net of fees, calculated and provided by BNY Mellon Performance & Risk Analytics and Investment Metrics. Aggregate assets in the universe comprised \$463.1 billion as of quarter-end and the average market value was \$1.0 billion.

Total Fixed Income

A universe comprised of 44 total fixed income portfolio returns, net of fees, of endowment plans calculated and provided by BNY Mellon Performance & Risk Analytics and Investment Metrics. Aggregate assets in the universe comprised \$295.8 billion as of quarter-end and the average market value was \$6.7 billion.



As of June 30, 2021

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

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**Investment Advisory Council
Compensation Subcommittee Conference Call
September 14, 2021**



Agenda
Investment Advisory Council (IAC) Compensation
Subcommittee Conference Call

Tuesday, September 14, 2021

-
1.	Welcome/Call to Order/Approval of Minutes of September 24, 2020 Meeting (Attachments 1A and 1B)	Vinny Olmstead, Chair
2.	Opening Remarks Opening Remarks	Vinny Olmstead, Chair Ash Williams, Executive Director & CIO
3.	Recap of ED/CIO's FY 2020-21 Incentive Plan Design (Attachment 2)	Josh Wilson, Merer
4.	Presentation of Results of ED/CIO's Evaluation and Mercer's Salary Recommendation (Attachments 3A, 3B, Appendix to 3B, 3C)	Josh Wilson, Merer
5.	Discussion of Evaluation Results by Subcommittee	Vinny Olmstead, Chair
6.	Formulation of Recommendation to IAC and Trustees	Vinny Olmstead, Chair
7.	ACTION REQUESTED: Approval of Recommendation	Vinny Olmstead, Chair
8.	SBA Incentive Compensation Plan Follow-up (Attachment 4)	Lamar Taylor, COO/CFO Alison Romano, DCIO
9.	Other Business/Audience Comments/Closing Remarks/Adjournment (Attachment 5, Information Only)	

Attachment 1A

MINUTES
INVESTMENT ADVISORY COUNCIL
COMPENSATION SUBCOMMITTEE CONFERENCE CALL
September 24, 2020

A special meeting of the Investment Advisory Council (IAC) Compensation Subcommittee was held on Thursday, September 24, 2020, in the Hermitage Room of the State Board of Administration of Florida (SBA), Tallahassee, Florida. The attached transcript of the September 24, 2020 meeting is hereby incorporated into these minutes.

IAC Members: Vinny Olmstead, Chair (Via telephone)
 Chuck Cobb (Via telephone)
 Peter Collins (Via telephone)
 Gary Wendt (Via telephone)
 Peter Jones (Via telephone)

SBA Employees: Ash Williams, Executive Director and CIO
 Alison Romano
 Kent Perez
 Lamar Taylor
 Randy Harrison
 John Kuczwanski

Consultants: Jon Mason – Mercer (Via telephone)
 Josh Wilson – Mercer (Via telephone)

WELCOME/CALL TO ORDER/APPROVAL OF MINUTES OF SEPT. 3, 2019 MEETING

The meeting was called to order at 1:00 PM. Mr. Vinny Olmstead, Chair, IAC Compensation Subcommittee, welcomed everyone. Mr. Olmstead thanked the other comp committee members (Gary Wendt, Peter Collins, Ambassador Cobb, and Peter Jones who had also participated over the last couple of years), for their participation.

Mr. Olmstead made a motion to approve the minutes from the September 3, 2019 IAC Compensation Subcommittee conference call; Mr. Peter Collins and Ambassador Cobb seconded the motion. The minutes were unanimously approved.

OPENING REMARKS

Mr. Olmstead made opening remarks stating that the work of the committee should go smoothly as the members on the committee have been serving for at least three years, some longer. Specifically thanked Ambassador Cobb for his service as it will be his last year on the IAC. Mr. Olmstead also stated that Mercer would be participating in the meeting as they have since approximately 2012. Mr. Olmstead reminded all that the purpose of today's meeting is to make compensation recommendations exclusively for the director and CIO,

Ash Williams.

Mr. Ash Williams, ED/CIO, reported that the plan has drawn attention and emulation from other plans around the country and a handful in jurisdictions outside of the U.S. Mr. Williams said that he and Vinny had discussed the possibility of the comp committee doing an overall look at the incentive compensation plan of the SBA, not just the ED/CIO piece, but the overall plan. Mr. Williams reported that things have continued to run smoothly at the SBA, while functioning largely remotely and in recent days have seen a bit of evolution in the investment environment. Mr. Williams briefly reported that Alison Romano has started as the Deputy CIO since the last comp subcommittee meeting and that she has distinguished herself in that role.

Mr. Olmstead asked a brief question regarding audited final numbers. Mr. Williams explained the three qualifications which must be met regarding the incentive comp plan. Additional questions were asked by Mr. Peter Collins, Ambassador Cobb, and Mr. Olmstead as a result of Mr. Williams answer to the original question regarding audited final numbers. Mr. Williams answered those questions.

RECAP OF ED/CIO'S FY2019-20 INCENTIVE PLAN DESIGN

Mr. Jon Mason discussed in more detail the construct of the incentive compensation plan and thanked Mr. Williams for his explanation of same. Numerous questions were raised regarding the incentive compensation plan and the need for additional studies. Those questions by committee members were answered by Mr. Mason, Mr. Josh Wilson, Mr. Williams, and Mr. Taylor.

PRESENTATION OF RESULTS OF ED/CIO'S EVALUATION AND MERCER'S SALARY RECOMMENDATION

Mr. Mason discussed the results of the ED/CIO evaluation and explaining that there were high performance scores for Mr. Williams and positive comments for the job that Mr. Williams is doing. He provided details on the evaluation process.

FORMULATION OF RECOMMENDATION TO IAC AND TRUSTEES and ACTION REQUESTED: APPROVAL OF RECOMMENDATION

After much discussion of the plan, Ambassador Cobb made a motion for a 3% salary increase, with additional discussion on the discretionary bonus. The motion was seconded by Mr. Collins; unanimously approved by the committee. Additionally, Mr. Olmstead proposed that Mr. Williams be given the maximum of the individual component and propose they push through the max. Mr. Collins made the motion; motion passed unanimously.

OTHER BUSINESS/AUDIENCE COMMENTS/CLOSING REMARKS/ADJOURNMENT

Mr. Williams thanked everyone for their support and understanding and reiterated that interaction with various groups would be better going forward

Ambassador Cobb suggested that the full nine-person board should start the incentive compensation plan review that Mr. Williams discussed. All members were in favor of same.

Mr. Olmstead was nominated and approved as continuing chair of the compensation subcommittee.

The meeting adjourned at 2:46 p.m.

Vinny Olmstead, Chair
IAC Compensation Subcommittee

Dated: _____

Attachment 1B

STATE BOARD OF ADMINISTRATION OF FLORIDA INVESTMENT ADVISORY COUNCIL

September 24, 2020

PHIPPS REPORTING

Raising the Bar!

STATE BOARD OF ADMINISTRATION OF FLORIDA

INVESTMENT ADVISORY COUNCIL
COMPENSATION SUBCOMMITTEE
WEB CONFERENCE CALL

THURSDAY, SEPTEMBER 24, 2020
1:10 P.M. - 2:46 P.M.

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

Stenographically Reported By:
JO LANGSTON, RPR

Job No. : 152714

Page 2 APPEARANCES IAC MEMBERS: VINNY OLMSTEAD, CHAIR CHUCK COBB PETER COLLINS GARY WENDT PETER JONES SBA EMPLOYEES: ASH WILLIAMS, EXECUTIVE DIRECTOR AND CIO ALISON ROMANO KENT PEREZ LAMAR TAYLOR RANDY HARRISON JOHN KUCZWANSKI CONSULTANTS: JON MASON - (Mercer) JOSH WILSON - (Mercer)	Page 3 1 INVESTMENT ADVISORY COUNCIL 2 COMPENSATION SUBCOMMITTEE 3 WEB CONFERENCE CALL 4 * * * 5 MR. OLMSTEAD: Let's kick it off. So Vinny 6 Olmstead, chairman of the IAC committee and would 7 love to call this meeting to order. So let's 8 start by taking care of some administrative 9 items. First of all, I want to thank the comp 10 committee members, Gary Wendt, Peter Collins and, 11 of course, Ambassador Cobb and also Peter Jones, 12 who has sat in the last couple of years. We're 13 appreciative of that. 14 First hand of business is the minutes. So I 15 have reviewed those in detail. I think they were 16 September 3rd, 2019. And, yes, Gary Wendt, you 17 were there. And so I'd love to move the minutes 18 as of that date, if everybody has had a chance to 19 review them and I can get a second. 20 MR. COLLINS: Second. You're on mute, Gary. 21 MR. COBB: Second. Chuck Cobb, second. 22 MR. OLMSTEAD: All in favor? 23 (Ayes) 24 MR. OLMSTEAD: So for the court reporter, 25 we're all unanimous on passing those minutes. We have a agenda that hopefully won't take the full
Page 4 1 hour and a half. It's sort of broken into a few 2 pieces. One is quick opening remarks by Ash and 3 myself. Looking forward to the review by Mercer, 4 from Josh, and then we'll discuss, and I'm sure 5 along the way there will be a good amount of 6 discussion during the Mercer conversation also 7 with all of the compensation committee members. 8 So I will kick off real quick with a few 9 opening comments. And the first one I wanted to 10 make mention of on the policy side and why this 11 may go smoothly is that the folks who are on the 12 committee have been here for at least three years 13 and some longer. So we do have an understanding 14 of what's happening with this compensation 15 committee and how it works, and so appreciate, 16 you know, volunteering your time to do that. 17 It may be Ambassador Cobb's last year doing 18 it, so I think it's important to thank him for 19 his leadership and significant contribution in so 20 many ways. I did want to note that. His 21 insights are always invaluable because he has a 22 long history and good insight on this. So thank 23 you, Ambassador Cobb. 24 MR. COBB: I thought I resigned a year ago. 25 The chief financial officer doesn't seem to be	Page 5 1 able to find a replacement. 2 MR. OLMSTEAD: You're hard to replace, so I 3 understand. And just for perspective, this plan 4 has been underway long before I was part of this 5 and many of us here and with Ash and with Mercer 6 and others. So it's a very carefully thought-out 7 plan that seems to be doing what it set out to 8 do, which two primary things are let's retain our 9 performance employees so that we continue to 10 perform as a whole; and, secondly, that we can 11 attract talented professionals. And we're 12 certainly doing that. 13 As a quick testament, not only does it seem 14 to be working for the IAC, but there are other 15 programs in the state of Florida, such as 16 Division of Bond Finance and the Florida Prepaid 17 tuition program that are emulating the very comp 18 plan that was carefully rolled out. So nice job 19 on that. 20 I think, as I mentioned, Mercer will be 21 here. Mercer, I think, has been around since 22 2012 advising on compensation, even in the design 23 of the comp plan. At one point along the way or 24 multiple points along the way, they presented 15 25 or more times in public meetings. So they have a

Page 6 1 good history hear also that, as an independent 2 firm, is great and keeps this compensation 3 committee that will certainly ebb and flow over 4 the years, it's nice to have some consistency 5 there. 6 As a quick refresher, this is a call to make 7 compensation recommendations exclusively for the 8 director and CIO, Ash. There are, again, as a 9 refresher -- and Mercer will get into some more 10 detail later -- there is a couple of components, 11 the variable pay, which is the organizational or 12 the formulaic compensation, which is 85 percent 13 of the plan, and then there's an individual for 14 15 percent of his overall variable compensation 15 that is based on the feedback from this 16 committee, which is where we'll focus a good part 17 of our time. 18 So the second piece for us to really 19 contemplate is any changes in the base salary for 20 the executive. So, again, our goal will be to 21 focus on conversation around the 15 percent and 22 around the base piece of it. And I think the 23 other important piece to note is that the intent 24 of this committee is to make a recommendation, 25 but ultimately the final action is reserved for	Page 7 1 the SBA trustees. 2 So with that, I will then -- that's just a 3 highlight, quick overview, and I will hand it off 4 to Ash before we hand it off to Mercer. 5 MR. WILLIAMS: Thank you, Mr. Chairman. And 6 I guess what I would share with the group is, the 7 history of this plan is such that, number one, it 8 has served our interest here in Florida, as I 9 think all of you will probably agree from what 10 you've seen in the IAC. 11 But it has also been a plan that has drawn 12 attention and emulation from other plans, not 13 only -- other organizations, not only those like 14 the Division of Bond Finance and Florida Prepaid 15 program that Vinny mentioned a moment ago, but 16 also other funds around the country and a handful 17 in other jurisdictions outside of the U.S. So 18 it's actually a very, very professional design 19 that's very consistent with best practice. 20 One of the things that Vinny and I talked 21 about briefly the other day when we were 22 preparing for this call was the idea of the comp 23 committee potentially doing an overall look at 24 the incentive compensation plan of the SBA, not 25 just my piece but look at the overall plan
Page 8 1 design, which obviously was born out of the 2 compensation subcommittee and the original work 3 going back to 2012. I think that's completely 4 prudent and doing so about every five years, just 5 looking at the design, reviewing the original 6 concepts (inaudible), how it's actually 7 performed, have best practices changed over the 8 period of time that it's been in existence, have 9 our needs evolved in any way, et cetera. 10 So that's probably a good thing to do over 11 the next year or so. And to the extent the 12 subcommittee feels there should be changes, then 13 we would certainly work with everybody to get 14 those done and propose them to the trustees. The 15 incentive compensation plan for the board overall 16 is in a document that's adopted by the trustees 17 in public meeting, so the eventual process would 18 be for them to do exactly that. 19 So other than that, I guess what I would say 20 is things have continued to run smoothly here. 21 We've been functioning largely remotely, and it's 22 gone quite smoothly. We have started to see a 23 bit of evolution in the investment environment 24 just in recent days. 25 Everybody on this call is well familiar with	Page 9 1 what we've seen happen in tech and what seems to 2 have been a little bit of a head fake of rotation 3 into some of the other sectors that have been 4 dormant in these gains that we've seen since 5 early April. I think it remains to be seen where 6 all that goes and where the world goes 7 environmentally, but that's the subject of the 8 meeting we have coming up next week more than it 9 is this meeting. 10 So I think I would just say that our 11 organization continues to advance. One of the 12 key evolutions we had since our last comp 13 subcommittee meeting is that we started 14 contemplating a bit about succession. And in 15 that regard, Alison Romano, as you're aware, 16 moved into the deputy CO position effective 1 17 December 2019. 18 Alison has distinguished herself in that 19 role, has a very effective working rapport with 20 all of the senior investment officers and others 21 here in management, has contributed to the 22 overall intellectual body of thought in fund 23 management by participating in a number of 24 national and international professional groups 25 and presentations in the time she's been in the

Page 10 1 job and has done great generally. She's also 2 interacted a bit with the offices downtown and 3 some of our other stakeholders. So that's all 4 going well. 5 And with that, unless anyone has any 6 questions for me, I'm happy to proceed with the 7 agenda, Mr. Chair. 8 MR. OLMSTEAD: That sounds great. And I 9 want to make one more quick note. And, Ash, you 10 can correct me if I'm wrong on this. But with 11 regard to your organizational component, which is 12 largely formulaic, that has not been completed 13 yet because we do not have the audited final 14 numbers in, correct? 15 MR. WILLIAMS: Yeah. What will happen is 16 the entire incentive comp plan is founded upon 17 three qualifications being met. Two of the 18 qualifications are fund-wide and the third is 19 individually oriented. And the first two are 20 that there has to be a net investment performance 21 in excess of a certain minimal amount above 22 benchmark. And if the total fund doesn't achieve 23 that, then there is no incentive for anybody. 24 The second gating factor -- and we do this 25 structurally when we set the plan up -- was	Page 11 1 designed to avoid the moral hazard of a 2 misalignment of investment professionals seeking 3 to achieve performance results that they have an 4 economic stake in in excessive risk taking. So 5 we put a provision in the gating that said that 6 if the total fund risk violates certain 7 boundaries, then there would be no incentive 8 compensation scheme in that year. 9 And then the third gate is individual. And 10 that is, notwithstanding whether the first two 11 qualifications are met on a total fund basis, if 12 any individual participant of the incentive comp 13 plan has either compliance violations or a 14 disciplinary situation involving their 15 performance at the State Board, then there will 16 be no incentive for them. 17 And that also includes the situation where 18 the incentives are paid out over two years. So 19 let's say that you're employed by the SBA, and in 20 year one you get an award, you get half of it 21 that year, and you're in line to receive the 22 second half of it the following December. 23 If during that pending 12-month period 24 between getting paid the first piece and then 25 you're due for the second one you have either a
Page 12 1 compliance or a disciplinary issue, you forfeit 2 your second part of your incentive. So I bring 3 those criteria up for your information as well. 4 MR. COLLINS: Mr. Chairman, can I ask a 5 question? 6 MR. OLMSTEAD: Of course. 7 MR. COLLINS: Ash, given what happened in 8 March and April, when we saw unbelievable 9 volatility, how does that affect the gate in the 10 incentive comp plan for not only you but for all 11 the employees? So you have a situation where it 12 looks like we took unbelievable risk or we dipped 13 way into our risk budget, but, you know, it's one 14 of those once in a 50-year kind of things, and it 15 was short, it wasn't a systemic thing, it was an 16 event-driven thing, how does that -- have you 17 guys looked at that? How does that look like 18 it's going to affect the incentive comp plan? 19 MR. WILLIAMS: To be honest with you, it 20 doesn't look very good. You're exactly right. 21 As you know, we have -- private equity would be a 22 good example. You have liquid market classes 23 where the marks are in real time, and you have -- 24 you also have private market classes that are 25 benchmarked to things that are specific to the	Page 13 1 asset class. (Inaudible) 2 And then you have asset classes like private 3 equity or strategic investments where the 4 performance benchmark is related to liquid 5 markets. So, for example, private equity is 6 tasked with overcoming the liquid equity 7 benchmark by a certain number of basis points. 8 And the trick we ran into was that on those 9 asset classes where we have a disconnect between 10 the benchmark being tied to a liquid market, with 11 prices in real time and the actual performance 12 tied to assets that are priced periodically, is 13 that you suddenly get this huge disconnect 14 between our performance and the benchmark 15 performance, which normally would be caused by 16 what's called active risk, the risk you take of 17 being -- your portfolio being away from your 18 benchmark. 19 Well, in fact, you didn't take any -- we 20 didn't make any changes in our portfolio that 21 would have increased its risk profile. You just 22 were whipsawed by the short-term limits in liquid 23 equity prices, which over the course of the 24 period from March to mid-April, I don't need to 25 tell any of you, were absolutely stark in their

