



moving forward for florida's future.

Moving

contents.

3	Letter from the Trustees	13	Enhancements Stabilize Local Government Investment Pool
4	2007-08 Highlights	15	SBA Strengthens Risk Management and Compliance Programs
5	Executive Director's Report	17	SBA Plays Key Role as Corporate Governance Advocate
9	FRS Pension Plan Fully Funded for 11th Consecutive Year	19	FRS Pension Plan Financial Drivers
11	FRS Investment Plan Continues Growth		

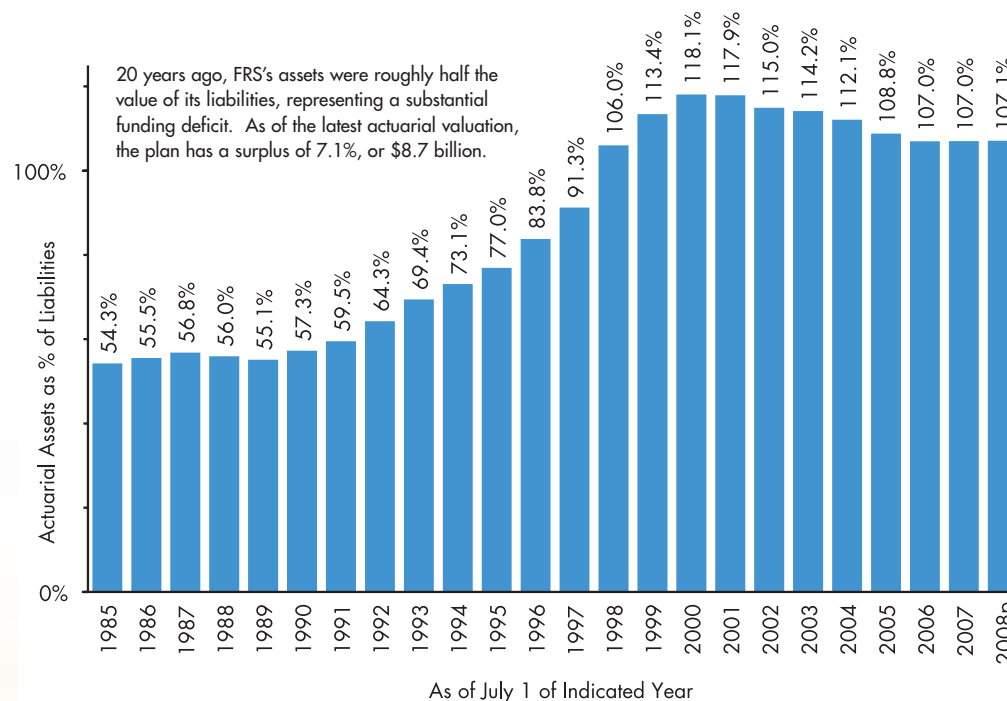
investment review.

24	Overview of SBA Investment Portfolios	47	Lawton Chiles Endowment Fund
26	The 2007-08 Investment Environment	49	Florida Hurricane Catastrophe Fund
31	Investment Performance Summary by Asset Class	50	SBA Investment Pools
35	Overview of Major SBA Mandates	53	Other Investment Portfolios
45	MyFRS Financial Guidance Program	56	Other SBA Responsibilities
		56	Risks, Objectives and Expectations

mission statement.

The SBA is committed to providing superior investment and trust services while adhering to the highest ethical, fiduciary and professional standards.

FRS Pension Plan Funded Status



Note: Amounts are interpolated for 1986, 1988, 1990, 1992, 1994 and 1996 because actuarial valuations were conducted biennially prior to 1997.
p=preliminary

letter from the trustees.



ALEX SINK



CHARLIE CRIST



BILL MCCOLLUM

October 31, 2008

TO THE HONORABLE MEMBERS OF THE
FLORIDA SENATE AND HOUSE OF REPRESENTATIVES:

It is our privilege to submit the annual Investment Report of the State Board of Administration of Florida (SBA) for the fiscal year ended June 30, 2008, pursuant to the requirements of Florida Statutes, Section 215.44(5). The statutory mandate of the SBA is to invest, manage and safeguard assets of the Florida Retirement System Trust Fund – its primary fiduciary responsibility – as well as the assets of a variety of other funds, including the Lawton Chiles Endowment Fund, the Florida Hurricane Catastrophe Fund and the Local Government Investment Pool (LGIP). At the end of the fiscal year, the total net asset value of the 35 mandates and trusts under SBA management was \$154.7 billion.

We are pleased to report that the FRS Pension Plan – the fourth largest public pension plan in the nation – was fully funded for the 11th consecutive year, with an estimated \$8.7 billion surplus, a major achievement considering the fact that most state public pension funds in the United States are underfunded. In a year when domestic and foreign stock markets tumbled amid a severe economic downturn, the FRS Pension Plan's return outperformed broad market indexes, with a modest net loss of 4.4%. We invite you to read more in this report about

the FRS Pension Plan, whose long-term strength, consistency and growth have made it one of the best-performing public pension plans in the nation.

While the FRS Pension Plan remained solid and the FRS Investment Plan continued to attract new participants, the LGIP experienced a liquidity crisis during the fiscal year as local governments withdrew \$14 billion from the Pool in November 2007. As SBA Trustees, we took strong action, as did the Legislature, to investigate and determine the cause of the crisis, and directed the SBA to stabilize the LGIP and implement strong new oversight, disclosure, compliance, risk management and investment policies that will protect Florida's assets in the future.

As Trustees, we are dedicated to ensuring that the SBA invests Florida's assets and discharges its duties ethically and in strict accordance with state law and policies. Overall, the SBA has a strong track record in investing, managing and safeguarding Florida's assets.

We welcome your comments on this annual Investment Report and encourage you to visit www.sbafla.com for more information.

Respectfully submitted,

Chief Financial Officer,
as Treasurer

A red ink signature of Alex Sink.

ALEX SINK

Governor,
as Chairman

A red ink signature of Charlie Crist.

CHARLIE CRIST

Attorney General,
as Secretary

A red ink signature of Bill McCollum.

BILL MCCOLLUM

2007-08 highlights.

largest mandate.

SBA managed the \$126.9 billion FRS Pension Plan, which remained fully funded for the 11th straight year.

assets under management.

SBA managed a total of 35 mandates and trusts with a combined net asset value of \$154.7 billion.

moving forward.

SBA implemented important changes to stabilize and protect the Local Government Investment Pool and its liquidity.

managing risk.

SBA adopted tougher risk management, compliance and oversight policies.

enhancing compliance.

SBA retained Deloitte & Touche to evaluate and enhance its compliance practices and policies.

governance leadership.

SBA protected Florida's investments through focused corporate governance and investor activism.

a mandate beyond investment management.

SBA managed Florida Hurricane Catastrophe Fund assets to provide a vital safety net for residential property insurance.

a portable retirement alternative.

Enrollment in the SBA-administered FRS Investment Plan rose 19%, total assets increased to \$4.37 billion.

executive transition.

Robert Milligan became Interim Executive Director and guided the SBA during a challenging transition year.

leadership for the future.

The SBA Trustees appointed Ashbel C. Williams, Jr. Executive Director & CIO, effective October 2008.

The State Board of Administration invests, manages and safeguards assets on behalf of its largest client base, the 1.1 million members and beneficiaries of the Florida Retirement System (FRS), as well as 34 other mandates and trusts. The SBA is dedicated to serving Florida under the highest standards of fiduciary care and professionalism. Our principal goal is to deliver long-term investment growth that strengthens Florida and its future.

This Investment Report for fiscal year 2007-08 shares facts about the SBA's performance, its investment results and its strong commitment to compliance, risk management and investment policies that protect Florida's assets.

We moved forward during the year to implement changes that we believe will make the SBA an even stronger and more effective professional investment management organization in the years to come.

executive director's report.



OUR STRENGTH, OUR PEOPLE

The SBA has a proud history of managing Florida's assets ethically, responsibly and professionally. As Interim Executive Director of the SBA since December 2007, I have had the honor of leading one of the best public pension fund management organizations in the U.S., with a dedicated staff of professionals who share a strong common bond – a commitment to trust, integrity and performance.

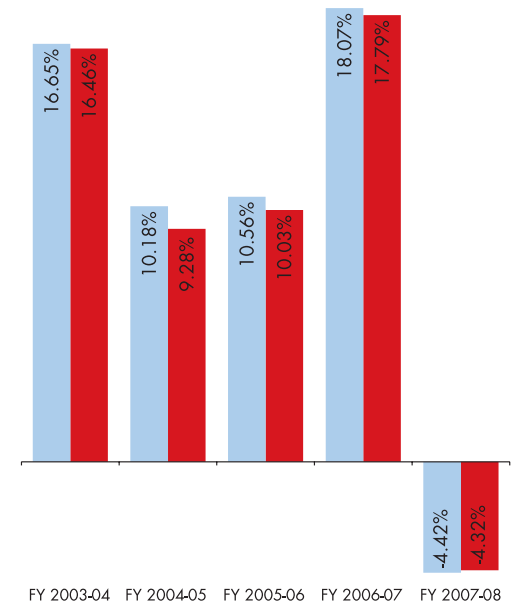
FRS PENSION PLAN

The SBA produced solid investment results to maintain full funding of the FRS Pension Plan, which had a surplus for the 11th year in a row. The FRS Pension Plan had a funded ratio of 107.1%, reflecting the success of our diversified, long-term investment strategy and our long-standing policy of prudent risk management. The strength and stability of the FRS Pension Plan, the largest fiduciary responsibility of the SBA, is marked by this achievement as most other state-managed public pension funds in the U.S. have a funding deficit. Including results for fiscal year 2007-08, the 3-year annualized return on the FRS Pension Plan was 7.66% and the 5-year return was 9.91%. Amid economic and market turbulence, the SBA worked diligently in a very tough market year to safeguard the FRS Pension Plan assets from extreme market risk and volatility.

OTHER FUNDS

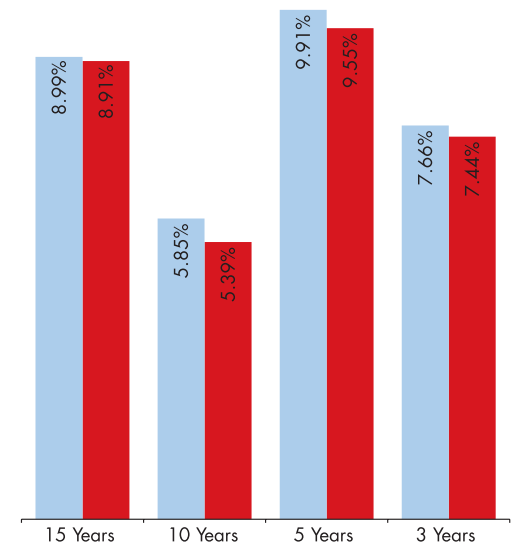
The SBA managed 34 other funds, including the FRS Investment Plan which continued to grow as a voluntary alternative to the FRS Pension Plan. Its assets rose to \$4.37 billion at the end of the fiscal year as enrollments increased. Other major funds under SBA management include the Florida Hurricane Catastrophe Fund, which remained strong and well-funded; the Lawton Chiles Endowment Fund, which continued to support health programs and medical research on smoking-related illnesses; and the Local Government Investment Pool, which manages and invests funds for units of local government in Florida.


FRS Pension Plan Investment Returns
Past Five Years



FRS Pension Plan Investment Returns

Annualized Rates for Periods Ending June 30, 2008





Sources of Funding
for FRS Pension Plan
Benefit Payments
20 Years Ending June 30, 2008

From Employer Contributions (Tax Dollars)
30.4%

From Investment Gains
69.6%

LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND

As this report discusses on page 13, the Local Government Surplus Funds Trust Fund (commonly known as the Local Government Investment Pool or LGIP) experienced a liquidity crisis in the fall of 2007 when participants withdrew an unprecedented \$14 billion in funds from the Pool in a single month. The withdrawals were triggered by fears of exposure to so-called subprime commercial paper. Although the LGIP bought only first-tier investments (i.e., no subprime exposure), media reports fueled investor fears about the quality and security of the investments. The bottom line is that many participants lost confidence in the LGIP, leading to what can best be described as a classic “bank run” that drained the liquidity of the Pool.

Working at the direction of the SBA Trustees and the Florida Legislature, the SBA implemented a series of major changes that will enhance and strengthen the security and performance of the LGIP going forward. Also, we hired Federated Investors to manage the LGIP, and we are on track to restore the full liquidity of the LGIP by the end of 2008.

OTHER DEVELOPMENTS

The SBA put new investment, oversight, compliance, risk management and reporting policies in place following a series of independent audits and in accordance with new state laws to protect Florida’s assets even further.

The SBA also approved a plan during the fiscal year to retain Deloitte & Touche in fiscal year 2008-09 to help us become even better in the area of risk


management and compliance. Deloitte & Touche will review and assess our compliance, investment management and business processes, and make recommendations for ultimate implementation.

During the fiscal year, the SBA implemented the requirements of a new state law that prohibits Florida’s public pension monies from being invested in non-U.S. companies that aid the governments of Sudan and Iran.

THANKS

I want to thank the SBA Trustees for their strong leadership and guidance and the Florida Legislature for their commitment to supporting initiatives that safeguard the state’s assets and investments, which is, as always, the mission of the SBA. I also want to acknowledge the service and contributions of Coleman Stipanovich, who resigned as Executive Director in December 2007. Last, but not least, on behalf of everyone at the SBA, I want to welcome our new Executive Director and CIO, Ashbel C. Williams, Jr., who joined the SBA in October 2008. I am leaving the SBA in good hands, with a strong foundation for the future of Florida.

Semper Fidelis,



Robert F. Milligan
Interim Executive Director

FRS Pension Plan's
Funded Ratio[#]

107.1%

FRS Pension Plan's Rank
Among 126 of the
Nation's Largest Public
Retirement Plans*

6th
best funded

Number of Public
Plans with Surplus,
including the
FRS Pension Plan*

9
(or only 7%)

Size of the FRS
Pension Plan Surplus[#]

\$8.7
billion

[#] Preliminary 2008 FRS actuarial valuation data. Actuarial valuations are determined annually, as of July 1. ^{*}Source: 2006 Public Fund Survey by the National Association of State Retirement Administrators, issued October 2007.

Succeeding





(succeeding. accomplishing or achieving something intended.

FRS Pension Plan Fully Funded for 11th Consecutive Year

The FRS Pension Plan is a traditional defined benefit plan that provides guaranteed monthly retirement income based on a formula that includes service and salary. This year, the FRS Pension Plan was fully funded for the 11th year in a row, helping to ensure a stable and secure source of retirement funds for the plan's 1.1 million members and beneficiaries.

The consistent strength and stability of the FRS Pension Plan – the fourth-largest public pension fund in the U.S. – reflects the success of the SBA's strategy of maximizing long-term investment results through a highly diversified global portfolio that includes a balanced mix of U.S. and international stocks, real estate investments, fixed income investments such as bonds and notes, and private market instruments, all subject to risk considerations. Guided by our commitment to prudent risk management and fiduciary responsibility, the SBA invested the assets of the FRS Pension Plan in more than 14,600 different securities through a balanced portfolio of diverse asset types.

For the fiscal year ended June 30, 2008, the net asset value of the FRS Pension Plan was \$126.9 billion, compared with \$136.3 billion a year earlier. The FRS Pension Plan accounted for 82% of total assets under the SBA's management. Reflecting a very difficult equity and bond market environment, the return of the FRS Pension Plan portfolio for the year was a loss of 4.4%. During this time, the U.S. stock market was down 12.7% and foreign stocks fell 7.5%. These declines reflected investor concerns about the slowdown in the U.S. economy, sharply higher oil and commodity prices, inflationary pressures, lower corporate earnings,

the credit crisis caused by plunging home prices, a weaker dollar and other factors. Fiscal year 2007-08 was the first in eight years that the FRS Pension Plan return was not positive.

Though uncomfortable, market cycles are a fact of life for investors. To put this year's performance in perspective, the FRS Pension Plan investment results followed an unusually strong return of 18.1% in fiscal year 2006-07. Over the five years ending June 30, 2008, the annualized return of the Pension Plan portfolio was 9.91%; over the past 15 years, it was 8.99%. The SBA is focused on generating healthy long-term returns in the FRS Pension Plan, not aggressive short-term returns that bear excessive risk and volatility.

For the fiscal year, the FRS Pension Plan continued to rank in the top half of the best-performing pension plans over all reporting periods, as reported by Wilshire Trust Universe Comparison Service.

Overall, the FRS Pension Plan, with a funded ratio estimated at 107.1%, was again an exception to the national trend of underfunded state pension plans in the U.S. The FRS Pension Plan ended the fiscal year with a healthy surplus estimated at \$8.7 billion after a net cash outflow of \$3.44 billion for pension benefit payments and other obligations to participants. In short, the FRS Pension Plan remains strong and is a national model for defined benefit pension plans, with diversified investment strategies and stringent policies in place to safeguard and grow assets for future retirement payments.



Growing



growing. becoming larger or greater over a period of time.

FRS Investment Plan Continues Growth

During the fiscal year, eligible public sector employees in Florida continued to enroll in the FRS Investment Plan, a growing alternative to the FRS Pension Plan. Modeled after private sector 401(k) plans, the FRS Investment Plan is a voluntary defined contribution plan that gives participants a choice of diversified investment options, control of their retirement plan assets and benefits they retain even if they leave the FRS.

In the fiscal year ended June 30, 2008, total assets in the FRS Investment Plan grew to \$4.37 billion from \$3.69 billion in the previous year, reflecting a 19% increase in enrollment. The composite total return for all FRS Investment Plan assets was a loss of 4.69%, net of investment management fees, but the Plan outperformed its benchmark.

Created by the Legislature and managed by the SBA, the FRS Investment Plan has been offered since fiscal year 2002-03. It enables members to play an active role in selecting from a diverse set of investment options. Approximately 13% of all active FRS-covered members were enrolled in the FRS Investment Plan at fiscal year-end, up from 12% a year earlier.

During the year, 21 diversified investment funds were offered in the FRS Investment Plan, including 12 stock funds, four bond funds, a money market fund, a U.S. Treasury Inflation-Protected Securities fund and three balanced funds. Vesting in the FRS Investment Plan is one year, compared to six in the FRS Pension Plan. Distribution options in the FRS Investment Plan include rollovers, lump sums, periodic distributions and a variety of low-cost fixed, variable and deferred annuities.

Eligible FRS members are free to choose either the FRS Pension Plan or the FRS Investment Plan; those who don't make an active choice are automatically enrolled in the traditional FRS Pension Plan. The SBA provides planning resources to all FRS members through our award-winning MyFRS Financial Guidance Program, which offers workshops, educational print materials and videos, free and confidential telephone access to financial planners from Ernst & Young and the Florida Division of Retirement, and access to online resources through www.myfrs.com.

Restoring





(restoring. the process of reinvigorating or fortifying.

Enhancements Stabilize Local Government Investment Pool (LGIP)

The mission of the LGIP is to provide a short-term, liquid, high-quality investment vehicle for surplus funds of Florida local governments. From its January 1982 inception, the LGIP has been managed as a very low cost and liquid money market pool. However, an unprecedented liquidity crisis in November 2007 served as the catalyst for major enhancements that the SBA believes will protect the Pool's assets and stability in the long run.

In the fall of 2007, investor concerns over institutional exposure to subprime loans led to a severe reduction in overall market liquidity for *all* grades of asset-backed commercial paper. Only 3.4% of the LGIP's holdings were initially impacted. Nonetheless, reports that erroneously tied the LGIP's investments to subprime loans prompted participants to withdraw a total of \$14 billion from the Pool in a single month, a classic "run on the bank."

Faced with a liquidity crisis, the SBA's Trustees implemented a temporary freeze on withdrawals and deposits and retained BlackRock to manage the LGIP on an interim basis. This action would prove to be the first step in a series of important changes to stabilize and strengthen the LGIP going forward.

The SBA Trustees and the Florida Legislature took swift, decisive action, focusing on protecting assets from elevated risk and improving the Pool's oversight, client communications, transparency, investment practices and compliance:

- In March 2008, Federated Investors, an organization whose core competency is managing money market funds, was hired as the Pool's investment manager.
- Clifton Gunderson LLP was retained to conduct an independent performance audit of the LGIP and other funds managed by the SBA.

- New legislation was enacted that provides LGIP participants with greater protection of their assets while establishing higher standards for superior governance, risk management and investment policies, and improved reporting of the Pool's investment activities.
- The structure of the LGIP was changed, with a separate second fund, Fund B Surplus Funds Trust Fund, created specifically for securities with limited liquidity.
- Internally, the SBA began an intensive reexamination and reengineering of its compliance and enterprise risk management policies and processes (see page 15 of this report).
- The SBA engaged external counsel to assess whether it should pursue legal action against the broker-dealers who sold certain investment grade securities to the SBA that subsequently defaulted.

Reflecting these actions and others, the liquidity of the LGIP gradually improved during the course of the fiscal year from its nadir in December 2007.

As of June 30, 2008, the SBA and Federated Investors were working toward complete implementation of the new legislative requirements, including the new Investment Policy Guidelines for the LGIP, which took effect July 1, 2008. These guidelines enabled the LGIP to secure an AAAm rating from Standard & Poor's, the highest rating possible for local government money market funds.

With rigorous compliance and investment safeguards in place, improved reporting and better communication with its stakeholders, the goal of the SBA is to rebuild the strength of the LGIP and to restore confidence in the Pool. The SBA is committed to ensuring that the LGIP will fulfill its historic mission of service for the benefit of local governments in Florida.



Strengthening



(strengthening. making or becoming stronger, more effective.

SBA Strengthens Risk Management and Compliance Programs

The SBA implemented enhanced risk management and compliance policies and practices during the fiscal year to strengthen the organization's accountability, transparency, oversight and future performance.

The SBA's recently-established Enterprise Risk Management and Compliance (ERMC) unit was given the responsibility of establishing and maintaining an enterprise-wide risk management framework and working with senior management and business units to develop and update risk management plans. These plans will help ensure that investment and operational risks at every level are identified, clearly understood, assessed and effectively managed.

The major duties of ERMC include:

- Reviewing new operational and investment initiatives and new products to ensure that adequate risk assessment has been performed by the business unit implementing the proposed change and that relevant risk management procedures are in place.
- Monitoring, on an ongoing basis, the SBA's aggregated derivatives counterparty credit risk.
- Performing compliance testing, as needed, to help ensure compliance with policies established by the SBA Executive Director, various departmental policies, Florida Statutes and stringent investment guidelines for internally managed portfolios.
- Preparing and submitting an updated SBA Risk Management Plan each fiscal year.

The SBA also approved a plan during the fiscal year to retain Deloitte & Touche in fiscal year 2008-09 to help further strengthen compliance assessment and exception

resolution. In a three-phase process, Deloitte & Touche will perform an in-depth review of the SBA's business processes and related compliance requirements.

The goal of Phase 1 is to develop potential enhancements to the following functions: monitoring external managers; trade entry; portfolio management; monetary and asset transfers; clearing and confirmations; cash management; corporate action processing; custody; daily reconciliations; monthly security inventory reconciliations; valuations; financial reporting; securities lending; and investment performance measurement.


In Phase 2, Deloitte & Touche will evaluate multiple potential compliance solutions, with goals focused on implementing cost-effective investment compliance monitoring based on leading practices.

In the third and final phase of the project, Deloitte & Touche is expected to analyze the SBA's client and stakeholder reporting, information systems, corporate governance, ethics and other administrative/personnel processing, FRS Investment Plan program administration, and the administration of the Florida Hurricane Catastrophe Fund program. The SBA expects Deloitte & Touche to deliver its findings and recommendations by the end of 2008.

The many improvements and ongoing evaluations at the SBA reaffirm our enduring commitment to effective risk management and compliance that ultimately benefits Florida and the many people we serve, including 1.1 million FRS members and beneficiaries.

Leading





leading. advising, guiding, showing the way.

SBA Plays Key Role as Corporate Governance Advocate

As part of our mission to invest, manage and safeguard the assets of the FRS Pension Plan – the nation's fourth-largest public pension fund – the SBA plays a vital role in supporting initiatives to ensure that public companies meet high standards of independent and ethical corporate governance. The SBA acts as a strong advocate on behalf of FRS members and beneficiaries, retirees and other clients to strengthen shareowner rights and promote leading corporate governance practices at U.S. and international companies in which the SBA holds stock.

The SBA's corporate governance activities are focused on enhancing share value and ensuring that public companies are accountable to their shareowners, with independent boards of directors, full disclosure, clear and accurate financial reporting, ethical business practices and policies that protect the SBA's investments.

