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Representing:

STATE BOARD OF ADMINISTRATION

The above agency came to be heard before THE FLORIDA CABINET, Honorable Governor Scott presiding, in the Cabinet Meeting Room, LL-03, The Capitol, Tallahassee, Florida, on Tuesday, September 20, 2011, commencing at 1:05 p.m.

Reported by:
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Attorney General

JEFF ATWATER
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STATE BOARD OF ADMINISTRATION
(Presented by ASH WILLIAMS)

P R O C E E D I N G S

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GOVERNOR SCOTT: Good afternoon. Is everybody ready? Ash, are you ready?

MR. WILLIAMS: Yes, sir.

GOVERNOR SCOTT: Okay. I guess the first one is -- you're up, I guess, the minutes. Just making sure I don't get ahead of myself here.

MR. WILLIAMS: Thank you, Governor, Trustees, good afternoon. I thought what might make sense as a format today, since we have several normal, what I would call SBA non-investment agenda items on today's agenda, is perhaps cover those first. And then before we go into the quarterly meeting, I'll give the usual comments about balance in the fund and other general observations, if that suits the group.

Thank you. Item 1, request approval of the minutes from the August 2 meeting.

GOVERNOR SCOTT: Sure.

CFO ATWATER: So moved.

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Item 1 is approved without objection.

MR. WILLIAMS: Item 2, request approval of a fiscal sufficiency of an amount not exceeding $65 million State of Florida, Full Faith and Credit, Board of Education Capital Outlay Refunding Bonds.

GOVERNOR SCOTT: Is there a motion?

CFO ATWATER: So moved.

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Item 2 is approved without objection.

MR. WILLIAMS: Thank you. Item 3, request approval of a fiscal sufficiency of an amount not exceeding $33 million State of Florida, Board of Governors, Florida State University Dormitory Revenue Refunding Bonds.

GOVERNOR SCOTT: Is there a motion?

ATTORNEY GENERAL BONDI: So moved.

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and -- sorry.

MR. WILLIAMS: Thank you.

GOVERNOR SCOTT: Moved and seconded. Item 3 is approved without objection.

MR. WILLIAMS: Item 4, request approval of a fiscal sufficiency of an amount not exceeding $26 million State of Florida, Board of Governors, Florida International University Dormitory Revenue Funding Bonds.

GOVERNOR SCOTT: Is there a motion?

ATTORNEY GENERAL BONDI: So moved.

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded. Item 4 is approved without objection.

MR. WILLIAMS: Thank you. Item 5, request approval of a fiscal sufficiency of an amount not exceeding $18 million State of Florida, Board of Governors, University of Florida Dormitory Revenue Refunding Bonds.

CFO ATWATER: So moved.

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Item 5 is approved without objection.

MR. WILLIAMS: Thank you. I'd like to request withdrawal of Item 6, please.

CFO ATWATER: So moved.

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded. Item 6 is withdrawn without objection.

MR. WILLIAMS: Thank you. Item 7, request approval of a fiscal sufficiency of an amount not exceeding $15 million State of Florida, Board of Governors, University of Central Florida Parking Facility Revenue Refunding Bonds.

ATTORNEY GENERAL BONDI: So moved.
CFO ATWATER: Second.
GOVERNOR SCOTT: Moved and seconded. Item 7 is approved without objection.
MR. WILLIAMS: Thank you. Item 8, request approval of a fiscal determination of an amount not exceeding $24 million Florida Housing Finance Corporation Multifamily Mortgage Revenue Notes/Bonds.
GOVERNOR SCOTT: Is there a motion?
CFO ATWATER: So moved.
ATTORNEY GENERAL BONDI: Second.
GOVERNOR SCOTT: Moved and seconded. Item 8 is approved without objection.
MR. WILLIAMS: Thank you. Item 9, request approval of the quarterly State Board of Administration PFIA Act, that's Protecting Florida's Investments. This is the statute that deals with not trading in Iran or Sudan. And essentially what we have in this report is we look at those two countries, Iran and Sudan, and we have two categories of companies, scrutinized and continued examination. A little minor movement back and forth between the two. Nothing of materiality and no problems to report.

GOVERNOR SCOTT: Okay. Is there a motion?

ATTORNEY GENERAL BONDI: So moved.

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and seconded. Item 9 is approved without objection.

MR. WILLIAMS: Thank you. So with that, we are now in position to move into our normal quarterly meeting. And what I'd like to do, if I may, is share a couple of things just at the outset. First of all, as of last night's close, calendar year to date, the Florida Retirement System Trust Fund is down 1.7 percent, which is 33 basis points ahead of target. That leaves the balance at $118.7 billion, which to put in perspective, is down approximately five and a half billion from the beginning of the year.

And I think the down market environment that we've seen month to date and particularly during August, particularly miserable period during August, just reflects the ongoing misery accompanying global deleveraging. We talked about this yesterday in the Investment Advisory Council.

But I think the inability, particularly on the public sector side, for there to be closure on --

GOVERNOR SCOTT: Greece?

MR. WILLIAMS: Greece, absolutely, it's right there. I mean, people talk about the debt crisis in Europe. Keep in mind, we haven't resolved the debt issues in this country either. So it's a global problem. And I think the public sector is lagging the private sector in terms of delevering, restructuring, focusing on sustainability, et cetera.

GOVERNOR SCOTT: Ash, what was our high? Our high was 128, around 128? Is that what it was on the pension?

MR. WILLIAMS: Yes.

GOVERNOR SCOTT: And so were both July and August down months?

MR. WILLIAMS: July, I'm not sure. August was absolutely a down month.

GOVERNOR SCOTT: August was a down month?

MR. WILLIAMS: Yes. August was a miserable month, one of the worst in recent memory. And basically what you're seeing is a number of things telegraphing greater concern about where we're going from here. Perhaps the biggest thing one might look at is where the ten-year Treasury bond is. You're now seeing the ten-year at two or less percent yield, which I think could reasonably be interpreted to suggest that maybe the bond market is more worried about deflation than it is inflation, which is sort of a scary thought.