Page 14 1 magnitude. And we did a couple of interim IAC 2 calls during that period, so you remember hearing 3 about it in real time. 4 And the thrust of all that is that on our 5 risk metrics, it looks like we're out of bounds 6 on risk, in which case the logical outcome of 7 that will be that it will bar the incentive plan 8 going into effect for this year. 9 We have addressed those issues internally in 10 terms of our measurement in the short-term by 11 resetting those boundaries so that we don't 12 create an exception that would be a compliance 13 issue. We'll know more when we see formal 14 numbers, but our preliminary take is that we may 15 have a problem. 16 But I think everybody here understands that. 17 And the rules that we wrote when we set the plan 18 up were written with good intent and wholesome 19 purpose. And we're mature players, and we're not 20 suggesting changing the rules retrospectively, 21 but we're going to pay attention to this on a 22 go-forward basis, because we certainly don't want 23 to have collateral outcomes that are 24 unanticipated and not entirely constructive. And 25 it could be --	Page 15 1 MR. COBB: Mr. Chairman, I have two 2 questions on all that. First, is the time period 3 June 30 to June 30? Is that -- 4 MR. WILLIAMS: Yes. 5 MR. COBB: So it's a one year period. So 6 we're discussing the June 30 ending 2020, is what 7 we're talking about. 8 MR. WILLIAMS: Yes, sir. 9 MR. COBB: So my second question is, 10 according to the Aon report, we had 3.1 for the 11 year compared to -- this is unaudited, I 12 understand. We had 3.1 compared to a benchmark 13 of 3.0. Forgetting the risk issue that you've 14 talked about, does that 10th of 1 percent meet 15 the minimum threshold in terms of the other 16 number, or is that below the threshold, if that 17 turns out to be correct, 3.1 to 3.0? 18 MR. WILLIAMS: Yeah. The key to remember 19 here is that the threshold is a rolling three 20 year number. Because one of the other design 21 factors that we did when we structured the plan 22 was to make sure that it was not short-term 23 oriented, which would be another misalignment. 24 So it's a rolling three year number. 25 And if you look at our outperformance in
Page 16 1 prior years, even with a modest outperformance 2 this year -- and keep in mind, the performance 3 number usually goes up because the performance 4 number does not have in it marks to market for 5 private equity and real estate and some of the 6 strategic investment areas. 7 And our private equity performance this year 8 I think has been pretty good, as it usually is. 9 Real estate may be a drag this year, given what 10 will go on in short-term marks there. But we had 11 some good performance in strategic as well. 12 So I think there's a chance that that number 13 for the single year performance goes up a little 14 bit. But even if it stays right where it is, I 15 think on a rolling three year basis, there will 16 probably be qualification for incentive, although 17 perhaps not at the high level it is in years -- 18 recent years. 19 You'll recall the three levels of attainment 20 that drive the different levels of incentive. 21 The first is a minimal or base attainment. The 22 second is target, and the third is a maximum. 23 And those gate, I believe, at 5, 25, and 50 basis 24 points of outperformance respectively. So I 25 think it's probably that on a three year basis we	Page 17 1 will probably qualify for some level of 2 incentive, absent this issue. 3 MR. COBB: Thank you. 4 MR. WILLIAMS: Thank you. 5 MR. OLMSTEAD: And, Ash, one more 6 clarification, if you would. If you don't meet 7 that gate, does that mean that both the 8 organizational and individual or formulaic and 9 sort of review variable pay are off the table or 10 is it just the formulaic? 11 MR. WILLIAMS: It's the entire thing. So 12 what it would do would be just a year of zero 13 incentive, and that would be that. 14 MR. WENDT: Gary Wendt has a question. 15 MR. OLMSTEAD: Please. 16 MR. WENDT: Before we get into the numbers, 17 the raw display of things that we're going to 18 have to analyze, I would like to know from Ash, 19 what about the political sensitivities this year? 20 We all expected that given the economic 21 situations in the world, that it was going to be 22 difficult for Florida not to have to make big 23 cuts in their budgets. And they have done so 24 already in the educational part, in the state 25 university system, I know.

Page 18 1 But do you feel that there's any pressure or 2 lack of pressure on giving increases or not 3 because of the situation the State is in, which 4 by the way, it currently isn't too bad, according 5 to the governor. He just said that he's 6 making -- that the State is better off than they 7 thought they would be. So I'd just like a little 8 information on what the political feeling is in 9 Tallahassee. 10 MR. WILLIAMS: I think I'm -- your thinking 11 has not escaped me, Gary. And the short answer 12 is it's too early to say. It has not shown 13 itself in any way. And of course, in our case, 14 we're unusual compared to most of state 15 government because we're self-funding. And we're 16 also unusual in that usually dollars spent here 17 are not spent, quote, unquote. They are 18 literally invested and they produce a return. 19 You're all familiar with the story about our 20 returns net of all costs over many, many years. 21 And I believe not this year but last year, when I 22 did my self evaluation, I wrote about the way in 23 making the increases in internal asset management 24 capacity that we've created in recent years and 25 managing more money in-house, enhancing the	Page 19 1 controls (inaudible), all of that has taken both 2 money and more bodies. But the return on these 3 investments has been very, very substantial and 4 more than justified the infrastructure, both 5 human and systems, to support that activity. 6 So we're in a different situation here. The 7 other place we're in a different situation is 8 that, because we're self-funding, to the extent 9 there are any kind of broad cuts elsewhere, they 10 wouldn't necessarily reach us. 11 Now, we do understand that whether there's a 12 formal requirement or not, part of being a good 13 executive is not being tone deaf and not behaving 14 in a way that makes you look like you're not 15 perceptive of reality of your surroundings. 16 So I think the short answer is, where you've 17 seen cuts in universities, it's primarily been in 18 the athletic departments. And those tend to be 19 areas that have simultaneously suffered a 20 complete collapse of revenues as a consequence of 21 sporting events not being what they used to be, 22 sales being down, revenues for television being a 23 fraction of what they were. And at the same 24 time, many schools, most notably the one we have 25 right here in the Capitol, had recently hired
Page 20 1 coaching staffs and committed to millions and 2 millions of dollars in compensation for their 3 staffs. That's where those cuts have come so 4 far. 5 And, fortunately, we have neither had the 6 revenue problems nor have we had the problem of 7 bringing a lot of outside talent that's fairly -- 8 very highly compensated and creating a phased 9 shift upward in our compensation costs. 10 I've not heard of cuts broadly in state 11 government yet, but I would underscore "yet," 12 because I agree with you. Revenue was 13 interrupted. The hospitality industry, which is 14 a significant part of our economy, has certainly 15 been challenged. 16 But we had a cabinet meeting day before 17 yesterday, and I had a pretty extensive 18 conversation with the governor in the live 19 cabinet meeting. And we were talking about the 20 way he has led the reopening of Florida and tried 21 to balance the smart practices of safe operation 22 and getting Disney reopened in Orlando, when 23 Disney in California stayed closed. And the 24 economic damage of businesses being closed, the 25 entire economy, versus opening them where we can	Page 21 1 and where we think it's safe and having 2 guidelines. 3 And the upshot of that was, we felt pretty 4 good about where our economy is and that we were 5 coming back, not as rapidly as we might like, but 6 we are coming back. And I did several other 7 calls with outside parties this week, all of whom 8 suggested that unemployment by the end of 2021 9 will probably be in the 6 or 7 percent ballpark 10 nationally. 11 And if that's true nationally, certainly 12 that's worse than it was before COVID, but it's 13 nowhere near as bad as it was when it was 14 14 percent at the peak of the COVID contagion. 15 And Florida's unemployment, if we can figure out 16 the hospitality thing and get people meeting 17 again -- national issue, not a Florida issue, or 18 an international issue -- then I think our 19 economy will come back. 20 I think the other thing we've seen is we've 21 all had the experience of knowing people who have 22 second homes in Florida who've chosen to leave 23 their offices in New York, Chicago, wherever on 24 the East Coast, come to their Florida place and 25 work from here. And a lot of people, when they

Page 22 1 get down here and work for a while, they find 2 out, number one, they can work here, and number 3 two, they're reminded of the tax regime here 4 versus the one in Illinois or Massachusetts or 5 New York. And they think, You know what? This 6 is actually a pretty good idea. I'm going to 7 move a lot of my people down here, and this is 8 going to be our new home. So I think Florida 9 will get some benefit out of this whole thing 10 that some other states may not see. 11 MR. WENDT: I understand that, and I think I 12 would agree with you that it's really hard to 13 say, but at this time at least things can be 14 looked at as optimistic. But I do want to make 15 sure that I'm right that we seem to make -- 16 whatever we decide to pay the staff of SBA, it's 17 public information, correct? 18 MR. WILLIAMS: Yes, sir. And we are 19 absolutely mindful of that in every one of our 20 actions. 21 MR. WENDT: Okay. Thank you. I was pretty 22 sure of that. Thank you. Nothing in Florida 23 seems to be confidential anymore. 24 MR. WILLIAMS: You're right about that. 25 MR. WENDT: Thank you, Mr. Chairman.	Page 23 1 MR. OLMSTEAD: With that, any other 2 questions? These are real questions and 3 important things to discuss and appreciate those. 4 If there aren't any other questions, let's -- I'm 5 certain there will be a bunch with Mercer and Jon 6 Mason and Josh Wilson as they go through their 7 findings and enlighten us on not only Florida 8 but, you know, comparatively, the benchmarks and 9 how things are happening in other pension funds. 10 So unless there are any other questions, 11 we'll hand it over to Mercer to go through their 12 findings and report. 13 MR. MASON: All right. Well, thank you, Mr. 14 Chairman. Again, Jon Mason, here. My colleague 15 Josh Wilson is on the line. This is actually an 16 upgrade for the two of us. I think for the past 17 four or five years we've done this 18 telephonically, so it's nice to see all your 19 faces on the call today. 20 Ash did a really nice job going through the 21 construct of the incentive program, so maybe I'll 22 just touch on that quickly and then get into the 23 findings from our annual evaluation of the 24 ED/CIO's performance and review of the market 25 study, which is again compiled in-house by SBA as
Page 24 1 a cost savings measure, and we review and 2 validate that work on an annual basis. 3 So if you can see the table that Lamar has 4 shared here, this is the construct that Ash was 5 really talking about, so the total incentive 6 opportunity, with a large piece of that being the 7 organizational component, so 85 percent being 8 that organizational component and 15 percent 9 being the individual component. 10 However, there are circuit breakers, 11 performance circuit breakers that are required to 12 pay out any incentive, as Ash mentioned. So even 13 if the incentive component was met, if the 14 financial components are not, there would be no 15 pay-out. 16 I would highlight the top right box, the 17 maximum 52.5 percent. All in, for all 18 components, the very maximum pay-out for the 19 ED/CIO, 52.5 percent of base salary would be a 20 maximum pay-out. Not to jump into the findings, 21 but one of the interesting points to note there 22 is, when we designed this program back in -- 23 initially back in 2012, it took a couple of years 24 to get it actually approved and installed, but 25 the landscape has really shifted in the past	Page 25 1 eight to ten years. 2 For reference, one of the things we found 3 for the maximum at your peer companies, it was 4 more like 150 percent was the median of those 5 that had plans versus your 52. So that was 6 really one of the interesting takeaways. It was 7 not necessarily in the design but the magnitude 8 of the plan. It's pretty starkly different than 9 SBA. And that's evolved over time. 10 I don't think we need to spend too much more 11 time on the incentive construct. Again, I think 12 Ash did a fantastic job explaining how the pieces 13 fit together. But if there are no questions, 14 maybe we'll move into the next section. 15 MR. OLMSTEAD: This is Vinny Olmstead again. 16 One of the things I think we struggled with last 17 year that was a little bit ambiguous is the 18 concept of total compensation versus the sort of 19 base and variable or incentive. And so when you 20 bring the point up of 150 percent, it's -- maybe 21 help us connect the dots. 22 So if there are 14 in the peer group, are 23 there some that are at 150 percent? Do they 24 average 150 percent? One of the things I can't 25 get out of your -- one of the things I don't

Page 26 1 fully -- maybe I'm missing it, but I don't get 2 the total comp opportunity on the peer group 3 based on your presentation here. So I would love 4 to understand that. I guess, if ours is 52.5, I 5 guess that some are 150, but in this -- what's 6 the real number competitively, so that you can 7 enlighten us with -- 8 MR. MASON: Yeah. So it's a fantastic 9 point. There's really a situation in public 10 pensions of haves and have nots. And I believe 11 of the 14 -- the core peer group of the 14, I 12 believe eight had incentive programs. And so 13 that 150 percent was the median for those eight. 14 Some were lower. Some were higher. The median 15 point was 150 percent of maximum. 16 Now, there's a small minority, or I should 17 say a large minority that don't have programs at 18 all, right? So the situation is, if you throw 19 them -- as one of the lower payors that have 20 incentives, you're probably near the middle 21 point. But in terms of competing with those that 22 do have incentive plans, you're sort of at the 23 bottom, if that makes sense. 24 So that's why we've shied away from saying 25 here's the total comp number, because you sort of	Page 27 1 take six-footers and eight-footers and on average 2 there are seven. But there's the context that 3 those that are moving to incentive plans tend to 4 be more lucrative. And that's just been a shift 5 that's happening over time. More and more public 6 pensions are adopting these, and those that do 7 are typically more lucrative. Is that helpful? 8 MR. OLMSTEAD: Sort of. But we're still 9 not -- we still don't get the picture of what the 10 comparable benchmark is for total compensation. 11 And so I still -- so if you take the eight, is 12 the total, you know, the -- is the total 13 1.2 million, 1.1? Do you have any more insight 14 as to what total compensation is? 15 You know, I know it's hard maybe to do it 16 with the eight that do and the eight that don't, 17 but I think it's relevant for us to understand 18 competitively where total compensation is. 19 MR. MASON: Sure. That's a good point. If 20 it would be okay -- so we haven't done that 21 calculation. We easily can. So we could follow 22 back up and say, Here's the all-in computation. 23 Again, that wasn't done by the SBA with the 24 review, but it's easy enough to do. And so we 25 can get back with that within a day or so of this
Page 28 1 call. 2 MR. OLMSTEAD: Yeah. I think it's important 3 to understand. Yes. Thanks. 4 MR. MASON: Okay. So if we could move, 5 Lamar, to Attachment 3. 6 MR. TAYLOR: Is that what you want, or do 7 you want the summary of the -- 8 MR. MASON: The executive summary, please. 9 MR. TAYLOR: Okay. 10 MR. COLLINS: Vinny, can I ask a quick 11 question on that? 12 MR. OLMSTEAD: Please. 13 MR. COLLINS: To your point, and I know 14 we're going to get to it, but in their letter, 15 the last paragraph, when it talks about the 16 52.5 percent -- and maybe this is what you were 17 getting at but a little different way of asking 18 it. I guess my question was, what's the max 19 incentive of the 75th percentile? 20 We go between like the top five public 21 pension funds, and then we do the 75th 22 percentile. So if that's really our peer group, 23 I guess what's the max incentive of those in the 24 75th percentile? Maybe a little bit more 25 specific.	Page 29 1 MR. MASON: Yeah. Well, I can look that up 2 as we go through. I don't have it in front of 3 me. One of the challenges, of the top five, I 4 think, two of those are New York, and they don't 5 have incentives. So we think about the broader 6 group of 14. Just off the top of my head, it's 7 going to be in the 150 to 200 range, those that 8 have them. 9 And then, you know, when you're looking at 10 zeros, it's probably around 100, would be my 11 estimation. But I'd have to run the numbers 12 quickly here to tell you. 13 MR. COLLINS: Okay. 14 MR. MASON: If we could go to that one page, 15 Lamar, of our deck that's the summary. 16 MR. TAYLOR: So that would be here. Next 17 slide. 18 MR. MASON: One more. So here's the summary 19 of the evaluations that were completed this year. 20 And as we have in the past, we show the 21 performance ratings year over year for the 22 various questions that you were asked to assess 23 for the ED and CIO. 24 You know, the high level overview is that 25 the ED and CIO has continued to receive high