Through our corporate governance activities, the SBA spurs public companies to take action on issues that may affect Floridians, such as the environment and climate change. During the fiscal year, the SBA in many cases supported improved environmental disclosures by companies; shareowner resolutions asking companies to publish sustainability reports; shareowner proposals addressing climate change and global warming; and shareowner resolutions asking companies to produce reports assessing the impact on local communities.

For example, the SBA supported shareowner resolutions at ExxonMobil to adopt greenhouse gas emissions goals and to

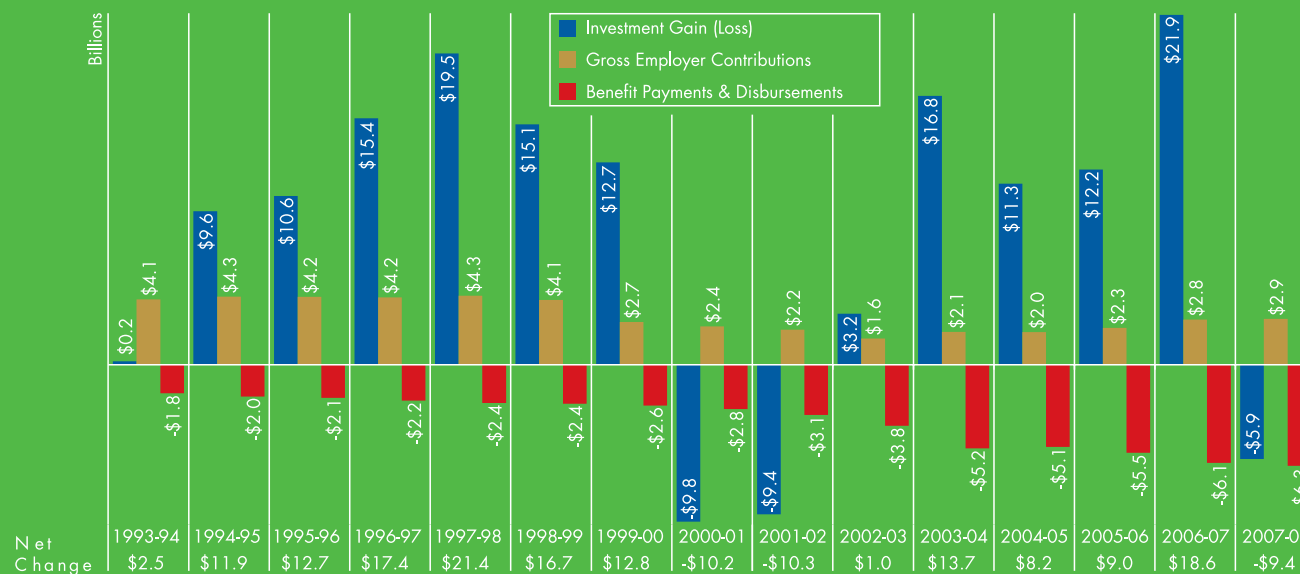
adopt a policy to increase renewable energy. At the Kroger annual meeting, the SBA voted for a shareowner proposal to develop a comprehensive policy for addressing climate change and reducing greenhouse gas emissions. We also voted in favor of a proposal recommending a report to shareowners on Kroger's policies on emerging product safety issues related to certain chemical contaminants. Similarly, the SBA supported a climate-related proposal at Pulte Homes for a report on the feasibility of new policies that would focus on reducing greenhouse gas emissions from Pulte's products and operations.

The SBA's commitment to promoting environmental stewardship is just one example of how we are making a difference in the corporate governance arena. Through thousands of proxy votes last year, the SBA also supported transparent board procedures, performance-based executive compensation, accurate accounting and audit practices, and policies covering a wide range of other issues such as succession planning and meaningful shareowner participation. The SBA also urged companies to adopt rigorous stock ownership and retention guidelines, and to seek annual shareowner ratification of the external auditors. Our strength as an advocate of effective corporate governance was recognized in June 2008 when the Millstein Center for Corporate Governance and Performance at the Yale School of Management recognized two SBA managers – Michael McCauley, Senior Corporate Governance Officer, and Tracy Stewart, Corporate Governance Manager – as “Rising Stars of Corporate Governance.”



*D*Driving

driving. having a strong or controlling influence.



All amounts are inflation-adjusted to reflect purchasing power in 2007-08.

FRS Pension Plan Financial Drivers

The chart above illustrates the three factors driving the size of the FRS Pension Plan's asset base. Since the long-term financial health of the system depends on these factors, a perspective on their movements over time is informative. The data is presented in current dollars, meaning that historic amounts are adjusted for inflation to represent the equivalent in 2007-08 purchasing power.

Investment Gains and Losses (Blue bars)

Financial markets have experienced cyclical ebb and flow over time but have tended to exhibit notable growth over the long term. Prudent long-term investors, including the SBA, develop disciplined investment policies that help maintain a focus on the long-term, rather than attempting to time the market cycle.

Employer Contributions (Bronze bars)

Employer contributions are the lifeblood of the system. Without them, there would be nothing to invest. Though essential, their magnitude is small compared to net investment gains. The reduction in the level of employer contribution that began in 1999-00 has recently reversed. Nonetheless, they remain more than \$1 billion below the elevated contribution levels of the 1990s.

Benefit Payments and Disbursements (Red bars)

As incomes grow and the average age of system participants rises, the trend is inevitably toward larger gross outflows from the fund. Early in the current decade, the rate of growth in benefit payments accelerated, due primarily to participants transferring from the FRS Pension Plan to the FRS Investment Plan.

Table A: Net Investment Returns by Fund and Asset Class For Periods Ending June 30, 2008

Multi-Asset Class Major Mandates

	Twelve Months	Three Years	Five Years	Ten Years
FRS Pension Plan	-4.42%	7.66%	9.91%	5.85%
Domestic Equities ¹	-12.68%	4.43%	8.25%	3.40%
Foreign Equities ¹	-6.52%	15.34%	18.79%	8.47%
Fixed Income ¹	5.10%	3.78%	3.93%	5.53%
High Yield	0.99%	N/A	N/A	N/A
Real Estate	8.69%	15.94%	16.47%	13.20%
Private Equity ²	--	10.95%	11.06%	8.07%
Strategic Investments	-8.86%	N/A	N/A	N/A
Cash Equivalents	0.86%	3.52%	2.78%	3.60%
Asset Allocation	-4.58%	7.56%	9.71%	5.45%
FRS Investment Plan	-4.69%	6.80%	8.61%	N/A
Domestic Equities	-11.91%	5.47%	9.28%	N/A
Foreign/Global Equities ³	-6.46%	14.05%	16.53%	N/A
Fixed Income	6.98%	4.30%	4.19%	N/A
Treasury Inflation-Protected Securities	15.30%	5.64%	5.99%	N/A
Cash Equivalents	4.13%	4.68%	3.51%	N/A
Balanced Funds	-4.68%	7.07%	8.93%	N/A
Lawton Chiles Endowment Fund	-6.61%	6.47%	9.24%	N/A
Domestic Equities	-12.73%	4.18%	8.01%	N/A
Foreign Equities	-6.98%	17.04%	19.32%	N/A
Fixed Income	7.91%	4.40%	4.08%	N/A
Treasury Inflation-Protected Securities	15.71%	5.92%	6.30%	N/A
Real Estate	-12.78%	5.88%	15.40%	N/A
Cash Equivalents	4.22%	4.68%	3.46%	N/A
Asset Allocation	-6.92%	6.38%	9.20%	N/A

¹ The impact of certain trades that occurred during the policy transition are excluded from the numbers shown above for the FRS Pension Plan Domestic Equities, Foreign Equities and Fixed Income asset classes. However, they are included in the numbers shown for the total fund (FRS Pension Plan). Had they been included for the asset classes, Domestic Equities' net return would have been 2, 1, 2 and 1 basis points lower over 12 months, 3 years, 5 years and 10 years, respectively; that of Foreign Equities would have been 16, 7, 4 and 2 basis points lower over 12 months, 3 years, 5 years and 10 years, respectively; that of Fixed Income would have been 32, 13, 6 and 3 basis points higher over 12 months, 3 years, 5 years and 10 years, respectively.

² Per industry standards, Private Equity returns reflect an internal rate-of-return methodology. Since inception, the net return is 8.69%.

³ Consists of both domestic and foreign stocks.

N/A = not applicable

Table B: Value-Added Returns By Fund and Asset Class For Periods Ending June 30, 2008
Multi-Asset Class Major Mandates

	Twelve Months	Three Years	Five Years	Ten Years
FRS Pension Plan ¹	-0.10%	0.22%	0.35%	0.46%
Tactical Asset Allocation	-0.26%	0.12%	0.15%	0.06%
Domestic Equities ²	0.00%	-0.30%	-0.13%	0.07%
Foreign Equities ²	1.10%	0.07%	0.11%	1.06%
Fixed Income ²	-2.02%	-0.55%	-0.22%	-0.06%
High Yield	0.90%	N/A	N/A	N/A
Real Estate	-1.43%	7.41%	8.37%	5.33%
Private Equity ³	--	1.67%	-2.31%	0.88%
Strategic Investments ⁴	-0.35%	N/A	N/A	N/A
Cash Equivalents	-3.58%	-1.18%	-0.70%	-0.10%
FRS Investment Plan	1.30%	0.68%	0.29%	N/A
Domestic Equities	1.33%	0.71%	0.18%	N/A
Foreign/Global Equities	3.13%	1.86%	1.00%	N/A
Fixed Income	0.77%	0.22%	0.19%	N/A
Treasury Inflation-Protected Securities	0.21%	0.05%	0.01%	N/A
Cash Equivalents	-0.32%	-0.08%	-0.02%	N/A
Balanced Funds	0.30%	0.24%	-0.01%	N/A
Lawton Chiles Endowment Fund	-0.67%	0.35%	0.32%	N/A
Tactical Asset Allocation	-0.98%	0.25%	0.29%	N/A
Domestic Equities	0.10%	-0.40%	-0.21%	N/A
Foreign Equities	-0.09%	1.50%	0.48%	N/A
Fixed Income	0.79%	0.32%	0.23%	N/A
Treasury Inflation-Protected Securities	0.62%	0.33%	0.32%	N/A
Real Estate	2.64%	1.05%	0.48%	N/A
Cash Equivalents	0.92%	0.37%	0.22%	N/A

Value added = net return over benchmark

¹ On December 9, 2008, a change was made to the FRS Pension Plan Investment Policy Statement providing that the return on the total fund target portfolio, which is calculated as an average of the returns to the target indices for each asset class, will utilize the short-term target index for Strategic Investments rather than its long-term target index. The change was made retroactively to the inception of the Strategic Investments asset class, June 1, 2007.

² The impact of certain trades that occurred during the policy transition are excluded from the numbers shown above for the FRS Pension Plan Domestic Equities, Foreign Equities and Fixed Income asset classes. However, they are included in the numbers shown for the total fund (FRS Pension Plan). Had they been included for the asset classes, Domestic Equities' value added would have been 2, 1, 2 and 1 basis points lower over 12 months, 3 years, 5 years and 10 years, respectively; that of Foreign Equities would have been 16, 7, 4 and 2 basis points lower over 12 months, 3 years, 5 years and 10 years, respectively; that of Fixed Income would have been 32, 13, 6 and 3 basis points higher over 12 months, 3 years, 5 years and 10 years, respectively.

³ Per industry standards, Private Equity returns reflect an internal rate-of-return methodology. Since inception, the value-added return is -1.64%.

⁴ Performance measurement of the Strategic Investments asset class is shown relative to its short-term target return. Per the FRS Pension Plan Investment Policy Statement, performance measurement of the effectiveness of the implementation of the Strategic Investments asset class over short periods is assessed relative to a short-term target (i.e., an aggregate benchmark of individual portfolio benchmarks), whereas over the long term, it is measured relative to a target return of 5% per annum plus inflation. Strategic Investments' inception date is June 1, 2007, or 13 months through June 30, 2008.

N/A = not applicable

Table C: Asset Allocation at June 30 Fiscal Year-End

Multi-Asset Class Major Mandates

	2008 This Year	2005 3 Years Ago	2003 5 Years Ago	1998 10 Years Ago
FRS Pension Plan	100.0%	100.0%	100.0%	100.0%
Domestic Equities	35.5%	51.0%	53.5%	60.7%
Global Equities	N/A	4.1%	1.0%	N/A
Foreign Equities	18.7%	14.9%	12.7%	7.6%
Fixed Income	27.6%	21.7%	23.5%	25.1%
High Yield	2.2%	N/A	N/A	N/A
Real Estate	7.7%	4.9%	4.6%	3.9%
Private Equity	3.4%	3.2%	3.4%	1.5%
Strategic Investments	4.1%	N/A	N/A	N/A
Cash Equivalents	0.9%	0.3%	1.4%	1.3%
FRS Investment Plan	100.0%	100.0%	100.0%	N/A
Domestic Equities	26.1%	34.2%	24.1%	N/A
Foreign/Global Equities	11.2%	7.2%	4.0%	N/A
Fixed Income	9.0%	9.6%	6.6%	N/A
Treasury Inflation-Protected Securities	4.0%	4.4%	6.1%	N/A
Cash Equivalents	11.8%	10.7%	14.5%	N/A
Balanced Funds	37.9%	33.8%	44.7%	N/A
Lawton Chiles Endowment Fund	100.0%	100.0%	100.0%	N/A
Domestic Equities	54.9%	58.1%	56.8%	N/A
Foreign Equities	13.4%	13.1%	12.5%	N/A
Fixed Income	16.1%	13.2%	15.1%	N/A
Treasury Inflation-Protected Securities	10.1%	9.8%	10.6%	N/A
Real Estate	3.8%	4.9%	4.0%	N/A
Cash Equivalents	1.7%	0.8%	0.9%	N/A

N/A = not applicable

Overview of SBA Investment Portfolios

As of June 30, 2008, the SBA managed 24 different portfolios housing the assets of 35 mandates and

trusts. A mandate is an investment responsibility established as a direct requirement of Florida law. Trusts are investment responsibilities allowed under law and established pursuant to a trust

agreement with a client. Five of the SBA's 24 portfolios are commingled investment pools that contain the assets of a variety of clients. Nineteen clients have at least some of their assets in

Table 1: SBA Assets Under Management by Investment Vehicle – As of June 30, 2008

	SBA Investment Pools				Separately	Total Assets
	LGIP and Fund B	CAMP-MM	CAMP-FI	CAMP-DE	Managed Assets	Under Management
<u>Accounts With Separately Managed Assets</u>						
1. FRS Pension Plan	\$ -	\$ -	\$ -	\$ -	\$126,936,896,868	\$126,936,896,868
2. Florida Hurricane Catastrophe Fund Finance Corporation	-	-	-	-	7,305,725,895	7,305,725,895
3. FRS Investment Plan	-	-	-	-	4,369,245,885	4,369,245,885
4. Lawton Chiles Endowment Fund	-	47,762,166	343,354,819	210,145,220	1,533,686,210	2,134,948,415
5. Florida Hurricane Catastrophe Fund	-	-	-	-	2,078,065,319	2,078,065,319
6. Debt Service	-	-	-	-	1,659,365,056	1,659,365,056
7. Department of the Lottery Fund	-	553	-	-	1,160,179,825	1,160,180,378
8. Retiree Health Insurance Subsidy Trust Fund	-	22,889,057	-	-	219,353,093	242,242,150
9. Florida Prepaid College Plan	-	99,624	-	-	213,540,855	213,640,479
10. Scripps Florida Funding Corporation	-	-	-	-	155,641,417	155,641,417
11. Burnham Institute for Medical Research Fund	-	2,856,377	-	-	114,555,049	117,411,426
12. University of Miami	-	-	-	-	59,907,819	59,907,819
13. Max Planck	-	-	-	-	84,217,340	84,217,340
14. Oregon Health & Science University	-	-	-	-	45,207,018	45,207,018
15. Florida College Investment Plan	-	-	-	-	24,945,046	24,945,046
16. Torrey Pines Institute for Molecular Studies Fund	-	96,948	-	-	21,664,710	21,761,658
17. McKnight Doctoral Fellowship Program	-	940,987	-	920,504	655,613	2,517,104
18. Bond Proceeds Trust Fund ¹	-	-	-	-	-	-
19. Gas Tax Clearing Fund ¹	-	-	-	-	-	-
<u>Accounts Invested Solely in SBA Investment Pools</u>						
20. Local Government Investment Pool ²	7,049,753,651	-	-	-	-	7,049,753,651
21. Fund B Surplus Funds Trust Fund	630,544,356	-	-	-	-	630,544,356
22. Police and Firefighters' Premium Tax Trust Fund	-	237,311,443	-	-	-	237,311,443
23. FSU Research Foundation	-	-	40,949,665	37,426,646	-	78,376,311
24. Insurance Capital Build-up Program ⁴	-	30,085,087	-	-	-	30,085,087
25. SBA Administrative Fund ³	-	16,624,578	30,323,870	-	-	46,948,448
26. PEORP Administrative Fund ³	-	31,099,710	-	-	-	31,099,710
27. SRI International Fund	-	9,539,108	-	-	-	9,539,108
28. Pinellas Suncoast Transit Authority	-	-	6,393,017	-	-	6,393,017
29. Florida Division of Blind Services ⁴	-	43,060	969,392	1,377,168	-	2,389,620
30. Arbitrage Compliance Trust Fund	-	2,252,945	-	-	-	2,252,945
31. Florida Endowment for Vocational Rehabilitation	-	2,238,918	-	-	-	2,238,918
32. Bond Fee Trust Fund ³	-	2,025,338	-	-	-	2,025,338
33. Florida College Investment Plan Administrative Expense	-	49,360	-	-	-	49,360
34. Florida Prepaid College Plan Administrative Expense ³	-	48,742	-	-	-	48,742
35. Inland Protection Financing Corporation	-	1,481	-	-	-	1,481
Total Assets Under Management	\$7,680,298,007	\$405,965,482	\$421,990,763	\$249,869,538	\$145,982,853,018	\$154,740,976,808

¹ The fund balance is periodically zero due to cash flows.

² Individual accounts are not shown. As of June 30, 2008, there were 2,253 individual accounts in the LGIP.

³ CAMP-MM balances include adjustments to the fund's cash balance for P-card expenses incurred prior to June 30, 2008, but allocated to the fund after June 30th.

⁴ CAMP-MM balances include uninvested cash as of June 30, 2008.

Table 2: Change in Assets Under Management – Fiscal Year 2007-08

	Net Asset Value 6/30/07	Investment Gain (Loss)	Contributions & (Distributions)	Net Asset Value 6/30/08
FRS Pension Plan	\$136,280,544,510	\$(5,899,796,164)	\$(3,443,851,478)	\$126,936,896,868
Florida Hurricane Catastrophe Fund Finance Corporation	3,971,634,590	193,311,628	3,140,779,677	7,305,725,895
Local Government Investment Pool	30,941,610,689	704,370,715	(24,596,227,753)	7,049,753,651
FRS Investment Plan	3,687,530,964	(213,555,313)	895,270,234	4,369,245,885
Lawton Chiles Endowment Fund	2,333,041,633	(152,124,067)	(45,969,151)	2,134,948,415
Florida Hurricane Catastrophe Fund	898,154,157	46,841,946	1,133,069,216	2,078,065,319
Debt Service	2,629,390,901	92,084,002	(1,062,109,847)	1,659,365,056
Department of the Lottery Fund	1,287,955,064	124,407,625	(252,182,311)	1,160,180,378
Fund B Surplus Funds Trust Fund	-	(84,252,355)	714,796,711	630,544,356
Florida Prepaid College Plan	503,925,050	(39,408,654)	(250,875,917)	213,640,479
Retiree Health Insurance Subsidy Trust Fund	209,008,856	8,593,839	24,639,455	242,242,150
Police and Firefighters' Premium Tax Trust Fund	203,568,084	5,285,359	28,458,000	237,311,443
Scripps Florida Funding Corporation	194,770,765	11,230,017	(50,359,365)	155,641,417
Burnham Institute for Medical Research Fund	112,921,162	10,580,492	(6,090,228)	117,411,426
Max Planck	-	127,340	84,090,000	84,217,340
FSU Research Foundation	80,676,736	(2,300,425)	-	78,376,311
University of Miami	-	(92,181)	60,000,000	59,907,819
SBA Administrative Fund	41,116,917	2,846,258	2,985,273	46,948,448
Oregon Health & Science University	-	207,018	45,000,000	45,207,018
PEORP Administrative Fund	27,788,883	1,210,008	2,100,819	31,099,710
Insurance Capital Build-up Program	16,303,287	893,999	12,887,801	30,085,087
Florida College Investment Plan	26,035,183	(4,913,144)	3,823,007	24,945,046
Torrey Pines Institute for Molecular Studies Fund	24,183,327	1,936,243	(4,357,912)	21,761,658
SRI International Fund	13,788,647	550,461	(4,800,000)	9,539,108
Pinellas Suncoast Transit Authority	5,924,392	468,625	-	6,393,017
McKnight Doctoral Fellowship Program	2,846,386	(29,282)	(300,000)	2,517,104
Florida Division of Blind Services	2,511,885	(122,265)	-	2,389,620
Arbitrage Compliance Trust Fund	1,993,227	88,910	170,808	2,252,945
Florida Endowment for Vocational Rehabilitation	2,162,806	72,362	3,750	2,238,918
Bond Fee Trust Fund	1,566,247	78,971	380,120	2,025,338
Florida College Investment Plan Administrative Expense	357,863	14,753	(323,256)	49,360
Florida Prepaid College Plan Administrative Expense	156,977	17,089	(125,324)	48,742
Inland Protection Financing Corporation	1,420	61	-	1,481
Bond Proceeds Trust Fund ¹	5,377,339	73,840	(5,451,179)	-
Gas Tax Clearing Fund ¹	-	293,222	(293,222)	-
Citizens Property Insurance ²	-	(148,753,203)	148,753,203	-
Florida Prepaid College Foundation ²	9,670,716	216,234	(9,886,950)	-
Institute of Food and Agricultural Sciences ²	17,105,221	2,485	(17,107,706)	-
Investment Fraud Restoration Financing Corporation ²	27,285	927	(28,212)	-
Local Government Non-Pool Funds ²	457,157,338	6,182,503	(463,339,841)	-
Total Assets Under Management	\$183,990,808,507	\$(5,333,360,121)	\$(23,916,471,578)	\$154,740,976,808

¹ The fund balance is periodically zero due to cash flows.

² Fund closed during the fiscal year.

separately managed vehicles while another 14 are invested solely in one or more of the SBA's three CAMP (Commingled Asset Management Program)

pools. At fiscal year-end, over 1,000 clients participated in the SBA's Local Government Investment Pool through more than 2,200 individual accounts.

The newly established Fund B holds assets in over 1,500 individual accounts. Pooling smaller portfolios into larger investment funds affords economies

Table 3: SBA Net Investment Returns For Periods Ending June 30, 2008

Portfolios With Separately Managed Assets	Twelve Months	Three Years	Five Years	Ten Years
FRS Pension Plan	-4.42%	7.66%	9.91%	5.85%
Florida Hurricane Catastrophe Fund Finance Corporation	4.08%	N/A	N/A	N/A
Florida Hurricane Catastrophe Fund	3.65%	4.46%	3.43%	3.99%
Lawton Chiles Endowment Fund	-6.61%	6.47%	9.24%	N/A
FRS Investment Plan	-4.69%	6.80%	8.61%	N/A
Retiree Health Insurance Subsidy Trust Fund	4.25%	4.69%	3.53%	3.88%
Florida Prepaid College Plan ¹	-17.9%	N/A	N/A	N/A
Florida College Investment Plan ¹	-17.4%	N/A	N/A	N/A
SBA Pooled Investment Products				
Local Government Investment Pool ²	4.35%	4.69%	3.51%	3.87%
CAMP - Money Market ³	4.31%	4.71%	3.49%	N/A
CAMP - Fixed Income	7.92%	4.40%	4.08%	N/A
CAMP - Domestic Equities	-12.40%	4.81%	8.41%	N/A

¹ Return data provided by the Florida Prepaid College Board.

² LGIP 30-day rate of return, which is based upon amortized cost and a 360-day basis pursuant to Chapter 19-7.011, Florida Administrative Code.

³ CAMP Money Market rate of return is an amortized cost-based yield.