And if you look at what's going on with S&P 500 earnings information, remember, when we were -- in one of our recent meetings, I don't know if it was the last one, but I shared several things that were fairly positive on the information about leading indicators, et cetera. Now I see negatives on those areas.

Governor, you had mentioned that you had been in the field talking to a lot of folks, and there was a lot of anxiety out there. That anxiety would appear to have been well placed, from the standpoint that you're now seeing, when you look at the revisions of S&P 500 earnings estimates, those revisions for the first time in 27 months have now taken on a negative tone, which tells you companies looking forward are now saying, gee, it doesn't look as good as it was, concerned about a dip back into recession, et cetera.

So those are just a few broad comments for you. I also wanted to touch on a couple of things that we talked about a little bit before. One is the ongoing interest in and commitment to transparency.

Today's agenda package is our new standard quarterly reporting package for the trustees, and we had the new standard version for the Investment Advisory Council yesterday.

Both of these are fully digital. They're on the Web, together with all the backup materials, and the entire package can be sent electronically instantaneously to any citizen who wants it. So it's a nice step forward, I think, in transparency.

It also is designed to follow what our fiduciary counsel told us are all the appropriate areas that you as trustees need to be on top of to fulfill your fiduciary responsibility. So that is exactly the model we're on, which is consistent with the direction you provided.

GOVERNOR SCOTT: Ash, can I ask you a question on that?

MR. WILLIAMS: Yes, sir.

GOVERNOR SCOTT: If you have money in the pension, how -- so, you know, you're relying on the pension. What sort of -- how easy is it for them to get -- is it quarterly information that they're able to get? Is it monthly information they're able to get, or are they able to sort of track on a daily basis how you're doing?

MR. WILLIAMS: I don't believe there's daily tracking. We provide monthly and quarterly reports to you. And those, I believe, are all posted. And the monthly reports and the quarterly reports are quite thorough, and they show performance by asset class, benchmark, et cetera, relative performance, absolute dollars present, offer a little bit of commentary, et cetera. Both the monthly and quarterly reporting packages are pretty darn thorough.

GOVERNOR SCOTT: And the only thing that's hard to mark to market is the private investments. Everything else, it's pretty easy.

MR. WILLIAMS: Yeah. I mean, public markets by definition get a daily mark that's unquestioned. And when you have nonmarketable investments, there will be, A, a lag in reporting and, B, there will be some element of process that has to be gone through to make sure that you have an objective and defensible mark in accordance with accepted practice.

GOVERNOR SCOTT: And historically, on the nonpublic investments, how -- have we been off ever very much on how we value those historically? Did we have a lot of surprises?

MR. WILLIAMS: I don't think so. Historically, does anybody have any recollection of surprises of that nature? I do not. We've certainly never had to do a restatement or anything of that nature.

GOVERNOR SCOTT: And the information -- if you were an individual employed in the state and looking at this stuff, what they would get on the private side, they might have the information monthly, but it would be updated how often?

MR. WILLIAMS: The private investments are valued quarterly basically.

ATTORNEY GENERAL BONDI: And, Ash, when you say posted for the public, what do mean by that? Where can someone go to find that information exactly?

MR. WILLIAMS: Well, it would be on our website --

ATTORNEY GENERAL BONDI: On your website.

MR. WILLIAMS: -- when you go to look at the periodic reports. Keep in mind we send each of your offices monthly reports and quarterly reports that are detailed. All of those are public documents. They're all easily accessible.

ATTORNEY GENERAL BONDI: And so the public can just type in State Board of Administration and pull it right up.

MR. WILLIAMS: Sbafla.com.

GOVERNOR SCOTT: On pick your equities, how -- so on your equities, how often, how much -- how detailed is the information that the public can look at on a constant basis?

MR. WILLIAMS: On a constant basis?

GOVERNOR SCOTT: Start with quarterly.

MR. WILLIAMS: Okay. We post holdings reports periodically. I'm not sure exactly what the periodicity is, probably quarterly, that go down to the security name. Whether that's interesting or useful or meaningful information to anyone, I would argue probably not. But it's there if anybody wants it.

GOVERNOR SCOTT: And is anybody -- on the pension funds across the country, is anybody doing more on transparency than we are?

MR. WILLIAMS: Well, I'm not going to claim to be an expert on what others are doing, but I will say this. On a pretty regular basis, we have calls from other folks saying they really like what we've done and they're going to copy one aspect or another. I know I was at a meeting during the summer, met the trustee of one of the big New York funds, and they said they were studying our website, really liked it and hoped they could get to where we are at some point in the future.

GOVERNOR SCOTT: Is it something that's hard to do? If we ask, if we said, could you take the -- I don't know if it makes sense to do all 50 states, but take the top five or ten and compare transparency and say, does this one have something that we don't have that might be interesting to people? Does that make any sense to do?

MR. WILLIAMS: Well, I don't know. I think the general key we try and do is everything in Florida, with a very, very narrow list of exceptions, is public. And what we generally do is whatever we've got that would be of interest, if a link would help, we'll put it there. And that's been the general trend, because from our standpoint, frankly, the easiest thing to do is, if it's public, put it out there. And that way you're not spending time responding to inquiries about it. And you can say, if somebody says, I want X, Y, Z, go to the website, here's where to look, enjoy.

CFO ATWATER: Governor, I would just be curious, too. The national association, does it have a periodic review of transparency, when you all would gather and converse, as to laying kind of a grid of who may be standard bearers and --

MR. WILLIAMS: Not really. My experience -- and I'm talking here, when you say the national association, I'm talking about the National Association of State Investment Officers. That dialogue is pretty exclusively focused on investing, investment results, risk management, current opportunities, that sort of conversation.