Page 30 1 marks across the board. That's been the case 2 since we have worked with y'all for nine years 3 now. The same three categories, so the overall 4 mission, efficiencies, infrastructure, operations 5 and the individual rating continue to be the 6 highest rating among the five. 7 A couple of the categories did fall minorly 8 year over year. All of the ratings, in terms of 9 aggregate scores, are between meets and exceeds. 10 They're typically closer to the exceeds. So 11 we're really talking A's versus A-minuses here. 12 But the interaction with the committee is the one 13 that fell the most significantly. 14 And if you go to the -- if you read the 15 report, you'll see some of the commentary and the 16 comments from the committee. And it's just a 17 desire for more frequent touch points. And 18 virtually all of the feedback was really 19 constructive and not necessarily negative, more 20 constructive, like that desire for more 21 interaction with the committee, which I know can 22 be challenging in your environment. 23 But this is, again, you know, from our 24 perspective, high marks across the board, 25 continuing to receive high marks in the same	Page 31 1 areas that you have in the past, and nothing that 2 strikes us as a concern but more constructive 3 feedback. Are there any questions on any of what 4 we've said? 5 MR. OLMSTEAD: No. I think this is always 6 interesting -- Vinny again -- in that there's 7 such a -- there's only, I think, four of us that 8 actually rank them. I sometimes contemplate -- 9 which we don't need to decide now, but maybe when 10 we look at the overall. This is like a 15- to 11 30-minute exercise for each of us. 12 And although the entire IAC is not 13 necessarily on the compensation committee, I 14 sometimes ask the question, though, why not just 15 get feedback from everybody but let the 16 compensation subcommittee sort of manage the 17 process. Again, historically, I don't know how 18 it was set up, but I'm curious as to whether that 19 makes any sense to contemplate going forward on. 20 MR. WILSON: This is Josh Wilson speaking. 21 If that question is to Mercer, I think the answer 22 would be we don't see a reason why you wouldn't 23 do that, but I would defer that to management. 24 If there's less interaction with that group or 25 different interactions or they're not able to
Page 32 1 comment on some of the things we're asking, that 2 would be the only reason from my perspective. 3 MR. WILLIAMS: May I, Mr. Chair? 4 MR. OLMSTEAD: Please. 5 MR. WILLIAMS: It's fine with me either way, 6 and as a practical matter, it sort of works out 7 that way anyway because the comp subcommittee's 8 recommendation comes to the full IAC and it's 9 discussed in a public meeting. So there's input 10 for everybody one way or another. And if you 11 want to deepen the input, I defer to your 12 judgment. 13 MR. OLMSTEAD: I don't think we need to make 14 that decision now. I think that's a good point. 15 And, again, the swings, I think, are more the N 16 equals four versus the N equals nine, so it may 17 be worth a discussion, but let's not spend a lot 18 of time on it now. 19 MR. MASON: I may just jump into the 20 findings of the comp review without bringing it 21 up on the screen here, because it's in letter 22 format, and that may be a little difficult to 23 review. So maybe just talk a little bit high 24 level about what we found. 25 So for your reference, the current base	Page 33 1 salary is 575, which was approved last year. 2 Some interesting notes on the market study, so 3 when we looked at the three peer groups that we 4 compare SBA to, there's the top five pension 5 funds. The 75th percentile is what we identify 6 as the larger public pension fund group, and then 7 the 75th percentile of a broad group, it's not 8 necessarily exclusive to the very largest in 9 terms of asset size. 10 One of the themes over the past eight years 11 has been significant year-over-year growth and 12 the sense that SBA has been behind and really 13 doing its best to catch up over time. One of the 14 findings this year was that the numbers actually 15 remain fairly flat to slightly contracting, from 16 the zero to minus 5 percent range. So we were 17 curious why that might happen. 18 And the context behind it is, for the 14 19 larger peer groups, that for instance four of 20 those have brand new CIOs that have never been 21 CIOs before. Three were internal hires and one 22 was (inaudible). So I think that's really the 23 context behind why the numbers effectively 24 slightly decreased to stay constant year over 25 year.

Page 34 1 So based on that, at the current pay level, 2 this is -- you don't see a marked gap to market 3 for your CIO on base salary specifically. Again, 4 that's always been the case because we've been 5 trying to catch up. And that's really not the 6 case this year. So from our perspective, when 7 we're looking at base salary and you're thinking 8 about market pay, there's no longer a market gap 9 to make up there. 10 Of course, when you're setting individual 11 pay, there's really two things you look at. You 12 look at the market and then you look at the 13 individual circumstance, the performance, tenure, 14 et cetera. And I think most recognize that the 15 current situation is such that you have a highly 16 tenured, highly performing CIO. So market is one 17 piece, but also there's some desire to 18 differentiate from market. 19 To Mr. Wendt's point, it could be a 20 challenging year to do anything significant 21 optically, potentially. So on the base salary 22 piece, our recommendation is, if you're going to 23 make any changes, they shouldn't be 24 market-oriented changes. They should be more 25 individual focused. And that would really align	Page 35 1 more with what the SBA does in aggregate for the 2 rest of the population. So we mentioned a 3 3 percent as an example of that, or the typical 4 merit pool, something that aligns with that. But 5 there's not for the first year a number that 6 we're looking to to really close the gap to 7 market, if that makes sense. I'll pause there -- 8 I said a lot -- and get your reaction. 9 MR. OLMSTEAD: So any questions? I may have 10 one or two, but first open it up to my 11 colleagues. I think that's sort of anecdotally 12 helpful, but it's still ambiguous a little bit. 13 And, again, maybe I get caught up in this 85, 75 14 is right, but 52 percent is not right, and maybe 15 400,000 is right but 150 percent should be the 16 variable. 17 So it's really hard for me to -- it's hard 18 to compare benchmark-wise in my opinion, based on 19 this data. I do think we need to grab that total 20 compensation data. I venture to state ultimately 21 that we are still -- that we're probably still 22 playing catch-up with our peer group with regards 23 to overall compensation that goes into probably 24 both the ED/CIO's pocket and also the broader 25 group.
Page 36 1 But I think we should better understand 2 that, because I think ultimately, we can defend 3 our decisions much better if we really have the 4 complete data, because we keep putting these 5 things into two different buckets of fixed, you 6 know, the base and then the variable. And they 7 really have to be provided, I think. 8 MR. COLLINS: Vinny, do we know how many of 9 the 14 split the role between CIO and ED? Or 10 maybe, Mercer, do you know how many split the 11 role between executive director and CIO? 12 MR. MASON: I don't know that number off the 13 top of my head. If I had to guess, I mean, 14 certainly not all EDs, to your point. 15 MR. WILSON: This is Josh. I think, when we 16 look at the data, when the executive director is 17 split out from the CIO, the CIO is paid 18 considerably more than the executive director. 19 And I think either -- I know we are getting the 20 highest paid people in each of these 21 organizations, whether they are the CIO/ED or 22 just the CIO. 23 MR. COBB: This is Chuck Cobb speaking. I 24 agree with the chairman that total compensation 25 really should be the issue here, and we're	Page 37 1 dealing with only half of it, because that's the 2 way the plan was set up. 3 I'd like to know what is going to be the 4 average salary increase for the rest of the 5 troops. Has that been determined, Ash, and if it 6 has, what is it? 7 MR. WILLIAMS: We won't know that, 8 Ambassador, until we get to the fourth quarter of 9 this year, which is when we do those things. We 10 have been through our evaluation cycle now. And 11 one of the things we want to see is what are the 12 audited numbers on the performance, and that has 13 ramifications for other compensation as well. 14 But we have a pool every year that's an 15 aggregate pool for retention and other 16 compensation, recruitment and retention. And I 17 believe the number we have this year is between 4 18 and 5 percent. Lamar, which is it? Four, five? 19 Where are we? 20 MR. TAYLOR: We requested five. I believe 21 we were approved five. It's about a million 22 dollars in total to spread over -- a little over 23 200 positions. Of course, that's not going to be 24 a pro rata determination. 25 And, Ambassador, just to let you know, we do

Page 38 1 have data in the appendix for the previous years 2 in terms of average increases, percentile 3 increases for both incentive eligible and 4 non-incentive eligible positions. So there 5 should be information with respect to going back 6 up to 2019, the past two or three years. 7 MR. COBB: Thank you. 8 MR. WILLIAMS: I think it would also be 9 helpful to note, Ambassador, that the way this 10 works is we have the (inaudible) for the pool. 11 I'm going to give guidance to supervisors. And 12 there are two categories. There are supervisors 13 and people who are under the incentive 14 compensation program and then those who are not. 15 And what we commonly try and do is give a 16 little bigger pool of money to the people who are 17 not incentive eligible, so that their basis can 18 be moved a little bit more. And we're very, very 19 careful, given the optics of being a public 20 entity, as Mr. Wendt pointed out earlier, that we 21 don't do anything radical and we try and keep 22 them within a generally very reasonable bound. 23 The exceptions would be -- and I say 24 reasonable. Let me put some specificity on that. 25 Commonly, these raises range between, say, 3 and	Page 39 1 5 or 6 percent. And to the extent anything goes 2 above that, it's usually addressing an anomaly, 3 where an individual has recently moved into a 4 position barely at the minimum or, worse, they 5 might be slightly below the minimum or for other 6 reasons it just needs to be less, or the market 7 environment has changed dramatically around that. 8 Those are the exceptions, not the rule. 9 MR. OLMSTEAD: Okay. Mercer, do you have 10 some more to discuss here? 11 MR. MASON: I don't think so. I mean, what 12 we will commit to is to pulling together sort of 13 the all-in figure for you by tomorrow so that you 14 have a sense of (inaudible). And I think it 15 would be helpful to show you quartiles, not just 16 the 75th but higher and lower, because of that 17 dynamic of the haves and have nots, because you 18 can see a pretty big spread for folks that don't 19 have the incentive versus do have the incentive. 20 But we're happy to pull that together for you so 21 that it can aid in making your decision. 22 MR. OLMSTEAD: It's an interesting -- like 23 you said, these are interesting financial times, 24 of which on one side I get the impression that 25 the compensation is still in catch-up mode and
Page 40 1 not where the market is, and then you have this 2 environment where there's so much uncertainty in 3 financial and there may be -- you don't want to 4 send those wrong signals. 5 And so we as the comp committee, you know, I 6 think we -- A, it would be fair to discuss -- 7 well, there's two things for us to discuss, which 8 is the individual component, the smaller 9 component of 15 percent, and then the salary. 10 And I'll pose the question, not wanting to 11 punt this to another time, but should we get more 12 data before we make the decision on the -- you 13 know, with the individual, it's been great 14 performance with the anomaly of some of the 15 volatility, putting overall and over the past 16 three years. 17 And I think we all acknowledge that Ash is a 18 great leader, has both roles and deserves to be 19 at the top of the heap with regards to his 20 competitors. I just don't know where his 21 competitors really are. Or should we just move 22 forward? I'm open to discussion. Should we just 23 move forward with making a recommendation? I'd 24 love to poll at least the subcommittee members, 25 get their opinions on that.	Page 41 1 MR. COBB: I'll respond first. 2 MR. WENDT: I was going to respond first. 3 MR. COBB: Okay. Then you go first. 4 MR. WENDT: No. Go ahead. 5 MR. COBB: No. You go first. 6 MR. WENDT: I'll go second. 7 MR. COBB: Okay. Here's my judgment. 8 First, I think we need a new plan, and I think we 9 need a new plan for the following reasons. A, 10 that many plans have incentive compensations much 11 greater than 52 percent, and there's a flaw in 12 our plan that the max is only 52 percent, in my 13 judgment. And so, therefore, that has hurt our 14 ability to have compensation packages. 15 Number two, you know, we have the situation 16 on the salary where Ash is about at the 75th 17 percentile, and so we're kind of having a hard 18 time recommending more, even though we think he's 19 underpaid because of the compensation situation. 20 Number three, it seems to me this issue of, 21 out of the risk profile because of the private 22 equity and the late reporting and -- and that 23 just seems to me -- and I guess we're going to 24 get to that in a moment, but it seems to me there 25 needs to be an exception, some sort of exception

Page 42 1 made on that, or at least in the future plan, it 2 should clear. 3 Then the last point, where I'm in the 4 minority, I think that the performance -- while 5 we're looking at the performance of the -- excuse 6 me -- while we're looking at the compensation of 7 the major plans, we should also be looking at the 8 performance of the major plans. And while I 9 agree performance vis-a-vis benchmark is the most 10 important and should be weighted more than 11 performance versus our peers, I think performance 12 versus our peers is important. 13 And so our performance versus our peers the 14 last year has not been good, and it actually 15 hasn't been good for the last three years. And 16 so it just seems to me that should be considered 17 as part of a new plan. 18 And so where do we come down? I don't want 19 to take all of these mostly pluses and some 20 minuses. I think that there should be a modest 21 increase in the salary this year, and I think we 22 should go -- we should give max on the 15 percent 23 discretionary, because I think under the plan, 24 that that is -- that's the least we can do, and 25 we should signal that we think this risk issue	Page 43 1 needs to be analyzed very carefully because it 2 seems to me that seems to be unfair. 3 So those are my three comments as it relates 4 to this plan today. I don't think we need new 5 information because we already have a plan. And 6 if we're going to have -- if we're going to 7 change the plan, then we should do that for next 8 year. 9 MR. WENDT: This is Gary Wendt, who said 10 he'd be second. Ambassador, you covered an awful 11 lot of things there. I'm going to try not to 12 cover so many things. But one statement you made 13 was the one that caused my hair to go up, what 14 little bit I have left, which was that our 15 performance for the last two years has been poor. 16 And I was not of that impression. We've 17 been looking at things every quarter. And 18 although there was one quarter recently when some 19 anomaly caused it to be pretty bad -- and I think 20 Ash explained that as being our mix of stocks 21 versus other types of assets and how that 22 affected what we were doing in that quarter. I 23 would like to see the data that says we have been 24 bad in the last -- 25 MR. COBB: I'll give it to you. It's on
Page 44 1 page 11 and 12 of the Aon report. And we are 2 above benchmark for three years, as Ash said. We 3 have beaten benchmark for three years. And so, 4 therefore, we should get -- on that, we should 5 reward ourselves. And that should be the most 6 important, we beat benchmark for three years. 7 But compared to our peers, we're in the bottom 8 13 percent over three years. 9 MR. WENDT: I'm not going to have a chance 10 to look through this whole thing now, because 11 I've got the whole board book in front of me 12 here. 13 MR. COBB: Go to page 12 of chapter 6. 14 MR. WENDT: Okay. The second point I would 15 make is we really don't have time to change the 16 plan at this point in the year. Maybe we should 17 have a new plan. I don't think so, because the 18 first plan that was set up was well-thought-out, 19 and it was made so that it was very heavily 20 directed towards the numerical activities and 21 only a little bit towards the individual part. 22 And I think as long as the numerical activities 23 that we have are the same as they were seven 24 years ago when we put this plan together, I don't 25 see the need for a new plan.	Page 45 1 The one thing I do agree with you on -- 2 maybe we could get this part out of the way -- is 3 that Ash should be given a raise this year, but 4 it should be nominal and -- because I think he's 5 pretty well caught up with the rest of the group, 6 from the information I've seen. But I think the 7 recommendation of our advisers, the 3 percent 8 increase, I just think you do that and move on to 9 all the other issues, which are more difficult. 10 MR. COLLINS: Mr. Chairman, I think I'm 11 somewhere in between those. I love that 12 Ambassador Cobb keeps bringing up the performance 13 against the peers, and I think it is important to 14 look at our peers, but I don't think -- you know, 15 he and I have this argument every time we bring 16 this up. 17 We have no idea what their asset allocation 18 looks like. We have no idea what their risk 19 budgets look like. We don't know what kind of 20 restraint or lack thereof they're under or 21 operating under when they're investing their 22 dollars. So I think -- I think it's difficult to 23 compare ourselves to those peers when they're 24 really only our peers relative to size. They 25 could be running totally different asset