Table 4: SBA Value-Added Investment Returns For Periods Ending June 30, 2008

(Value Added = Net Return over Benchmark)

Portfolios With Separately Managed Assets	Twelve Months	Three Years	Five Years	Ten Years
FRS Pension Plan ¹	-0.10%	0.22%	0.35%	0.46%
Florida Hurricane Catastrophe Fund Finance Corporation	-0.27%	N/A	N/A	N/A
Florida Hurricane Catastrophe Fund	-0.71%	-0.02%	0.23%	0.44%
Lawton Chiles Endowment Fund	-0.67%	0.35%	0.32%	N/A
FRS Investment Plan	1.30%	0.68%	0.29%	N/A
Retiree Health Insurance Subsidy Trust Fund	-1.82%	-0.18%	-0.02%	-0.12%
Florida Prepaid College Plan ²	0.90%	N/A	N/A	N/A
Florida College Investment Plan ²	1.40%	N/A	N/A	N/A
SBA Pooled Investment Products				
Local Government Investment Pool ³	0.09%	0.03%	0.07%	0.03%
CAMP - Money Market	1.01%	0.41%	0.25%	N/A
CAMP - Fixed Income	0.80%	0.31%	0.22%	N/A
CAMP - Domestic Equities	0.44%	0.23%	0.19%	N/A

¹ On December 9, 2008, a change was made to the FRS Pension Plan Investment Policy Statement providing that the return on the total fund target portfolio, which is calculated as an average of the returns to the target indices for each asset class, will utilize the short-term target index for Strategic Investments rather than its long-term target index. The change was made retroactively to the inception of the Strategic Investments asset class, June 1, 2007.

² Data provided by the Florida Prepaid College Board.

³ Measured relative to the S&P AAA/AA Rated GIP All 30-Day Gross Index for all time periods.

of scale and other investment management advantages, enhancing returns for participants.

Table 1 lists the net asset value of each mandate and trust at fiscal year-end. Of the total assets under SBA management, \$146.0 billion, or about 94%, was

managed in separate accounts. During the year, assets under SBA management decreased to \$154.7 billion from \$184.0 billion, a reduction of \$29.3 billion. Over 80% of the reduction was due to withdrawals from the Local Government Investment Pool. Table 2 shows these details for each SBA portfolio.

Performance data for the SBA's separately managed accounts and investment pools over various periods ending June 30, 2008, are shown in Tables 3 and 4. Net managed returns (i.e., actual earnings) are shown in Table 3. Value-added returns, meaning the SBA's managed return minus the portfolio's benchmark (typically, a broad market return), are shown in Table 4.

The chief determinant of a portfolio's long-term return and risk is its asset allocation, meaning its exposure to the various asset classes. For each of the SBA's separately managed accounts and pooled investment products, Table 5 indicates exposure to each asset type.

Return data is not calculated individually for every portfolio under management. This is either because the portfolio is managed in one or more commingled pools or because returns are not indicative of the SBA's effectiveness in managing the account. Table 6 indicates the specific circumstances for each affected portfolio.

The 2007-08 Investment Environment

U.S. Economic Conditions

The U.S. economy lapsed into near-recession in fiscal 2007-08, pummeled by a severe credit crisis and skyrocketing commodity prices. The root cause of the credit crisis was the widespread issuance of mortgage-backed securities laden with subprime debt. This had been a growth industry for a number of years because of very low mortgage rates and rising home values.

Amid higher interest rates, however, the housing market cooled and default rates on mortgage loans soared. This led to the downgrading of many mortgage-backed securities and substantial losses for financial institutions and investors around the globe. In its initial stages, the crisis was exacerbated

Table 5: Asset Classes Represented in SBA Investment Portfolios as of June 30, 2008

Portfolios With Separately Managed Assets	U.S. Equities	Foreign Equities	Fixed Income	High Yield	Treasury Inflation-Protected Securities	Real Estate	Private Equity	Strategic Investments	Cash Equivalents
FRS Pension Plan ¹	x	x	x	x		x	x	x	x
Local Government Investment Pool									x
Florida Hurricane Catastrophe Fund ²			x						x
FRS Investment Plan	x	x	x		x				x
Debt Service			x						x
Lawton Chiles Endowment Fund	x	x	x		x	x			x
Department of the Lottery			x						x
Scripps Florida Funding Corporation			x						x
Retiree Health Insurance Subsidy Trust Fund			x						x
Florida Prepaid College Plan	x								
Burnham Institute for Medical Research Fund			x						x
Florida College Investment Plan	x								
Torrey Pines Institute for Molecular Studies Fund			x						x
Bond Proceeds Trust Fund			x						x
McKnight Doctoral Fellowship Program			x						x
Gas Tax Clearing Fund			x						x
Fund B Surplus Funds Trust Fund			x						
Max Planck									x
University of Miami									x
Oregon Health & Science University									x
SBA Pooled Investment Products									
Local Government Investment Pool									x
CAMP - Money Market									x
CAMP - Fixed Income			x						
CAMP - Domestic Equities	x								

Note: This table indicates asset types which are included as a matter of ongoing investment policy. Other asset types may also be held pursuant to a tactical investment strategy or for liquidity.

¹ The FRS Pension Plan also is authorized to allocate assets to a Strategic Investments asset class, which can consist of a variety of individual asset types.

² Also includes the Florida Hurricane Catastrophe Fund Finance Corporation.

Table 6: Separate Account Portfolios Without Performance Data, by Reason ¹ as of June 30, 2008

Portfolios with Dedicated Bond Strategies

Debt Service
Department of the Lottery Fund
Scripps Florida Funding Corporation
Burnham Institute for Medical Research Fund
Torrey Pines Institute for Molecular Studies Fund

Episodically Funded Portfolios

Gas Tax Clearing Fund
Bond Proceeds Trust Fund

Client Directed Assets

Local Government Non-Pool Funds
Max Planck
Oregon Health & Science University
McKnight Doctoral Fellowship Program ²

¹ Returns for these portfolios either cannot be calculated or are not meaningful.

² Returns are calculated for this account per agreement with the client. However, because the holdings are client-directed, the returns are not indicative of SBA investment performance.

by uncertainty as to how extensive the damage from the subprime meltdown would ultimately prove to be. Investors viewed the balance sheets of a number of large players in subprime space with a jaundiced eye, making it difficult for them to acquire liquidity. The Fed initially was slow to respond to these developments, hoping the damage would be limited, but as the situation deteriorated, the Fed took aggressive steps to provide liquidity to the markets, including the unprecedented act of opening its discount window to investment banks. Unfortunately, even these extreme measures were unable to shore up Bear Stearns, which prompted the Fed to subsidize JP Morgan's acquisition of Bear Stearns. This helped to stabilize the credit situation, but throughout the year, credit markets remained fragile, with elevated spreads and spiking risk measures.

During the year, housing starts plummeted and the drop-off in residential fixed investment subtracted roughly 1% from real GDP growth. Slackening demand for housing led to a broad decline in home values, reducing the net worth of homeowners. Credit in general became more difficult to obtain and the threat of a full-blown credit crunch hovered over the economy. Equity markets showed some resilience amid hopes that once the drag from housing diminished and credit markets stabilized, meaningful recovery could begin.

But another negative factor put the economy under even greater stress. At the beginning of the fiscal year, the price of West Texas Intermediate (WTI)-Cushing (a benchmark crude oil) stood at \$71 per barrel. By the end of 2007, it had risen to \$96 per barrel, pushing the average price of unleaded regular

gasoline from \$3.11 per gallon to \$3.27 per gallon. Normally, gasoline prices fall after the peak summer driving season, but that was not the case this time, putting a costly burden on consumers. Not surprisingly, retail sales were lackluster over the holidays, contributing materially to a decline of 0.2% in real GDP in the fourth quarter of 2007.

As 2008 unfolded, crude prices continued to march higher. By the end of the fiscal year, oil prices had risen to \$140 per barrel, and gasoline was selling for \$4.21 per gallon amid fears that it could reach \$5.00. Consumers had been unnerved by the fall in home prices, but the added impact of high gas prices caused sentiment to sink to recessionary levels. Rising food prices also affected real household incomes. The dual pressures from energy and food drove up the Consumer Price Index and stoked fears that the Fed might be forced to raise interest rates to stave off inflation. Equity markets were hit more broadly by the energy shock than by credit issues since many sectors were severely impacted by sudden, extremely large increases in their fuel bills. Consequently, major stock indexes moved into bear-market territory, further eroding the financial condition of households.

Despite these negatives, the economy recovered somewhat in 2008 and real GDP growth returned to

modestly positive territory. An injection of some \$110 million of fiscal stimulus in the form of income tax rebates provided relief to consumers, but a major source of support to GDP was a shrinking trade deficit. Economic performance around the globe had not slipped as much as it had in the U.S., leading to large interest rate gaps stemming from aggressive Fed rate cutting. The result was capital flows out of U.S. credit markets that put downward pressure on the dollar, thereby stimulating U.S. exports and restraining imports. During the fiscal year, trade-gap shrinkage added an average of 1.5% per quarter to real GDP growth.

While net exports supported real GDP growth, the economy showed few signs of substantial recovery as the year progressed. Consumer spending was up just 1% in real terms versus the prior fiscal year. Real investment in equipment and software was stagnant, advancing just 1.9%. Real investment in structures was a bright spot, growing 13.6%, but it paled in comparison to the -19.8% rate of decay in real investment in housing.

Labor markets weathered economic weakness in the first half of the fiscal year but slipped into negative territory in January 2008 and continued weak through the rest of the fiscal year, leaving a paltry gain of 25,000 jobs for the full year. At fiscal

year-end, the unemployment rate stood at 5.7%, a full percent higher than where it began the year.

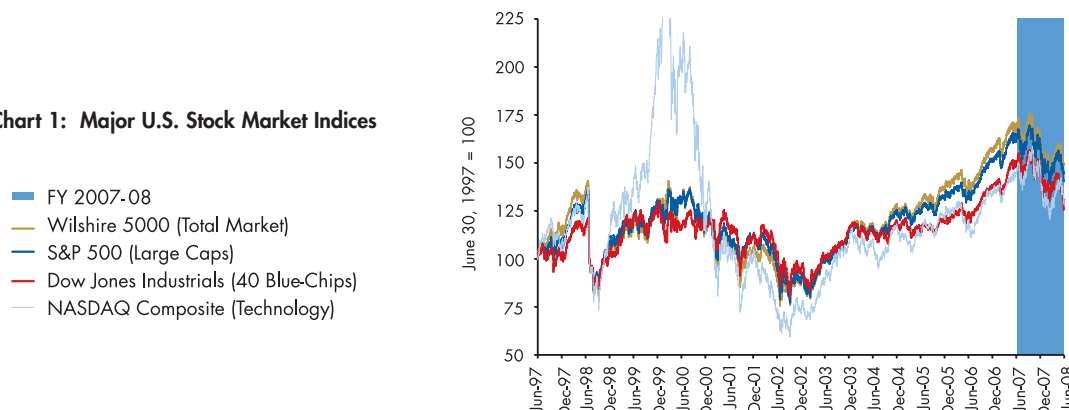
By fiscal year-end, the housing slump appeared to be nearing a bottom, but hopes for quick recovery were slim. The best chance for a rebound to trend growth in real GDP appeared to lie in renewed housing activity, but a large inventory of unsold homes impeded new construction. Consumer spending growth was holding at low levels, but broad deterioration in household income and wealth - along with falling employment - precluded more robust growth. Businesses had not abandoned capital spending plans, but were proceeding cautiously. Policymakers faced a quandary. With a Presidential election looming, more fiscal stimulus was unlikely. The Fed had already cut rates sharply, but concern over the inflationary effects of rising commodity prices gave it little leeway to cut rates further. With nothing on the horizon likely to spark the economy, the immediate outlook was for more sub-trend growth.

Domestic Equities Market Conditions

U.S. equity markets, as measured by the broad-based Russell 3000 Index, lost almost 13% for the fiscal year as stock prices fell sharply, reflecting investor concerns about deteriorating credit conditions, escalating fuel and commodity prices, the decelerating housing market and a slowing U.S. economy.

Despite action by the Federal Reserve to lower interest rates and restore investor confidence, U.S. stock markets were rattled by well-publicized hedge fund losses, the collapse of Bear Stearns and unprecedented turbulence in the bond market. The continued escalation of commodity prices added to the market woes as oil prices rose well above \$100 a barrel. The jump in oil prices and commodity prices affected American consumers at the gas pump and in the supermarket and cut the profits of many corporations.

Chart 1: Major U.S. Stock Market Indices



After sharp declines during the fiscal year, U.S. equities recovered somewhat in April and May 2008, only to retreat again in June amid a significant sell-off of domestic holdings as losses associated with continued asset write-downs negatively impacted U.S. bank earnings.

As a result, all major segments of the Russell 3000 target (large-capitalization, small-capitalization, core, growth, and value stocks) closed lower for the fiscal year. Relative returns reflected investors' preference for the perceived safety of large-capitalization growth stocks over those in the more speculative and domestically oriented small-capitalization area.

Foreign Equities Market Conditions

After four consecutive years of double-digit returns driven by excess liquidity and an insatiable appetite for risky investments, foreign equities markets fell 7.5% (in USD) for the fiscal year ended June 30, 2008. The dispersion of returns across countries was extremely wide and was driven by exposure to the resource and financial sectors.

The resource-heavy markets of Canada and Norway, where energy and mining stocks represent one-third of the market cap, performed well. Latin American markets dominated by energy and materials stocks significantly outperformed Asia. On the other hand, the financial sector's implosion, triggered by problems in the U.S. mortgage market, continued under the pressures of declining asset values, excess leverage and insufficient capital. U.S. banks and many European banks were exposed to similar problems. The sharp decline in bank share prices had a large negative effect on European markets.

The markets in China and India fell sharply in the first half of 2008 over concerns about rising inflation pressures, extended valuations and the potential impact of slower global growth. Chinese authorities tried to stem rising inflation by placing

price controls on oil, natural gas, electricity, food and fertilizers. Indian officials proposed a populist budget ahead of next year's general elections which could contribute to already high levels of inflation.

During the year, the U.S. dollar continued to fall against most currencies. Overall, the dollar depreciated over 10% against a weighted basket of major currencies. This had a positive impact on the returns to U.S. investors holding unhedged baskets of international stocks. The dollar fell about 14% against the Euro and the Japanese Yen and almost 17% against the Swiss Franc.

Fixed Income Market Conditions

U.S. fixed income bond markets were roiled by the worst credit crunch in recent history. The credit crunch reflected the sharp downturn in housing prices, coupled with rising inflation, higher unemployment and the U.S. economic slowdown, notwithstanding the Federal Reserve's strategy of lowering interest rates.

Despite lower interest rates, credit risk premiums rose, and there was a persistent liquidity lockup in the financial system. The negative climate for fixed income investments led to the then-largest federally coordinated financial institution rescue in U.S. history when JP Morgan acquired Bear Stearns.

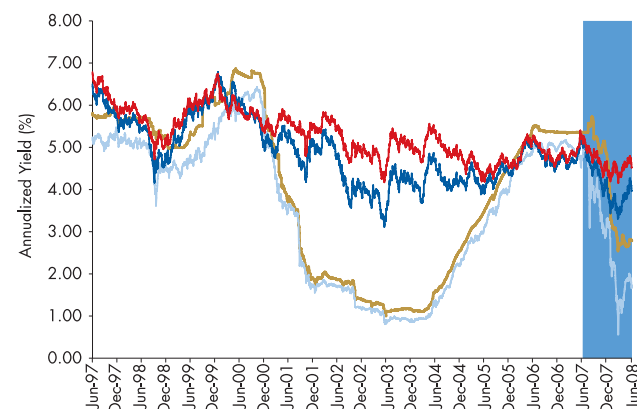
Tightening credit conditions and the persistence of lower liquidity in the financial system combined to reduce employment levels and slow income growth in the U.S. At the same time, inflation accelerated due to large increases in commodities prices, particularly oil. In part, these rising prices reflected increasing demand for commodities from rapidly growing emerging markets. The rising inflation, in combination with lower employment, triggered significant downward pressure on real consumer spending, the engine of economic growth in the U.S.

Lower growth expectations generally overshadowed higher inflation expectations in fixed income markets, leading to lower interest rates across the U.S. Treasury maturity spectrum and a steeper yield curve. As a result, shorter dated bond yields declined more than longer dated bond yields. The two-year Treasury yield declined 224 basis points to 2.63% by the end of the fiscal year, while the 10-year Treasury yield fell 105 basis points to 3.98%.

Reflecting the combination of lower Treasury yields and rising risk premiums throughout the fiscal year, the Lehman U.S. Aggregate Index rose 7.12%, while the Lehman U.S. Treasury Index was a bright spot, with a positive return of 10.33% for the 12 months ended June 30, 2008. The total return for the Lehman U.S. Investment Grade Credit Index

Chart 2: Yields on U.S. Treasury Instruments and LIBOR

■ FY 2007-08
— 30-Year Bond
— 10-Year Note
— 90-Day Bill
— 3-Month LIBOR



was 3.81%, but the Lehman U.S. Corporate High Yield Index declined 2.26%.

Real Estate Market Conditions

Real estate investors experienced mixed results during the fiscal year. Investors in commercial properties such as office, retail, industrial and apartment buildings fared reasonably well in most markets, but those exposed to the single-family residential debt and equity markets were affected by challenging market conditions.

The sharp decline of the residential real estate market reflected the U.S. economic downturn as housing prices fell and new home construction slowed from the previous year. Foreclosures rose as homeowners with high debt struggled to meet their financial obligations, and credit tightened to slow what had been an unrestrained building spree and price run-up in recent years.

On the other hand, the demand for commercial real estate remained relatively solid, thereby keeping market fundamentals in reasonable balance. Overall, commercial assets were bid up due to the abundance of capital.

Notably, in the second half of the fiscal year, investors backed away from the private real estate sector and moved to the sidelines when the leveraged buyers were forced to leave the market. Financing for deals dried up, resulting in decreased investment activity. The public real estate securities market was also affected by the deteriorating health of the credit markets and the economy, which in turn led many investors to shift their holdings into companies with lower risk assets offering existing and durable income streams.

Private Equity Market Conditions

During the fiscal year, the private equity market virtually dried up due to a lack of liquidity caused by

credit market problems initiated in the subprime mortgage market. Buyout activity ground to a near halt as banks struggled to clear an estimated \$400 billion backlog of leveraged loans.

Total announced global deal volume tumbled sharply to \$278 billion in fiscal year 2007-08, from \$855 billion in fiscal year 2006-07.

Private equity firms were compelled to contribute more equity into their deals while searching for alternative sources of debt. The average equity contribution in leveraged buyouts grew to nearly 40% during the fiscal year, compared with 33% a year earlier.

As a result, average debt-to-EBITDA multiples were driven down during the year to 4.1 times cash flow, from 6.3 times cash flow in fiscal year 2006-07. Mezzanine lenders became a more important source of buyout debt financing, due to contraction in the banking sector.

Strategic Investments Market Conditions

The SBA created the Strategic Investments asset class effective June 1, 2007, as a vehicle for investments not found in traditional SBA asset classes and for opportunistic investments. Opportunistic investments are those that present an attractive return and risk profile, depending on market conditions and the balance of the FRS Pension Plan portfolio.

During the fiscal year, the significant deleveraging of financial institutions presented an opportunity for patient capital to fill the void. With banks struggling to clear an estimated \$400 billion backlog of leveraged loans, there were immediate investment opportunities for debt providers, from credit liquidity partnerships eager to buy these leveraged loans at discounted prices, or from other debt provider partnerships, such as mezzanine type investments. Other investment opportunities will

continue to emerge from the credit market crisis and be evaluated, as applicable.

Cash/Short-Term Investment Market Conditions

The U.S. economic downturn during the fiscal year had a negative impact on the short-term or cash market, which is normally the most liquid, highest quality, least risky market.

Much of the impact was upon a relatively new financial market instrument known as Asset-Backed Commercial Paper (ABCP). ABCP was one of the most successful of a series of new financial instruments in the fixed income and cash markets, growing from \$660 billion outstanding at December 31, 2004, to a peak of \$1.27 trillion at July 31, 2008.

ABCP is a short-term credit instrument whereby the issuer – a private market financial company – secures capital to fund long maturity, less liquid assets, typically mortgage instruments. Depending on the ABCP issue in question, the mortgages were issued to borrowers whose credit ranged from prime to subprime. A substantial portion of the residential housing market was financed in this manner.

ABCP met all the regulatory tests of rating quality, maturity and diversification to be included in money market mutual fund portfolios. Because they paid slightly higher rates, they were very popular.

This system of funding long-term lending with short-term borrowing worked well as long as short-term borrowers were able to roll over their investments in ABCP. However, in July 2007, flaws began to appear in the system. As the housing market imploded and the value of the collateral became suspect, risk-averse short-term lenders refused to roll over maturities of ABCP. Although the risks were substantial with respect to subprime-backed ABCP, investors were sufficiently spooked to virtually shut down the market for all forms of

ABCP, even those backed by mortgage loans to the highest credit-rated borrowers.

ABCP outstanding dropped to \$748 billion in June 2008, from \$1.27 trillion in August 2007. Unable to roll the debt, issuers were left with essentially two options: either selling the less liquid, longer maturity assets in the trust in order to repay the maturing debt, incurring substantial discounts to par, or arranging extended terms with investors. The effect was to convert positions in short-term, liquid securities to long-term, illiquid securities.

The large majority of ABCP holders were fortunate in that most of the paper had requirements that a sponsor or liquidity provider step in if the assets could not be sold to repay the maturing obligations. There were other cases in which the sponsor was a large bank which felt a moral obligation or was persuaded by its regulator to take the assets back on its own books and pay off the maturing debts.

By June 2008, the ABCP market had stabilized, but in reconstituted form, at levels of about \$750 billion. A small fraction of the market was tied up in illiquid and problematic quality assets held by structured investment vehicles with no source of repayment other than asset sales. By the end of the fiscal year, the market for those assets remained dormant amid the continued housing crisis.

It should be noted that the SBA's purchases of ABCP were only those of the highest quality ratings, despite certain press reports to the contrary.

Investment Performance Summary by Asset Class

Domestic Equities Investment Performance

The Domestic Equities asset class within the FRS Pension Plan was valued at more than \$45 billion

on June 30, 2008, accounting for almost 36% of the total FRS Pension Plan portfolio.

Reflecting the sharp decline in U.S. equities amid the economic downturn, the asset class had a loss of 12.68% for the fiscal year, matching the return of the benchmark Russell 3000 Index.¹ It was the first negative return in Domestic Equities since 2002, as the U.S. economy reeled from a confluence of issues, including credit woes, slumping housing prices, rising oil and commodity prices and weaker corporate earnings. Positive relative returns from the passive portion of the portfolio partially offset lower returns from the actively managed portfolio.

Reflecting the SBA's investment policies, the aggregate asset class was broadly diversified across 20 active strategies and four passive portfolios, with the passive portion comprising almost 79% of the total. The asset class was managed to maintain a target neutral mix of growth, value and small- and large-capitalization strategies.

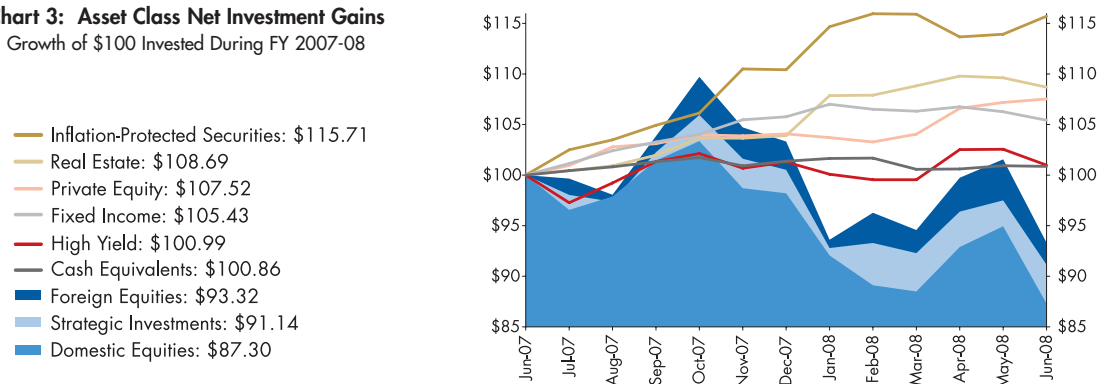
A number of significant changes were made to the asset class during the fiscal year to diversify and enhance the portfolio for the long term. First, to

conform with the reduced policy allocation to Domestic Equities, the SBA shifted \$3 billion to Foreign Equities in September 2007.

Other changes were motivated by Wilshire's strategic review of the asset class, which was completed in November 2007. In accordance with the review, the passive allocation was increased to 80% and the active portfolio was reoriented from traditional active strategies to enhanced index and non-traditional investment types. Within the enhanced index portfolio, an underperforming strategy was terminated, two additional investment managers were hired, and a traditional active strategy was partially converted to enhanced index. Two other traditional active investments were partially converted to short extension strategies. The remaining assets will be converted if the new investments perform as expected.

In addition to these changes, two underperforming investment managers (one all-cap and one large-cap growth) were terminated. Interviews were also conducted in June 2008 with prospective small-cap core and growth investment managers as part of the planned review of the small-cap portfolio.

Chart 3: Asset Class Net Investment Gains
Growth of \$100 Invested During FY 2007-08



¹ The impact of certain trades that occurred during the policy transition is excluded from this number. Had this been included, the return would have been 2 basis points lower. Other amounts in this section also exclude the impact of those trades.