GOVERNOR SCOTT: Have y'all done any meetings with employees to say, you know, what sort of information -- is there more information you would like that -- have you ever done meetings like that?

MR. WILLIAMS: We talk to employees pretty regularly. I speak to employee groups pretty regularly, and I recently met with all of the HR directors from state employer groups, and that was part of the dialogue. It wasn't all of it, but it was part of it. Generally, we find a pretty high level of satisfaction with what we're doing. If people ask us for something and it's reasonable, we'll generally do it.

GOVERNOR SCOTT: Thanks.

MR. WILLIAMS: Thank you. One other thing I wanted to just come back to a little bit, because we had had a follow-up question on it. We had a brief conversation. Governor, you had asked me a question or two at one of our recent meetings about the whole active versus passive question and how that has gone. We since had a follow-up question and prepared a little answer. I just wanted to touch on a couple of high points there for just a moment, if I may.

Basically the question was why wouldn't we do all of our investing passively. And the answer is -- I think I touched on this previously -- that we do invest passively in areas where the markets are most efficient and we don't believe active management will be rewarded, but that some financial markets are in fact less efficient, and in those, active management can be rewarded. That is how we decide where to be active or passive.

And the premise is supported by the experience that our active equity and fixed income managers have in fact collectively beaten their benchmarks going all the way back to inception, net of fees.

And we did some analysis on that and confirmed that. We also did a little further research and found that there's not a single state pension fund in the United States that employs an exclusively passive strategy. There's a blend of active and passive everywhere for exactly the reason I just outlined.

And one of the great appeals of passive investing and one of the reasons we've been passive investors for so long is that it's a very low cost way to put money to work. And we are quite consistently among the lowest cost pension plans in the country. And I think you're going to hear a little information on that later today from Hewitt EnnisKnupp.

And one of the reasons is that we do have a significant passive component. The other reason is, because of our size, to the extent we are active, the fees we capture on the active side are extraordinarily competitive, when you look at our portfolio in aggregate, which holds down our costs overall.

So I just wanted to touch on those two things. And, last, as a housekeeping item, in terms of how I was going to go through today's agenda, we have Hewitt EnnisKnupp here to do the major mandate investment performance, walk us through that. We have standing reports from the Investment Advisory Council, Participant Local Government Advisory Council, Audit Committee. We have all the staff standing reports in your document.

It was not my intention to go through all the staff reports. They're there, happy to provide answers to any questions. Staff are here. If you want to question any staff people directly, they're available. But in the interest of time, I think keeping it at this level probably makes sense.

Again, I want to thank members of the IAC. We had a tremendous meeting yesterday. We had the same two esteemed members of our Audit Committee who are here today were with us yesterday and stayed the duration of the Advisory Council's meeting. And I think it actually went quite well all the way around.

So unless there are questions, why don't we go ahead and move into the major mandate investment performance report with Hewitt EnnisKnupp. Mike Sebastian from EnnisKnupp, Hewitt EnnisKnupp.

GOVERNOR SCOTT: Good afternoon.

MR. SEBASTIAN: Thank you very much. Good afternoon. Attorney General Bondi, CFO Atwater, Governor Scott, thanks very much for having us here today. As Ash alluded to, our report covers all the major mandates managed by the SBA. I begin with some summary information. This summary covers all the mandates and just attempts to hit at the high points regarding the investment results over the past quarter, one year and longer periods.

Over this period all major mandates have outperformed their respective benchmarks. Over longer time periods, you'll see a little bit more information on performance through July 2011, but it's been extremely good.

Within the Pension Plan, the global equity and fixed income components added the most value, through successful active management. We do some comparisons of FRS pension results with peers, both a broad group of peers and a more focused group, and performance relative to peer funds has been strong over the one-, five- and ten-year periods.

Just noting some events in the various mandates managed by the SBA. Within the Investment Plan, the Defined Contribution Plan, we saw some movement on the part of participants away from riskier asset classes, such as equities, into safer asset classes, such as the money market funds, TIPS and fixed income. And that's fairly normal during periods of market volatility.

And then, lastly, the Lawton Chiles Endowment Fund outperformed its performance benchmark over all periods that are tracked, with foreign equity being the largest contributor to value added.

We have a number of slides, a number of exhibits relating to the economic market environment. And in the interest of time, unless there are questions or you'd like to direct me otherwise, particularly given that the information is a few weeks behind this, I'll just kind of summarize and then move on to more of a discussion of the mandates.

This particular slide shows returns ending June 30th, so this report is largely through the period ending June 30th, for major asset classes for the one quarter and longer time periods. And what I would note is that for the second quarter, risk in general in the capital markets was not rewarded.

You see that blue chip U.S. stocks, such as seen in the S&P 500, were flat. Bonds did very well for the quarter. Small cap stocks and emerging market stocks, the riskier investments, were hurt during the second quarter, posted negative returns.

The MSCI EAFE Index, which tracks the returns of the developed markets, did post a positive return, but part of that was the weakness of the U.S. dollar relative to foreign currencies, which helped an unhedged investor in those stocks.

Over the year-to-date period and the one-year period in particular, the fiscal year ending June 30th, the story was quite a bit different. This is a period of very strong returns for the capital markets, in particular riskier securities, stocks of the U.S. and foreign variety.

Again, I mentioned that there's a summary of economic data in the following slides. Certainly there are areas of concern. And those areas of concern have magnified since the production of this report. There's been some signs of a loss of momentum in economic growth and a decline in outlook, shown in the Philly Fed survey results. The dollar continues to be weak. And we see issues in the Eurozone, in particular Greece but in other areas as well. And on the positive side, in some areas of the country at least, bank lending has picked up to a degree. So that's one bright spot.