Page 46 1 allocations. 2 So I like the sentiment. I think we should 3 look at them, but we set the asset allocations. 4 We oversee that asset allocation. We oversee the 5 benchmark. And that's our main duty, really. 6 And so for us to compensate on that seems 7 perfectly logical to me. I'm not opposed to 8 having some sort of homage to the other -- the 9 performance of the other people. I just wouldn't 10 judge Ash or the rest of the staff that heavily 11 based on it. 12 I agree with the Ambassador, though. I do 13 think we -- I don't know that we need a new plan, 14 but we started this plan in 2012. And by the 15 way, Mercer, if it's true that everybody is using 16 our plan now, I don't think we've been getting 17 any licensing revenue from that. So we could go 18 back and give Ash whatever licensing revenue we 19 can go back and get from our plan. 20 But I think we did -- we set it up a while 21 ago, and we've learned a lot. We've learned a 22 lot about the other -- what everybody else is 23 doing. Everybody has changed and not the same in 24 the ensuing eight years or seven years. 25 The only thing I would say, look, I agree on	Page 47 1 both the fact that I think Ash deserves a raise 2 and that the optics are not good for that raise. 3 But that's -- I don't care. I'm not a 4 politician. I just think we all want to do 5 what's right. 6 But I do think we need to wait and get 7 performance, get the final performance, see what 8 those numbers really look like, and then have 9 that conversation about the risk adjustment. And 10 even if we don't -- and let's say that the risk 11 bucket issue, we decide, hey, it was an anomaly, 12 we're not going to look at that this year but 13 we're not going to pay it this year either. 14 We're not going to pay the bonus this year. 15 We're going to withhold that bonus and pay it 16 over the next two years. Certainly the decisions 17 that Ash and staff made during the downturn, 18 we're going to see how those decisions turn out. 19 And so maybe -- I'm not ready to say how 20 much today we would compensate or raise. I think 21 we need to get the final numbers, and I think we 22 also need to decide -- and I don't know if we do 23 it or, Ash, you do it, the staff or the trustees 24 have to look at that, the risk issue. But I'm 25 comfortable that all of us are comfortable in
Page 48 1 looking at it and saying, yeah, that's an 2 unintended consequence of an otherwise good 3 policy. 4 So for that reason, Mr. Chairman, I would 5 say that -- I don't know that we should vote on 6 something, a specific amount today. But I'm all 7 for it if people want to, but I do think we need 8 to see the final numbers, and I do think we need 9 to figure out how we get around this gating, this 10 risk gating issue. 11 MR. OLMSTEAD: So if I can parse a few 12 things real quickly after those great comments. 13 One is, look, I'm on a number of compensation 14 committees, and there's very few that last in 15 perpetuity for eight years without at least 16 tweaking, if not revamping. And so I think -- 17 and Ash and I had this conversation yesterday, 18 and he wholeheartedly agreed. 19 So we're not getting it done this year, and 20 whether you call -- whether you call the peer an 21 additive or not an additive, it probably needs to 22 happen. Maybe we put that in the corner for 23 right now, but it needs to be reviewed. 24 But on the discussion of both the 25 organizational and individual component, you	Page 49 1 know, maybe it makes sense to understand whether 2 or not that gate happens or not before we even 3 vote on it. It's not as though directionally 4 this group doesn't think that Ash is performing, 5 but we need to understand what can happen with 6 that anomaly. And it may be a completely moot 7 point. 8 And then on his base salary, again, I get 9 this inclination that tomorrow we'll learn that 10 Ash's total comp is probably perhaps not as high 11 as others, but I wouldn't be uncomfortable 12 personally with moving forward with the 3 percent 13 on the salary. But if we decided to delay, wait 14 for the numbers and wait to see whether the gate 15 is open or not, I would not have a problem with 16 waiting and having the conversation in totality. 17 So that's sort of -- I tried to summarize 18 the spirit and the commonality amongst my other 19 three peers here, and that's sort of at least 20 worth a discussion. 21 MR. COLLINS: Relative to a new plan, I 22 think it is important to find out how many other 23 of those -- of our 14 peers have an executive 24 director/CIO combo and who -- and is the highest 25 compensated person at the other plan the CIO? Is

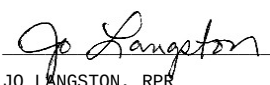
Page 50 1 it the executive director? What are those 2 individual salaries like? 3 To Ambassador Cobb's point, as we start to 4 look at a new plan, I think that that's 5 important. Again, we're comparing ourselves to 6 14 people, but we don't know how they 7 structure -- you know, are we comparing ourselves 8 to two people at the top, or is there one person 9 that has both roles like Ash? 10 That's, in my mind, what makes Ash a little 11 bit more unique and why I think -- if he's behind 12 relative to other CIOs, then he's really behind 13 relative to other CIOs plus executive directors. 14 MR. WENDT: Gary Wendt has a question, which 15 he'll ask in a way (inaudible). It's probably 16 because I've been on this committee for a long 17 time, including when this plan was developed, and 18 remember how much we went into the arithmetic 19 parts of the award, that I'm not having as much 20 of a problem as other people are with the plan. 21 But I would certainly ask this question. If 22 we don't have the information we need to make 23 decisions today, why are we having this meeting? 24 MR. WILLIAMS: Let me see if I can help out 25 with all of these, Mr. Chair.	Page 51 1 MR. OLMSTEAD: Please. 2 MR. WILLIAMS: A couple of things here. 3 First of all, on the plan design issues, I think 4 we're all in agreement and it's consistent with 5 best practice -- and I think Mercer would affirm 6 this -- that with a comp plan, just like any 7 other major function of an organization, it 8 should be periodically reviewed, commonly a cycle 9 of every five years or thereabouts, and we're 10 beyond that with this plan, to ensure that it's 11 still fulfilling its original purpose and it 12 doesn't need to be tweaked in some way. And to 13 the extent it needs to be adjusted -- and 14 Ambassador Cobb identified a number of potential 15 areas for adjustment, then it can be adjusted. 16 I will tell you from my own knowledge that 17 the comps between what we do here at the board 18 and what our peers do separate fairly early in 19 the game. I'm not aware of any other pension 20 fund in the country that runs a reinsurance 21 company with a billion-dollar-plus-a-year 22 business that's highly politically visible and 23 very much subject to hands-on management, 24 particularly during the legislative session every 25 year.
Page 52 1 And I would say, beyond that, there are a 2 number of plans that have executive director/CIO 3 roles combined. To the extent they're separated, 4 I think Mercer correctly said earlier that CIOs 5 commonly are the higher compensated of the two. 6 And in a number of plans, the multiple of the 7 incentive component of the salary relative to 8 base, as Chairman Olmstead referred to a moment 9 ago, is a multiple of the base, not a fraction of 10 the base. 11 And exactly as Vinny was saying, the total 12 compensation is much more heavily oriented toward 13 incentive than it is base comp. And there are a 14 lot of reasons that Mercer can revisit at the 15 appropriate time -- I don't think we need to 16 rehash them all now -- why the ratio was set 17 where it was set originally. 18 Lastly, on the question of the risk 19 exception, I think in the short-term, we need to 20 pay attention to that. Come back to the question 21 that Mr. Wendt raised earlier in the meeting 22 about optics. If we find ourselves in December 23 at a period where the State is in some sort of 24 financial crisis and the budget is -- the 25 legislature is forced to come in and do budget	Page 53 1 cuts and there are furloughs and God knows what 2 other sorts of terrible things that could happen, 3 that have happened in some states but not here, 4 because we're better managed than most states, I 5 mean the State in aggregate, not the SBA, if 6 we're in that environment, then the last thing we 7 need to be doing is finding reasons to overrule 8 our own structure and pay out a bunch of money. 9 And making that speech is contrary to my own 10 economic interest, but I have the greater good of 11 the SBA and the longer term at heart when I say 12 that. 13 So I want to come back to the focus of what 14 this meeting is for. And the answer, Mr. Wendt, 15 to your question of why are we having this 16 meeting if we don't have the final information, 17 the purpose of this meeting specifically is to 18 talk about the component of my compensation that 19 is subjective, which is what you guys rate me on, 20 and what the actual numbers are that flow out of 21 that are a function of the audited performance 22 numbers and whether or not we have an incentive 23 scheme at all. If we end up having no incentive 24 scheme, then obviously the subjective component 25 of this is moot, because there isn't going to be

Page 54 1 one. 2 So those would be my broad comments. And I 3 think the discussion of maybe not necessarily an 4 entirely new plan but some readjustment, some 5 recalibration and some fine-tuning of the 6 existing plan to address the issues the 7 ambassador and others have correctly brought up 8 is totally appropriate. 9 So I think that's where we are. And I'm 10 happy to answer any questions about any of the 11 comments I just offered. 12 MR. COBB: Mr. Chairman, I would move a 13 3 percent salary increase, and then let's next 14 discuss the discretionary bonus. 15 MR. COLLINS: I would second that. 16 MR. OLMSTEAD: All in favor? 17 (Ayes) 18 MR. OLMSTEAD: So for the court reporter and 19 others, all four voted positively for the 20 3 percent increase in the salary. 21 And I think the next -- well, there's two 22 things here, salary and then there is the 23 organizational or the subjective component. And 24 I think we have two options here. We vote now or 25 we wait and see whether or not the gate opens or	Page 55 1 closes and vote then. 2 MR. WENDT: Please refresh my memory. I'm 3 looking at unnumbered page -- there are no 4 numbers on these pages. This is a Mercer 5 document. It says Incentive Plan Design, and of 6 course it is our incentive plan. But this 85 7 organizational and 15 individual is for everyone, 8 including Ash. Is that correct? 9 MR. WILLIAMS: No, sir. May I, Mr. Chair? 10 MR. OLMSTEAD: Please. 11 MR. WILLIAMS: The percentage of 12 organizational or quantitative and individual or 13 subjective varies by individual. And depending 14 on what your seniority is, you may have more or 15 less subjective. And the reasoning for that is 16 the following. If you are a newly hired junior 17 research analyst on the global equity team, your 18 actions materially affecting the outcome of that 19 portfolio are nowhere near what they would be if 20 you were Tim Taylor, the senior investment 21 officer of global equities. 22 So, therefore, the organizational component, 23 or the lion's share piece is bigger for the more 24 senior person that has more direct effect on the 25 investment outcome. And for the more junior
Page 56 1 person, the individual component or the 2 subjective component is larger because it's more 3 about what your level of initiative is, your 4 cooperation, your talent, et cetera, et cetera. 5 If you look across the organization, the 6 highest component of organizational or 7 quantitative is mine. And the reason is, 8 arguably, as the person who signs all the 9 investment documents for every strategy and every 10 asset class and has a strong hand in recruiting, 11 retaining, motivating and making sure the team is 12 qualified, that's the way it rolls up. 13 To be blunt, the other reason it rolls up 14 that way -- and this is something Mercer could 15 comment -- is mine is the one that's subject to a 16 public (inaudible) and is, therefore, most at 17 risk of anyone here. And I'm also the one who's 18 the first one hung if something goes wrong, and 19 rightly so, because I'm responsible for it. So 20 the idea of having a higher quantitative or 21 organizational component for me versus some of 22 the other people is why. 23 And Mercer can explain what the thresholds 24 are, but as I recall, in the plan design, I think 25 we have either four or five tiers of people. And	Page 57 1 each one of those tiers, as they get more senior, 2 the component of organizational or quantitative 3 incentive goes up relative to the subjective. I 4 hope that's helpful. 5 MR. WENDT: A continuing question, just very 6 quickly, then a quick answer, please. But the 7 85/15 component that we see as Attachment 2 is 8 for you. Is that correct? 9 MR. WILLIAMS: That's correct. Those 10 numbers would shift for other people. So, for 11 example, I think for senior portfolio manager -- 12 MR. WENDT: I got it. I got it, Ash. Thank 13 you. 14 MR. WILLIAMS: Thank you. 15 MR. WENDT: I don't recall that in the past 16 few years we've had any dramatic change between 17 the audited financials and the estimates as of 18 now, so I don't know why we can't go ahead. 19 MR. OLMSTEAD: I'm fine with that, Gary. 20 The only question is whether or not, again, maybe 21 there is a different approach, that the gate 22 isn't met with -- and, Ash, I don't know what the 23 reality is of something happening there, you 24 know, or not, or whether, you know, that's to be 25 a conversation that's exclusive of -- we may vote

Page 58 1 on this and it may be moot, or we may go back and 2 if the gate -- we don't meet the gate but we 3 determine it's an anomaly, there may be a whole 4 different way to look at compensation. I just 5 don't know how that works. 6 MR. WILLIAMS: I would say this. Let me 7 respond to that, if I may, Vinny. I want to be 8 careful here. I personally do whatever serves 9 the greater interest of the SBA, and I want to be 10 very careful not to do anything that looks like 11 we're gaming a violation of a risk standard. 12 That's just not a position I want to put the 13 board in. 14 So for the time being, I would suggest that 15 we've already had a motion, a second and a vote 16 on a base salary change. I would let that alone 17 for the time being. Go ahead, your call, but I 18 would say you follow the comp subcommittee's 19 normal process on the individual component of the 20 incentive, notwithstanding whether or not there's 21 an incentive, because you've already evaluated 22 me. You know what the background is, so it's 23 more or less clear where this is headed. You 24 just haven't put it to a vote yet. 25 And then on the issue of the volatility	Page 59 1 issue that we saw because of the stock market 2 movement back in March, April, Mr. Wendt is 3 correct. Normally there is a shift in the audit 4 numbers, but they're not huge, and they tend to 5 be improvements in performance, not declines. 6 Whether that has bearing on this risk issue, I 7 don't know, but we've got plenty of time to work 8 that issue in between now and then. 9 And back to Mr. Wendt's original point, if 10 optically we're in a bad spot come December, the 11 last thing we need to do is make it worse by 12 going out of our way to help me. I can take that 13 action on behalf of the rest of the team, but as 14 the leader of the organization, I would much 15 rather see the troops fed before I eat. And I'm 16 happy to play by the rules and take the hit for 17 the group if that's what it comes to, and we'll 18 work through the rest of it. But we've got to do 19 the right thing, whatever it is, on this risk 20 issue. 21 MR. COLLINS: So, Ash, is this something 22 that the comp committee has to weigh in on the 23 interpretation of the risk issue or a change of a 24 standard, or is that something that you do at the 25 board?
Page 60 1 MR. WILLIAMS: I already have the authority 2 to change the standard, and we've done it on a 3 temporary basis, so that we're not out of whack 4 for a protracted period on this inappropriately. 5 We involved Aon in it. We've looked at it at the 6 investment committee level, and then yesterday we 7 took it up at senior leadership group, which is 8 the appropriate process for us to go through. 9 What we have done is set up some temporary 10 risk parameters that are broader, with the idea 11 that when we see risk, as reflected by volatility 12 levels in the market, come back within normal 13 bounds and remain there for a period of 14 (inaudible) consecutive months, then we'll go 15 back to our old parameters. In the meantime -- 16 MR. COLLINS: I don't necessarily mean that. 17 I mean, if we're going to -- if you were in 18 violation but we're going to pay you anyway, does 19 the comp committee need to -- I would think that 20 we would need to at least have officially 21 recognized what happened and had made some sort 22 of statement, right? It can't just be that, oh, 23 well, you guys went back and you changed the 24 standard, and therefore we paid you. 25 MR. WILLIAMS: Oh, no. And that's not what	Page 61 1 we're trying to do at all. 2 MR. COLLINS: I know. Exactly. And nor are 3 we just trying to say, yeah, that's just 4 something that happened, but we're just going to 5 ignore it. We should at least say, we recognize 6 this happened. Here's why it happened, and 7 here's why we don't believe it should have 8 applied relative to this comp, and make an 9 affirmative statement to that and then -- and be 10 done with it. 11 MR. WILLIAMS: Right. There are also some 12 legal questions there on plan design. And I 13 think, rather than giving you a final answer 14 there, maybe we ought to consider this a little 15 further in-between here and there and have a 16 subsequent conversation on it. 17 But for purposes of today, I think the 18 fundamentals are fairly plain, and we ought to 19 not try and solve this risk issue today. And I 20 think I did hear an expression -- again, this is 21 for you guys. Perhaps the incoming chair of the 22 comp subcommittee would like to be heard on this, 23 but I think the revisitation of the design 24 elements is an appropriate activity over the 25 ensuing year.