Much of the active portfolio's underperformance occurred in the first quarter of 2008. Although all segments of the active portfolio lagged their benchmarks during the quarter, the large-cap growth and all-cap portfolios accounted for the majority of the shortfall. Both portfolio segments were hampered by stock selection in a number of key sectors. The active portfolio recovered a significant portion of the deficit in the subsequent quarter.

One bright spot was the performance of the aggregate passive portfolio, whose return exceeded its benchmark by 32 basis points for the fiscal year. Several factors accounted for the solid results: the general management of the portfolio and timing of investment decisions versus the underlying index; securities lending income; and the successful implementation of the trades associated with the June index rebalance.

The Domestic Equities asset class in the Lawton Chiles Endowment Fund exceeded its benchmark Russell 3000 Index excluding tobacco stocks by 10 basis points. Outperformance from two of the three active investment managers, along with positive results from the passive portfolio, accounted for the relative strength of the LCEF investments.

Foreign Equities Investment Performance

The Foreign Equities asset class within the FRS Pension Plan outperformed its target by 114 basis points, although the return for the fiscal year was a loss of 6.52%.² Still, the results were better than the asset class target which posted a loss of 7.66%.

Each major component of the asset class outperformed its respective benchmark. The developed market manager composite outperformed the MSCI World ex-US Index benchmark by 74 basis points.

This composite represented about 80% of the Foreign Equities aggregate and included a relatively new allocation to international small-cap stocks. The emerging market manager composite, which accounted for 20% of the aggregate, beat its benchmark by 358 basis points.

Historically, the Foreign Equities aggregate adds value in falling markets but struggles to keep pace when markets experience sharp and prolonged rallies. The aggregate has a slight defensive bias that has traditionally preserved value as markets fall.

Within the developed market manager composite, the best relative performance came from investment managers Pyramis, Artisan and Morgan Stanley. Pyramis demonstrated superior stock selection in most regions to add over 600 basis points net of fees. Artisan added value in most sectors with its large underweight to financial stocks coupled with good stock selection within the sector adding the most value. Morgan Stanley provided almost 270 basis points of excess return net of fees. Morgan Stanley benefited from a large overweight and good stock selection in the defensive consumer staples sector and a large underweight to financials.

Four of our six emerging market portfolios added significant value, with emerging market managers Trilogy and Acadian adding over 600 basis points of excess return net of fees. From a holdings perspective, an underweight to Chinese and Indian markets paid off as these markets fell sharply in the first half of 2008. An overweight to resource-rich Latin America, the best-performing region over the fiscal year, produced strong gains.

The foreign equity component of the Lawton Chiles Endowment Fund returned -6.98%, slightly under-

performing its custom benchmark, the MSCI ACWI ex-US ex-Tobacco Index by 9 basis points. This component was actively managed by Acadian Asset Management, which uses a rigorous quantitative process to identify attractively valued stocks. Value-based quantitative processes have struggled recently as market volatility and the deleveraging of hedge funds and proprietary trading desks have led to negative payoffs for stocks that Acadian normally finds attractive. Generally, investors have avoided value issues and sought safety in large, liquid stocks perceived to have more assured earnings in an increasingly uncertain global economy.

There were several new developments within the Foreign Equities asset class during the fiscal year. The SBA adopted a new Foreign Equities target that added a small-cap component. Consequently, several international equity small-cap managers were funded to provide exposure to this segment of the market. In March 2008, a modest allocation was made to a 130/30 strategy that allowed limited shorting.

During the fiscal year, the SBA implemented provisions of newly passed state legislation, The Protecting Florida's Investments Act, to prohibit Pension Plan investment managers from holding the stocks of companies identified as having economic ties to Iran or Sudan. As a result, managers divested approximately \$1 billion of such holdings by June 30, 2008.

Fixed Income Investment Performance

The Fixed Income asset class within the FRS Pension Plan posted a 5.10% total return³ for the fiscal year to increase its value to \$35.0 billion as of June 30, 2008. The asset class benefited from the Federal Reserve's action to lower the funds rate sharply to counter the deteriorating housing market and its negative impact on the economy and the credit and structured product markets.

² The impact of certain trades that occurred during the policy transition is excluded from these numbers. Had this been included, the amounts would have been 16 basis points lower. Other amounts in this section also exclude the impact of those trades.

³ The impact of certain trades that occurred during the policy transition is excluded from this number. Had this been included, the return would have been 32 basis points higher. Other amounts in this section also exclude the impact of those trades.

At year-end, the Fixed Income asset class accounted for 28% of the total FRS Pension Plan portfolio. Its return trailed the Lehman Aggregate benchmark's total return of 7.12% by 202 basis points.³ Actively managed portfolios returned 4.74% for the year, underperforming their performance benchmark by 232 basis points. Passively managed portfolios returned 7.38%, surpassing their benchmark return of 7.15%.

The two major sub-indexes of the fixed income asset class benchmark are the Lehman Mortgage-Backed Securities (MBS) and the Lehman Aggregate less Mortgages (ex-MBS) indexes. For the year, the Lehman MBS Index had a 7.83% total return and the Lehman Aggregate ex-MBS Index had a total return of 6.67%.

During the fiscal year, the portfolios actively managed against the Lehman Aggregate ex-MBS Index underperformed the index by 33 basis points. The results reflected overweight holdings in corporate bonds, which underperformed Treasuries throughout the year. The strategy reflected the view that investors were being duly compensated for owning corporate bonds relative to the risk inherent in such investments. The active mortgage portfolios underperformed their benchmark by 757 basis points due to the extreme deterioration in the housing market and its negative impact on MBS and structured product markets. The portfolios benchmarked against the Lehman Aggregate Bond Index returned 6.92% for the year but fell short of the index return of 7.12%.

The Commingled Asset Management Program Fixed Income portfolio returned 7.92%, outperforming its benchmark, the Lehman Aggregate, which returned 7.12%, by 80 basis points. The portfolio used sector and security weightings relative to the benchmark to produce the outperformance.

The Lawton Chiles Endowment Fund TIPS portfolio, which invests in Treasury Inflation-Protected Securities, produced a return of 15.71% to outperform its benchmark of 15.09% by 62 basis points. Duration management and yield curve positioning were the primary drivers of the outperformance.

High Yield Investment Performance

The high yield market struggled during the fiscal year, as the asset class's benchmark within the FRS Pension Plan – the Lehman BB/B 2% Issuer Constrained Index – returned 0.09%. However, the high yield portfolios of the FRS Pension Plan outperformed the benchmark by 90 basis points, returning 0.99% for the year. The portfolios' strategy was primarily defensive, with the expectation of eroding economic fundamentals and increasing corporate default rates. As of June 30, 2008, the total market value of the asset class was approximately \$2.8 billion, or 2.2% of the FRS Pension Plan portfolio.

Real Estate Investment Performance

The Real Estate asset class within the FRS Pension Plan produced a total return of 8.69% for the fiscal year, reflecting the success of our diversified investment strategy. The market value of real estate investments rose to \$9.74 billion, from \$8.22 billion a year earlier. Investment gains accounted for \$751.9 million, and new investments accounted for \$771.5 million.

Pension Plan real estate assets were comprised of directly owned assets/joint ventures (office buildings, retail properties, warehouses and apartment communities), commingled funds (pooled funds), and publicly traded real estate securities (mostly real estate investment trusts). Direct-owned assets including joint ventures produced a total time-weighted return of 14%. The total time-weighted return for commingled (pooled) funds was 6.13%. The return from real estate securities was a loss of 14.4% for the year.

The SBA has recently implemented a three-pronged investment strategy in the pursuit of solid long-term total returns and a well-balanced and diversified real estate portfolio:

- A core stable value strategy, which accounted for about 30% of the SBA's total real estate investments during the fiscal year. This consists of investments in stabilized existing leased properties with a moderate risk exposure profile.
- An enhanced value-added strategy seeking potentially higher returns with moderately increased risk. These investments include making capital improvements and taking on leverage in the capital structure. Approximately 47% of new real estate investments for the year fell into this category.
- A high yield or opportunistic strategy which seeks the most aggressive growth in returns and may include greater leverage ratios, development, major expansions and possibly the major renovation of an asset. The SBA manages these higher risk investments professionally and responsibly, in accordance with established investment guidelines. They accounted for the remaining 23% of new investments this year.

Total pooled fund investment activity for the fiscal year was \$521 million as the SBA invested \$25 million in a core strategy open-end pooled fund; \$279 million in three enhanced strategy open-end funds; and \$217 million in five closed-end high yield/opportunity strategy funds.

Approximately \$147 million was invested through the joint venture program to acquire equity interests in one apartment community comprised of 384 housing units; five retail shopping centers totaling 854,000 square feet; and three senior housing facilities providing a total of 2,654 living units.

Three assets in the direct-owned portfolio were sold – an industrial building in California, an apartment community in California and an apartment community in Massachusetts – to generate total proceeds of \$167 million.

During the fiscal year, new real estate securities investments totaled \$188 million and included the following transactions: a total of \$100 million in two externally managed Real Estate Investment Trust (REIT) portfolios; \$38 million in an internally managed REIT swap portfolio; and \$50 million in an internally managed REIT stock portfolio.

Overall, the asset class achieved its Pension Plan target policy weight of 7% and earned an attractive total return on assets. Its long-term strategy is to prudently increase higher return investments and to continue incorporating diversifying elements into the portfolio, while protecting asset value and achieving the benchmark return.

In the Lawton Chiles Endowment Fund, real estate exposure is maintained through two externally managed accounts investing in publicly traded Real Estate Investment Trust securities (REITs). The benchmark market index (Wilshire RESI) return for the year ending June 30, 2008 was minus 15.42%, reflecting the weakening economy, financial deleveraging and diminished real estate activity. The actual return for the year was minus 12.78% or 264 basis points better than the index. The relative gain was attributable to the portfolio's low-leverage balance sheet and above average dividend coverage.

Private Equity Investment Performance

The Private Equity asset class in the FRS Pension Plan produced a time-weighted return of 7.5% and had a market value of \$4.3 billion at the end of the fiscal year, representing 3.4% of total Pension Plan assets. The asset class had holdings in

82 investment vehicles managed by 39 different external managers. During the year, this asset class committed \$1.9 billion to 21 partnerships.

For the year, Private Equity outperformed the benchmark of -8.2% by 1,571 basis points. The asset class had a net cash outflow of \$95.5 million to general partners for the year. The largest capital call was for Harrah's Entertainment. Three general partners plus the Co-Investment Program called an aggregate of \$67 million from the SBA to acquire Harrah's, the world's largest provider of casino entertainment. Significant distributions included \$214 million from Liberty Partners following the sale of Technical Concepts, a leading designer and manufacturer of innovative hygiene solutions for the washroom; \$166 million from a secondary sale of a portion of the Liberty Partners portfolio; and \$45 million from Hellman & Friedman following the sale to Google of Doubleclick.com, a global internet advertising company. The asset class reduced its concentration in Liberty Partners from 37% in 2002, to just over 15% by June 30, 2008.

The Private Equity asset class has produced a dollar-weighted return of 8.7% and underperformed its benchmark by 164 basis points since the SBA created the asset class in 1999.

Strategic Investments Performance

The new Strategic Investments asset class within the FRS Pension Plan was valued at \$5.2 billion at the end of the fiscal year. In a difficult market, the asset class experienced a negative return of 8.86%. Global equities represented approximately \$4.4 billion, or 85% of the total value of this asset class, hence the negative overall performance. The asset class also included approximately \$400 million in assets committed to a series of credit liquidity and mezzanine limited partnerships, as of June 30, 2008, as well as \$400 million of funded commitments in the distressed debt

funds, which were transferred from the Private Equity asset class during the fiscal year.

According to the Investment Policy Statement, performance measurement of the effectiveness of the implementation of the Strategic Investments asset class over short periods is assessed relative to an aggregation of its individual portfolios' benchmarks; over long periods of time, it is assessed relative to 5% plus the contemporaneous rate of inflation. Fundamentally, the Strategic Investments asset class is expected to improve the risk-adjusted return of the total fund over multiple market cycles.

For the fiscal year, Strategic Investments lagged its short-term benchmark by 0.35%. (Performance against the long-term benchmark for this asset class is not relevant since the asset class existed for only 13 months as of June 30, 2008.) Global equity portfolios, a major component of the asset class, experienced an aggregate loss of 8.77% for the year but collectively outperformed their benchmark return of -9.66% by 89 basis points.

Going forward, as market conditions evolve, the SBA expects to utilize this asset class to invest in areas such as real estate debt, corporate governance activist funds, infrastructure, timberland and multi-sector opportunistic strategies.

Cash/Short-Term Investment Performance

The Short-Term Fixed Income investment portfolios generated mixed returns for the fiscal year as the mortgage market financial crisis negatively impacted the money market sector.

The Cash and Central Custody Account holds the cash allocation for the FRS Pension Plan. The account's performance was weak relative to the benchmark because a portion of its holdings were asset-backed commercial paper which was not supported by a sponsor or liquidity provider.

The one-year return for the account was 0.86% versus a benchmark return of 4.44%. The combination of a change to market-based pricing for this portfolio and the housing sector's effect on the financial industry resulted in lower returns.

The Florida Hurricane Catastrophe Fund underperformed its benchmark by 71 basis points, returning 3.65% versus the benchmark return of 4.36%.

The Local Government Investment Pool experienced a challenging year as the portfolio transitioned through three separate investment managers. The final return for the portfolio was 4.35%, beating its benchmark return of 4.26% by 9 basis points. In addition to the general difficulties regarding asset-backed commercial paper holdings, transitioning the portfolio negatively impacted its returns during the fiscal year.

The Commingled Asset Management Program Money Market account manages short-term money for a number of participants. The CAMP Money Market portfolio return was 4.31% versus its benchmark return of 3.30%, outperforming by 101 basis points. The portfolio's security selection and barbell strategy accounted for the outperformance.

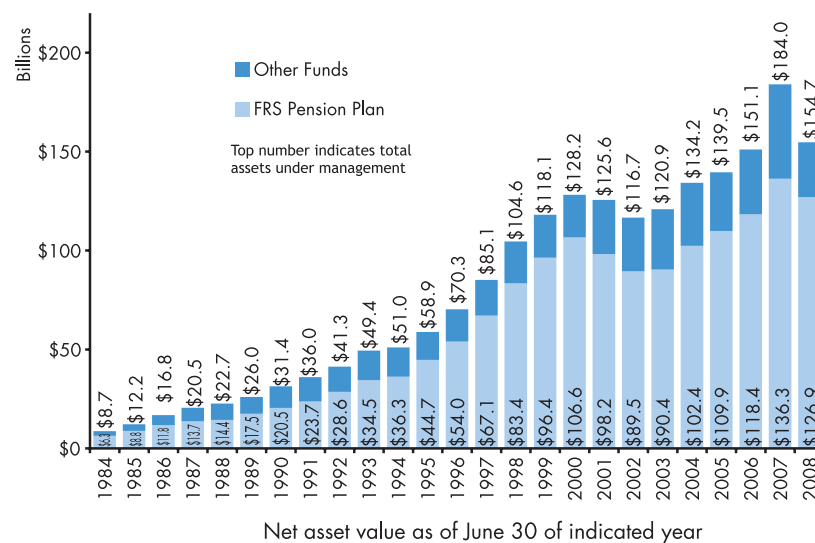
Overview of Major SBA Mandates

FLORIDA RETIREMENT SYSTEM PENSION PLAN

The Florida Retirement System Trust Fund holds all assets of the FRS Pension Plan, the defined benefit option within the two-plan FRS system. The FRS Trust Fund is the single largest investment mandate assigned to the SBA, accounting for 82% of total assets under SBA management in the fiscal year ending June 30, 2008.

For the fiscal year, the investment return for the FRS Pension Plan was a loss of 4.42%, reflecting

Chart 4: Assets Under SBA Management



the difficult economic conditions and turbulent markets of fiscal year 2007-08. Notwithstanding the reduction, the Pension's Plan's performance over longer periods was strong, which contributed to the Plan remaining fully funded with a surplus for the fiscal year, unlike most public pension plans in the U.S.

The SBA's long-term investment strategy for the Pension Plan utilizes a 15-year planning horizon. For the 15 years ending June 30, 2008, the Plan's annualized investment return was 8.99%.

In 14 of the past 20 years, the Pension Plan's return exceeded the SBA's long-term investment objective (currently 5.0% over the rate of inflation), which is the rate of return necessary to maintain the Plan's funded status and to reasonably control plan costs, assuming the Legislature makes the actuarially required contributions. Chart 5 illustrates the SBA's performance relative

Chart 5: Long-Term FRS Pension Plan Performance Results vs. SBA's Investment Objective

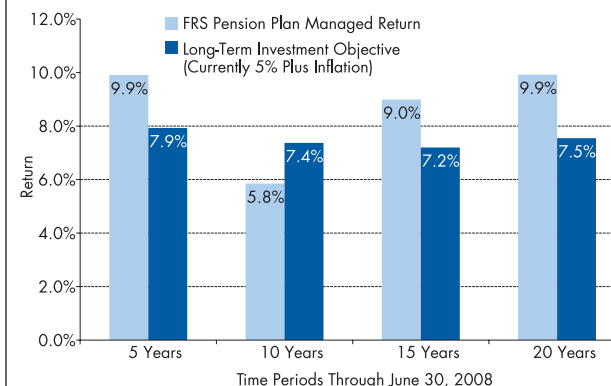


Table 7: FRS Pension Plan Change in Net Asset Value

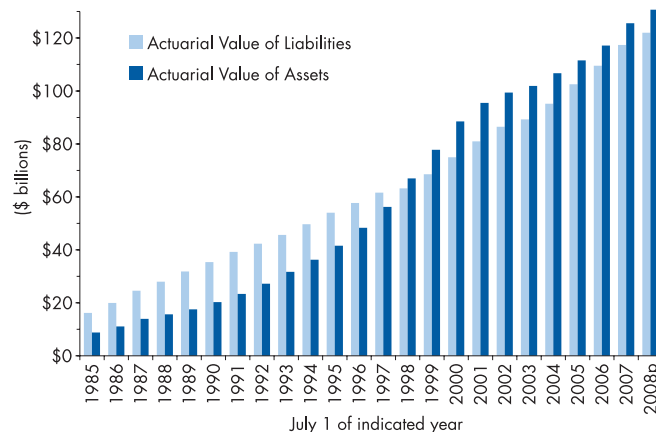
Fiscal Year 2007-08

	Net Asset Value ² 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value ² 6/30/08
Domestic Equities	\$58,510,269,467	\$(6,688,498,956)	\$(6,721,492,942)	\$45,100,277,569
Foreign Equities	22,285,998,744	3,027,226,338	(1,604,445,936)	23,708,779,146
Fixed Income	31,178,590,449	1,962,200,000	1,869,596,018	35,010,386,467
High Yield	1,792,915,258	961,700,000	31,659,172	2,786,274,430
Real Estate	8,216,141,098	771,493,982	751,913,137	9,739,548,217
Private Equity	4,390,402,063	(419,977,631)	316,362,079	4,286,786,511
Strategic Investments	6,016,035,801	(241,265,568)	(550,151,377)	5,224,618,856
Cash/Short-Term Securities ¹	3,890,191,631	(2,816,729,643)	6,763,685	1,080,225,673
Total FRS Pension Plan	\$136,280,544,510	\$(3,443,851,478)	\$(5,899,796,164)	\$126,936,896,868

¹ The investment gain (loss) reported for the Cash/Short-Term Securities includes \$18,561,053 in SBA investment service charges and \$3,090,273 in bank fees paid out of the Total Central Cash/Short-Term portfolio on behalf of the entire FRS Pension Plan. Excluding these expenses, the investment gain (loss) reported would have been \$28,415,011, which reflects actual investment returns.

² Total may not foot due to rounding.

Chart 6: FRS Pension Plan Assets & Liabilities

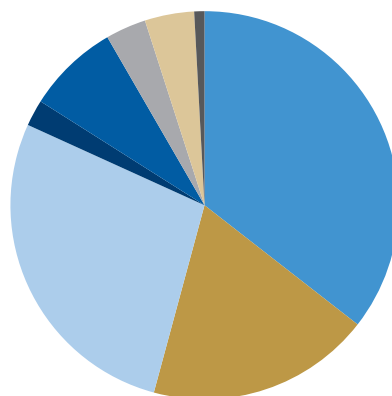
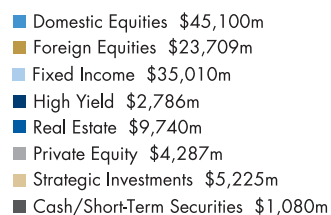


to the investment objective for various periods ending this fiscal year.

The net asset value of the FRS Pension Plan decreased 6.9% to \$126.9 billion, from \$136.3 billion at the end of the prior year. The decrease was caused by cash outflows of \$2.3 billion in net pension benefit payments and \$1.15 billion in net transfers to the FRS Investment Plan, offset by \$17.1 million in assets transferred from the Institute of Food and Agricultural Sciences (IFAS) Trust Fund. Table 7 lists the change in net asset value over the year, by asset class.

Chart 7: FRS Pension Plan Assets by Type

\$126.9 billion as of June 30, 2008



Net investment returns (actual earnings) and value-added returns (net returns relative to a market-based benchmark) are shown for the total FRS portfolio as well as other SBA investment portfolios in Tables 3 and 4, respectively. A breakdown of returns by asset class is shown in Tables A and B in the front section of this report. The performance of each asset class is measured relative to a broad market index as specified in the FRS Pension Plan Investment Policy Statement. Value-added returns generally reflect the SBA's ability to outperform these market indices.

Table 8: FRS Pension Plan Domestic Equities – Change in Net Asset Value by Manager
Fiscal Year 2007-08

Account Name	Net Asset Value 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/08
- Alamo	\$348,207,539	\$0	\$(54,040,940)	\$294,166,599
- AQR Capital Management	228,202,301	(59,140,556)	(49,677,473)	119,384,272
- Aronson & Partners	1,863,025,397	(1,130,272,413)	(204,829,659)	527,923,325
- Aronson Johnson Ortiz Collateral ¹	0	1,031,400	356,422,564	357,453,964
- Aronson Johnson Ortiz Long ¹	0	504,627,174	(262,402,236)	242,224,938
- Aronson Johnson Ortiz Short ¹	0	0	(134,313,890)	(134,313,890)
- Avatar R1000 Index Fund	15,469,177,599	2,853,915,148	(2,174,970,918)	16,148,121,829
- AXA Rosenberg ¹	0	490,251,930	(15,978,565)	474,273,365
- Barclays Global Inv. R1000 Alpha Tilts ²	1,864,771,624	(1,772,722,468)	(92,049,156)	0
- Batterymarch Financial Management	195,138,524	0	(33,992,843)	161,145,681
- Cortina Asset Management	169,175,150	0	(37,255,832)	131,919,318
- Delaware Investments	1,193,087,813	(24,755,446)	(90,712,536)	1,077,619,831
- Delta	50,643,657	0	(9,976,240)	40,667,417
- Domestic Equity Active STIP NAV Adjustment ¹	0	0	(9,542,754)	(9,542,754)
- Domestic Equity Passive STIP NAV Adjustment ¹	0	0	(3,179,061)	(3,179,061)
- Domestic Equity Policy Transition	42,456	163,478,602	(163,217,040)	304,018
- Domestic Equity Restructuring Account	244,931	66,826,140	(66,415,577)	655,494
- Earnest Partners	236,301,274	(60,668,855)	(28,161,655)	147,470,764
- Enhanced Investment Technologies, Inc.	2,526,909,217	(529,499,961)	(230,358,422)	1,767,050,834
- Evergreen Investments ¹	0	484,681,799	266,357	484,948,156
- Fisher Investments	168,653,313	0	(11,461,531)	157,191,782
- Gryphon ¹	0	4,936,419,116	(398,002,990)	4,538,416,126
- Jacobs Levy Equity Management	1,431,531,372	(630,463,999)	(143,945,304)	657,122,069
- Jacobs Levy Collateral ¹	0	1,031,400	224,729,905	225,761,305
- Jacobs Levy Long ¹	0	506,681,997	(112,121,377)	394,560,620
- Jacobs Levy Short ¹	0	0	(141,960,197)	(141,960,197)
- Loomis Sayles & Company LLP ²	1,799,465,024	(1,827,517,540)	28,052,516	0
- PanAgora Asset Management	340,064,738	(100,843,247)	(52,528,727)	186,692,764
- Phoenix Portfolio	25,927,002,793	(9,141,006,748)	(2,279,411,546)	14,506,584,499
- Private Capital Management	1,071,648,233	(751,658,116)	(136,380,729)	183,609,388
- Quantitative Management Associates	1,720,831,737	(642,632,406)	(226,631,420)	851,567,911
- Renaissance Investment Management	209,192,997	0	(39,364,238)	169,828,759
- Smith Asset Management Group	1,010,431,015	(455,705,665)	(88,145,805)	466,579,545
- Smith Asset Management Large Cap Enhanced ¹	0	455,705,665	7,696,729	463,402,394
- Turner Investment Partners	240,468,974	0	(34,306,529)	206,162,445
- Tygh Capital Management	211,886,113	0	(6,098,549)	205,787,564
- Vaughan Nelson Investment Management	227,932,972	(19,750,136)	(7,506,341)	200,676,495
- Wellington Management Company ²	6,232,704	(6,511,771)	279,067	0
Total Domestic Equities	\$58,510,269,467	\$(6,688,498,956)	\$(6,721,492,942)	\$45,100,277,569

¹ Account opened during the fiscal year.