In that context, I'll just summarize. I had mentioned in general that performance was good, but this table, I think, is kind of striking in that it shows the major mandates' performance over year to date and longer trailing periods, up to 10 years, and for every mandate in every trailing period, performance relative to the performance benchmark was positive. Each fund outperformed its benchmark returns, with the exception of the Cat Operating Fund that modestly underperformed over the five-year period. So performance relative to the benchmarks that are markers of the investment policies of these funds has been strong.

We'll move into a little bit more detailed look at each one of the major mandates, beginning with the Pension Plan. The executive summary of that suggests that -- Ash gave more up-to-date asset values, but as of June 30th, 2011, fund assets were $128.5 billion, which represented a $700 million increase since last quarter.

Performance relative to the performance benchmark has been strong. The fund is well diversified across six major asset classes, representing every major area of investment, and within each one of those asset classes the investments are well diversified.

Asset allocation is monitored on a daily basis to ensure that it is in line with the investment policy and the allowable ranges of allocations around those investment policy targets, and it has been.

SBA staff, with the assistance of the consultant, us, Hewitt EnnisKnupp, review the investment policy of the Pension Plan annually, through informal and formal reviews. The last formal review was in 2010. The next formal one will likely be in 2013. We conduct annual updates to ensure the investment policy of the fund is in line with its objectives and circumstances. And we've found it has been so.

And then lastly, in our view, there's adequate liquidity within the Pension Plan to meet its obligations.

CFO ATWATER: Mike, could I ask a question?

MR. SEBASTIAN: Yes.

CFO ATWATER: The question is, in the investment policy, what do you look for that would suggest it's time to revisit? Is there any types -- the significance of world events or what we're seeing taking place in Europe, is there anything that says, you know what, rather than -- I know that we look at it periodically. You mentioned last full review was 2010, next time will be 2013. We keep an eye on things.

Can you give us a sense of what would trigger a more significant look that may lead to recommendations of changes of allocations?

MR. SEBASTIAN: The two drivers of an investment policy review and any changes recommended would be first the circumstances of the plan, so if there's a change in the plan's funding, the plan's liabilities and obligations, other actuarial characteristics of the plan that would change its nature against which the assets are matched, that might lead us to recommend a change in investment policy.

And that's why actuaries on staff work with the fund's actuaries to examine the liability side of the equation and match that up with the investment policy and update that once per year.

The other side would be the assets, we use a 15-year planning horizon when recommending an investment policy for the Pension Plan. And so that's really a long-term look at the capital markets, but it also links into current market conditions, so changes in valuations, changes in interest rates, will have an impact on our long-term returns. It tends to be muted to the extent that those long-term terms shouldn't change too much from year to year and study to study, but they do change.

So a major development in the capital markets would have a reasonably large impact on our long-term assumptions, and that could change the appropriate level of risk that we recommend the Pension Plan take, or suggest a different way to diversify those risks within the larger categories. Does that help?

CFO ATWATER: Yeah. So is there anything about Europe that is of such concern that we should be looking at doing anything different on the short-term?

MR. SEBASTIAN: Not at the moment. We are well aware of the situation in Europe and how it impacts the potential returns on global fixed income and also riskier securities and equities. The impact for a long-term investor, with a 15-year time horizon is not such that we'd suggest a change in investment policy. However, you have a mixture of active and passive management within the fund and also some degree of tactical asset allocation.

So you have, with your professional staff, a mechanism in place to respond to shorter term market events. And that's what's happening with your external active managers and the actions of your internal staff. But we don't recommend a change in long-term investment policy.

CFO ATWATER: Maybe Ash --

GOVERNOR SCOTT: Is the reason that you already have a band? Ash, what's your band on equities right now?

MR. SEBASTIAN: It is illustrated in this graph. Global equity, it comprises all public equities, domestic and foreign, and the allowable range around a target of approximately 59 is 48 to 64 percent of the total fund.

GOVERNOR SCOTT: So you'd have to -- something would have to happen that you'd come to the conclusion that you want to have less than 48 percent in global equities.

MR. SEBASTIAN: There is room to move within those --

GOVERNOR SCOTT: Does that answer your question?

CFO ATWATER: It is. It's Mike, right?

MR. SEBASTIAN: Yes.

CFO ATWATER: Yeah, Mike. And you're pointing it out as well, Governor. I'm just curious. Mike is kind of saying, as you did, you've got the band, you've got the policy, we can make more limber, more agile decisions with the managers themselves.

MR. SEBASTIAN: That's correct.

CFO ATWATER: And I was going to suggest that maybe when Ash comes back up later, I'd just be interested in being informed as to what direction we may be offering to some of those managers at this moment, or at least the discussion we're having that may in fact be guiding some other decisions within the bands or within the options that we have within equities at the moment, or global equities.

MR. SEBASTIAN: Sure.

GOVERNOR SCOTT: Do we give them advice, Ash? We just -- we take what their plate is, right?

MR. WILLIAMS: We essentially ask them to follow a mandate. We populate our manager universe within our allocation, our policy allocation. And then it is the manager's job to evaluate the current and future environment and make the best decisions. The idea of tactically adjusting your weightings with regularity based on your own anticipation of the market is a field known as tactical asset allocation, which has honestly been widely discredited. It hasn't worked. The Board had a period of time many years ago where it attempted tactical asset allocation, and it just did not add value.

What we find at the margin really makes the difference is getting the asset allocation right in the first place, which is exactly why we did the big asset-liability study and target allocation work, started in tail end of '09, finished in '10, revisited not once but twice already in '11, March and June, to get our asset allocation targets right.

Then what you have is, in the marketplace, as there are movements that force you to the outer bounds of your rebalancing ranges, then you rebalance, as indicated by the market, so that you are mechanically selling what is dear and buying what is cheap, because you will be forced underweight or overweight by market movements.

But we don't get up on a given day and say Europe looks like trouble, let's call all the European managers and tell them to sell. Because they're discretionary managers, they have the ability to carry -- to adjust their own books as they see fit, and they're held accountable for the result. So that's how it works.