Page 62 1 MR. WENDT: But I think one of the things 2 you said -- and I just want to make sure this is 3 clear, because I'm quite okay with it. You're 4 saying for now let's don't worry about the bonus, 5 let's wait until December when we have more 6 information. Is that the simple -- is that a 7 simple summary of what you said? 8 MR. WILLIAMS: Well, what I suggested was, 9 you've already got the scoring on a backward 10 looking basis for the period that we're talking 11 about. You've already evaluated me. So think 12 what you could do is you could go ahead and say, 13 as if there's going to be an incentive program, 14 which we don't know whether there will or not, 15 but if there is, here's what we would recommend, 16 fully understanding that there may be a gate that 17 it doesn't happen and also fully understanding 18 that you may choose to come back and revisit that 19 question. But for the time being, I would just 20 do the basics the way you normally do and let it 21 stand at that. 22 MR. COLLINS: I'm good with that. 23 MR. OLMSTEAD: Okay. So I think with that, 24 we've heard Mercer's -- I concur. Ambassador 25 Cobb, are you fine with that?	Page 63 1 MR. COBB: Yes, sir. 2 MR. OLMSTEAD: So, with that, I think we've 3 seen fairly -- very high marks, not only from -- 4 you know, from this group and looking at the peer 5 group, bringing in things such as CIO and the ED, 6 long story short, based on the formal responses 7 that we've given back, I would -- and assuming 8 that the gate goes forward, I would propose that 9 we grant Ash the maximum of the individual 10 component, because I do think, whether it be the 11 reaction of the bad market or the performance, 12 especially against benchmarks, retention, team, 13 and all the things that we sort of commented on, 14 that he has done an excellent job and we're lucky 15 to have him. So I would propose that we push 16 through the max (inaudible). 17 MR. WENDT: Does that include the 18 organizational component as well as the 19 individual? 20 MR. OLMSTEAD: That's just the individual. 21 MR. WENDT: That's the individual. Thank 22 you. 23 MR. COLLINS: So we're essentially approving 24 \$41,000. 25 MR. OLMSTEAD: Yes, sir. So there's
Page 64 1 threshold, target and maximum. And the maximum, 2 again, would be the 41,000, which would be a 3 small component of the overall \$275,000, but 4 would be representative of, quite frankly, the 5 marks that we pushed across through the Mercer 6 process. 7 MR. COLLINS: Do you need somebody to make 8 that motion? 9 MR. OLMSTEAD: Sure. 10 MR. COLLINS: I'll make the motion to 11 approve the maximum individual component. 12 MR. COBB: So I just have one question for 13 Ash. So -- and this is my earlier question, and 14 I'd now like to get it to real dollars, that if 15 it turns out that for the year or for the three 16 years that we are 6.1 compared to our benchmark 17 of 5.6, if we are a half of 1 percent, 50 basis 18 points per year for three years over our 19 benchmark, and forget this risk issue but just 20 looking at the performance, does that get you the 21 max or it gets you the organizational middle 22 ground? 23 In other words -- or does that get you the 24 difference -- target would get you 27 and max 25 would get you 41, based on the numbers. In other	Page 65 1 words, if we give you target and you end up 2 getting -- if we give you max of 41 but the whole 3 team only gets target, so I guess you get the 156 4 and the 43? Is that how it would work? 5 MR. WILLIAMS: May I, Mr. Chair? 6 MR. OLMSTEAD: Please. 7 MR. WILLIAMS: No, Ambassador. They're two 8 different things. The organizational component 9 is truly driven by the investment performance. 10 And that is separate and distinct from the 11 individual component. You'll note that the 12 individual component is a percentage that's being 13 calculated based on where the whole thing could 14 go. But, anyway, you're voting on a proportion 15 based on personal behaviors, not the 16 quantitative. 17 MR. COBB: I understand that. But my 18 question wasn't that. My question is, if you are 19 50 basis points -- if it turns out you are 50 20 basis points over in three years, which 21 preliminary numbers show, will you get target or 22 will you get max on the organizational component 23 side? 24 MR. WILLIAMS: Oh, on the -- that's exactly 25 the right focus. On the organizational side, the

Page 66 1 trigger for the max performance is capped at 50 2 basis points, or rather the max you can get is 50 3 basis points, which is the trigger for max. Is 4 that correct, Mercer? 5 MR. MASON: It is. So the answer, I think, 6 Ambassador Cobb, is, yes. If it turns out that 7 it's 50 basis points or more over the three year 8 benchmark, on the organizational component, the 9 ED/CIO would get 234,281. 10 MR. COBB: That's my question. 11 MR. MASON: That would be added -- yes. So 12 the answer to that question is yes. And then it 13 would be added -- or the individual component, 14 whatever you decide today, would be added on 15 that. 16 MR. COBB: Okay. So now my follow-up 17 question is, if we vote for you to get the 41,000 18 and it turns out that you, on the three years 19 after audit, you're only 45 basis per year over 20 and you get target, do you then get the middle 21 number, which I can't read? 22 MR. COLLINS: 156,000. 23 MR. COBB: 156 and the 41, or do you get -- 24 in other words, how does that work? So you would 25 get 156 and 41?	Page 67 1 MR. WILLIAMS: Correct. 2 MR. COBB: That's right. Okay. Thank you. 3 So I second that motion, if no one else has, and 4 I think we should vote on it. 5 MR. OLMSTEAD: All in favor? 6 (Ayes) 7 MR. OLMSTEAD: So for the court reporter, 8 all four have voted positively. 9 All right. Any other business or closing 10 remarks in the time we have? 11 MR. WILLIAMS: Mr. Chair, I'd just like to 12 say thank you to everyone for your support and 13 your understanding. I am mindful that the score 14 that I received this year on the interaction with 15 the various groups, the audit committee and IAC, 16 dropped a little bit, and all I can say is that's 17 not lost on me and I will do a better job going 18 forward with that. 19 MR. TAYLOR: Hi, Ash and the group. I guess 20 just one other item was on the agenda. It's up 21 to you-all whether to take this up or not. It's 22 item 5. I don't recall that we -- 23 MR. COLLINS: We've already passed that. 24 MR. COBB: Mr. Chairman, I guess I would 25 like to move that this committee recommend to our
Page 68 1 full nine-person board that we start the review 2 that Ash talked about and that we consider the 3 things that several of us have talked about, 4 particularly with a focus on the max of 5 52 percent, which our consultant tells us is low, 6 and that we consider all those things as a -- and 7 whether it be this committee or another 8 committee, the full board can vote on that at our 9 next meeting. So I move that. 10 MR. OLMSTEAD: A clarifying question. So is 11 the intent to have -- at the next board meeting, 12 just to have that discussion, not to have a 13 recommendation at that point? 14 MR. COBB: No. To do both. To do the 15 recommendation, that's for this year, but for 16 future, the committee thinks we might make some 17 tweaks and improve our process, and we'd like to 18 start that process. We as a committee are 19 recommending to the full board that for future 20 years, we might tweak our process and improve it, 21 fully recognizing we'll need the trustees' 22 approval. 23 MR. COLLINS: Do we need their permission to 24 look at it, Ambassador, or can we just look at it 25 and then go to them and say, Hey, we'd like to	Page 69 1 make some tweaks? 2 MR. COBB: Okay. I don't know what the -- 3 I'm just recommending that. 4 MR. COLLINS: I agree with that. Yeah. 5 MR. OLMSTEAD: I think we're pretty much all 6 in agreement on that, so I'll second it. All in 7 favor. 8 (Ayes) 9 MR. COLLINS: Yeah, I think we should take 10 it up. And maybe we look at the overall -- maybe 11 we work with Mercer and look at the overall 12 compensation for all the employees. Ash, I don't 13 know when the last time you guys did that, but 14 maybe we need to look at that. 15 MR. WILLIAMS: We do that -- Mr. Chair, if I 16 may. We do that every three years as part of our 17 normal (inaudible). Mercer helps us out. We do 18 a lot of the work ourselves. They validate the 19 methodology to make sure that we're doing it the 20 right way. And to the extent there are national 21 comps, they help us put it together. 22 We also get a little data from another firm 23 called McLagan. You know, everybody can't afford 24 Mercer all the time, so some people use these 25 other firms here and there. But anyway, I think

Page 70 1 the trustees will welcome the work on this. And 2 part of it would be to look at the structure of 3 the ICP, the people who are included in it. That 4 issue came up when we did our governance risk and 5 compliance review with a big third-party outside 6 thing with Funston Associates back in 2018. They 7 felt that our inclusion was too narrow. 8 So there are a number of issues that could 9 be looked at, including the overall structure of 10 the plan, the way it functions for everyone, all 11 of which is appropriate. And I think the 12 trustees would welcome the effort on your part if 13 you're willing to undertake it. 14 MR. COLLINS: What do you think, Ambassador? 15 What do you think, Gary? I mean, are we willing 16 to look at that as well? 17 MR. WENDT: Yeah. We're still looking at 18 the plan, right? We're going to look at the plan 19 and see what changes are necessary? 20 MR. COLLINS: Yes. 21 MR. WENDT: (Inaudible) all in favor of 22 that. 23 MR. OLMSTEAD: And more broadly (inaudible) 24 the ED. 25 MR. COBB: The organizational issue is a	Page 71 1 separate issue. 2 MR. COLLINS: Right. 3 MR. WENDT: And what is the organizational 4 issue? I think I missed that. 5 MR. COLLINS: What we're talking about is 6 looking at the overall comp plan for all the 7 employees. Right now -- 8 MR. WENDT: Oh, yeah. Don't we do that 9 every three years? I thought we did that every 10 three years. 11 MR. COLLINS: The board does it. We don't 12 do it. The staff of the board does it. We don't 13 do it. We've only gotten involved with executive 14 director. 15 MR. WENDT: Okay. I love committee work, so 16 if we can add some on, that's good. 17 MR. COLLINS: Okay. We'll do it. Anything 18 else, guys? Vinny? 19 MR. WILLIAMS: Did item 5 get addressed? 20 MR. COLLINS: No. 21 MR. WENDT: I nominate Vinny Olmstead to be 22 continuing chair. 23 MR. COLLINS: Second. 24 MR. OLMSTEAD: I'll abstain. 25 (Ayes)
Page 72 1 MR. COLLINS: There we go. 2 MR. OLMSTEAD: Thank you. I'm not sure if 3 that's a compliment or not, but I will agree to 4 go forward for another year here. All right. 5 Well, first, thank you, Mercer. Thank you, staff 6 and Ash. Thank you for your hard work and your 7 uniqueness, and thank the committee for spending 8 a -- the subcommittee for spending a lot of time 9 and I think a really substantive conversation 10 today. And if there's nothing else, we are 11 adjourned. 12 (Thereupon, the meeting concluded at 2:46 13 p.m.) 14 15 16 17 18 19 20 21 22 23 24 25	Page 73 1 CERTIFICATE OF REPORTER 2 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 6th day of October 2020. 11 12 13  14 JO LANGSTON, RPR 15 16 17 18 19 20 21 22 23 24 25

\$ \$275,000 64:3 \$41,000 63:24 1 1 64:17 1.1 27:13 1.2 27:13 100 29:10 11 44:1 12 44:1, 13 13 44:8 14 25:22 26:11 29:6 33:18 36:9 49:23 50:6 15 24:8 40:9 42:22 55:7 15- 31:10 150 25:4, 20, 23, 24 26:5, 13, 15 29:7 35:15 156 65:3 66:23, 25 156,000 66:22	2 2 57:7 200 29:7 37:23 2012 24:23 46:14 2018 70:6 2019 38:6 234,281 66:9 27 64:24 2:46 72:12 3 3 28:5 35:3 38:25 45:7 49:12 54:13, 20 30-minute 31:11 4 4 37:17 400,000 35:15 41 64:25 65:2 66:23, 25 41,000 64:2 66:17 43 65:4	45 66:19 5 5 33:16 37:18 39:1 67:22 71:19 5.6 64:17 50 64:17 65:19 66:1, 2, 7 52 25:5 35:14 41:11, 12 68:5 52.5 24:17, 19 26:4 28:16 575 33:1 6 6 39:1 44:13 6.1 64:16 7 75 35:13 75th 28:19, 21, 24 33:5, 7 39:16 41:16	8 85 24:7 35:13 55:6 85/15 57:7 A A's 30:11 A-MINUSES 30:11 ability 41:14 able 31:25 absolutel y 22:19 abstain 71:24 acknowled ge 40:17 action 59:13 actions 22:20 55:18 activitie s 44:20, 22 activity 61:24 actual 53:20 additive 48:21 address 54:6 addressed 71:19 addressin g 39:2	adjourned 72:11 adjusted 51:13, 15 adjustmen t 47:9 51:15 adopting 27:6 advisers 45:7 affirm 51:5 affirmati ve 61:9 afford 69:23 agenda 67:20 aggregate 30:9 35:1 37:15 53:5 agreed 48:18 agreement 51:4 69:6 ahead 41:4 57:18 58:17 62:12 aid 39:21 align 34:25 aligns 35:4 all-in 27:22 39:13 allocatio ns 46:1 ambassado r 37:8, 25

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Attachment 2

Incentive Plan Design ED/CIO - FY 2020-2021

- Individual component level for ED/CIO position accounts for 15% of total award
- Organizational and individual component payouts at various incentive achievement levels are shown below. Evaluation criteria for individual component was determined by IAC Compensation Subcommittee in June 2015.

		Incentive as a % of Salary		
	Mix	Threshold	Target	Maximum
Total Incentive Opportunity	100%	17.500%	35.000%	52.500%
Organizational Component	85%	14.875%	29.750%	44.625%
Individual Component	15%	2.625%	5.250%	7.875%

Incentive Opportunity Breakdown (Annual Salary = \$592,250)				
	Mix	Threshold	Target	Maximum
Total Incentive Opportunity	100%	\$103,644	\$207,288	\$310,931
Organizational Component	85%	\$88,097	\$176,194	\$264,291
Individual Component	15%	\$15,547	\$31,094	\$46,640

Note: Mr. Williams has announced his retirement, effective September 30, 2021. The above information does not reflect the plan's substantial risk of forfeiture provisions and is shown as if Mr. Williams were not retiring.

Attachment 3A

ED/CIO Incentive Plan Evaluation Process - FY 2020-2021

ED/CIO Individual/Qualitative Measurement

The sections below outline the approved criteria and process for evaluating the ED/CIO's individual/qualitative performance, which constitutes 15% of his incentive award (the other 85% of the award is determined by the level of outperformance of the FRS Pension Fund). Any changes to the criteria for the next Performance Period (fiscal year) need to have been determined and communicated to the ED/CIO prior to July 1.

ED/CIO Individual/Qualitative Performance Criteria

Criteria Approved for FY 2020-2021 Performance Period

In line with the overall framework for the incentive plan, criteria for the individual/qualitative performance portion of the ED/CIO's incentive award approved in June 2015 are: (1) Overall Mission; (2) People; (3) Efficiencies/Infrastructure/Operations; and (4) Interaction with the Investment Advisory Council and Audit Committee. The Qualitative Evaluation Form (Attachment 1) includes more descriptive information regarding each rating area.

Process and Schedule for ED/CIO Individual/Qualitative Performance Rating

In June 2015 it was decided the Compensation Subcommittee will rate the qualitative performance of the ED/CIO and recommend to the full IAC the amount of incentive to be awarded for the Performance Period. The IAC will vote to approve or disapprove the recommendation.

July 1-15: ED/CIO prepares summary of accomplishments in each of the four areas (Mission, People, Efficiencies/Infrastructure/Operations, and Interaction with IAC and Audit Committee). As part of the summary, the ED/CIO may want to encourage the individual Compensation Subcommittee or IAC raters to speak with individual members of the Audit Committee to gain additional perspective on interactions with them.

By July 15: ED/CIO sends his/her Summary to raters (members of Compensation Subcommittee) along with the attached evaluation form.

By July 31: Raters evaluate ED/CIO and return form to Mercer. Mercer may seek clarification of the ratings and/or comments of individual raters.

By August 31: Mercer compiles final ratings and all final comments from raters and sends them to the ED/CIO, who will compile the materials for a noticed public meeting of the Compensation Subcommittee to review/discuss the evaluation with ED/CIO and provide an overall recommendation to the Trustees. The Subcommittee will present its recommendation to the IAC for its approval or disapproval prior to sending the recommendation to the Trustees.

Following the public meetings of the Subcommittee and the IAC, the Subcommittee Chair communicates the recommendation regarding qualitative incentive award and supporting rationale to the Trustees, with a copy to IAC members, as materials for a noticed public meeting of the Trustees.

September: Trustees consider recommendation in public meeting.