² Account closed during the fiscal year.

However, it should be noted that the Strategic Investments asset class is expected to outperform its long-term target index only over periods of

15 years and longer. During shorter periods, it is expected to outperform its short-term target index (see footnote 4 on Table B, page 21).

The investment strategy for the FRS portfolio is to implement the policy allocation within relatively narrow bands in pursuit of modest risk-controlled

Table 9: FRS Pension Plan Foreign Equities – Change in Net Asset Value by Manager
Fiscal Year 2007-08

Account Name	Net Asset Value 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/08
Developed Markets:				
- Aberdeen Asset Management	\$210,688,424	\$217,347,336	\$17,979,270	\$446,015,030
- Acadian Long ¹	0	287,916,088	(15,562,515)	272,353,573
- Acadian Collateral ¹	0	74,980,433	118,754,177	193,734,610
- Acadian Short ¹	0	0	(107,130,949)	(107,130,949)
- AIG Global Investment Corporation ¹	0	151,133,332	(22,551,531)	128,581,801
- Artisan Partners	1,471,751,479	(50,000,000)	(64,342,481)	1,357,408,998
- Barclays Global Inv. Index Plus	1,090,442,927	0	(88,231,120)	1,002,211,807
- Barclays Global Inv. Small Cap Strategy ¹	0	1,225,084,241	(141,634,693)	1,083,449,548
- Barclays Global Inv. World Ex-US	5,401,984,147	(149,390,326)	(461,520,904)	4,791,072,917
- Barclays Global Inv. World Ex-US Alpha Tilts	3,011,816,165	(137,100,000)	(270,093,685)	2,604,622,480
- Capital Guardian Trust Company	1,130,385,120	(67,800,000)	(92,594,582)	969,990,538
- Dimensional Fund Advisors ¹	0	199,801,200	(29,725,569)	170,075,631
- Epoch Investment Partners ¹	0	56,565,109	(8,119,389)	48,445,720
- Foreign Equity Internal Active	113,842,599	200,000	(7,914,994)	106,127,605
- Foreign Equity Market Exposure ²	9,363,188	(9,383,660)	20,472	0
- Mondrian Investment Partners Small Caps ¹	0	176,875,731	(15,303,819)	161,571,912
- Morgan Stanley Investment Management	1,312,627,789	0	(87,347,043)	1,225,280,746
- New Star Institutional Asset Management	1,123,906,938	0	(91,004,396)	1,032,902,542
- Principal Global Investors - FE ¹	0	124,250,453	(14,291,317)	109,959,136
- Pyramis Global Advisors	1,086,452,209	0	(32,718,064)	1,053,734,145
- Pyramis Global Advisors Trust Small Caps ¹	0	124,428,628	(8,845,420)	115,583,208
- Sprucegrove Investment Management	1,415,717,749	0	(200,619,692)	1,215,098,057
- Templeton Investment Counsel	1,614,438,687	(118,000,000)	(153,810,012)	1,342,628,675
- Victory Capital Management ¹	0	153,587,640	(26,598,716)	126,988,924
- William Blair ¹	0	127,288,812	(8,100,695)	119,188,117
Emerging Markets:				
-Acadian Asset Mgt Inc.	666,658,733	107,428,444	41,199,841	815,287,018
- EM Market Exposure	78,199,019	(49,341,462)	17,672,129	46,529,686
- Genesis Emerging Markets	795,887,015	0	17,665,595	813,552,610
- JP Morgan Asset Management	71,777	(74,975)	3,866	668
- Mondrian Investment Partners Ltd.	567,321,716	165,689,510	29,694,704	762,705,930
- SSGA Daily Active Emerging Markets	706,395,771	121,000,000	12,984,355	840,380,126
- Trilogy	477,688,624	370,742,059	20,962,516	869,393,199
Other Foreign Equities:				
- Foreign Equity Cash	340,591	(132,111)	352,808	561,288
- Foreign Equity Active STIP NAV Adjustment Account ¹	0	0	(9,496,696)	(9,496,696)
- Foreign Equity Passive STIP NAV Adjustment Account ¹	0	0	(97,104)	(97,104)
- Foreign Equity Asset Allocation Portfolio	18,077	(63,535)	113,009	67,551
- Foreign Equity Emerging Markets Policy Transition ¹	0	(46,583,161)	46,583,248	87
- Foreign Equity Policy Transition ¹	0	(29,223,448)	29,223,460	12
Total Foreign Equities	\$22,285,998,744	\$3,027,226,338	\$(1,604,445,936)	\$23,708,779,146

¹ Account opened during the fiscal year.

² Account closed during the fiscal year.

Table 10: FRS Pension Plan Fixed Income – Change in Net Asset Value by Manager

Fiscal Year 2007-08

Account Name	Net Asset Value 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/08
Aggregate:				
- Active Core Portfolio ²	\$9,310,101,104	\$(1,013,800,000)	\$595,436,511	\$8,891,737,615
- BlackRock	3,830,422,290	(260,800,000)	282,829,069	3,852,451,359
- Fixed Income Synthetic Aggregate ¹	0	709,091,831	352,834,886	1,061,926,717
- Fixed Income Transition Account	7,112,092,737	(7,369,791,831)	257,699,099	5
- Goldman Sachs Asset Management ¹	0	2,441,150,000	75,987,366	2,517,137,366
- Hartford Investment Management ¹	0	2,441,150,000	43,838,450	2,484,988,450
- Principal Global Investors ¹	0	2,441,150,000	20,944,945	2,462,094,945
- Smith Breeden Associates ³	1,757,196,482	(124,000,000)	131,271,413	1,764,467,895
- Taplin, Canida & Habacht ²	259,643,465	430,000,000	15,152,708	704,796,173
- Western Asset Management ¹	0	2,441,150,000	51,736,282	2,492,886,282
Government/Corporate:				
- Fixed Income Gov't./Corp. Passive Account	2,943,880,383	(169,600,000)	233,378,898	3,007,659,281
Mortgage:				
- MBS Active Synthetic	497,518,244	895,000,000	(302,929,330)	1,089,588,914
- MBS Enhanced Synthetic	585,951,986	(5,000,000)	32,984,389	613,936,375
- Fixed Income Mortgage Passive (Lehman)	1,919,019,552	35,200,000	149,885,036	2,104,104,588
- Lehman Brothers Asset Mgt. LLC	241,483,017	(100,000,000)	11,451,162	152,934,179
- Trust Company of the West	1,448,497,372	(600,000,000)	63,949,268	912,446,640
- Utendahl Capital Management	707,106,511	(50,000,000)	50,963,759	708,070,270
- Wellington Management Company	565,677,306	(178,700,000)	35,743,638	422,720,944
Other Fixed Income:				
- Fixed Income Active STIP NAV Adjustment Account ¹	0	0	(209,792,745)	(209,792,745)
- Fixed Income Passive STIP NAV Adjustment Account ¹	0	0	(23,768,786)	(23,768,786)
Total Fixed Income	\$31,178,590,449	\$1,962,200,000	\$1,869,596,018	\$35,010,386,467

¹ Account opened during the fiscal year.

² Account moved from Government/Corporate to Aggregate during the fiscal year.

³ Account moved from Mortgage to Aggregate during the fiscal year.

Table 11: FRS Pension Plan High Yield – Change in Net Asset Value by Manager

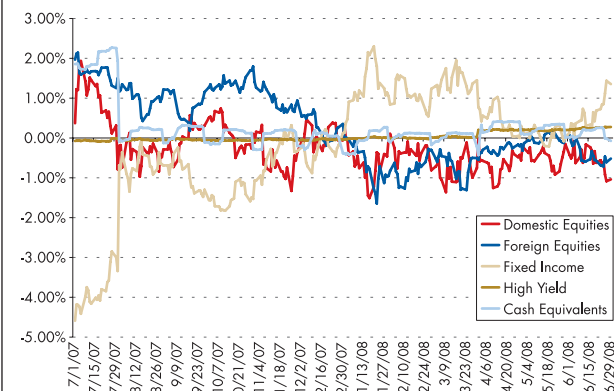
Fiscal Year 2007-08

Account Name	Net Asset Value 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/08
- High Yield Asset Allocation	\$1,160,182	\$0	\$255,992	\$1,416,174
- High Yield Active Synthetic	390,980,476	(300,000,000)	13,151,993	104,132,469
- High Yield STIPFRS NAV Adjustment Account ¹	0	0	(11,956,711)	(11,956,711)
- Lehman Brothers High Yield	335,871,531	420,700,000	6,283,045	762,854,576
- MacKay Shields, LLC	325,045,297	443,100,000	6,865,763	775,011,060
- Post Advisory Group	341,911,304	422,900,000	11,922,827	776,734,131
- Shenkman Capital Management LLC	397,946,468	(25,000,000)	5,136,263	378,082,731
Total High Yield	\$1,792,915,258	\$961,700,000	\$31,659,172	\$2,786,274,430

¹ Account opened during the fiscal year.

Chart 8: Daily Deviations from Floating Target Policy Weights

Fiscal Year 2007-08



gains, net of transaction costs. In addition, the strategy seeks to add value through the pursuit of active investment strategies aimed at providing attractive long-term risk-adjusted returns. The SBA manages this strategy through asset allocation and risk-budgeting policies. The SBA operated within this investment strategy throughout the fiscal year.

As reported last year, significant changes to the Pension Plan's investment policy took effect June 1, 2007. The new policy reduced exposure to Domestic Equities and to Private Equity by 12 and 1 percentage points, respectively. This was offset somewhat by increases in exposure to foreign stocks and fixed income instruments of 4 and 9 percentage points, respectively. Collectively, these changes are expected to modestly reduce the Fund's long-term compound annual return by 22 basis points while significantly lowering annual risk by 119 basis points. Implementation of these changes continued during fiscal year 2007-08, with approximately \$6.7 billion and \$420 million liquidated in Domestic Equities and Private Equity, and \$3.03 billion and

\$1.96 billion invested in foreign stocks and fixed income instruments, respectively.

Chart 9 illustrates the transition by month in fixed target policy weights for each asset class. Chart 8 shows the extent to which actual

exposures deviated from target levels during the year. On balance, the net effect of these over- and underweights, referred to as the return to tactical asset allocation, detracted 26 basis points from the value added of the total Pension Plan portfolio for the year. However, contributions over three-

five- and ten-year periods have been positive, as shown in the row titled "Tactical Asset Allocation" in Table B in the front section of this report.

Managing external cash flows (i.e., providing sufficient and timely liquidity for payment of retirement benefits) is an important part of the SBA's asset management responsibilities. This task has become more challenging in recent years as employer contribution levels have fallen and new programs such as the Deferred Retirement Option Program and the FRS Investment Plan have added new and erratic demands for liquidity. Nonetheless, the SBA has a robust cash management system in place for monitoring and meeting these needs as they arise.

Table 12: FRS Pension Plan Real Estate – Change in Net Asset Value by Investment Type

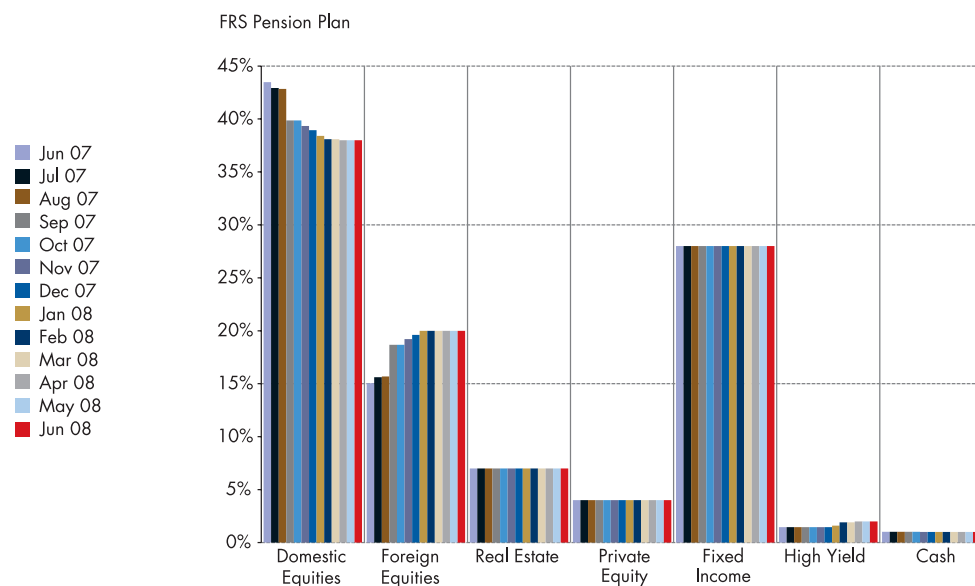
Fiscal Year 2007-08

Account Name	Net Asset Value ¹ 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value ¹ 6/30/08
- Commingled Funds	\$2,548,358,026	\$536,545,426	\$167,999,213	\$3,252,902,665
- Direct-Owned Investments	4,912,084,269	49,824,291	704,098,242	5,666,006,802
- Real Estate Cash	4,677,402	(2,719,911)	549,245	2,506,736
- Real Estate Investment Trusts (REITs)	750,971,387	187,962,413	(119,751,643)	819,182,157
- Real Estate STIPFRS NAV Adjustment Account ²	0	0	(1,050,205)	(1,050,205)
- Real Estate Stock	50,014	(118,237)	68,285	62
Total Real Estate	\$8,216,141,098	\$771,493,982	\$751,913,137	\$9,739,548,217

¹ Real estate net asset values are an estimate of value which may or may not represent the value which would be reflected by an actual arm's-length sales transaction.

² Account opened during the fiscal year.

Chart 9: Month-End Fixed Policy Weights by Asset Class



During the fiscal year, the SBA utilized six securities lending agents for FRS Pension Plan assets. Income generated from these programs for the fiscal year was \$115 million. Net income from all FRS Pension Plan securities lending programs for the previous eight years, including fiscal year 2007-08, is shown in Table 17.

FRS Pension Plan Investment Management Fees

Investment management fees on externally managed FRS Pension Plan portfolios are deducted from the portfolios and are not included in budgetary allocations. Table 18 shows investment management fees by asset class for fiscal year 2007-08.

Table 13: FRS Pension Plan Private Equity – Change in Net Asset Value by Manager³

Fiscal Year 2007-08

Account Name	Net Asset Value 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/08
- 3i Eurofund V, L.P.	\$7,699,539	\$28,857,250	\$4,076,790	\$40,633,579
- Apollo Investment Fund IV, L.P.	95,244,900	(9,368,068)	24,490,839	110,367,671
- Apollo Investment Fund V, L.P.	112,471,930	(68,064,464)	74,719,703	119,127,169
- Apollo Investment Fund VI, L.P.	76,500,496	72,962,255	11,841,249	161,304,000
- Apollo Investment Fund VII, L.P. ¹	0	15,180,459	(552,062)	14,628,397
- Blackstone Capital Partners V, L.P.	36,545,649	45,779,703	3,388,703	85,714,055
- Carlyle Partners II	27,653,071	(20,211,820)	18,557,730	25,998,981
- Carlyle Partners III, L.P.	97,193,652	(66,706,725)	21,774,849	52,261,776
- Carlyle Partners IV, L.P.	58,479,290	16,675,526	(894,126)	74,260,690
- Carlyle Partners V, L.P. ¹	0	43,564,888	(1,999,777)	41,565,111
- Carlyle Partners Europe III, L.P.	1,003	17,673,863	(518,570)	17,156,296
- Centre Capital Investments II	49,849,172	(4,135,703)	(149,818)	45,563,651
- Chartwell Capital Investors II, L.P.	26,033,248	(1,644,553)	(1,589,816)	22,798,879
- Cypress Equity Fund	8,463,816	(1,049,682)	(4,166,191)	3,247,943
- Fairview Ventures Fund II, L.P.	20,103,987	7,868,836	886,215	28,859,038
- Fairview Ventures Fund III, L.P.	1,288,956	4,498,234	(664,501)	5,122,689
- First Reserve Fund XI, L.P.	7,816,434	54,621,156	4,963,209	67,400,799
- Freeman Spogli (FS) Partners V, L.P.	32,813,316	1,026,643	3,011,264	36,851,223
- Goldman Sachs Distressed Opportunities, L.P. ⁴	127,218,070	(133,758,052)	6,539,982	0
- Gores Capital Partners, L.P.	37,861,599	(10,354,274)	6,834,689	34,342,014
- Gores Capital Partners II, L.P. ¹	0	19,765,428	(1,749,046)	18,016,382
- Green Equity Investors III, L.P.	15,183,052	(3,539,917)	(1,153,544)	10,489,591
- Green Equity Investors IV, L.P.	90,284,062	(4,312,941)	2,177,028	88,148,149
- Green Equity Investors V, L.P.	14,009	14,113,340	(217,746)	13,909,603
- Grove Street Partners LLC	50,246,416	35,667,300	2,212,573	88,126,289
- Grove Street Partners Buyouts LLC	13,395,892	9,981,639	(889,785)	22,487,746
- Grove Street Partners Ventures II LLC ¹	0	1,024,500	(743,407)	281,093
- Hellman & Friedman Capital Partners V, L.P.	89,791,715	(47,130,117)	37,932,784	80,594,382
- Hellman & Friedman Capital Partners VI, L.P.	16,107,507	33,012,869	2,463,951	51,584,327
- Hicks, Muse, Tate & Furst Fund III, L.P.	47,139,418	0	(8,315,511)	38,823,907
- Hicks, Muse, Tate & Furst Fund IV, L.P.	25,712,296	(1,055,779)	(2,307,151)	22,349,366
- Hicks, Muse, Tate & Furst Fund V, L.P.	11,467,846	(4,843,258)	4,157,490	10,782,078
- Kelso Investment Associates VII, L.P.	53,669,657	491,444	12,859,727	67,020,828
- Kelso Investment Associates VII, L.P. ¹	0	2,043,678	(445,452)	1,598,226
- Kohlberg Investors V, L.P.	33,655,427	(3,100,044)	11,410,167	41,965,550
- Kohlberg Investors VI, L.P. ¹	0	10,315,076	(684,748)	9,630,328
- Lexington Capital Partners IV, L.P.	82,235,115	(49,695,651)	37,116,284	69,655,748
- Lexington Capital Partners V, L.P.	58,583,189	(16,203,246)	14,513,263	56,893,206
- Lexington Capital Partners VI-B, L.P.	22,948,471	25,023,098	4,053,526	52,025,095
- Lexington Co-Investment Partners (Pools I & II), L.P.	48,985,328	(7,430,768)	(14,355,245)	27,199,315
- Lexington Co-Investment Partners II (Pools III & IV), L.P.	436,216,149	(84,404,498)	(31,030,553)	320,781,098
- Lexington Co-Investment Partners 2005, L.P.	193,380,827	162,283,556	5,458,331	361,122,714
- Liberty Partners I ²	2,579,716	(3,735,216)	1,155,500	0
- Liberty Partners II	29,505,191	442,882	(5,285,541)	24,662,532
- Liberty Partners III	205,128,808	(82,701,358)	(49,115,611)	73,311,839
- Liberty Partners IV ²	866,535	(1,010,784)	144,249	0
- Liberty Partners V	137,107,846	(17,472,854)	8,181,441	127,816,433

(continued on pg. 42)

(continued from pg. 41)

Table 13: FRS Pension Plan Private Equity – Change in Net Asset Value by Manager³

Fiscal Year 2007-08

Account Name	Net Asset Value 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/08
- Liberty Partners VI	519,678,594	(185,925,890)	78,570,419	412,323,123
- Liberty Partners VII	188,660,519	(147,805,078)	(3,021,903)	37,833,538
- Liberty Partners Group II ¹	0	65,947	(33,990)	31,957
- Lindsay Goldberg & Bessemer II, L.P.	24,577,290	33,428,479	484,082	58,489,851
- New Mountain Partners II, L.P.	37,568,341	2,469,015	3,474,346	43,511,702
- New Mountain Partners III, L.P. ¹	0	12,425,694	(1,243,677)	11,182,017
- PAI Europe V, L.P. ¹	0	286,395	(180,622)	105,773
- Pantheon Venture Partners II, L.P.	23,137,596	12,500,000	1,074,269	36,711,865
- Paul Capital Top Tier Investments II, L.P.	70,639,295	7,639,063	6,014,455	84,292,813
- Paul Capital Top Tier Investments III, L.P.	18,448,587	12,329,599	407,933	31,186,119
- Paul Capital Top Tier Investments IV, L.P. ¹	0	2,763,740	(433,372)	2,330,368
- PCG Special Situation Partners, L.P. ⁴	148,372,068	(160,589,188)	12,217,120	0
- Permira IV, L.P.	16,889,390	15,708,173	(3,358,194)	29,239,369
- Platinum Equity Capital Partners, L.P.	30,023,444	(4,015,530)	6,974,001	32,981,915
- Platinum Equity Capital Partners II, L.P. ¹	0	31,870,593	(3,342,644)	28,527,949
- Pomona Capital VI, L.P.	23,638,364	8,409,163	8,717,946	40,765,473
- Pomona Capital VII, L.P. ¹	0	11,000,000	0	11,000,000
- Private Equity STIPFRS NAV Adjustment Account ¹	0	0	(2,977,422)	(2,977,422)
- Private Equity Cash	263,516,302	(186,292,654)	4,723,285	81,946,933
- Providence Equity Partners VI, L.P.	6,504,590	13,283,980	(225,521)	19,563,049
- RCP Advisors Fund IV, L.P.	6,595,123	10,141,583	170,711	16,907,417
- RCP Advisors Fund V, L.P. ¹	0	5,006,509	(1,248,324)	3,758,185
- Ripplewood Partners I, L.P.	23,936,494	(840,184)	3,794	23,100,104
- Ripplewood Partners II, L.P.	59,644,772	(9,558,344)	9,530,052	59,616,480
- Special Situation Partners II, L.P. ⁴	46,693,264	(42,172,963)	(4,520,301)	0
- Thoma Cressey Fund VIII L.P.	19,395,081	23,250,000	486,562	43,131,643
- Thomas H. Lee Equity Fund IV, L.P.	14,836,693	129,091	(12,849,518)	2,116,266
- Thomas H. Lee Equity Fund V, L.P.	39,511,792	(3,398,394)	(1,116,097)	34,997,301
- Thomas H. Lee Equity Fund VI, L.P.	19,015,342	9,192,111	9,462,514	37,669,967
- TowerBrook Capital Partners, L.P.	34,691,123	6,590,676	2,525,817	43,807,616
- TPG Partners IV, L.P.	53,363,522	(3,970,282)	3,454,746	52,847,986
- TPG Partners V, L.P.	28,096,430	51,979,272	(1,242,016)	78,833,686
- TPG Partners VI, L.P. ¹	0	4,530,012	(456,358)	4,073,654
- TSG Capital Fund III, L.P.	4,776,613	(3,611,654)	135,993	1,300,952
- Warburg Pincus Private Equity IX, L.P.	50,313,421	24,394,594	2,720,400	77,428,415
- Warburg Pincus Private Equity X, L.P. ¹	0	34,860,914	(4,613,959)	30,246,955
- Wellspring Capital Partners III, L.P.	36,408,497	(14,704,931)	12,292,766	33,996,332
- Wellspring Capital Partners IV, L.P.	14,331,551	22,948,125	597,949	37,877,625
- Willis, Stein & Partners II, L.P.	5,347,465	(685,248)	(3,280,532)	1,381,685
- Willis, Stein & Partners III, L.P.	74,347,900	5,446,130	(1,625,966)	78,168,064
Total Private Equity	\$4,390,402,063	\$(419,977,631)	\$316,362,079	\$4,286,786,511

¹ Account opened during the fiscal year.² Account closed during the fiscal year.³ Private Equity net asset values are an estimate of value which may or may not represent the values which would be reflected by an actual arm's-length sales transaction. The net asset values are self-reported by the external managers of these accounts and incorporate their estimate of the value of illiquid publicly traded securities and private market holdings.⁴ Account was managed under the Private Equity asset class through March 31, 2008. On April 1, 2008, it was transferred to the Strategic Investments asset class.