CFO ATWATER: And we live with the result.

MR. WILLIAMS: Correct.

CFO ATWATER: Just -- and I don't think anyone would suggest waking up on a given morning and selling everything in Europe. Just curious as to everyone's flexibility to work with the picture that's being painted before you every day and if they choose to ride a horse off a cliff --

MR. WILLIAMS: Well, let's relate this to exactly the decision-making that this group has been through since you've been in office. One of the primary initiatives we've been trying to address is to reduce risk and increase diversification in a portfolio by giving us more flexibility to use opportunistic strategies mandated -- implemented outside the SBA through managers that will have more ability to take advantage of different sorts of opportunities, including on the short side, et cetera.

And the reason is that those strategies generally have been demonstrated pretty consistently to better protect capital in down markets and do roughly like the broad markets in up markets, so that over the fullness of cycles, you have better compounding.

There was a piece in the *Financial Times* on the 18th of this month on exactly this subject, where a firm called LCH, which is related to the Rothschild family holdings, has done an extensive study and concluded that by adding a mix of alternatives, including hedge funds, to a portfolio, you can very significantly reduce the long-term risk of the portfolio and slightly increase its performance, which is exactly the message that Hewitt EnnisKnupp brought us in the work that we did. And I'll be happy to share that article with you if you'd like to see it.

CFO ATWATER: Thank you.

GOVERNOR SCOTT: And the biggest -- if anybody is going to complain about that, they're going to complain because there's less transparency with the alternatives.

MR. WILLIAMS: If anybody is going to complain, yes.

MR. SEBASTIAN: Shall I continue? We had touched briefly on the actual asset allocation of the plan to its six major asset classes and the bands that are around the allowable ranges or, rather, the allowable ranges around the targets. An important measure of risk control that's monitored on a continuous basis is where those actual allocations fall relative to the actual ranges. And they were in compliance with policy as of June 30th, as they have been in past periods.

This graph illustrates the results, the

investment results of the Pension Plan over the quarter and longer periods relative to two benchmarks, one labeled and in blue performance benchmark, which is a representation of the investment policy of the fund, so the difference between the actual returns, and the performance benchmark represents the success of active management relative to that policy. And performance relative to the performance benchmark over every period shown here has been positive. The fund has outperformed.

A second benchmark that's shown is the absolute nominal target rate of return, which is the rate of inflation plus five percent per year. That's intended to be a measure of the return needed to achieve the financial objectives of the plan over the long-term. That is intended to be a long-term target rate of return. So we focus on comparisons of long-term actual returns with that target.

And although the performance has been mixed relative to that target over shorter periods, which is not surprising given the volatile markets, performance relative to the target has been a positive outperformance over the long periods, the 15-year period and then in a separate exhibit shown on the next page, over the 15-, 20-, 25- and 30-year periods.

GOVERNOR SCOTT: The only thing that's scary is it's coming down, right? Returns have gotten harder, it seems like.

MR. SEBASTIAN: Absolutely true.

GOVERNOR SCOTT: Especially the last ten years.

MR. SEBASTIAN: Yes. It's good to see that at least over the one-year period, you know, helped by the stock market relative to the fixed target rate of return, performance has been very strong. But, yes, it continues to be challenging.

Attribution analysis, as shown here, details the contribution of the various asset classes to total fund performance. The bar at the foot of these tables, which are one-year and five-year periods, represents the difference between the total fund performance and that of its benchmark, so 31 basis points or 31 one-hundredths of a percent of excess return over the one-year period and 28 over the five-year period.

As I alluded to in the early comments, global equity and fixed income have been the strongest contributors to pension performance over the one-year period. This was a particularly good time to take active risk. Active risk for skilled investment managers was rewarded in this period, and that shows through in the results.

Private equity, for the one-year period, shows a negative contribution. Part of the reason for that is the lag of the public markets that is exhibited by the private equity market. In general, private equity valuations follow those of the public markets. And so when the public markets are strongly positive, as they were in the one-year period ending June 30th, private equity tends to lag. If there were opposite market conditions, we would likely see the opposite effect.

And I will skip to a performance or a peer comparison that I promised earlier. We do a couple of them, but I'll focus on the comparison of the Pension Plan with what is called the Top 10 Defined Benefit Plans. This is from a source called TUCS, Trust Universe Comparison System.

The statistics for the universe, for the peer group, are shown in the footnote. I apologize for the small font. But the peer group includes $1.1 trillion in total assets. Median fund size was $110 billion, and average was about the same. So this particular peer group is comparable in size to FRS.

And since a major driver of investment performance over time will be the investment policy decision, the asset allocation decision, that's what we focus on here. And just noting FRS versus this top 10 peers, FRS has -- the Pension Plan has more global equity, moderately more real estate, less fixed income and less cash and significantly less alternatives at this point in time. That would combine, other than real estate, the private equity investments at 4.4 percent of the total fund on the left and 3.2 percent strategic investments, compared with the catchall category of alternatives on the right, 14 percent.

So there has been an underweight in alternatives. One of the outcomes of the comprehensive asset-liability and asset allocation study that happened last year was to consider over time building into a larger allocation to alternatives, in particular hedge funds, where it's believed -- we believe that the risk-return trade-off is better and the return per unit of risk is --

GOVERNOR SCOTT: Is there an analysis that shows you the risk relative to the other -- the top 10? I understand looking at per asset class, but is there a way you can say that we have taken more risk or less risk than the other funds or the other plans?

MR. SEBASTIAN: Those comparisons are available. Peer comparisons tend to focus on returns rather than risk. I think that you would likely find that -- I suppose it's dangerous speculating, so I'll just throw that out. But the FRS has experienced volatility similar to other plans, a slightly greater allocation to public risky assets, to stocks, but a lower allocation to some forms of alternatives, like private equity. So I could come with more detail, but I would expect you would see that you were about in line with peers.