Attachment 3B

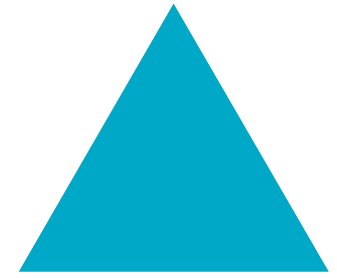
**STATE BOARD OF
ADMINISTRATION FLORIDA**

**EXECUTIVE DIRECTOR/ CIO
PERFORMANCE
EVALUATION SUMMARY**

AUGUST 2021

Josh Wilson

Atlanta



MAKE TOMORROW, TODAY



INTRODUCTION

- Mercer has advised State Board of Administration Florida on a variety of human capital needs since 2012.
- Mercer acts as the independent party in the annual review process of the Executive Director/CIO for SBA by the Compensation Subcommittee of the IAC
- In this process, Mercer collects the performance evaluations completed by the Compensation Subcommittee members and disseminates a summary of the findings.
- Performance reviews were completed by the following members:
 - Gary Wendt
 - Peter Collins
 - Vinny Olmstead
 - Note: In prior years, there have been four IAC members who have submitted evaluations, but Ambassador Chuck Cobb retired from the IAC
- The following pages include an overall summary of the responses and detailed pages on the survey questions

EXECUTIVE SUMMARY

Question	2021 Average Rating (out of a possible score of 4)	2020 Average Rating (out of a possible score of 4)
Overall Mission	4	4
People	4	3.625
Efficiencies/ Infrastructure /Operations	4	3.75
Interaction with Committees	3.33	3.25
Individual Rating	4	3.75

- The ED continues to receive high marks across the board
- Interaction with Committee was the only area which did not receive top marks in 2021 evaluation

- Mercer converted the verbal rating scale to a numerical scale as follows:
 - Exceeds = 4 out of 4
 - Meets = 3 out of 4
 - Below = 2 out of 4
 - Poor = 1 out of 4

OVERALL MISSION

- The rating for this category should reflect the degree to which the ED/CIO has:
- Assured appropriate alignment with the investment policy of the SBA's mandates (e.g., FRS Defined Benefit Pension Fund, FRS Investment Plan, Florida PRIME, Florida Hurricane Catastrophe Fund (FHCf), etc.), considering the long term needs of the relevant fund, the risk tolerance of SBA Trustees, and the perceived market environment.
- Provided leadership for effective functioning of the SBA, FHCf and the Office of Defined Contribution Programs.
- Maintained/strengthened the reputation/brand and performance of the SBA in relation to its large public pension fund peers; external communications and issue management

4 OUT OF 4

Comments:

- *"Exceptional job on all fronts. Balances the complexity of investing, politics and human capital incredibly well"*
- *"One of the top performers among peers in 2020/21"*

PEOPLE

- The rating for this category should reflect the degree to which the ED/CIO has:
 - Developed subordinate staff
 - Recruited and retained key talent

4 OUT OF 4

Comments:

- *“Consistent, loyal senior management with little turnover”*
- *“During an unbelievably challenging period, Ash managed the team beautifully”*

EFFICIENCIES/INFRASTRUCTURE/OPERATIONS

- The rating for this category should reflect the degree to which the ED/CIO has:
 - Assured the development of organizational structures, systems and processes that enable effective functioning of the SBA, FHCF and the Office of Defined Contribution Programs.
 - This includes such areas as communication of knowledge; development and institutionalization of systems and structures to enhance performance and control risk; efficient acquisition and use of data and other resources; business continuity planning, etc.

4 OUT OF 4

Comments:

- *“Especially during the pandemic. Shifted to virtual and still optimized performance.”*
- *“This was borne out of the pandemic. Overnight, people went remote and productivity/results did not diminish”*

INTERACTION WITH IAC & AUDIT COMMITTEE

- The rating for this category should reflect the degree to which the ED/CIO has:
 - Maintained effective working relationships with individual IAC members and the Council as a whole, and with members of the Audit Committee on matters within the concern of each body.
 - Provided requested information and transparency. Note: As part of the evaluation process, individual raters may speak with individual members of the IAC, Audit Committee to gain perspective on ED/CIO interactions with them.

3.33 OUT OF 4

Comments:

- *“There is no interaction other than the quarterly formal meetings which this year were all virtual. Limited knowledge given year of virtual meetings with no other contact with the ED/CIO”*

OVERALL INDIVIDUAL/QUALITATIVE PERFORMANCE RATING FOR THIS PERIOD

4 OUT OF 4

Note: No comments were provided for this final rating



MERCER

MAKE TOMORROW, TODAY

Appendix to Attachment 3B



**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**

**ASH WILLIAMS
EXECUTIVE DIRECTOR & CIO**

July 15, 2021

Mr. Vinny Olmstead
Chair, IAC Compensation Subcommittee
2770 Indian River Boulevard, Suite 501
Vero Beach, FL 32960

Dear Vinny:

Consistent with the process adopted by the Investment Advisory Council (IAC) Compensation Subcommittee and affirmed by the IAC, following is my self-assessment, inclusive of the fiscal year ended June 30, 2021, together with a Qualitative Evaluation Form (attachment 1) for you to complete and return to Josh Wilson at Mercer by July 31. For your convenience, an addressed, stamped envelope is enclosed for this purpose. Mercer will review the responses and may contact responders for clarification. They will then compile the ratings and final comments from raters and return them to me by August 31. I will share them with you and the other Subcommittee members and compile materials for a noticed public meeting of the Subcommittee to discuss and adopt a recommendation for the IAC. Please see "ED/CIO Incentive Plan Evaluation Process – FY 21-22" (attachment 2) for additional process details.

As a reminder, in keeping with Florida's Sunshine Law, please do not discuss this evaluation with any other members of the IAC. All members will have the chance to discuss this evaluation at the noticed public meeting planned for September.

Background

Upon being triggered by audited total fund performance as of fiscal year-end June 30, implementation of SBA's incentive compensation structure is based on achievement as evidenced by quantitative investment performance measures and qualitative assessment of each incentive plan participant's contributions to the accomplishment of SBA's objectives. These are summarized at a high level in our Mission and Vision Statements:

Our mission is to provide superior investment management and trust services by proactively and comprehensively managing risk and adhering to the highest ethical, fiduciary and professional standards.

Our vision is to be the best public sector investment and administrative service provider while exemplifying the principles of trust, integrity and performance.

As Executive Director & CIO, my priority is to keep our organization's team, culture, reputation, credibility and resources at a strength that empowers mission and vision fulfillment. This is consistent with the Trustees' delegation of authority to the Executive Director & CIO. Our most visible output is investment results, the adequacy or inadequacy of which is readily seen. Taking a long term view, what is actually more important but less visible is the team and culture building, policy and strategy formation, resource provision, risk management and execution that create the many investment outcomes that sum to the total fund's return. If these are right, the probability of consistent investment outcomes that earn trust, enhance the SBA's reputation and build brand value is vastly enhanced. The result is a virtuous cycle where our credibility and performance help garner critical policy support from key SBA stakeholders (Trustees, Legislature, local governments, beneficiaries, taxpayers, media, etc.), which in turn, positions us as a serious, stable, and desirable investment partner in the marketplace. This enables us to build well-aligned relationships with other exceptional organizations and capture superior deal flow with more favorable terms and pricing, driving the performance that earns trust, enhances reputation and builds brand value. I take responsibility for ensuring that the SBA executes effectively at all levels of this cycle.

While effective strategy execution and policy engagement describe my responsibilities at a high level, the purpose of this letter is to communicate specifically my performance over the past year for your consideration. Evaluation of the Executive Director & CIO to be provided to the Trustees falls to the IAC Compensation Subcommittee and the full IAC. As I am retiring, effective September 30, I will not be receiving an incentive award this year. Nevertheless, your evaluation of my performance for the previous year will still be of value to the Trustees as an important input into their oversight of the SBA. Accordingly, following are my thoughts on my contribution and accomplishments relating to each of the four central performance areas for the ED/CIO to be evaluated by the Subcommittee and addressed on the Evaluation Form.

1) Overall Mission

The fiscal year ended 30 June, 2021, began in the midst of a still-raging global pandemic. The SBA was just coming off a roller coaster year of market dislocation and volatility as well as continuing to adjust to remote working. Florida and the nation would not see the peak of the Coronavirus pandemic until January, when vaccines began rolling out in force. Like much of the rest of the world, the SBA began contemplating re-opening for in-office work in the spring of 2021. While many of our colleagues and much of the private sector continue to wrestle with when or in some cases whether to return to full in-office work settings, the SBA commenced 100% in-office work for all of our colleagues this past July 6th. We agree with Blackstone President and COO Jonathan Gray, who said "we believe we are better together."

The FRS defined benefit plan asset value began the year at \$160.7 billion, and ended the year (based on the latest numbers) at \$198.5 billion, an increase of approximately \$37.7 billion, which is net of \$7.5 billion in beneficiary payments. Total fund performance for the year is estimated at 28.74%, which is approximately 1.21% ahead of benchmark. These numbers will evolve as final, June 30 numbers come in from the private asset classes. To say it was a good year for the FRS's market value and performance would be an understatement.

Unlike the virus or the real economy, the markets continued a steady upward trajectory all throughout last year buoyed by supportive monetary and fiscal policies, vaccine deployment, and the release of pent-up demand. Through asset allocation, diversification and strategy selection, we continued to structure our investments to achieve our long-term return objective. FRS was well positioned during the start of the pandemic and this last year – we rebalanced into equities near the low, garnering public and private equity gains and finding pockets of opportunity within all the asset classes. In total, we reallocated \$6.35bn on equity market strength over the year, adhering to our long term asset allocation discipline. We continued to partner with best in class active managers, allowing them to pull the active levers aligned to their skillset, across regions, styles, security types. We were also active in identifying opportunities and committing capital in the private markets. This approach has driven both strong absolute and benchmark relative performance. In fact, over the last 3, 5 and 10 years (through March 31, 2021), Aon has reported that FRS total fund performance has been top quartile relative to the public plan peer group. Further, as an example, Private Equity consistently ranks in the top quartile of performance across Cambridge Associates client returns.

It was also a successful year for the SBA from a mission execution perspective. Over the last 12 months, the SBA:

- Operated effectively in a remote work environment for the entire year. Business processes and workflows continued unabated; internal and external meetings were held virtually; all audits were completed on time with no material findings; all oversight meetings continued to occur as scheduled with full participation by the oversight bodies and access by the public; and all legal, investment, personnel and compliance processes continued without interruption.
- Upgraded key IT and IT security systems, including commencing implementation on a new private market investment management system solution as well as upgrading the SBA's virtual meeting capabilities.
- Enhanced the funding capacity of the Florida Hurricane Catastrophe Fund by closing on \$3.5 billion of pre-event financing bonds for the Florida Hurricane Catastrophe Fund at an all-in true interest cost of 1.84%. This brings the currently available resources of the fund for the 2021/2022 Contract Year to \$15.4 billion. This is just shy of the fund's \$17 billion statutory liability limit, but brings the difference between the statutory limit and

available funding to well within the most recent bonding capacity estimates (\$19.2 billion over a 0 – 24 month issuance time frame).

- Served as a resource to the Florida legislature during the 2020 legislative session. Two particular pieces of legislation were relevant to the SBA: Senate Bill 84, which proposed closing the FRS defined benefit plan to new members except special risk employees, and another, House Bill 5011, liquidating the Lawton Chiles Endowment Fund and transferring the proceeds to the State's Budget Stabilization Fund. Senate Bill 84 was proposed as an effort to reduce employers' exposure to future investment risk in the defined benefit pension plan. The SBA worked with stakeholders, including the legislature and the Department of Management Services, to provide relevant information and comment as needed during the process. Ultimately, the bill was never heard in the House and died during the session. In contrast, House Bill 5011, provided for the liquidation of the roughly \$1 billion Lawton Chiles Endowment Fund managed by the SBA and the transfer of the liquidation proceeds to the State's Budget Stabilization Fund. The Governor signed this bill into law, which became effective July 1. On that day, the SBA liquidated the fund, locking in gains of over \$250 million for the year, and on July 8th transferred \$1.05 billion to the Department of Financial Services pursuant to the legislation.
- Increased the balance in Florida PRIME to \$17.4 billion from \$15.1 billion a year ago. Continued exceptional performance, transparency and value have supported ongoing client satisfaction and fund growth.
- Grew the FRS Investment Plan balance to \$14.8 billion from \$11.5 billion the year prior. The SBA continues to see increased growth and participation in the FRS Investment Plan stemming from the legislature's 2018 change in the default retirement plan for new hires. Through March 31, 2021, Fiscal Year growth for the FRS Investment Plan membership is on pace to exceed 10% with 253,000 members, up from 229,000 for Fiscal Year 2020.
- Successfully completed another budget cycle with full funding of SBA requested budget priorities, including additional necessary investment and operations positions, additional critical IT Infrastructure projects, and continued support of SBA's revised compensation program. The continued support of the IAC Compensation Subcommittee and the IAC at large has been indispensable in helping the SBA secure the necessary funding for these critical objectives. The SBA seeks to honor this support by continuing to generate 5-year value added returns in the top 20% of our peers while operating at an annual cost lower than two thirds of our peers, each as measured by CEM.
- Reconvened a 100% in-office work policy. Effective July 6, 2021, the SBA moved to

Phase 3 of its return to in-office work plan, which required 100% of SBA colleagues to return to the office full-time. After 15 months of working remotely, in light of the success of the COVID vaccines and the significant drop in incidences of COVID nationally and locally, the SBA returned to full in-office work. While we are certainly technologically capable of maintaining a distributed work force, we believe there is no substitute for face-to-face conversations and personal interactions in maintaining the collaborative, effective culture we have cultivated over these many years.

2) People

As Warren Buffet said, “Someone is sitting in the shade today because someone planted a tree a long time ago.” Our business is inherently long term focused; we prepare for financial events decades in the future. As prior years’ letters outlined, continuation of excellence cannot be assumed; it must be willfully conceived and provided for. Truly great organizations understand their own frailty and institutionalize strategies to sustain their strength, anticipating and meeting human capital needs, taking pains to recruit, grow and retain professionals with depth and diversity that empowers orderly succession and sustains cultural values. Circumstances and context are ever changing, but the right cultural norms and personal standards will always distinguish real winners from the less successful. The SBA has the good fortune to own an excellent investment track record, excellent team, strong culture rooted in shared beliefs and a sterling reputation. Getting succession right is critical to preserving what is good in organizations and improving what isn’t as good as it could be. Thus far, our succession management has been highly effective; we need to keep it that way.

- Currently, 17% of the SBA workforce has established a date within the next few years by which they intend to retire or will be eligible to retire by December 31, 2022. This equates to 36 FTEs, 18 of which are in management positions, representing roughly 20% of SBA managers. Succession is an issue we have been keenly aware of and managing over the nearly 13 years I have been back at the SBA. We are starting to see the benefits of the focus and planning in this area. Over the last year, which was undeniably challenging on a personal level, the SBA saw its turnover increase to 7.0% from 3.9% the year before. Out of 16 total departures, 10 were due to retirement, up from 3 retirements in the previous year. We have added and grown talent at all levels of the organization and developed succession plans in all our business units. I believe we are in a strong position, largely as a result of the IAC’s leadership in crafting and implementing our current comp system. Competitive economic compensation and benefits, paired with a very positive combination of workplace quality/culture and smaller city/university town/family friendly lifestyle have proven effective in hiring smart, motivated people and expanding their skills and responsibilities over time.
- Consecutive profitable years for the financial services industry and asset management in particular, together with the growing presence of major financial and investment

organizations in Florida and the South generally, is worthy of note because SBA professional talent has greater opportunity to “go private” and can do so without relocating to a traditional money center market (New York, Boston, Chicago, Los Angeles, San Francisco, etc.).

- I will retire from the SBA in September of 2021 and am working with the Trustees to make their decisions around succession as straightforward and seamless as possible.
- This past year presented many challenges in all areas of recruitment, with almost all positions being filled on a virtual basis without the normal face-to-face interviews. Issues of diversity and inclusion remain a significant focus of the SBA. I continue to reaffirm SBA’s commitment to be a meritocracy with opportunity for all. More importantly, our actions support the value statement. There is always more that can be done and in that regard, we have implemented a mentorship program and strive to improve diversity in candidate pools. Perhaps most importantly, we listen to our employees and do our best to honor their skills and service.
- Consistent with SBA’s culture of thought leadership, I continue to encourage SBA colleagues to be active in professional organizations relevant to their responsibilities and beneficial to the SBA. Staff are involved in the leadership of the Council of Institutional Investors (CII), Institutional Limited Partners Association, National Association of Public Pension Attorneys and International Corporate Governance Network. In addition, accounting, audit, Inspector General and compliance staff are active in the American Institute of Certified Public Accountants, Institute of Internal Auditors, Association of Public Pension Fund Auditors, Information Systems Audit and Control Association and the Association of Certified Fraud Examiners. During the year I completed my third term as CII Chair and termed off the Board. I was elected to membership in the Council on Foreign Relations.

3) Efficiencies / Infrastructure / Operations

SBA continues to be among the very lowest cost large providers of retirement investment service providers. CEM Benchmarking, an independent third party cost analysis firm’s latest compilation of peer metrics show that the Pension Plan’s 5-year investment performance exceeded three-fourths of its peers, and its most recent one-year all-in costs were lower than two-thirds of peers. The keys to this productivity are internal asset management (which we continue to grow) and scale economies captured in the structure, terms and fees of our asset management and service provider relationships.

- To maintain and improve support for the investment process, trust services, FL PRIME and the FL Hurricane Catastrophe Fund, the SBA has continued to build out its IT infrastructure, including commencing implementation of a private market investment

management system solution (discussed below) and significant upgrades to the SBA's video conferencing and collaboration tools. In addition, this past July, the SBA Trustees approved a budget request that included an additional \$1 million of investment directed to IT and IT security projects, including additional funding to improve investment analytics across the SBA, exploration of a cloud-based tertiary disaster recovery solution, and continued investment in robotic process automation (RPA).