Brokerage commissions are paid for executions of securities orders and on trades of exchange-listed equity investments. Net brokerage commissions for the fiscal year are shown in Table 19 by asset class.

Recaptured commissions are credited to the accounts that generated the dollars. Therefore, the amounts in Table 19 are net of commission recapture rebates. The SBA has one outstanding third-party vendor

relationship that provides commission dollars to fund performance evaluation and research. The SBA follows Employee Retirement Income Security Act (ERISA) standards that specifically address commission dollars and deem them to be plan assets.

Table 14: FRS Pension Plan Strategic Investments – Change in Net Asset Value by Manager

Fiscal Year 2007-08

Account Name	Net Asset Value 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/08
- Acadian Asset Management	\$620,034,553	\$0	\$(49,717,475)	\$570,317,078
- Apollo Credit Liquidity Fund ¹	0	86,400,706	(8,071,580)	78,329,126
- Bank of Ireland Asset Management	10,854	(700)	181,356	191,510
- Blackstone	4,390,500	498	(1,508,900)	2,882,098
- Blackstone Credit Liquidity Partners ¹	0	94,283,872	(9,638)	94,274,234
- Fisher Investments, Inc.	618,933,077	0	(27,385,581)	591,547,496
- FTI Institutional	1,042,730,172	0	(123,778,233)	918,951,939
- G-Strategic Investments Cash Account	261,549	700	11,259	273,508
- Goldman Sachs Distressed Opportunities, L.P. ²	0	143,633,165	540,574	144,173,739
- Green Credit Investors ¹	0	48,309,178	859,988	49,169,166
- McLean Budden	1,271,445,279	0	(127,048,786)	1,144,396,493
- MS Mezzanine Partners Fund ¹	0	21,973,970	50,970	22,024,940
- OCM Opportunities Fund VIIb ¹	0	3,767,805	0	3,767,805
- PCG Special Situation Partners, L.P. ²	0	156,120,531	(2,838,496)	153,282,035
- Providence TMT Special Situation Fund ¹	0	35,004,660	0	35,004,660
- SC-Strategic Investments Cash Account ¹	0	61,731,084	1,590,650	63,321,734
- SI STIPFRS NAV Adjustment Account ¹	0	0	(5,865,554)	(5,865,554)
- Special Situation Partners II, L.P. ²	0	56,577,386	(3,423,767)	53,153,619
- TAC 2007 (TPG Credit Fund) ¹	0	141,280,795	(17,048,234)	124,232,561
- Trilogy Global Advisors	575,682,191	0	(75,350,700)	500,331,491
- UBS Global Asset Management	1,228,686,678	(1,109,349,218)	(116,988,128)	2,349,332
- Walter Scott & Partners, Ltd.	653,860,948	0	6,709,360	660,570,308
- Wayzata Opportunities Fund II, L.P. ¹	0	19,000,000	(1,060,462)	17,939,538
Total Strategic Investments	\$6,016,035,801	\$(241,265,568)	\$(550,151,377)	\$5,224,618,856

¹ Account opened during the fiscal year.

² Account was managed under the Private Equity asset class through March 31, 2008. On April 1, 2008, it was transferred to the Strategic Investments asset class.

Table 15: FRS Pension Plan Miscellaneous Portfolios – Change in Net Asset Value

Fiscal Year 2007-08

Account Name	Net Asset Value 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/08
Central Cash/Short-Term ¹	\$3,890,191,631	\$(2,816,729,643)	\$51,923,048	\$1,125,385,036
STIPFRS NAV Adjustment Account ²	0	0	(45,159,363)	(45,159,363)
Total Cash Asset Class	\$3,890,191,631	\$(2,816,729,643)	\$6,763,685	\$1,080,225,673

¹ The investment gain (loss) reported for the Central Cash/Short-Term portfolio includes \$18,561,053 in SBA investment service charges and \$3,090,273 in bank fees that were paid out of this portfolio on behalf of the entire Florida Retirement System Trust Fund. Excluding these expenses, the investment gain (loss) reported would have been \$28,415,011, which reflects actual investment returns.

² Account opened during the fiscal year.

SBA contracts with private equity partnerships require the following disclosure:

- Because of the long-term nature of investing in private equity, funds can produce low or negative returns in the early years of the partnership. In the first few years of the partnership, management fees are drawn from partners' capital, and portfolio companies are held at cost, leading to a potential understatement of ultimate value.
- Due to numerous factors, including the lack of standardized valuation and reporting standards, the return information for Private Equity in this report may not reflect the expected returns of the partnerships. The returns contained in this report are calculated by the SBA and have not been reviewed by the general partners.
- Interim returns may not be meaningful or indicative of ultimate performance during the early stages of the investment life cycle.

Table 16: FRS Pension Plan – Value of Florida-Based Holdings as of June 30, 2008

	All Florida Investments ¹	Growth & Technology ³
Domestic Equities	\$678,197,043	\$468,631,106
Fixed Income	93,179,435	26,790,000
High Yield	34,427,889	14,638,581
Real Estate	886,876,793	
Private Investments ²	186,277,730	56,341,378

Total **\$1,878,958,890** **\$566,401,065**

¹ Includes companies domiciled in Florida; companies having their principal place of business in Florida; or real estate located in Florida.

² Private Investments includes private equity, private debt and venture capital investments; excludes real estate. Data is as of 3/31/08.

³ Growth and technology investments tentatively identified through use of the methodology described in SBA memo dated 9/26/08. Copies available upon request.

**Table 17: FRS Pension Plan
Net Security Lending Revenue**
by Fiscal Year

2000-01	\$ 45,645,138
2001-02	49,744,143
2002-03	34,568,715
2003-04	34,558,808
2004-05	38,447,917
2005-06	50,490,779
2006-07	54,097,509
2007-08	115,505,817

**Table 18: FRS Pension Plan
External Investment Management Fees**
Fiscal Year 2007-08

Asset Class	Dollar Amount	Return Basis ¹
Domestic Equities	\$33,327,938	0.21%
Strategic Investments	19,958,041	0.34%
Foreign Equities	63,324,211	0.26%
Fixed Income	14,002,986	0.08%
High Yield	7,507,491	0.37%
Real Estate	52,114,280	0.63%
Private Equity	59,884,705	1.37%
Cash	12,507	0.01%
Total	\$250,132,159	0.32%

¹ Return basis expresses external management fees as a percent of the average of the beginning and ending net asset value of assets externally managed in each asset class. This measure is comparable to an annual expense ratio.

**Table 19: FRS Pension Plan
Net Brokerage Commissions**
Fiscal Year 2007-08

Asset Class	Dollar Amount ¹
Domestic Equities	\$13,164,087
Strategic Investments	5,876,983
Foreign Equities	28,747,277
Fixed Income	25,770
High Yield	1,776
Real Estate	616,822
Total	\$48,432,715

¹ Brokerage commission amounts for the entire fiscal year are presented in the appropriate year-end asset class.

FLORIDA RETIREMENT SYSTEM INVESTMENT PLAN

The FRS Investment Plan, a defined contribution plan alternative to the traditional FRS Pension Plan (a defined benefit plan), grew for the fifth consecutive year, with total assets increasing to \$4.37 billion by the end of the fiscal year, reflecting higher enrollment. Assets in the FRS Investment Plan, which has been offered since fiscal year 2002-03, rose by \$681.7 million from the prior year.

The composite total return for all FRS Investment Plan assets was a loss of 4.69%, net of investment management fees, for the fiscal year. However, the Plan outperformed its performance benchmark by 130 basis points. While some individual funds underperformed their individual benchmarks, nearly all asset classes outperformed their aggregate benchmarks. These aggregate results reflect the asset allocation and investment fund selections of individual participants.

Created by the Florida Legislature as a voluntary alternative to the FRS Pension Plan, the FRS Investment Plan is modeled after private sector 401(k) plans. Eligible public sector employees may enroll in the traditional FRS Pension Plan, which offers stable, formula-based retirement benefits, or the alternative FRS Investment Plan. Unlike the FRS Pension Plan, member benefits received from the FRS Investment Plan vary, depending on the individual member's Investment Plan account performance which is based on the investment options selected by the member. The FRS Investment Plan enables members to play an active role in selecting from a diverse set of 20 investment options, including three balanced funds. Vesting in the Investment Plan is one year, compared to the Pension Plan's six-year vesting schedule. Distribution options include rollovers, lump sums, periodic distributions and a variety of low-cost fixed, variable and deferred annuities.

Employer contribution rates are set by law and go directly into members' accounts, with rates ranging from 9% to 20% of salary, depending on membership class. The FRS Investment Plan is an employer-only funded plan. Active members enrolled in the Plan cannot make personal contributions. Investment Plan members only pay investment management fees.

In the fiscal year ended June 30, 2008, enrollment in the FRS Investment Plan increased 19% to 116,531 members, reflecting higher enrollments by eligible new hires and members using their one-time second election to move from the FRS Pension Plan to the FRS Investment Plan. The total includes terminated members who left their account balance in the Plan. Overall, approximately 13% of all active FRS-covered members were enrolled in the Investment Plan at fiscal year-end, up 1.0% from a year earlier.

During the year, the FRS Investment Plan received \$1.57 billion from employer payroll contributions and benefit transfers from the FRS Pension Plan. Incoming benefit transfers were almost entirely attributable to members using their one-time second election. The balance of the change in Plan assets resulted from financial market gains and losses, and distributions of \$690 million in benefits paid to terminated members.

Current and former participants in the Deferred Retirement Option Program (DROP) of the FRS Pension Plan are eligible to roll over their DROP accumulations into the FRS Investment Plan. During the fiscal year, 397 participants did so, transferring more than \$47.0 million into the Plan. Since 2005, the Plan has gained 997 DROP member accounts totaling \$116.8 million. As of June 30, 2008, the Plan retained accounts totaling \$97.8 million.

FRS Investment Plan Asset Allocation

The FRS Investment Plan includes three balanced funds that provide members with low-cost investment options that optimally balance risk, return and cost. At fiscal year-end, more than 96% of the members allocated at least some of their assets to one or more of the three available balanced funds. Almost 38% of total plan assets were in the balanced funds, about equal to the previous year.

Members generally favored asset allocations to U.S. and international stocks, and fixed income funds. They also clearly favored low-cost funds, resulting in a weighted investment management fee of roughly .25% for the FRS Investment Plan.

FRS Investment Plan Oversight and Management

Through the Investment Policy Statement, the Board of Trustees delegates responsibility for the day-to-day management of the FRS Investment Plan, including recordkeeping, asset custody and investments, to the SBA's Executive Director.

The Investment Policy Statement identifies long-term objectives for the FRS Investment Plan. It stipulates that the Plan should offer members meaningful, independent control over the assets in their account, and the following:

- A diversified mix of low-cost investment options that span the risk-return spectrum and give participants the opportunity to accumulate retirement benefits;
- Investment options that avoid excessive risk and have a prudent degree of diversification relative to broad market indices; and
- Investment options providing a long-term rate of return – net of all expenses and fees – that achieve or exceed the returns on comparable benchmark market indices.

Similar to its role for the FRS Pension Plan, the SBA's Investment Advisory Council reviews the Investment Policy Statement and any proposed changes prior to its presentation to the Trustees. The SBA selects and monitors available investment funds, subject to the ERISA fiduciary standards of care and the Investment Policy Statement.

During the fiscal year, 20 diversified investment funds were offered in the Investment Plan, including 11 stock funds (eight domestic and three foreign), four bond funds, a money market fund, a U.S. Treasury Inflation-Protected Securities Fund, and three balanced funds.

MyFRS Financial Guidance Program

In addition to managing FRS Pension Plan assets and managing and administering the FRS Investment Plan, the SBA is responsible for the award-winning MyFRS Financial Guidance Program. Through this program, participants in both FRS retirement plans receive free and convenient access to personalized multimedia retirement planning services. Its objective is to help members make informed retirement planning choices that meet their individual preferences and needs. Members receive information and support through four channels:

- Print and Video – Employees have access to personalized statements, a 10-minute New Hire video, and customized material on FRS plan choice, retirement planning and investing for retirement.
- Toll-free MyFRS Financial Guidance Line – Employees can confidentially discuss their FRS options and retirement planning issues with experienced and objective financial planners from Ernst & Young and counselors from the Florida Division of Retirement.

Chart 10: FRS Investment Plan Net Asset Value



Chart 11: FRS Investment Plan Asset Allocation by Product Type

\$4.37 billion as of June 30, 2008

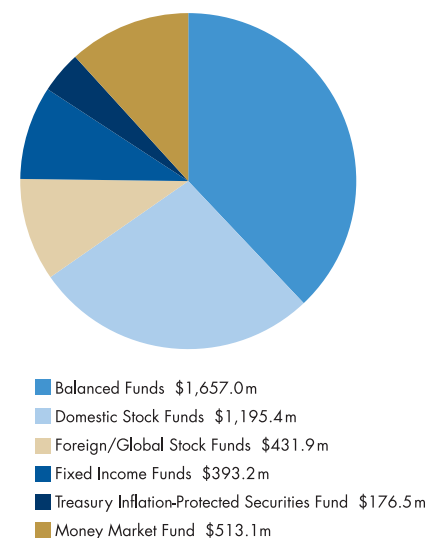
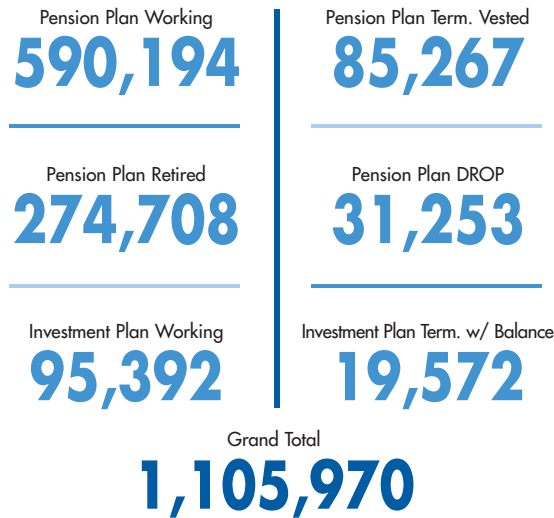


Chart 12: FRS Membership Counts



- MyFRS.com – This web portal is the official FRS education website. It provides FRS plan choice information and personalized retirement planning applications, including Financial Engines' Choice Services and their Personal Online Advisor Service. Members can enroll and manage their FRS Pension Plan or FRS Investment Plan benefits within the portal's secure single-sign-on architecture.
- Workshops – Ernst & Young conducts over 500 workshops annually throughout Florida on FRS retirement plan choice, retirement planning, financial planning, education planning, insurance planning, cash and debt management, and estate planning.

Fiscal year 2007-08 was the third year that Personal Retirement Forecast Statements were prepared for

each active member of the FRS. The statements were streamlined and now include information encouraging all FRS members to plan for retirement and giving them information on where to find the provided financial planning resources.

Table 20 illustrates the growing demand for services offered by the MyFRS Financial Guidance Program.

During the fiscal year, more than 70,000 newly-hired employees had the opportunity to choose either the FRS Pension Plan, the traditional defined benefit plan with six-year vesting; or the FRS Investment Plan, the self-directed defined contribution plan with one-year vesting. Each newly-hired employee received an FRS New Employee Enrollment Kit consisting of a Benefit Comparison Statement projecting benefits under both plans, information on both retirement plans, a video CD on benefits offered in both plans, an investment fund summary showing the available investment funds in the Investment Plan and their fees and projected returns, and an EZ Enrollment Form. New employees were encouraged to call the toll-free MyFRS Financial Guidance Line to speak with objective financial planners and to log on to www.MyFRS.com to access additional benefit projections using the online Choice Service.

The Florida Retirement System offers employees an opportunity to choose a retirement plan that is compatible with their preferences and financial planning goals. The FRS Investment Plan was designed to provide a portable retirement benefit to help attract and retain today's mobile workforce because about one-half of new FRS hires will leave their jobs before meeting the six-year requirement to qualify for FRS Pension Plan benefits. The FRS Pension Plan offers employees formula-based pension benefits that are guaranteed for life, based on salary and years of service.

Table 20: MyFRS Financial Guidance Program Employee Usage

	FY 2007-08	Change From Prior Year
Toll-Free MyFRS Guidance Line Counseling Calls	184,097	0.7%
MyFRS.com Sessions	1,599,669	-8%
Retirement Income Forecasts	831,836	19%
New Hire Choice Service	16,996	-8%
2nd Election Choice Service	127,737	17%
Personal Online Advisor Service	143,243	7%
Workshop Attendance	15,174	31%
Personalized Printed Statements		
New Hire Benefit Comparison Statements	73,258	-22%
Personal Retirement Forecast Statements	631,734	4%

Figures include data from the MyFRS supporting organizations of Ernst & Young, Financial Engines and Enterpulse, but not from the Division of Retirement.

Table 21: FRS Enrollments by Newly-Hired Employees

	Defaults into Pension Plan	Active Enrollments into Pension Plan	Active Enrollments into Investment Plan*	Total Enrollments
Sept. 2002 – June 2003	87%	5%	8%	100%
FY 2003-04	74%	11%	16%	100%
FY 2004-05	62%	17%	21%	100%
FY 2005-06	59%	19%	22%	100%
FY 2006-07	59%	18%	23%	100%
FY 2007-08	55%	19%	26%	100%

Rounding may prevent rows from totaling to 100%.
* Includes active enrollments into the Hybrid Option.

Table 21 illustrates that active enrollments in the FRS Investment Plan have continued to rise during the past five fiscal years. The rate of active enrollment in the Pension Plan increased slightly during the last year. Active enrollments reflect the impact of the redesigned and enhanced new hire education and enrollment process.

Employees who do not make an active plan choice are automatically enrolled in the FRS Pension Plan (default), but they are given one more opportunity during their active FRS career to switch plans. The number of members who defaulted to the FRS Pension Plan has declined every year since the inception of the FRS Investment Plan. The default rate during the fiscal year fell to 55%.

Lawton Chiles Endowment Fund

Created by the Florida Legislature in 1999, the purpose of the Lawton Chiles Endowment Fund (LCEF) is to invest a portion of the state's tobacco settlement monies to provide a perpetual source of enhanced funding for health maintenance and research programs related to tobacco use.

The SBA has the statutory authority and responsibility for the investment of LCEF assets, subject to certain investment limitations and consistent with an Investment Policy Statement approved by the SBA Trustees.

Florida law specifies that the Lawton Chiles Endowment Fund shall be managed as an annuity, with an investment objective of long-term preservation of the real value of the principal. The law further requires a specified regular annual cash outflow for appropriation, as nonrecurring revenue.

Shortly after the LCEF was initially funded, the stock market experienced a severe downturn that eroded the balance of the Endowment and placed

attainment of the statutory objective at risk. In February 2003, the Trustees approved changes to the Investment Policy Statement with the goal of improving the prospects for long-term solvency of the Fund and increasing future payouts, given the fact that additional contributions from tobacco settlement monies are not expected.

The changes, effective July 1, 2003, replaced the previous fixed annuity payout structure with a participating annuity structure. Under the new structure, 75% of the regular annual cash outflow is based on the prior year inflation-adjusted payout; the remaining 25% is based on a factor designed to increase the probability of preserving the inflation-adjusted value of contributed capital over a 30-year horizon.

This past year, the Fund experienced a reversal in an important trend that began in fiscal year 2002-03.

Chart 13: Lawton Chiles Endowment Assets by Type
\$2.13 billion as of June 30, 2008

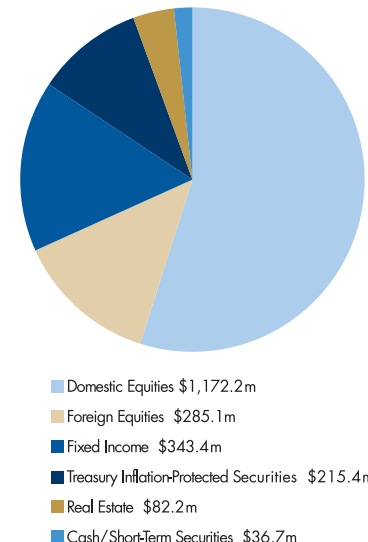


Table 22: Lawton Chiles Endowment Fund Assets Under Management

Market Value Change by Manager

Account Name	Net Asset Value 6/30/07	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/08
Domestic Equities Managers - Internal				
Chiles Domestic Equities Portfolio	\$239,918,026	\$(65,167)	\$(29,707,638)	\$210,145,221
Chiles Domestic Equities Trading	0	83,844	(83,844)	0
Domestic Equities Managers - External				
Chiles Large Cap Index Fund	735,813,892	65,167	(91,881,607)	643,997,452
Enhanced Investment Technologies, LLC	297,148,635	(16,347,709)	(36,151,357)	244,649,569
Earnest Partners Inc.	45,105,548	(3,149,874)	(6,061,976)	35,893,698
PanAngora Asset Management Inc.	47,465,650	0	(9,930,582)	37,535,068
Foreign Equities Managers - External				
Capital Guardian	3,387	0	(1,604)	1,783
Chiles International Equities Portfolio (Acadian)	348,616,491	(42,000,000)	(21,556,847)	285,059,644
Fixed Income Managers - Internal				
Chiles Lehman Aggregate	318,188,181	0	25,166,637	343,354,818
Inflation-Indexed Bond Managers - Internal				
Inflation Linked Treasury	189,096,614	(3,249,014)	29,602,819	215,450,419
Real Estate Managers - External				
Chiles Endowment Real Estate	0	0	0	0
AEW Capital Management	47,500,644	(590,730)	(6,700,279)	40,209,635
Invesco Institutional	48,053,403	(590,730)	(5,505,565)	41,957,108
Cash/Short-Term Managers - Internal				
CAMP Money Market Fund	16,131,162	19,875,062	687,776	36,694,000
Total Lawton Chiles Endowment	\$2,333,041,633	\$(45,969,151)	\$(152,124,067)	\$2,134,948,415

Following fiscal year 2001-02, the Fund was able to make steady progress toward attainment of the statutory investment objective, namely to provide a regular cash outflow for appropriation yet preserve the inflation-adjusted value of contributed capital. The goal was achieved in fiscal year 2005-06. Reflecting the robust markets of fiscal year 2006-07, the Fund closed that year with a 12.6% surplus position. However, as illustrated in Chart 14, the Fund was down about 2% relative to that goal at fiscal year-end.

As of June 30, 2008, the inflation-adjusted value of cumulative gross contributions to the LCEF was approximately \$1.65 billion (in 1999 dollars). The

comparable net asset value was \$1.62 billion, or \$32.1 million below cumulative contributions. In nominal terms, the Fund's net asset value of \$2.13 billion exceeded cumulative gross contributions into the Fund of \$1.70 billion, including the so-called "clawback," by \$433 million.⁴

Fund Performance

The short-term performance of the LCEF is measured against a relative target, and each asset class is measured relative to a broad market index. The Fund's relative target return is an average of those indices' returns, weighted according to the target allocations. Net investment returns and value-added returns for the Endowment as a whole are

shown in Tables 3 and 4, respectively. A breakdown of performance by asset class is shown in Tables A and B in the front portion of this Investment Report.

In the fiscal year ending June 30, 2008, the market value of the Fund decreased to \$2.13 billion, from \$2.33 billion, reflecting a net investment loss of \$152.1 million and withdrawals of \$45.97 million. The return for the LCEF was a loss of 6.61% for the year. The Fund underperformed its target market index by 67 basis points. However, the Fund has performed well over longer periods, as shown in Tables 3 and 4.

Chart 15 shows the target asset allocation for the Endowment and the range of actual month-end allocations during the fiscal year. Exposures remained relatively close to the target allocations throughout the year. Net asset values by portfolio are shown in Table 22, together with details on asset growth over the year.