CFO ATWATER: But the answer to that was it is available.

MR. SEBASTIAN: Yes. Risk as measured by volatility of returns, that is information we're capable of providing. We'd be happy to bring it back to you.

CFO ATWATER: Thank you.

GOVERNOR SCOTT: Yeah, I think that would be interesting.

MR. SEBASTIAN: This exhibit shows a performance comparison of the Pension Plan relative to the top 10 universe that we've just seen some detail on. Again, the universe comparisons should be taken with a degree of a grain of salt, to the extent that every plan's circumstances are different, and the primary driver of returns will be asset allocation.

So to the extent that different funds have different circumstances and different investment policies, their results will differ. But results for the pension relative to the top 10 universe were generally positive, with outperformance over the one-, three- and five-year periods and returns slightly below the median over the ten-year period, probably reflecting the difference in allocation to equities of the FRS relative to peers.

That concludes the summary of the Defined Benefit Pension Plan. If it's your desire, I'll move on to the Defined Contribution Plan.

GOVERNOR SCOTT: That's great. Thanks.

MR. SEBASTIAN: The summary of the Investment Plan is shown here. In general, performance relative to the aggregate benchmark, we'll see more on that in a second, but over the trailing one-year and five-year periods has been strong, suggesting strong relative performance for the underlying options.

Fees and expenses are a strong driver of performance and something that we watch very closely. And we'll see some detail on how the fees and costs of the Investment Plan, the DC plan, are low relative to peer DC plans and also other alternatives, such as defined benefit plans in the corporate and public fund space. And that is driven by the fact that fees are lower than the median supplied by Morningstar in every investment category.

And we believe the investment plan offers an appropriate number of options that span the risk-return spectrum. And that's part of reviews of investment policy that are done on a regular basis on the part of us, your general consultant, and your staff.

Here are Investment Plan returns for periods ending June 30th. There are two different comparisons shown here. One, in the top panel, it's relative to the total plan aggregate benchmark. So this is a combination of the benchmarks of the individual options included in the plan all rolled up into one. And so the difference between the investment plan total returns and the aggregate benchmark returns will be the success of active management relative -- and then structure of those options relative to the benchmarks.

And over the one-, three- and five-year periods, results have been positive, 90 basis points, 60 and 60 of outperformance, so indicating good implementation of those investment options.

The second panel shows Investment Plan's returns relative to the U.S. median peer plan. Now, there are some details in the footnotes regarding how that's constructed, but it's from a firm called Cost Effectiveness Measurement that provides very well respected comparisons of plan performance and costs.

Even more so than probably in the defined benefit area, care needs to be taken in interpreting peer comparisons because the trustees do not, of course, control the asset allocation or the allocation among options in the plan. The participants do.

But in the left side of numbers in the bottom table I would note the five-year average return, 4.0 percent for the investment plan versus 3.8 for the U.S. median. So that suggests that the participants are creating portfolios, based on the options they have available to them, that are generating returns that are competitive with peers.

GOVERNOR SCOTT: Just to make sure I understand this, so if I'm in the Investment Plan, I've got one of six options and I can do any number of them. So I can just say I'll put all money into the balanced funds, right?

MR. SEBASTIAN: Yes.

GOVERNOR SCOTT: And then what this -- this 17.2 on the aggregate benchmark basically says that that's -- that's what the benchmark was based on how much money was in each one of those.

MR. SEBASTIAN: That's right.

GOVERNOR SCOTT: Okay.

MR. SEBASTIAN: The second part of the bottom panel shows gross value added. These are gross of fees because that's how the peer group data is available. But the gross value added for FRS Investment Plan was 1.0 percent. The U.S. median was 0.5 percent. So on a total return basis, generating returns competitive with peers, not only has the Investment Plan outperformed the benchmarks of underlying options but it's done so to a somewhat greater degree than peers.

And, again, this is gross of fees. Were we to take fees into account, because fees are very competitive for the Investment Plan, the results would likely look even better.

This is a summary of cash flows for the second quarter and the fiscal year to date. This is showing net contributions and withdrawals, netted out with investment earnings. What I would note from this table is that the Investment Plan is growing in terms of positive investment earnings over this period, for one, but also net contributions, so that the plan is increasing in size. It's gaining participation.

Just a quick note on this. This is cash flow by product type. I had said at the outset that there had been some flows between products away from the riskier investment options, domestic equities, international equities, and toward the safer or lower volatility options, money market, inflation-protected TIPS and fixed income.

And we see that here, with amounts that are overall large in dollar terms, relatively modest compared to the size of the overall plan, that's fairly common in periods of market volatility. It's not something we see as unusual.

This slide shows the expense ratio of the FRS

Investment Plan relative to the peer DC plan. And so this is essentially the same peer group that we saw in terms of the performance comparison on the first slide. So we want to see costs be low, because a dollar of cost reduces returns dollar for dollar, while at the same time offering adequate management of options, options that when expected to do so, actively managed ones outperform the benchmarks.

And we see that here; 23 basis points expense ratio for the FRS Investment Plan versus 27 percent for the peer DC plan. So cost-effective operation relative to other DC plans.

Relative to DB plans, there's some detail in the footnote regarding the nature of the peer groups, but corporate and public funds turned in expenses of 50 basis points and 46, compared with the 23 for the Investment Plan. So as an option, the FRS DC plan is cost-effective relative to defined benefit options in the marketplace.

As I had suggested before, the fees within each option category are lower than the average mutual fund fee. So these are, in the middle column, FRS's actual fees, average within the investment options, and to the right is a Morningstar average. And it's lower in each case, substantially lower.

The plan continues to grow. This is data for fiscal yearend in millions of dollars over all assets under management in the plan, with a small downturn or downturn in fiscal year '08-'09. We've seen steady increases in overall plan size, ending with $6.7 billion as of the most recent data period. And that increase has shown in plan membership as well, with an all time high of 136,661 participants as of the current fiscal year.