- o eFront. This past March, the SBA completed contract negotiations with BlackRock for the acquisition of a new private market investment management solution, eFront. This product will centralize data management, holdings and performance information and enable more robust analytics with respect to performance and reporting. This is a significant investment in time, cost and talent for the SBA. In addition to benefits expected to be realized within the private market asset classes, information in eFront is expected to seamlessly flow into the SBA's total fund risk system Aladdin, which is also owned by BlackRock. Implementation of eFront commenced in March and is expected to be completed in December 2021.
- o MS Teams. While the SBA's video conferencing tools at the start of the pandemic were adequate to support SBA's distributed work needs, they did not easily integrate with our existing Microsoft suite of solutions, such as Outlook calendars and SharePoint. Accordingly, as we were transitioning to Outlook 365, Microsoft's cloud-based email solution, we also decided to fully implement Microsoft Teams in the cloud as well. Teams was fully implemented in January, and the SBA has already seen a significant upgrade in video conferencing efficiency and quality. In addition, there are many other aspects of Teams we will seek to more fully integrate into SBA processes in the coming months.
- o IT security has been a topic in prior letters and remains a priority as cyber-crime is perhaps the world fastest growing business. Over the past year, we have continued to invest in new firewalls, logging tools, scanners and infrastructure improvements. We continue to work with our annual third-party Cybersecurity auditor to test and continuously refine our security systems. On an annual basis, our IT security infrastructure, which now consists of 3 full-time employees (up from 2 the year before), numerous systems (including endpoint, web-gateway, email filtering and data loss prevention systems) along with a 24/7 contracted third party managed security services provider, analyzes literally hundreds of millions of security events, any one of which, if not prevented, could result in a significant negative impact to the SBA.

4) Interaction with the Investment Advisory Council and the Audit Committee

The IAC plays a central role in the credibility and success of the SBA; the expert independent

oversight and guidance provided to the Trustees and stakeholders is one of the keys to the success of our governance model, especially relative to many of our peers. I defer to your judgement on the quality and productivity of our relationship. Regarding the Audit Committee, I attend and actively participate in their meetings and maintain good rapport with its members. Please feel free to contact any of the members of the Audit Committee individually to hear their perception of my interaction with them (see attachment 3 for their contact information).

As this will be my last self-appraisal prior to my September 30 retirement, provided below is a brief look back at what has been accomplished through the combined efforts of the SBA's, Trustees, IAC, professional staff since I returned to the SBA in late October 2008. The numbers below reflect the period from November 1, 2008 through June 30, 2021.ⁱ

- Total fund value as of November 1, 2008 = \$99.4B.
- Total fund value as of June 30, 2021 = \$199.0B
- Investment gain of \$166.9B.
- Net benefit payments of \$67.2B.
- Pension Plan return 10.28% vs. benchmark return 9.41%, value added 87bps.
- Investment performance value added \$14.0B.

Thank you for sharing your time and talent by serving on the IAC and for your additional commitment to serve on the Compensation Subcommittee. Your effort and wisdom are valued and have contributed meaningfully to our investment success and the strength of our organization. You have advanced the economic interests of our beneficiaries in the purest sense of fiduciary duty, while also benefiting stakeholders and taxpayers. It is my sincere hope that the organization and track record we have built together will be preserved after my retirement and the deep and talented SBA team will continue to deliver exceptional outcomes and value.

With best regards,



Ashbel C. Williams

ⁱ FY 2021 is estimated performance, prior periods are audited performance.

Attachment 3C

MEMO

TO: Vinny Olmstead, Chairman, Compensation Subcommittee of the Investment Advisory Council, State Board of Administration
DATE: September 2, 2021
FROM: Josh Wilson, Mercer
SUBJECT: ED/CIO Salary History and 2021 Performance Evaluation

Dear Chairman Olmstead

In 2012-13, Mercer was engaged to conduct a compensation study for the State Board of Administration of Florida (SBA). Near the conclusion of that study, Mercer issued a letter of recommendation to Chuck Newman, a prior Chairman of the Compensation Subcommittee of the Investment Advisory Council, State Board of Administration with regard to the SBA's ED/CIO (Mr. Ash Williams) compensation. The recommendation was to increase the ED/CIO's annual salary to \$410,000, which approximated the median of the five largest public pension funds in the United States. Mr. Williams' salary was adjusted from \$325,000 to \$367,500 effective 12/10/13 and adjusted again to \$389,500 effective 12/1/2014. Mr. Williams' salary was not adjusted in 2015.

In 2016, the SBA refreshed the analysis done in 2013 but did so internally (as a fee savings measure) and Mercer reviewed and validated the work. In Mercer's view, the process undertaken by the SBA was appropriate and consistent with the approach Mercer would have taken. Mercer's recommendation for 2016 was to increase Mr. Williams' base salary to \$425,000 (with the intention of ultimately adjusting the ED/CIO to \$455,000, but over a two-year period). However, in 2016 Mr. Williams' base salary was actually adjusted to \$411,000.

In 2017 & 2018, SBA continued conducting the benchmarking work internally with validation from Mercer. Based on the 2017 assessment and the ED/CIO's annual performance review, Mercer maintained its prior recommendation of an ultimate adjustment to \$455,000 which the Subcommittee accepted. In 2018 Mercer recommended two alternatives for adjustments and the IAC adopted the higher of the two proposals (a salary of \$525,000) based on Mr. Williams' performance and positioning in the marketplace.

In 2019, Mercer recommended an adjustment to \$575,000 based on that year's market study and the results from the Executive Director/CIO's performance assessment. At the time, we also offered a more conservative alternative adjustment to \$545,000 and the Committee ultimately opted to adjust the ED/CIO's base salary to the higher alternative of \$575,000.

In 2020, based on Mercer's review and validation of the benchmarking data shown below, Mercer felt that the ED/CIO position was competitive with the market and recommended a merit increase in line with other SBA employees and the market. The IAC agreed and moved Mr. Williams' salary to \$592,250.

- 1) Median of top 5 public pension funds - \$450,000 (Group consists of CalPERS, CalSTRS, New York State Common, New York City Retirement, Teachers Retirement System of Texas)
- 2) 75th percentile of Larger Public Pension Funds peer group (n=14) - \$566,500
- 3) 75th percentile of Broader Public Pension Funds peer group (n=20) - \$515,500
- 4) 75% percentile of Mercer's Large and Leading Pension Funds (n=12) - \$586,500

2021 Review of ED/CIO's Performance

Mercer received feedback from all three members of the Compensation Subcommittee pertaining to the annual performance of the ED/CIO. Consistent with prior years, Mr. Williams received high marks in all categories, with all Subcommittee members giving the highest possible ratings with respect to performance related to the organization's mission.

Salary Recommendations

Mr. Williams has announced his retirement effective September 30, 2021. If Mr. Williams was not retiring, Mercer would have recommended another merit increase based on performance.

If you have any questions, please do not hesitate to contact me.

Thank you,
Josh

Attachment 4

MEMO

TO: Mr. Lamar Taylor, COO/CFO, Florida SBA
DATE: September 3, 2021
FROM: Josh Wilson, Mercer
SUBJECT: Review of SBA Incentive Compensation Plan

Dear Mr. Taylor

SBA implemented an incentive compensation plan in 2014 to incent outperformance by the investment staff and to ensure that the total compensation packages for investment staff was competitive with the market.

The plan has been in place for 6+ years and has been performing as designed. SBA performance has been strong over the past years and the payouts have been commensurate with performance. Turnover has slowed down at SBA, which was one of the rationales for implementing the plan.

Mercer was asked to review the plan to see if there were any areas of the plan that should be modernized or improved to further support SBA's mission and human capital strategy. Below is a summary of the major findings of the study.

Element	SBA Practice	Market	Considerations
Eligibility	62 participants, investment staff and senior management.	Minority practice on including related roles (accounting, risk/compliance, legal). Eligibility to the lowest levels or to employees far outside the investment group is atypical in the market.	Current plan has been accepted and digested by the State. Adding more participants increases the visibility of the plan and may raise concerns. However, having ineligible colleagues working side by side with incentive eligible colleagues creates cultural problems.
Plan Targets	Targets range from 35% for the CIO to 10% for analysts. The maximum upside for all participants is 1.5X.	Target of 75% for the CIO ranging down to the 20-25% for analysts. Typical upside in the market is 2X Target.	There is both a cost and a publicity risk in increasing the target incentives for SBA employees. However, without increases, SBA cannot compete as well against the market from a total compensation standpoint and recruiting and retention will be impacted.

Element	SBA Practice	Market	Considerations
Performance Measurement	Fund's financial outperformance relative to defined benchmark. Measurement on total fund and asset classes as appropriate. 75-90% quantitative measurement, 10-25% qualitative to ensure long term sustainability of the investment function.	Majority of peers use both financial performance against a defined benchmark and a mix of quantitative and qualitative measures. Most peers also measure asset class performance for incentive purposes.	SBA's performance measures are aligned with market practice among pension group peers though weighting for Total Fund performance Relative to Benchmark tends to be lower in market with a larger emphasis on Qualitative/Individual metrics.
Performance Standards	SBA requires minimum benchmark outperformance of 5 basis points in order to activate the incentive plan. 25 Bps of outperformance is required to achieve target incentive levels, and 50 Bps is required to achieve maximum incentive levels.	Market performance levels are 0 Bps/20 Bps/40 Bps (as compared to SBA's 5/25/50).	Excess return standard information from surveys can be useful as a data point when formulating entity specific standards, the focus should be on the entity's risk tolerance, investment guidelines, liquidity profile and other portfolio characteristics relative to the entity specific benchmark. A common/best practice is to use peers as guidelines but calibrate off prior performance.
Award Pay Out	SBA pays out 50% of the earned incentive immediately and pays the other half one year later, which creates a retention hook for investment staff.	The market is split between deferring a portion of the award and paying it all immediately. There is a trend to tie the deferred portion to future performance as well.	There is no compelling reason to shift away from current 1 year deferral practice. Tying deferred payouts to following year performance is complicated and will not significantly add to the overall value of the plan.
Risk Governors	SBA has a active risk escalation standard that acts as a circuit breaker for the incentive plan to prevent too much risk being taken in the portfolio to earn an incentive payout.	The market does not typically have active risk circuit breakers. Some plans include risk in the overall calculation (such as an information ratio or a Sharpe ratio) to ensure the appropriate risk levels are taken. Most States have prescribed asset allocation targets that prevent too much risk.	Having a risk measurement in the plan is a solid concept, but Mercer recommends that SBA may want to allow for discretion in unusual circumstances such as the COVID pandemic in 2020.

Overall, SBA's incentive plan is acting as designed and has helped SBA attract and retain top investment staff, which in turn has helped overall fund performance. There are some areas of the plan that could be examined to improve the effectiveness and competitiveness of the plan if SBA so desires.

If you have any questions, please do not hesitate to contact me.

Thank you,
Josh

Attachment 5

2020-2021 SBA Compensation Update



SBA Incentive Compensation Update

	FY2015-2016	FY2016-2017	FY2017-2018	FY2018-2019	FY2019-2020 [†]	FY2020-2021
Total Eligible Positions	63	63	63	63	64	66 [‡]
Total Participants Receiving an Award	57	59	54	58	0	58
Maximum Possible Quantitative Award	\$1,786,970	\$1,783,384	\$1,831,456	\$1,962,033	\$2,182,470	\$2,123,588
Actual Quantitative Award (Paid over 2 years)	\$1,382,538	\$1,610,799	\$1,648,299	\$1,783,358	\$0	N/A
Maximum Possible Individual Award	\$339,580	\$343,442	\$350,144	\$369,655	\$417,468	\$403,005
Actual Individual Award (Paid over 2 years)	\$255,999	\$296,867	\$311,107	\$335,657	\$0	N/A
Maximum Possible Award	\$2,126,550	\$2,126,827	\$2,181,600	\$2,331,688	\$2,599,938	\$2,526,594
Actual Total Award Earned (Paid over 2 years)	\$1,638,535	\$1,907,665	\$1,959,406	\$2,119,014	\$0	N/A
Total Earned Quantitative ÷ Max Possible	77%	90%	90%	91%	0%	N/A
Total Earned Individual ÷ Max Possible	75%	86%	89%	91%	0%	N/A
Total Earned ÷ Max Possible	77%	90%	90%	91%	0%	N/A
% Participants Earning Max Possible	53%	63%	69%	37%	0%	N/A
Total Awards Paid in December following FY	\$869,218*	\$1,728,304	\$1,886,568	\$2,063,465*	\$0	N/A
Total Awards Deferred to December after next FY	\$769,318	\$953,833	\$979,703	\$922,488	\$0	N/A

SBA Base Compensation Comparison for 2019 & 2020 Salary Adjustments

	All SBA Employees		Non-Incentive Eligible		Incentive Eligible	
	December 2019 Adjustments	December 2020 Adjustments	December 2019 Adjustments	December 2020* Adjustments	December 2019 Adjustments	December 2020 Adjustments
Total Employees	182	170	127	113	55	57
Employees as % of Total Employees	-	-	70%	66%	30%	34%
SBA Compa-Ratio (Total Salaries ÷ Total Midpoints)	94%	97%	98%	101%	89%	93%

The table above reflects adjustments to SBA employees only and excludes ineligible employees, position reclassifications, and the ED/CIO adjustment.

* 12 non-incentive eligible employees were ineligible for adjustments because they were hired or promoted between 7/1/2020 and 11/30/2020.
10 non-incentive eligible employees were promoted or reclassified effective 12/1/2020.

	All SBA Employees		Non-Incentive Eligible		Incentive Eligible	
	December 2019 Adjustments	December 2020 Adjustments	December 2019 Adjustments	December 2020* Adjustments	December 2019 Adjustments	December 2020 [†] Adjustments
Aggregate Rate Increase	\$820,393	\$868,523	\$509,856	\$366,276	\$310,537	\$502,248
Median Base Pay Increase	\$4,165	\$3,800	\$3,702	\$3,000	\$4,812	\$8,779
Average Base Pay Increase	\$4,508	\$5,109	\$4,015	\$3,241	\$5,646	\$8,811
Median % of Base Pay Increase	4.7%	4.0%	5.0%	4.0%	4.1%	6.1%
Average % of Base Pay Increase	4.8%	4.9%	5.1%	4.0%	4.1%	6.8%

SBA Base Compensation Adjustments

December 2020 – Latest Cycle

Distribution Update

	All SBA Employees		Non-Incentive Eligible		Incentive Eligible	
% of Increase	# of Employees	% of Employees	# of Employees	% of Employees	# of Employees	% of Employees
0% - 3%	22	13%	20	18%	2	4%
3.1% - 6%	113	66%	87	77%	26	46%
6.1% - 10%	24	14%	6	5%	18	32%
Greater than 10%	11	6%	0	0%	11	19%

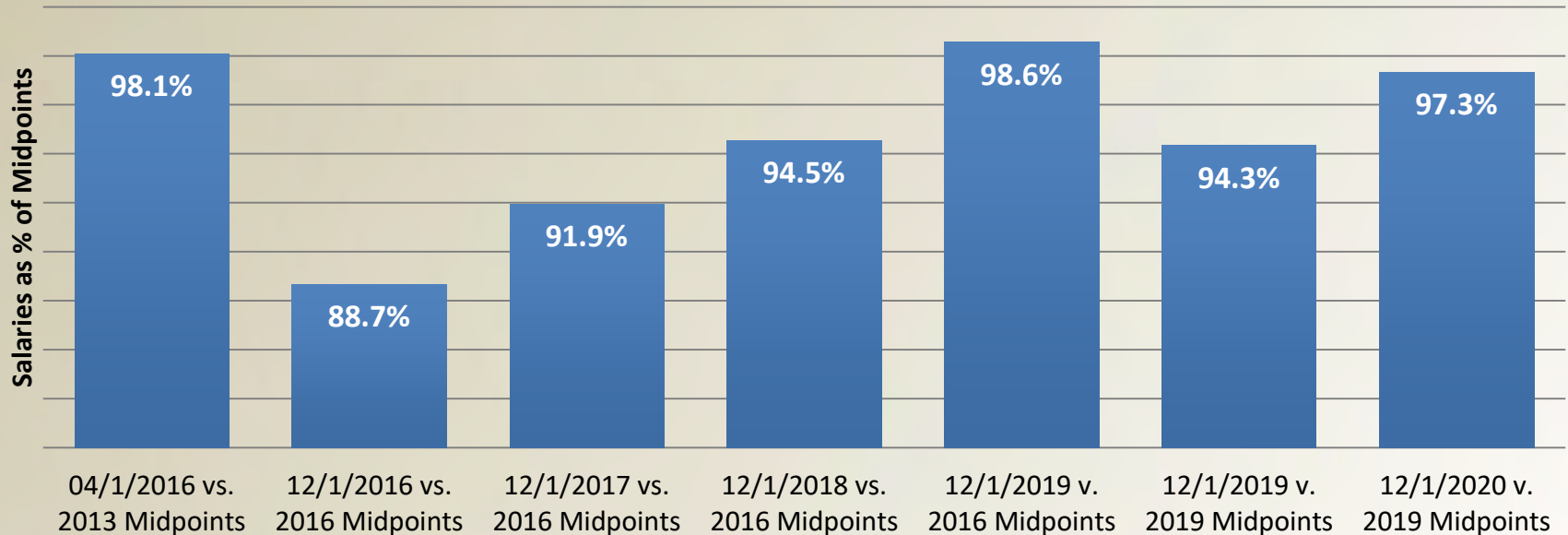
Market-Based Base Pay Adjustments – Investment Positions