The investment strategy for the LCEF is to implement the policy allocation within relatively narrow bands in pursuit of modest risk-controlled gains, net

Chart 14: LCEF Capital Preservation Objective
Percent of Objective That Has Been Attained

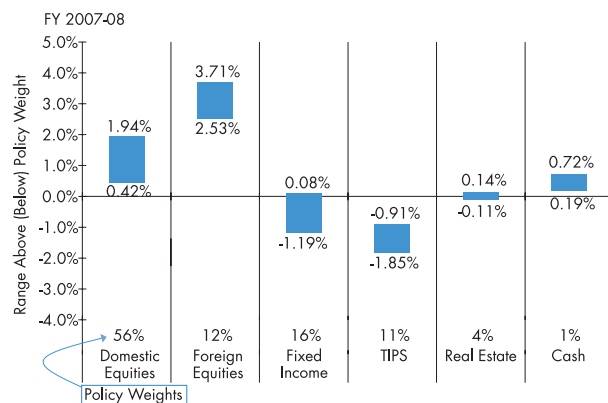
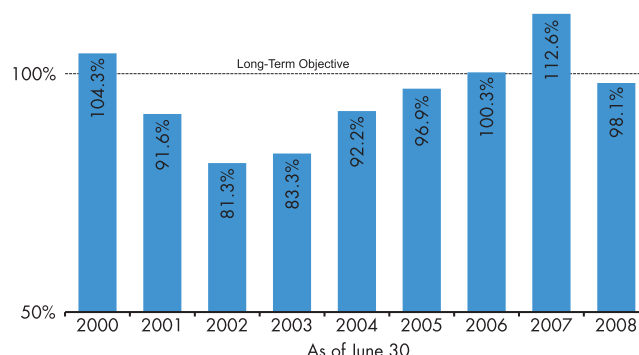


Chart 15: Lawton Chiles Endowment Asset Allocation
Range of Monthly Exposures Relative to Policy Weights

Table 23: Lawton Chiles Endowment Fund External Investment Management Fees
Fiscal Year 2007-08

Asset Class	Dollar Amount ²	Return Basis ^{1,2}
Domestic Equities	\$857,057	0.23%
Foreign Equities	728,164	0.22%
Fixed Income	38,591	0.03%
Inflation-Indexed Bonds	29	0.00%
Real Estate	460,195	0.51%
Cash	22	0.00%
Total	\$2,084,058	0.23%

¹ Return basis expresses external management fees as a percent of the average of the beginning and ending net asset value of assets externally managed in each asset class. This measure is comparable to an annual expense ratio.

² The Dollar Amount and Return Basis both include the LCEF's proportionate share of manager fees paid in the Commingled Asset Management Program Money Market and Fixed Income Pools.

⁴ The clawback is a portion of monies earmarked for distribution to biomedical research that by law is retained in the Fund to be treated as a contribution on behalf of biomedical research. See Section 215.5601(4)(b), Florida Statutes. As of June 30, 2008, the cumulative nominal value of biomedical clawbacks was \$1.5 million.

of transaction costs. In addition, the strategy seeks to add value through the pursuit of active investment strategies aimed at providing attractive long-term risk-adjusted returns. The SBA manages this strategy through asset allocation and risk-budgeting policies. The SBA operated within this investment strategy for the LCEF portfolio throughout the year.

Florida Hurricane Catastrophe Fund and Related Programs

One of the SBA's major responsibilities is investing, managing and safeguarding the assets of the Florida Hurricane Catastrophe Fund, and managing associated programs. In a state that faces a seasonal risk of devastating storms, the Fund provides a stable, ongoing and timely source of reimbursement to private insurers for a portion of their catastrophic hurricane losses. This financial safety net enhances the ability of private insurers to continue offering hurricane insurance to Florida homeowners.

Florida Hurricane Catastrophe Fund

The Florida Hurricane Catastrophe Fund was created in 1993 after Hurricane Andrew caused a property insurance crisis in the state. It is not funded by taxes. Instead, the Fund is a tax-exempt trust fund financed by reimbursement premiums charged to participating insurers, emergency assessments on property and casualty insurers, and earnings on investments made by the SBA.

The goal of the SBA is to protect the liquidity of the Fund through prudent management of risks, assets and cash flow. The Florida Hurricane Catastrophe Fund currently provides \$28 billion of reinsurance capacity for the state. The cost of coverage is significantly less than the cost of private reinsurance due to the Fund's tax-exempt status, low administrative costs, and the lack of profit or risk-load. As a result, the Fund helps stabilize Florida's insurance market and helps keep residential property insurance rates down.

In the fiscal year ending June 30, 2008, the Florida Hurricane Catastrophe Fund paid out \$592 million to insurers for their reimbursement claims. Overall, the Fund has reimbursed participating insurers a total of \$8.2 billion for losses from the eight hurricanes that battered Florida in 2004 and 2005. The current projected reimbursement for those hurricanes is a total of \$9.2 billion.

Since claims may be filed at any time following a covered event and the magnitude of the claims is dependent upon hurricane frequency and intensity, investment strategy for the CAT Fund emphasizes highly liquid, relatively short-term investment strategies. Money market instruments must be of the highest applicable rating, while other eligible securities must be investment grade. Most securities will have a maturity of less than three years, although 2% may mature within three to five years. The weighted average maturity of the portfolio may not exceed 365 days. Compliance with these and other investment guidelines are assessed on a monthly basis.

On June 30, 2008, the net asset value of the Florida Hurricane Catastrophe Fund was \$2.08 billion, up

from \$898 million a year earlier. Details are shown in Table 24.

A securities lending program is in place for CAT Fund investments and it is utilized as market conditions warrant. For fiscal year 2007-08, net CAT Fund lending income totaled \$22,549.

Florida Hurricane Catastrophe Fund Finance Corp.

During the fiscal year, the SBA, through the Florida Hurricane Catastrophe Fund Finance Corporation, issued \$3.5 billion in debt (taxable, pre-event floating rate notes) to generate funds that will be available to pay for future hurricane loss claims. The SBA manages and invests the proceeds to offset a portion of the interest cost on the notes. All securities purchased must be consistent with the requirements of Section 215.47, Florida Statutes. The SBA reinvests bond proceeds in highly liquid, relatively short-term investments to minimize the interest cost of the bond issue.

On June 30, 2008, the combined net asset value of investments in the Florida Hurricane Catastrophe Fund Finance Corporation and Hurricane Catastrophe Fund was \$9.38 billion, up from \$4.87 billion a year earlier.

Table 24: Consolidated CAT Fund/Hurricane Catastrophe Fund Finance Corp. Net Asset Value by Fiscal Year¹

(\$ Thousands)	2003-04	2004-05	2005-06	2006-07 ²	2007-08
Beginning Net Asset Value	\$4,943,166	\$5,475,890	\$3,314,731	\$658,202	\$4,869,789
Premium Revenue	488,459	617,043	734,720	1,202,707	1,335,026
Administrative Revenue and Settlements	0	0	0	0	143
Investment Gain/(Loss)	58,102	108,658	103,325	233,905	240,146
Operating Expenses	(3,837)	(3,960)	(4,813)	(4,935)	(5,631)
Hurricane Loss	0	(2,821,625)	(3,486,390)	(1,330,397)	(591,886)
Emergency Assessment Revenue	0	0	0	94,574	365,702
Bond Proceeds	0	0	0	4,195,199	3,489,685
Bond Interest Paid	0	0	0	(169,461)	(309,178)
Bond Trustee Fees	0	0	0	(5)	(5)
Transfer from/(to) other funds	(10,000)	(61,275)	(3,371)	(10,000)	(10,000)
Ending Net Asset Value	\$5,475,890	\$3,314,731	\$658,202	\$4,869,789	\$9,383,791

¹ These amounts are reported on a cash basis. Beginning and ending asset values include cash, net market value of securities and accrued income.

² Beginning in FY 2006-07, this schedule includes the Florida Hurricane Catastrophe Fund and the Florida Hurricane Catastrophe Fund Finance Corporation.

A securities lending program is in place for this portfolio and utilized as market conditions warrant. For fiscal year 2007-08, net CAT Fund Finance Corporation lending income totaled \$28,582.

Insurance Capital Build-Up Incentive Program

Legislation creating the Insurance Capital Build-up Incentive Program was enacted in 2006 and amended during the 2007 and 2008 Legislative Sessions. The Legislature has appropriated \$250 million from State General Revenues for the Program. Under the SBA's management, the Florida Hurricane Catastrophe Fund has day-to-day responsibility for administering this Program, which provides funding through "surplus notes" to new or existing residential insurers.

The amount of most surplus notes is \$25 million, and surplus notes for an insurer writing only manufactured housing policies may not exceed \$7 million. The qualifying insurer must contribute new capital to support writing Florida residential insurance. As of June 30, 2008, notes receivable totaled \$247.5 million.

The Florida Hurricane Catastrophe Fund successfully expended all available funds and issued surplus notes to insurers by the June 30, 2007 deadline. Surplus note payments by the insurers have been entirely invested in the SBA's Commingled Asset Management Program money market product (CAMP-MM). As of June 30, 2008, the value of the Program was \$30.1 million.

SBA Investment Pools

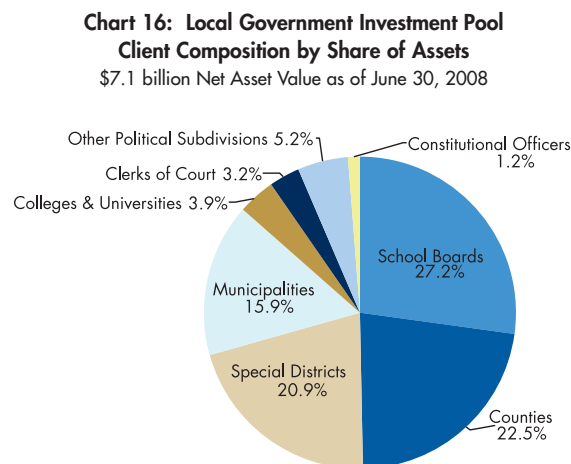
The SBA currently operates four open-pool investment funds, plus a closed pool. The largest of the open funds is the Local Government Investment Pool (LGIP), which is available to units of local government in Florida. The other three open funds constitute the CAMP, or Commingled

Asset Management Program, and are available to all Florida governmental entities for investment of non-pension assets. All four open pools operate in essentially the same fashion as mutual funds. The fifth pool, the Fund B Surplus Funds Trust Fund, was created June 1, 2008, by act of the Florida Legislature. Its purpose is to temporarily house illiquid assets formerly in the LGIP. Upon liquidation of its holdings, Fund B will cease to exist.

Short-Term Option 1: Local Government Investment Pool (LGIP)

The SBA has operated the Local Government Investment Pool since January 1982. It was established to help local governments maximize earnings on invested surplus funds, thereby reducing the need to impose additional taxes. As discussed on pages 13 and 15 and in Chart 17, numerous enhancements have been made to the LGIP and SBA operations overall following the run that occurred in November of 2007.

As of June 30, 2008, the SBA managed approximately \$7.05 billion in the LGIP, down 77.2% from \$30.94 billion a year earlier. This change consisted of \$24.6 billion in net withdrawals and \$704.37 million in investment gains. The latter



includes \$215,181 in securities lending income. At year-end, the LGIP served local government participants having non-zero account balances, through 1,682 individual accounts.

During the year, new guidelines were adopted for the LGIP, allowing it to secure an AAAm rating from Standard & Poor's, the highest rating possible for a governmental money market fund. Consistent with this change, the Fund's benchmark was changed from the iMoneyNet First Tier Institutional Money Market Index to the Standard & Poor's U.S. AAA & AA Rated GIP All 30-Day Gross Yield Index. The SBA's actual net returns in excess of this index are termed "value-added" returns. Net investment returns and value-added returns are shown in Tables 3 and 4, respectively.

At the end of 2007, the Investment Policy Guidelines for the Local Government Investment Pool (then referred to as LGIP-A) were revised to incorporate requirements necessary to satisfy Standard & Poor's AAAm fund rating criteria. In certain respects, these are more stringent than the Investment Company Act Rule 2a-7 criteria upon which the previous guidelines were based. Key requirements of the new guidelines include:

- A minimum of 50% of the portfolio should be composed of "A-1+" rated instruments or those deemed equivalent in credit quality.⁵
- The weighted average maturity of the portfolio shall not exceed 60 days.
- When the deviation exceeds 0.25%, the Investment Oversight Group shall be notified, and the Investment Manager shall establish a formal action plan.

⁵ A short-term obligation in the highest quality S&P category is rated "A-1." The plus sign applies to a subset of the securities in this category and indicates that the capacity of the security's obligor to meet its financial commitment on the security is extremely strong.

Compliance with the guidelines of this portfolio was monitored generally on a daily basis during the fiscal year.

The LGIP is open to units of local government that are not state governmental entities, including counties, cities, school districts, special districts, clerks of the circuit court, sheriffs, property appraisers, tax collectors, supervisors of elections, authorities, boards, public corporations or any other political subdivision of the state.

Likely investors are those with a short-term investment horizon where liquidity and the preservation of capital are of primary importance. Contribution and redemption transactions can be executed on a daily basis.

Table 25: Local Government Surplus Funds

Assets by Type as of June 30, 2008

	Net Asset Value ¹ 6/30/08	% of Total ²
<u>Local Government Investment Pool</u>		
Commercial Paper	\$325,487,378	4.2%
Floating/Adjustable Rate Notes	3,714,899,448	48.4%
Municipal Bonds & Notes	453,039,771	5.9%
Repurchase Agreements	2,250,169,097	29.3%
Short-term Investment Fund	306,157,957	4.0%
Total Local Government Surplus Funds Trust Fund	\$7,049,753,651	91.8%
<u>Fund B</u>		
Floating/Adjustable Rate Notes	\$595,713,995	7.8%
Short-term Investment Fund	34,830,361	0.5%
Total Fund B Surplus Funds Trust Fund	\$630,544,356	8.2%
All Local Government Pooled Accounts	\$7,680,298,007	100.0%

¹ Net Asset Value includes accrued interest.

² Totals may not foot due to rounding.

Chart 17: LGIP Enhancements During FY 2007-08

Communications/Transparency

Substantially increased the content and currency of the LGIP website

- * Began redeveloping SBA's "corporate" website
- Began publishing an oversight-oriented monthly LGIP/Fund B Management Summary Report
- Improved the participant-oriented LGIP Quarterly Report
- * Created a new Communications Director position
- Began regular LGIP/Fund B participant conference calls with the portfolio manager
- Instituted client field visits by LGIP portfolio management organization
- Established a standing LGIP "Issue" Team
- Established ListServe-based LGIP/Fund B communications capability
- Improved new participant enrollment materials
- Legal requirement for signed disclosure statements by new participants
- LGIP Holdings published weekly
- LGIP Cash Flows published daily

Investing/Operations

- Clarified the LGIP Investment Objective
- Secured an S&P AAAM rating for the LGIP
- * Outsourced LGIP/Fund B/CAMP-MM portfolio management to Federated Investors
- * Adopted new Investment Policy Guidelines for LGIP, Fund B and CAMP-MM

- * Contracted for an independent external review of all portfolio investment guidelines
- Fund B was legally separated from the LGIP
- New legal provisions were established for the LGIP Reserve Policy
- New legal requirement provides advance notice of changes in LGIP fees
- * Established a full-time professional education & training position

Oversight

- New legal requirement for a formal LGIP Advisory Council
- * Formalized the composition and operation of SBA's Investment Oversight Group
- * Hired external compliance consultant for in-depth assessment and recommendations
- * Provided expanded support for SBA's Internal Audit unit
- * Provided expanded support for SBA's Enterprise Risk Management unit
- * Centralized SBA's compliance function and provided expanded capacity
- Established independent valuation of open Pool money market fund holdings by an external custodian
- New legal requirement for an annual financial audit of the LGIP by Florida's Auditor General
- New legal requirement for a quarterly report to the Joint Legislative Auditing Committee
- New legal requirement for an annual Trustee certification on best practices
- * Instituted an annual enterprise risk management planning process

* Indicates impact on other SBA portfolios as well as the Local Government Investment Pool.

Assets by client type are shown in Chart 16. Table 25 presents the composition of the Pool, as well as other accounts within the Local Government Surplus Funds Trust Fund, by type of security.

Short-Term Option 2: Commingled Asset Management Program – Money Market (CAMP-MM)

To better serve a variety of governmental clients, miscellaneous trust accounts and endowment funds with non-pension assets to invest, the SBA created a series of investment products under the Commingled Asset Management Program. Each operates in a fashion similar to mutual funds, where participants hold units whose value is based on the underlying securities in the overall portfolio. Each has a set of portfolio investment guidelines. Compliance with the guidelines is assessed monthly and, in the case of CAMP-MM, also daily.

The first of these products, created in July 1999, is CAMP-MM, a money market product for clients seeking liquidity with a focus on preservation of capital. As of June 30, 2008, CAMP-MM consisted of 19 client accounts with total assets valued at \$507.7 million, down from \$751.7 million a year earlier.

The objectives of the CAMP-MM are as follows:

- Provide a short-term, very liquid, high-quality investment vehicle for non-pension assets of tax-exempt Florida governmental entities, trusts and endowments;
- Securities purchased are consistent with Section 215.47, Florida Statutes;
- Operate the CAMP-MM as a “2a-7 like” fund using the SEC investment requirements for a 2a-7 Money Market Fund as guidance; and

- Provide liquidity to the participants on a daily basis.

During the year, the Fund’s benchmark was changed from the iMoneyNet First Tier Institutional Money Market Index to the Standard & Poor’s U.S. AAA & AA Rated GIP All 30-Day Gross Yield Index. Per the Fund’s investment guidelines, authorized investments may include obligations of the United States government and related agencies, repurchase agreements and high-quality money market instruments.

CAMP-MM exists to serve entities that are not eligible to participate in the local government pool, yet seek the same type of investment opportunity. This includes state agencies and other governmental entities, trusts or endowments on whose behalf the SBA can make investments as provided by law or by the Florida Constitution, provided that the funds are not pension plan assets.

Likely investors are those with a short-term investment horizon where liquidity and the preservation of capital are of primary importance. Contribution and redemption transactions can be executed on a daily basis.

In addition to commingling the assets of clients with purely short-term investment objectives, the CAMP-MM Pool also invests the cash allocation component or residual cash for longer term, multi-asset class portfolios. The Lawton Chiles Endowment Fund, the McKnight Doctoral Fellowship Program, and the Division of Blind Services are examples of multi-asset class portfolios with a cash allocation component invested in the CAMP-MM Fund.

Intermediate-Term Option: Commingled Asset Management Program – Fixed Income (CAMP-FI)

This commingled portfolio was established in 2000 to offer clients exposure to the long-term fixed

income market for non-pension funds. Like CAMP-MM, the Money Market Pool, each client participating in the Pool holds units of CAMP-FI, similar to investing in a mutual fund.

As an intermediate-term bond fund, CAMP-FI invests in a broad array of investment grade fixed income securities, including government, corporate, mortgage and asset-backed securities. All are instruments with maturities greater than one year. CAMP-FI is a passively managed portfolio, currently designed to track the performance of the Lehman Aggregate.

Likely investors are those seeking a high and relatively stable level of income, but willing to tolerate moderate return fluctuations over time. Changes in interest rates will cause volatility in the net asset value of the portfolio. As with any bond fund, the net asset value of the Fund will decline if interest rates rise. Consequently, the Fund may be an inappropriate investment for investors required to meet short-term cash needs; however, it may be appropriate for investors that have a somewhat longer time horizon. Contribution and redemption transactions are allowed on a monthly basis.

The following were participants in the Fixed Income Pool during the fiscal year, with their net asset values as of June 30, 2008: the Lawton Chiles Endowment Fund (\$343.4 million); the Florida State University Research Foundation (\$40.9 million); the SBA Administrative Expense Fund (\$30.3 million); the Pinellas Suncoast Transit Authority (\$6.4 million); and the Division of Blind Services (\$0.97 million).

Long-Term Option: Commingled Asset Management Program – Domestic Equities (CAMP-DE)

The objective of the Domestic Equity Pool is to provide investment returns and risk exposures

matching that of the Russell 3000 Tobacco Free Index, for non-pension client funds. It is currently managed as a purely passive portfolio with no intentional active risk relative to the benchmark. Like CAMP-MM, the Money Market Pool, each fund that participates in this pool holds units of CAMP-DE, similar to investing in a mutual fund.

The Pool's portfolio is constructed to closely represent the benchmark index. Dividends and other internal cash flows are retained and reinvested within the Fund. Index futures contract positions or Exchange Traded Funds may be used to facilitate investment of cash flows and equitize cash and/or dividends receivable.

Likely investors are those seeking relatively high returns over a long investment horizon, who are willing to tolerate significant return fluctuations over time and whose return objectives strongly favor capital gains over income. Stocks generally expose investors to a greater probability of short-term losses than bonds or money market instruments. As a result, this fund is not suitable for investors required to meet short-term cash needs, but it may be appropriate for investors who have a longer term time horizon. Contribution and redemption transactions are allowed on a monthly basis.

The following were participants in the Domestic Equity Pool during the fiscal year, with their net asset values as of June 30, 2008: the Lawton Chiles Endowment Fund (\$210.1 million); the Florida State University Research Foundation (\$37.4 million); the Division of Blind Services (\$1.4 million); and the McKnight Doctoral Fellowship Program (\$0.9 million).

SBA's Investment Management Fees

Table 26 shows a brief history of the SBA's investment management fees on assets in the LGIP and

Table 26: SBA Commingled Investment Pool Fees

Fiscal Year	SBA Annual Fee	
Pre-1998-99	2.00 basis points	(0.0200%)
1998-99 through 2002-03 ^{1, 2}	1.75 basis points	(0.0175%)
2003-04	1.65 basis points	(0.0165%)
2004-05 through 2006-07 ^{3, 4}	1.50 basis points	(0.0150%)
2007-08: LGIP ⁵	0.60 basis points	(0.0060%)
2007-08: Other Commingled ⁶	1.50 basis points	(0.0150%)

¹ No fee for 4th quarter of FY 2000-01.

² No fee for 2 months of 4th quarter of FY 2001-02.

³ No fee for July & August 2005.

⁴ No fee for May & June 2007.

⁵ The Local Government Investment Pool (LGIP) was charged 1.5 basis points through October 31, 2008 and no fee from November 1, 2007 to February 29, 2008. From March 1, 2008 to June 30, 2008, the charge was 0.60 basis points.

⁶ The Fund B Surplus Funds Trust Fund was not charged any SBA investment fees in FY 2008.

CAMP products.⁶ Fees are applied on a pro-rata basis. Note that in the future the fee structure could change.

Other Investment Portfolios

In addition to the large investment mandates discussed earlier, the SBA's investment responsibility extends to a wide range of smaller trust and mandate portfolios. Assets are invested to support programs that provide supplemental retirement benefits, foster economic development, make lottery payouts and for a variety of other special purposes. The portfolio structures vary in each fund, depending on the investment objectives, time horizon and size.

Bond Proceeds Trust Fund

The Bond Proceeds Trust Fund is a fiduciary fund established to temporarily hold good faith deposits from brokers and underwriters of Florida government bonds received by the Division of Bond Finance. Monies are invested in U.S. Treasury securities or repurchase agreements backed by U.S. Treasuries until the bonds are issued. The proceeds are then transferred to the indebted unit of

government. Because the monies reside with the SBA only briefly, the objective of the Fund is safety and liquidity. Due to these restrictions, the Bond Proceeds Trust Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. Reflecting the transitory nature of the monies in this fund, its market value as of June 30, 2008 was \$0, compared with \$5.4 million in the Fund one year earlier.

Burnham Institute for Medical Research Fund

In 2006, the Florida Legislature approved a \$155.3 million incentive package for the Burnham Institute for Medical Research to establish and operate a state-of-the-art biomedical research institution and campus in Florida and to recruit world-class scientists, as well as launch an additional research program in the area of diabetes and obesity. In the fiscal year ended June 30, 2007, the SBA began administering the short-term investments for Burnham. The primary investment objective is to provide liquidity and meet the scheduled Burnham disbursement plan through 2015. Authorized investments include U.S. government and agency securities, investment grade corporate debt and high-quality money market instruments. The majority of the Fund is invested in U.S. agencies with the remainder in the CAMP-MM Fund. Due to these restrictions, the Burnham account is considered nondiscretionary. Compliance with these terms is determined at the time of purchase. As of June 30, 2008, the market value of the Fund was \$117.4 million. A securities lending program is in place for Burnham investments and utilized as market conditions warrant. For fiscal year 2007-08, net Burnham lending income totaled \$139,483.

Debt Service

The SBA administers Debt Service Funds for bonds issued by the Division of Bond Finance on behalf of any state agency. All monies are invested in a

⁶ Certain clients pay additional or minimum fees pursuant to a contract with the SBA based on special circumstances or for special services rendered.

manner consistent with the provisions of the authorizing bond resolutions and official statements. Permissible investments are limited to U.S. Treasury securities, repurchase agreements backed by U.S. Treasuries and any other investments specified in bond indentures and approved by the Division of Bond Finance. Investment maturities are dictated by the schedule of principal and interest payments on the various bond issues. Periodically, the SBA acts as a trustee and escrow agent for the purpose of defeasing previously issued debt. The proceeds of any new debt will be placed in an irrevocable trust fund to provide for all future debt service payments of the old bonds. Due to these restrictions, Debt Service Funds are considered nondiscretionary accounts. Compliance with these terms is determined at the time of purchase.

During the fiscal year, seven existing bond issues were either partially or completely defeased through the issuance of new debt, and two of the seven were called for redemption. In addition, the University of South Florida deposited with the SBA, as the escrow agent, sufficient funds to provide for the defeasance of the State of Florida, University of South Florida Housing Facility Revenue Bonds, Series 1996A. The New College of Florida also deposited with the SBA, as escrow agent, sufficient funds to provide for the defeasance of the New College Housing Facility Revenue Bonds, Series 1996B and Series 1998. As of June 30, 2008, the market value of the Fund was \$1.66 billion.