Barring further questions, I will move on to the Cat Fund, the Hurricane Catastrophe Fund. In terms of summary, the performance of the Cat Fund has been positive on an absolute basis and relative to its benchmark over short- and long-term time periods. We believe that the Cat Fund is adequately diversified among issuers in the short-term bond market. The funds -- the securities contained in the fund are constrained, which we believe is appropriate, to short-term and high quality bonds.

The fund has, we believe, adequate liquidity to meet its cash flow obligations. And as with the other mandates, the investment policy is revisited periodically to ensure that it is in line with best practices, and we believe that is the case.

Here is a table as seen for other mandates. It shows a summary of cash flows for the second quarter and fiscal year to date. So we see a net change that is negative for the second quarter, positive for the fiscal year to date, a combination of net contributions and investment earnings, while not to sneeze at it, $29 million, low relative to other mandates, just reflecting the short-term bond nature of the Cat Fund, but brought together a net change of about $1.3 billion in growth in assets in this fund.

And investment results have been strong over the most recent and longer term periods, with returns greater than the benchmark for the quarter, one-year and ten-year periods.

If I might, I will review the Lawton Chiles Endowment Fund. Another agenda item later this afternoon relates to the investment policy of the endowment fund. But in terms of performance over the periods shown here, assets, a total of $667 million as of June 30th, and the return of the endowment was greater than that of its benchmark over the periods, over the periods that we analyzed, all of them. And a major driver of that outperformance was the foreign equity component.

The cash flows for the quarter and fiscal year to date are shown here. Just focusing on year to date, fiscal year to date, $15 million in net withdrawals, that is the regular distribution based on the spending rule for the Lawton Chiles Endowment Fund, so those are just regular distributions, and investment earnings of $155 million, so a growth in assets and ending, as I noted, with a market value of $767 million for the endowment fund. And performance, as I noted, was strong relative to its target over all periods, quarter, one, three, five and ten years.

Then, lastly, I'll touch on the Florida PRIME. Its purpose is safety and liquidity and competitive returns with minimal risk. The bonds or the investments contained in the fund are short-term and high quality. We believe that it's adequately diversified across issuers and that there's adequate liquidity within the fund to address its cash flow obligations.

Performance has been strong over short- and long-term time periods. Market value is growing. It's at $6.8 billion as of June 30th. And I would just note that we, Hewitt EnnisKnupp along with SBA staff, do an annual best practices report that covers every element of the operations and management of the fund to ensure that it is in line with best practices, and we have found that it is.

And performance is shown here relative to an index of similar local government investment pools in other states. And performance has been positive over every time period.

And then to end with cash flows, the second quarter and fiscal year to date, the fund is increasing in size. It ends with $6.8 billion in assets, a change of $1.3 billion over the fiscal year period. That includes transfers from Fund B. And as of June 30th, 83 percent of Fund B principal has been returned to participants. And that number is shown here at $102 million over that period.

And that concludes my prepared remarks, and I'll be glad to take any further questions you might have. Thank you very much.

MR. WILLIAMS: Thank you, Mike. Why don't we move ahead to the standing reports that we have. These are the statutorily required reports. First is the Investment Advisory Council, and we have with us Mr. Rob Gidel, the chairman.

MR. GIDEL: Good afternoon, everyone.

ATTORNEY GENERAL BONDI: And, Governor. Happy birthday, Chairman Gidel.

MR. GIDEL: The big six-O. We survived it. The IAC met yesterday, and all the members were present, including Chuck Newman, who is one of our new members who was appointed to the Council by CFO Atwater earlier this year. He has been a terrific addition to our group, and we appreciate the appointment very much.

At our meeting yesterday we accomplished three things. First of all, we reviewed the investment performance, as Mike presented earlier, on all the major mandates. And we continue to be satisfied that the current asset allocation and management continues to add value, and we hope that will continue to be the case.

Second, pursuant to our standing agenda, we reviewed the real estate portfolio as presented by our consultant, The Townsend Group, who you will hear from in a few minutes. And the Council wanted the trustees to know that we support the current investment strategy and the plan that's being executed on our behalf in that segment of the portfolio.

Next we reviewed the process that was used to effect a transition of equities and real estate security portfolios, and we were satisfied with that transition and the results of that transition. And, finally, we reviewed the recommended asset allocation changes that you're going to hear about in a few minutes to the Lawton Chiles Endowment Fund. And since that matter will come before the trustees, the Council wanted you to know that we voted unanimously to make that recommendation, so that you can support it.

As always, the Council is here to support you and your decision-making, and anything we can do on your behalf, we are happy to do so. Our next meeting is here in Tallahassee on December 5th, and that's really the conclusion of our report.

GOVERNOR SCOTT: Thank you. Does anybody have any questions? Thanks, Rob.

MR. WILLIAMS: Thank you. Next we have Chairman Roger Wishner of the Participant Local Government Advisory Council.

MR. WISHNER: Good afternoon, Governor --

GOVERNOR SCOTT: Good afternoon.

MR. WISHNER: -- CFO, Attorney General. It's great to be here again. Your Participant Local Government Council recently met, on August 24th. And our next quarterly meeting is tentatively scheduled for November 16th. We continue to oversee the operations, client services and investment management of the Florida PRIME.

As for performance, over the quarter ending on June 30th of 2011 participants deposited a total of $3.18 billion, and participants withdrew a total of $3.31 billion, for a net decrease of approximately $104 million. During the second quarter the Florida PRIME delivered an aggregate of $4.57 million in investment earnings to its investors.

Performance of Florida PRIME has been strong over the short- and long-term periods. In the period ending June 30th, 2011, the Florida PRIME generated excessive performance above the pool's benchmark of approximately 16 basis points over the last three months and 15 basis points over the last 12 months.