Positions	Number of Positions	Average Salary Grade Midpoint	Average Salary before 12/1/2020	Market Salary	Midpoint as % of Market	Pre 12/1/2020 Salary as % of Market	Average Adjusted Salary as of 12/1/2020	Adjusted Salary as % of Market
Portfolio Manager 1, Mgr. of Investment Analytics, and Mgr. Asset Allocation & Investment Analytics	9	\$95,378.00	\$84,054.00	\$100,000.00	95%	84%	\$89,659.66	90%
Portfolio Manager 2, Dir of Reporting & Analytics, and Real Estate Acquisitions Mgr.	12	\$130,000.00	\$112,173.00	\$142,000.00	92%	79%	\$125,153.14	88%
Senior Portfolio Manager	18	\$184,900.00	\$158,360.00	\$200,000.00	92%	79%	\$167,895.31	84%
Weighted Average	N/A	\$147,348.77	\$127,001.08	\$159,076.92	93%	80%	\$136,689.49	86%

Progress Toward Target Salaries

(Organization-wide Compa-Ratio)

Progress Toward Target Salaries
Salary as Percent of Pay Grade Midpoint
(Total Salaries ÷ Total Midpoints)

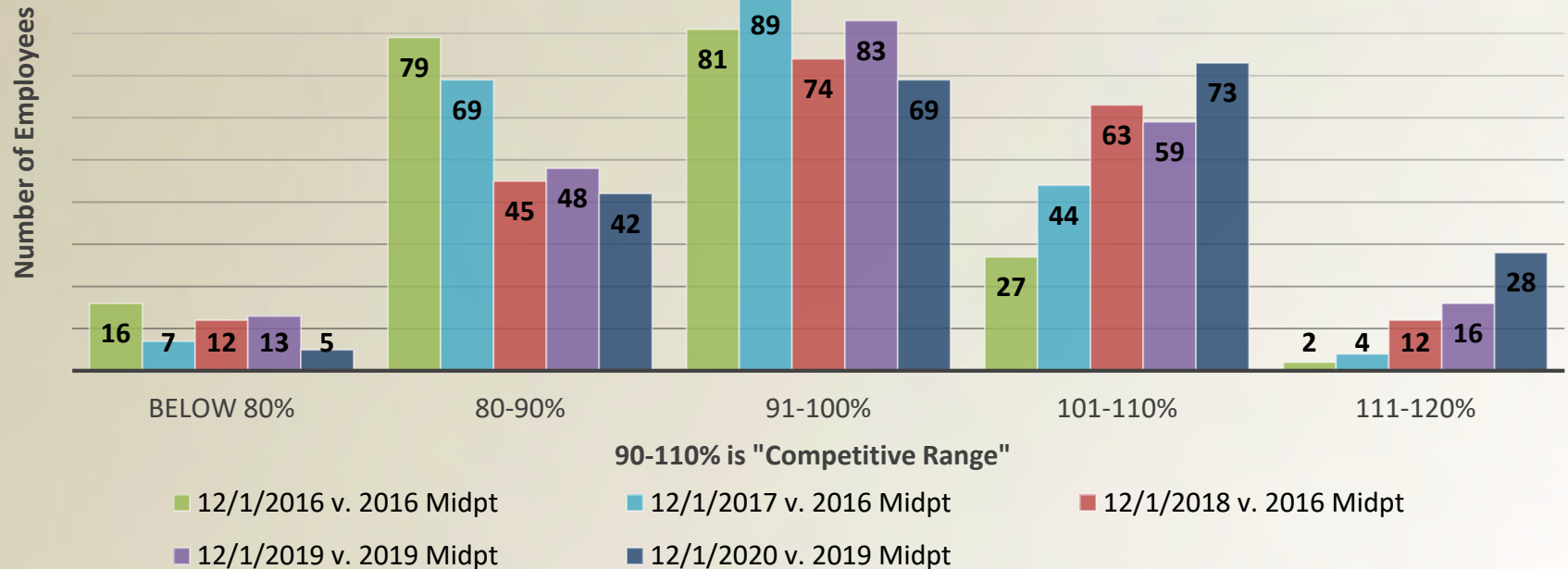


90-110% is "Competitive Range"

Progress Toward Target Salaries

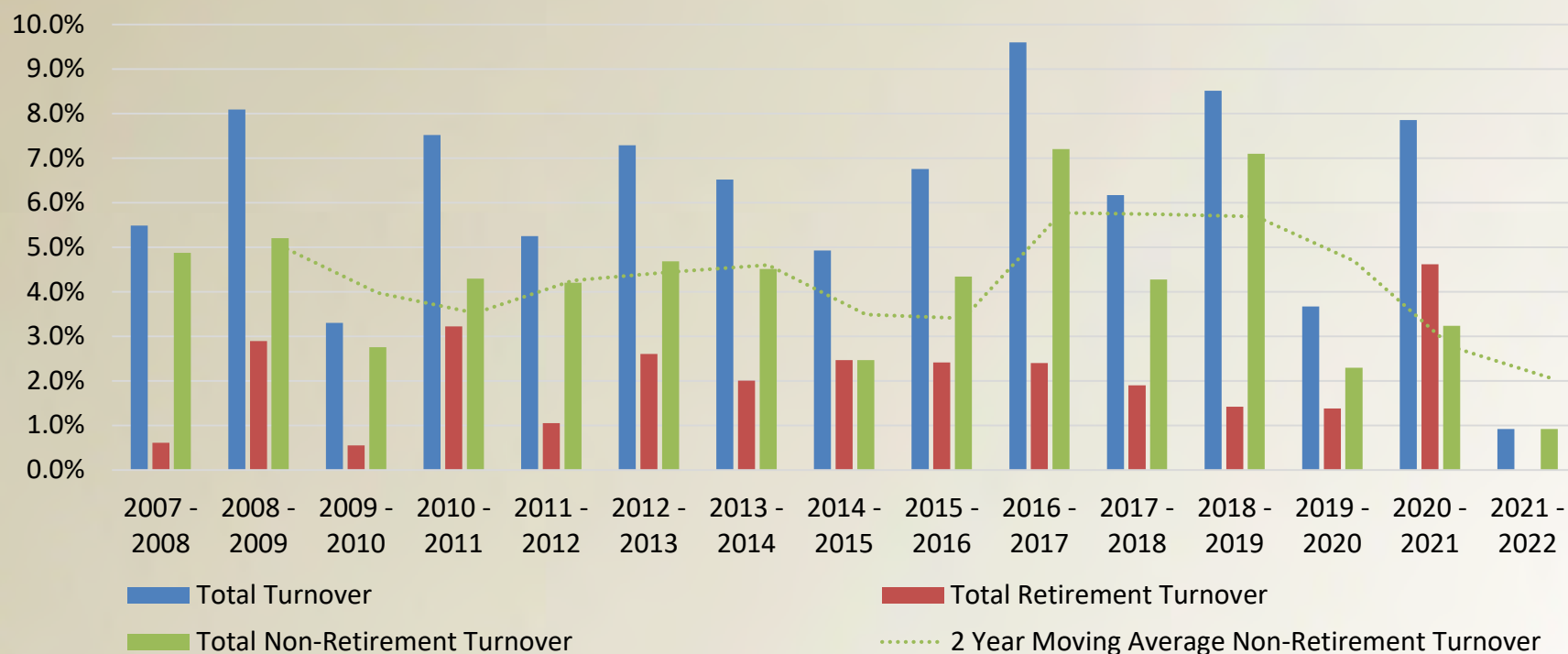
(Distribution of Employees by Compa-Ratio)

Progress Toward Target Salaries Salary as Percent of Pay Grade Midpoint

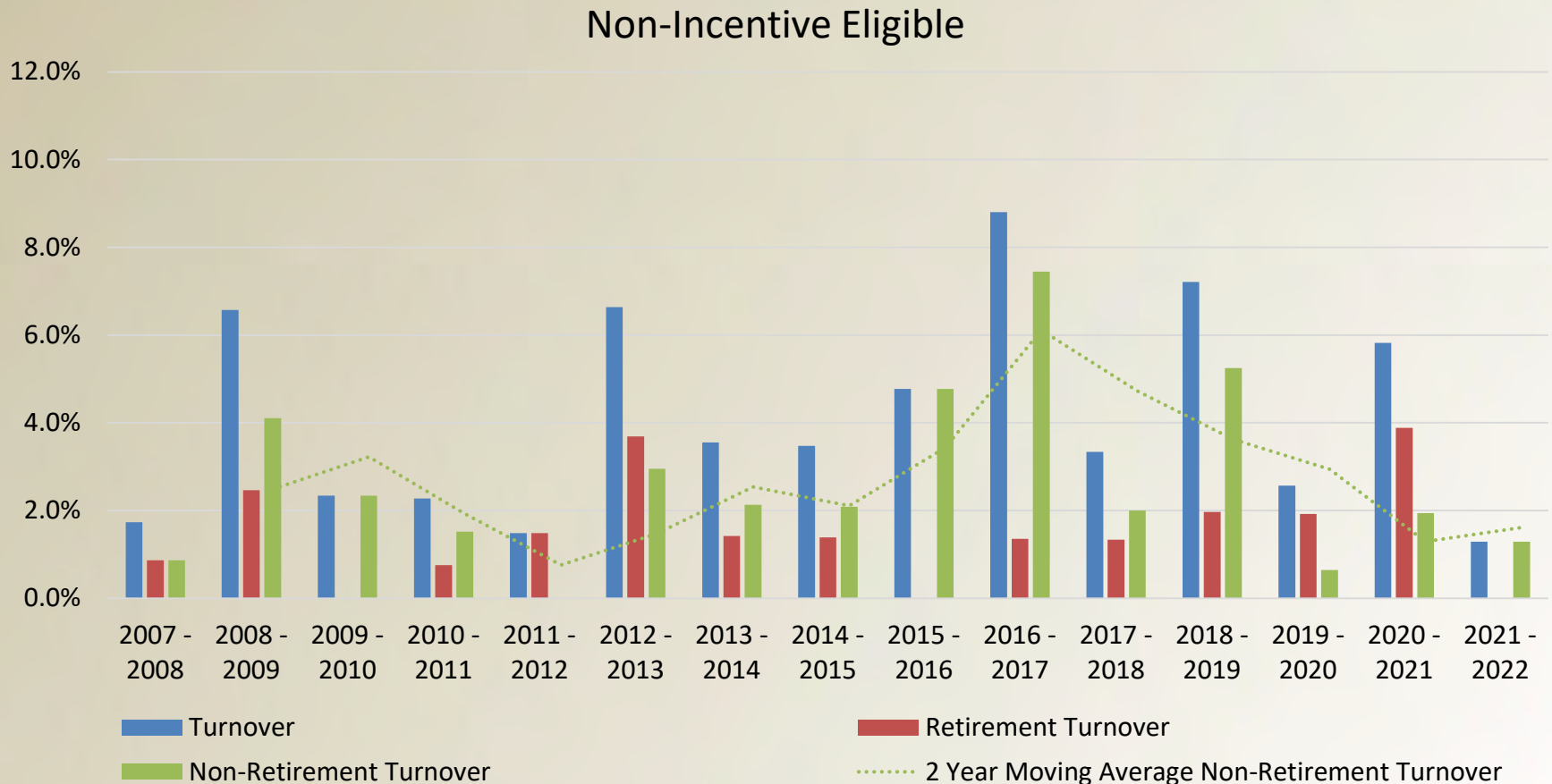


Turnover for all SBA, ODCP, and FHCF Staff

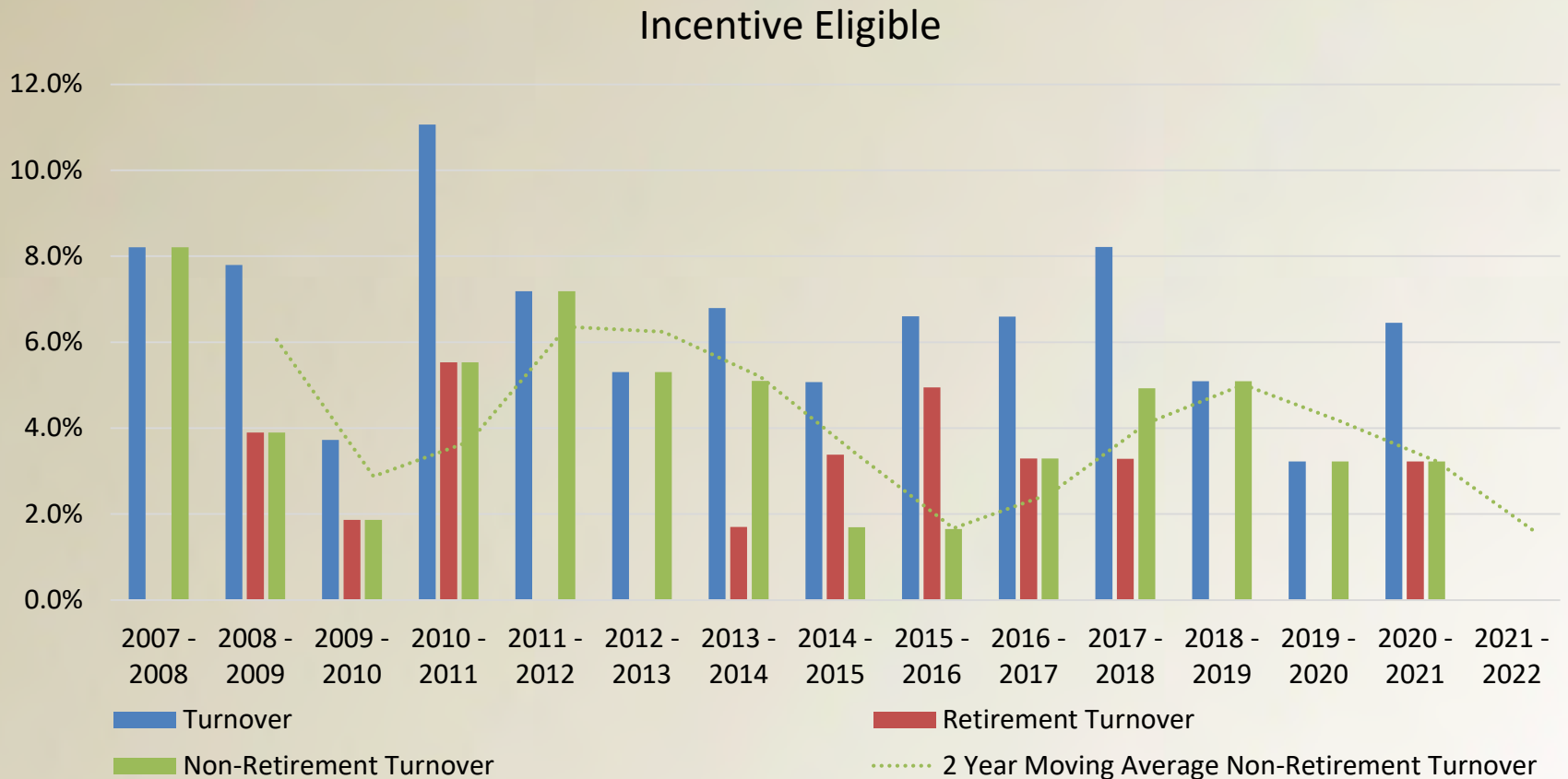
All Employees



Turnover for all SBA, ODCP, and FHCF Non-Incentive Eligible Staff



Turnover for all SBA, ODCP, and FHCF Incentive Eligible Staff



Projected Retirements by December 2027 for all SBA, ODCP, and FHCF Staff

- 75 (33.5%) of 224 employees are eligible to retire by the end of 2027.
- 43 (57.3%) of the 75 employees eligible to retire are manager/supervisor-level and above.
- There are 43 (49.4%) manager/supervisor-level and above employees eligible to retire of the 87 total manager/supervisor-level and above employees. This means that 49.4% of the SBA's manager/supervisor-level and above positions could be replaced by the end of 2027.
- Of the 75 employees eligible to retire, 17 (22.7%) are already in DROP. Of the 17 in DROP, 7 (41.2%) are manager/supervisor-level and above.
- Of the 75 employees eligible to retire, 16 (21.3%) are in an asset class and 59 (78.7%) are in operations.
- Of the 66 incentive eligible positions, 21 employees (31.8%) are eligible to retire by the end of 2027.

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2021

January						
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24	25	26	27	28	29	30
31						

February						
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20	21	22	23	24	25	26
27	28					

March						
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20	21	22	23	24	25	26
27	28	29	30	31		

April						
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May						
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23	24	25	26	27	28	29
30	31					

June						
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July						
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August						
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29	30	31				

September						
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26	27	28	29	30		

October						
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17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

November						
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13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

December						
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			1	2	3	4
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12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

Blue is Proposed IAC Meeting

Yellow is Proposed Cabinet Meeting

Note: the IAC and Cabinet are scheduled to meet on the same day in December (12/14/2021).

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Proposed 2022 IAC Meeting Dates

Tuesday, March 29, 2022

Tuesday, June 28, 2022

Tuesday, September 27, 2022

Tuesday, December 13, 2022