Department of the Lottery Fund

The SBA provides investment services for various Florida Department of Lottery games. Upon written instructions, the SBA will invest prize winnings in equal face amounts of U.S. Government or U.S. Government guaranteed debt. U.S. Government zero-coupon bonds (STRIPS) are currently the only securities held in the Lottery Fund. Due to these restrictions, the Lottery Funds are considered

nondiscretionary accounts. Compliance with these terms is determined at the time of purchase.

As of June 30, 2008, the market value of the Fund was \$1.16 billion. A securities lending program is in place for Lottery Fund investments and utilized as market conditions warrant. For fiscal year 2007-08, net Lottery Fund lending income totaled \$8.38 million.

Florida Prepaid College Plan et al.

The Florida Prepaid College Plan enables parents and others to fix the future cost of Florida public colleges at current tuition rates. The Florida College Investment Plan provides a tax-free way to save for college through a variety of investment options. Four separate funds have been established to meet the immediate obligations and administrative expenses of these plans. Two are for operations, and two are for administrative expense. These are listed as items 9, 15, 33 and 34 in Table 1. At year-end, total assets were \$238.7 million. The administrative expense account assets are invested in CAMP-MM, while the operating funds include separately managed assets. Due to liquidity demands, Florida Prepaid College Plan funds are considered nondiscretionary accounts. Compliance with applicable provisions of the mandate is determined at the time of purchase.

Gas Tax Clearing Fund

The Gas Tax Clearing Fund is a conduit for the distribution of debt service payments generated from County Gas Tax collections and remitted to the Department of Revenue and to the Department of Highway Safety and Motor Vehicles. Funds held in anticipation of scheduled debt repayment are invested in U.S. Treasury securities or short-term repurchase agreements collateralized by U.S. Treasuries. Investment maturities are dictated by the schedule of principal and interest payments on the various debt issues. Due to these restrictions, the Gas Tax

Clearing Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. The Gas Tax Clearing Fund held no assets on June 30, 2008. Since the Gas Tax Fund operates simply as a conduit fund to distribute local gas tax collections, after debt service requirements are met, the Fund rarely holds assets at month-end.

McKnight Doctoral Fellowship Program

The SBA manages endowment monies for the McKnight Doctoral Fellowship Program under a trust agreement with the Florida Education Fund, Inc., a not-for-profit statutory corporation. The program assists candidates with educational endeavors and enhances opportunities for program graduates to be hired for faculty positions in Florida. The initial transfer of \$9 million in securities is, at the present time, client-directed, meaning that the SBA is responsible for custody of the securities, but not for managing them. Income from these assets that is not withdrawn by the client is invested in the CAMP-MM Fund, whose investments the SBA does manage. On June 30, 2008, the market value of the Fellowship Program Fund totaled \$2.5 million, compared with \$2.8 million a year earlier.

Max Planck Florida Corporation Fund

During the year, a \$94.09 million financial incentive was provided to the Max Planck Florida Corporation to establish a research and development institute in Jupiter, Florida. The corporation is a spin-off of the German company that has been an international leader in bio-imaging. The institute is expected to ultimately employ about 150 researchers from around the world. In the fiscal year ended June 30, 2008, the SBA began administering the short-term investments for Max Planck. The primary investment objective is to provide liquidity and meet the scheduled Max Planck disbursement plan through 2011. Authorized investments include U.S. government and agency securities, investment

grade corporate debt and high-quality money market instruments. The majority of the Fund is invested in U.S. agencies with the remainder in the Dreyfus Government Cash Management Fund. Due to these restrictions, the Max Planck account is considered nondiscretionary. Compliance with these terms is determined at the time of purchase. As of June 30, 2008, the market value of the Fund was \$84.2 million.

Oregon Health & Science University Fund

During the fiscal year, the SBA began administering the short-term investments for the Oregon Health & Science University. The University's Vaccine and Gene Therapy Institute was provided a \$60 million incentive package under Florida's Innovation Incentive Program to build and operate satellite research facilities in Port St. Lucie, Florida. Research at the new facility will focus on vaccine development. The primary investment objective for the portfolio is to provide liquidity and meet the scheduled Oregon Health & Science University disbursement plan through 2011. Authorized investments include U.S. government and agency securities, investment grade corporate debt and high-quality money market instruments. The majority of the Fund is invested in U.S. agencies with the remainder in the Dreyfus Government Cash Management Fund. Due to these restrictions, the Oregon Health & Science University Fund is considered a nondiscretionary account. As of June 30, 2008, the market value of the Fund was \$45.2 million.

Retiree Health Insurance Subsidy (HIS) Trust Fund

The Retiree Health Insurance Subsidy Trust Fund supports the monthly health insurance subsidy payments to retired members of state-administered retirement systems. Cash flow projections by the Division of Retirement guide the level of liquidity required to meet monthly obligations. Monies are invested in money market instruments of the

highest applicable rating. Other eligible securities must be rated investment grade. Most securities will have a maturity of less than three years, although 2% may mature within three to five years. The weighted average maturity of the portfolio cannot exceed 1.5 years. The Retiree Health Insurance Subsidy Trust Fund is also a participant in the SBA's CAMP-MM Fund. Compliance with these and other investment guidelines are observed and verified on a monthly basis. As of June 30, 2008, the market value of the Fund was \$242.2 million, compared with \$209.0 million a year earlier.

Scripps Florida Funding Corporation

In 2003, the Florida Legislature approved a \$310 million incentive package for the Scripps Research Institute to build a biotechnology center in Palm Beach County. The SBA administers the short-term investments for the Scripps Florida Funding Corporation. The primary investment objective is to provide liquidity and meet the scheduled Scripps disbursement plan through 2013. Authorized investments include U.S. government and agency securities, investment grade corporate debt and high-quality money market instruments. The majority of the Fund is invested in U.S. agencies, with the remainder in the CAMP-MM Fund. Due to these restrictions, the Scripps Florida Funding Corporation account is considered nondiscretionary. Compliance with these terms is determined at the time of purchase. As of June 30, 2008, the market value of the Fund was \$155.6 million, compared with \$194.8 million a year earlier. A securities lending program is in place for Scripps investments and utilized as market conditions warrant. For fiscal year 2007-08, net Scripps lending income totaled \$234,742.

Torrey Pines Institute for Molecular Studies Fund

In 2006, the Florida Legislature approved a \$32 million incentive package for the Torrey Pines Institute to establish a state-of-the-art biomedical

research institution in Florida. In the fiscal year ended June 30, 2007, the SBA began administering the short-term investments for Torrey Pines. The primary investment objective is to provide liquidity and meet the scheduled Torrey Pines disbursement plan through 2015. Authorized investments include U.S. government and agency securities, investment grade corporate debt and high-quality money market instruments. The majority of the Fund is invested in U.S. agencies with the remainder in the CAMP-MM Fund and the Dreyfus Government Cash Management Fund. Due to these restrictions, the Torrey Pines Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. As of June 30, 2008, the market value of the Fund was \$21.8 million. A securities lending program is in place for Torrey Pines investments and utilized as market conditions warrant. For fiscal year 2007-08, net Torrey Pines lending income totaled \$28,970.

University of Miami Fund

During fiscal year 2007-08, the SBA began administering short-term investments for the University of Miami (UM), pursuant to an \$80 million grant provided to the University's Institute of Human Genomics under Florida's Innovation Incentive Program. The institute has approximately 100 employees and operates in laboratories on the UM campus. The institute's faculty and researchers hope to use information learned through the Human Genome Project, which "mapped" nearly all human genes, to create gene-based treatments or cures for afflictions such as Alzheimer's, cancer and diabetes. Several of the institute scientists were involved in the recent landmark discovery of a genetic link to multiple sclerosis.

The primary investment objective for this portfolio is to provide liquidity and meet the scheduled University of Miami disbursement plan

through 2011. Authorized investments include U.S. government and agency securities, investment grade corporate debt and high-quality money market instruments. The majority of the Fund is invested in U.S. agencies with the remainder in the Dreyfus Government Cash Management Fund. Due to these restrictions, the University of Miami Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. As of June 30, 2008, the market value of the Fund was \$59.9 million.

Clients Invested Solely in CAMP Pooled Funds

The SBA's investment pools include assets of discretionary clients as well as those of mandated investment funds. The client portfolios that were invested wholly within the SBA's pooled Commingled Asset Management Program are listed in rows 22 through 35 of Table 1.

Other SBA Responsibilities

In addition to its core mission as the state's long-term investment management organization, the SBA is responsible for additional investment-related functions that do not directly involve asset management.

MyFRS Financial Guidance Program

The MyFRS Financial Guidance Program is a landmark program that gives FRS members free and convenient access to personalized multimedia retirement planning services. Its goal is to provide objective information to help members make informed retirement planning choices that meet their individual preferences and needs. See pages 45 through 47 for more information about the program.

Non-FRS Plan Assistance

The SBA provides prudent and cost-effective investment consulting to assist the Plan Administrators

of the State of Florida Deferred Compensation Program (FDCP), the State University System Optional Retirement Program (SUSORP) and the Senior Management Service Optional Annuity Program in fulfilling their fiduciary responsibilities to select investment products. During fiscal year 2007-08, the SBA reviewed 39 separate proposals from Investment Providers to FDCP and SUSORP requesting new manager hiring or termination of existing managers. The SBA also participated in the semiannual Investment Provider reviews and in the Invitation to Negotiate for investment services conducted by FDCP.

Corporate Officer/Trustee Services

By statute, the Executive Director of the SBA serves as the Chief Executive Officer of the Inland Protection Financing Corporation and the Florida Water Pollution Control Financing Corporation.⁷ The CEO directs and supervises the administrative affairs and the operations of the two corporations. These two public purpose corporations work with the Department of Environmental Protection to finance underground petroleum tank cleanup projects and water pollution control project construction loans to local governments in Florida, through the issuance of bonds. Employees of the SBA also serve as corporate officers and provide administrative support for the day-to-day operation of the corporations.

The SBA also serves as agent and trustee for the Division of Bond Finance for the administration of all debt service funds for bonds issued by the Division of Bond Finance. The SBA invests the reserve funds for bonds issued by the Division of Bond Finance and serves as trustee for any sinking funds or any other funds of the bond issue, provided no bank or trust company is designated to serve in that capacity in the proceedings which

authorized the issuance of the bonds. For the issuance of refunding bonds, the SBA serves as escrow agent for the proceeds of the refunding bonds which are used to defease the refunded bonds and, at the direction of the Division of Bond Finance, the SBA will redeem bonds prior to their maturity date. In case of the default of any bond issued on behalf of a state agency, the SBA succeeds to the power of the state agency and shall act on its behalf to collect the funds pledged for the payment of the debt service on the bonds, including the levying and collection of taxes pledged to the payment of the bonds.

Administrative Services

For an annual fee, the SBA provides administrative support to the Division of Bond Finance and the Florida Prepaid College Board Programs, including accounting, financial reporting, accounts receivable, accounts payable, cash management, facilities management, human resource management, purchasing, receiving, courier, mailroom, copy center and technology infrastructure support services. The SBA works very closely with each program, interacting on a daily basis to ensure timely, accurate performance. The SBA analyzes all services and costs on a biannual basis to determine their cost effectiveness and modifies the fees charged as appropriate. In both daily interactions and biannual reviews, the Division of Bond Finance and Florida Prepaid College Programs have expressed high levels of satisfaction with support services received.

Risks, Objectives and Expectations

Risks Inherent in Investing

Risk is an everyday fact of life for investors. Without assuming some degree of risk, an investor would serve no useful economic purpose and hence would receive no return. How an investor manages risk and how he chooses and

⁷ The SBA's role with respect to the Investment Fraud Financing Corporation ended in FY 2007-08. Articles of Dissolution for the corporation were filed with the Secretary of State's Office on January 30, 2008.

balances the various forms of risk are key decisions that will influence long-term success. Thus, managing risk is a vital part of the investment process.

While there are many dimensions and types of risk that must be considered, ultimately they all bear on the fundamental motivation for investing, i.e., the investment objective. A rational investor will direct his greatest risk management effort toward those risks that put attainment of his investment objective in greatest jeopardy, and vice versa.

With this in mind, the SBA's risk-assessment and risk-management efforts are framed by formal investment objectives.

Investment Objectives

Investment objectives are established for each portfolio entrusted to the Board. To reduce the long-term risk of shortfalls, the SBA prefers stocks as the principal return generator in its long-lived investment mandates, such as the FRS Pension Plan. Although an emphasis on stocks may create short-term volatility when equity markets are under pressure, stocks have proven over the long run to provide the richest asset growth. For mandates with shorter term investment horizons, the SBA typically invests in lower returning asset types which exhibit less volatility than stocks.

**Table 27: FRS Pension Plan
Expected Risk**

Time Horizon	10th Percentile Real Return	90th Percentile Real Return
12 Months	-8.30%	20.28%
5 Years	-1.16%	11.59%
10 Years	0.62%	9.63%
15 Years	1.41%	8.77%
20 Years	1.89%	8.26%
25 Years	2.21%	7.91%
30 Years	2.46%	7.66%

**Table 28: Lawton Chiles Endowment Fund
Expected Risk**

Time Horizon	10th Percentile Real Return	90th Percentile Real Return
12 Months	-8.62%	20.41%
5 Years	-1.38%	11.57%
10 Years	0.42%	9.57%
15 Years	1.22%	8.70%
20 Years	1.71%	8.18%
25 Years	2.04%	7.83%
30 Years	2.29%	7.57%

The SBA's primary investment objective for the FRS Pension Plan is to provide investment returns that are sufficient to ensure the timely payment of promised benefits to current and future participants and to keep plan cost at a reasonable level.

As additional considerations, the SBA seeks to avoid excessive volatility in short-term plan cost levels and excessive risk in long-term cost trends.

To achieve these objectives, the Board has determined that going forward a long-term real return of 5.0% per year (compounded and net of investment expenses) should be attained, based on a substantially diversified asset allocation that minimizes expected risk. This rate presumes the Legislature makes the actuarially required annual contributions.

Because FRS Pension Plan liabilities are driven in part by inflation, a long-term real return target affords a more realistic assessment of how well our investment performance tracks overall growth in liabilities. For this reason, we judge a real return target to be superior to a flat rate actuarial target.

The SBA uses sophisticated modeling techniques to ensure that its allocation of assets among the various asset types provides a sufficiently high probability of attaining the real return objective and that it

does so with a diversified portfolio that presents the lowest level of expected downside risk consistent with the target return.

To achieve the absolute real target rate of return, some market risk must be borne. Table 27 illustrates the potential range of real returns that could result over various investment horizons. Over a 30-year investment horizon, there is a 10% probability that the Target Portfolio will experience a compound annual real return of 2.46% or less. Downside risk is considerably greater over shorter horizons, but the natural investment horizon for the FRS Pension Plan is the very long-term.

Asset Classes

The securities in an investment portfolio are grouped into asset classes. Asset classes typically represent groups of individual securities that have common economic and legal characteristics. More than 90% of the long-term cumulative growth of a diversified investment portfolio is determined by the asset class mix (i.e., by asset allocation), with the remainder coming from individual security selection within the asset classes.

Within each asset class, individual portfolios have disciplined investment strategies measured against specific performance benchmarks. SBA portfolios are diversified within asset classes by maturity, liquidity, industry, country, company and size, among other considerations, as appropriate. Each portfolio is designed to contribute positively to total fund returns on a long-term basis.

Foreign and domestic stocks have higher expected returns and larger price volatility than other traditional asset classes. Stocks are shares of ownership in businesses and, as such, represent a claim on their profits. Stocks have historically yielded a higher return than other assets, but the uncertainty of return poses some risk.

Asset Class – Domestic Equities

History demonstrates that stock ownership is an effective way of participating in economic growth over time. For more than two centuries, domestic stocks have provided a real return approximately 3% over the real growth rate of the U.S. economy and 6% over inflation, per year. The downside for stocks is their potential for short-term volatility. Over the past 30 years, the standard deviation of stock returns was about 20%. With an expected (long-term) annual real return of 6% per year, there is a 35% chance of stocks returning zero or less in any given year.

Asset Class – Foreign Equities

Foreign stocks share many of the institutional characteristics of domestic stocks. Recent academic studies examining long-term non-U.S. stock returns have found them to deliver a slightly lower return than domestic stocks, while exhibiting somewhat higher volatility. The pattern of returns for foreign equities is somewhat different from domestic stocks, adding a diversification effect to the total portfolio.

Asset Class – Fixed Income

Fixed income securities are contractual obligations that may be used to lock in a nominal return for an extended period, if held to maturity, but the real return is uncertain. Historically, real returns have been in the 2% to 4% range, but they tend to rise and fall with inflation. Bonds are generally a poor choice for long-term, unknown obligations, but they have less short-term volatility than stocks, at roughly 8%. Generally, bonds have an expected annual real return of 3%, with a 35% probability of earning zero or less in any given year.

Asset Class – High Yield

High yield bonds are fixed income securities that are rated below investment grade (below Ba/BB) by the major rating agencies (Moody's, Standard

& Poor's, and Fitch). High yield bonds have higher expected returns than traditional investment grade fixed income, and lower expected returns than equity investments, with expected volatility of approximately 11%. High yield bonds are more closely correlated to the equity markets than investment grade fixed income. Generally, high yield bonds have an expected annual real return of 4%, with a 36% probability of earning zero or less in any given year.

Asset Class – Inflation-Protected Securities

Treasury Inflation-Protected Securities (TIPS) provide protection against inflation. The principal value fluctuates with inflation (rises) or deflation (falls) as measured by the Consumer Price Index. At maturity, the investor is paid the higher of the adjusted principal or original principal. TIPS pay interest twice a year at a coupon rate that is fixed but based on the inflation-adjusted principal; therefore, the coupon payment rises with inflation and falls with deflation. TIPS are considered a separate asset type because their return stream is substantially different than that of nominal or conventional bonds.

Asset Class – Real Estate

Historically, institutional real estate portfolio returns have been higher than bonds but lower than stocks. We expect real estate returns to exceed bond returns because of the risk attributable to ownership. However, the stability of rental income dampens volatility of real estate returns and keeps it closer to bonds than stocks. Real estate portfolio returns appear to be correlated with inflation and tend to do well in periods of high inflation. However, real estate has a notable disadvantage relative to foreign or domestic equities. Direct-owned properties, the core of the asset, are private market investment vehicles. As such, their relative illiquidity makes large exposures problematic in the context of the total fund.

Asset Class – Private Equity

The Private Equity asset class is comprised principally of private equity investments through limited partnerships and captive (exclusive) relationships. Portfolio investments are predominantly equity investments in domestic companies. Over the long-term, the SBA expects its private equity investments to surpass a risk-adjusted hurdle rate of 450 basis points over the broad United States equity market return. This premium reflects some important additional risks that these investments pose compared to public market investments, including elevated use of leverage, substantial illiquidity and relatively limited opportunities to diversify.

Asset Class – Strategic Investments

This is a relatively new asset class that received its first funding in June 2007. Unlike other SBA asset classes, it will not consist of a singular asset type. Instead, its purpose is to contain a diverse set of asset types and investment strategies not encompassed by the SBA's other asset classes. Through diversification and pursuit of returns not available elsewhere, this asset class is expected to enhance the risk-adjusted return of the total fund over multiple market cycles.

Asset Class – Cash

From the perspective of a long-term investor, the Cash asset class (consisting of very short-term interest bearing securities) poses the highest level of risk in that it is the least likely asset type to provide vigorous returns. The long-term historical return on cash has been lower than the other asset classes and, in real terms, has approximated zero for long periods. Conversely, for portfolios with a dominant need for capital preservation (typically those facing substantial short-term liquidity demands), cash assets are the lowest risk investment alternative.

(moving. making progress.

ABOUT THE SBA

The SBA invests, manages and safeguards assets of the Florida Retirement System Trust Fund and other funds for the State of Florida and Florida local governments. The SBA is a non-political organization with a professional investment management staff and a strong record of delivering positive long-term returns on investment.

Founded in 1943, the SBA is required to invest assets and discharge its duties in accordance with Florida law and in compliance with fiduciary standards of care. Under state law, the SBA and its staff are obliged to:

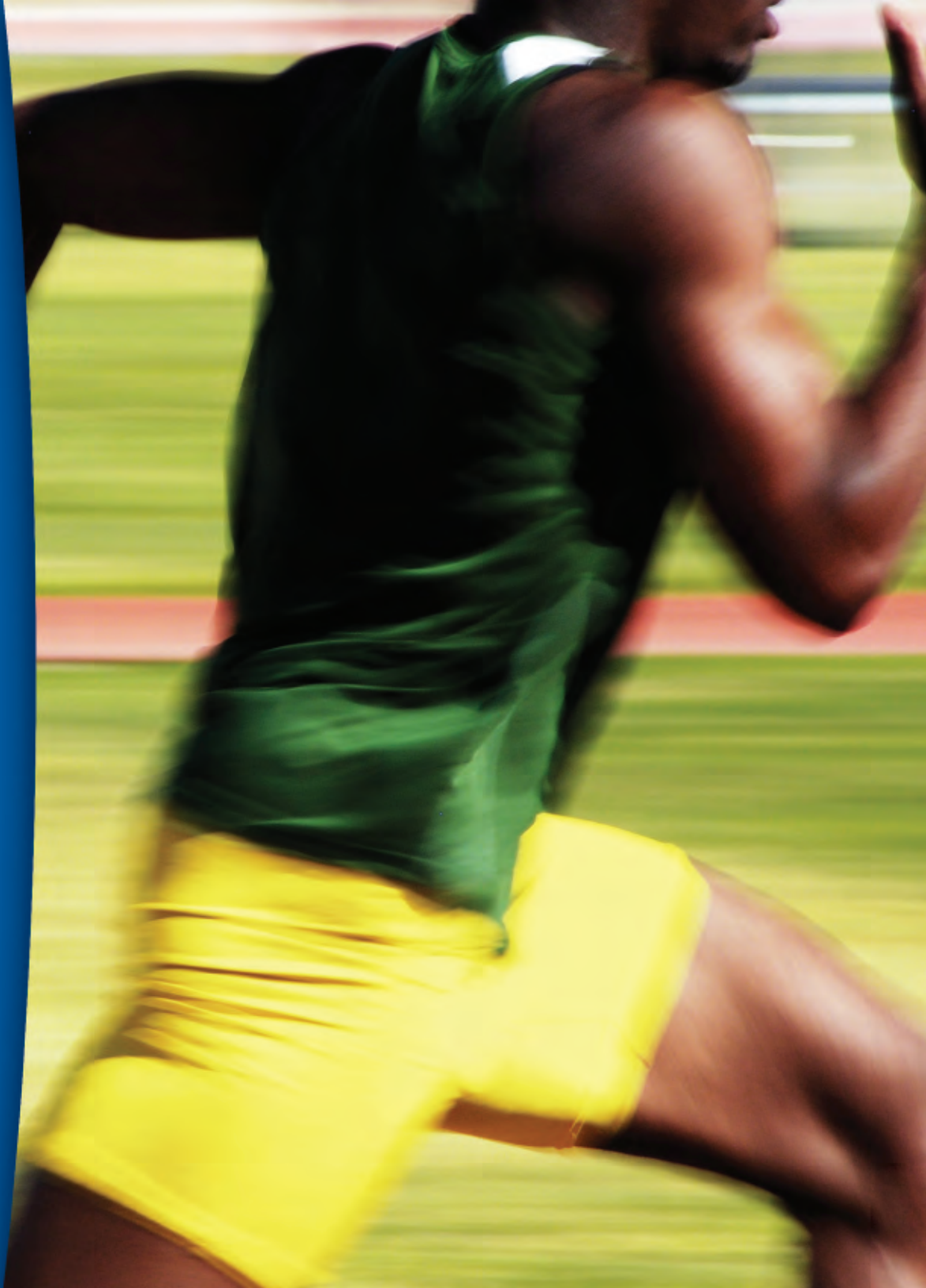
- Make sound investment management decisions that are solely in the interest of Pension Plan participants and their beneficiaries; and
- Make investment decisions from the perspective of subject-matter experts acting under the highest standards of professionalism and care, not merely as well-intentioned persons acting in good faith.

To ensure accountability, the SBA is subject to oversight by the Board of Trustees and a variety of bodies and organizations, and follows an array of formal policies and guidelines.

To learn more about the SBA, visit our website at www.sbafla.com.



This year's annual report is printed on recycled paper.
Front Section: 10% post-consumer fiber.
Investment Review: 30% post-consumer fiber.



STATE BOARD OF ADMINISTRATION



1801 Hermitage Boulevard, Suite 100 • Tallahassee, Florida 32308 • 850-488-4406 • www.sbafla.com