Pool characteristics, as of June 30th of 2011, the total market value of Florida PRIME was $6.82 billion and had a seven-day SEC yield that stood at .22 percent and a weighted average equal to 31.5 days.

As for Fund B, which a lot of local governments and others that had investment in there, there's good news on that front as well, that we continue to pay the principal and interest, with a cumulative distribution to the participants of a little over $1.6 million. That's through the end of June. As a proportion of the original principal amounts, 83.9 percent has been returned to the Fund B investors, which is very commendable to staff and the direction, obviously, of you, the trustees.

Our committee continues to be very active in making sure that the Florida PRIME is making it the best place for short- and long-term investments by local governments. And I'm here if you have any questions.

GOVERNOR SCOTT: Thank you.

MR. WILLIAMS: Thank you. Now we have the chairman of SBA's Audit Committee, Ms. Judy Goodman. And talking about comparisons with other funds, in talking with other funds, one of the things I do think is fairly unusual about ours is our independent Audit Committee, and it's a great body and has been a real value add for us.

GOVERNOR SCOTT: Good afternoon.

MS. GOODMAN: Good afternoon. The State Board of Administration Audit Committee met twice during this past quarter. And Kimberly Ferrell, she's our newest addition, and Rolf Engmann and I serve on this committee. The committee reviewed six externally prepared audit reports of SBA wholly-owned title holding companies which are reported in the real estate asset class.

The audits disclosed misstatements, some of which were corrected and some were not. The uncorrected misstatements were not considered material to the financial statements as a whole. Corrected misstatements had to do with the change in value of investments and mortgages.

Ernst & Young continued to work on their financial statement audit of the FRS Pension Plan and FRS Investment Plan for the fiscal year ended June 30th, 2011. The anticipated completion date of this report is November of this year.

As mentioned in the previous audit committee's report, the SBA has four special purpose entities that hold unusual, illiquid and difficult to market investments. The face value of these investments is over $1 billion.

In the August 15th meeting the committee approved the evaluation team, and on September 7th, the audit firm was selected. The committee intends to have financial statement audits of these four special purpose entities beginning with calendar year ending December 31st, 2011.

The committee updated and approved audit charters for both the Office of Internal Audit and the SBA Audit Committee. You might ask what were some of the changes. And regarding the Office of Internal Audit charter, we defined auditing and consulting objectives, proficiency requirements, and we added responsibility over engagement and oversight of external auditors and standardized the reference to the head of the Office of Internal Audit to chief audit executive.

Regarding the Audit Committee, we referenced a section of the statute that codified the existence of the Audit Committee, added responsibilities over compliance and enterprise risk management activity and engagement in oversight of all external auditors of the SBA.

The committee also reviewed four audit reports issued by the Office of Internal Audit. The first was a Clifton Gunderson compliance performance audit follow-up report. Seven recommendations were implemented, and one was partially implemented, and the remainder will not be implemented.

The real estate follow-up audit reported --

GOVERNOR SCOTT: What was the one that's not going to be implemented?

MS. GOODMAN: It has to do with SAS-70 audits. And management's prerogative is to accept the risk or implement alternative actions to handle the concerns, and so that's what they did.

GOVERNOR SCOTT: Can you say that one more time?

MS. GOODMAN: Say it again?

GOVERNOR SCOTT: Can you repeat it one more time?

MS. GOODMAN: The recommendation was that all external investment managers provide SAS-70 audit reports to the SBA to ensure that no internal deficiencies exist and for the SBA to review and monitor user controls. The SBA has decided not to require the submission of SAS-70 reports and not to review and monitor user controls. But they -- if you want to expand more on that --

GOVERNOR SCOTT: Why do you do that, Ash?

MR. WILLIAMS: Let me summarize a couple of points here and answer your questions. First of all, not all managers have SAS-70s. Not all of them will choose to have them. Those who do have them set the scope of the SAS-70 themselves and will by definition or could be by definition susceptible to tilting the scope of the SAS-70 away from areas where they have weakness.

And our belief was that given the cost of trying to compel SAS-70s where they don't otherwise exist, the potential that people would not choose to comply and the mitigating factors of our own dilly, the dilly of our outside consultants that we use for manager selection and oversight and other oversight mechanisms we have, that on balance it was not a constructive exercise to try and say uniformly everywhere we're going to have SAS-70s.

GOVERNOR SCOTT: And not doing this -- this has not caused us problems in the past?

MR. WILLIAMS: No.

GOVERNOR SCOTT: Okay. Thank you.

MS. GOODMAN: The real estate follow-up audit reported nine recommendations implemented and two remained open. The Office of Internal Audit reported four additional findings, which pertain to real estate investment adviser contracts. The market valuation follow-up audit reported all recommendations were implemented as stated or through alternative procedures.

Regarding follow-up on open recommendations made by OPPAGA, Auditor General, Ernst & Young and

Office of Internal Audit, eight recommendations were implemented as stated or through alternative procedures, while three remained open.

GOVERNOR SCOTT: Can I ask you a question real quick? All of the audit reports are public, right?

MR. WILLIAMS: Yes.

GOVERNOR SCOTT: And your response to all the audit reports are public?

MR. WILLIAMS: Yes.

GOVERNOR SCOTT: Any open items are all public?

MR. WILLIAMS: Yes.

GOVERNOR SCOTT: And if you don't comply, you explain why, if you decide not to, like that last issue that you had?

MR. WILLIAMS: Yes, that's exactly right. And the pattern has been we bring these things to the Audit Committee, discuss them there. The MO that we're on now that I think is one of the changes that's been made in the way the Audit Committee does its business relative to management is that we now have a quarterly report prepared by our internal audit unit that reports on any outstanding items, progress generally, et cetera.

Sometimes the nature of audit issues is such that there's a long lead in getting them closed out.

But, yes, it's all public, and it's discussed. Now, there could be circumstances when there is backup information on particular items. For example, some of the real estate holding company information, where there is asset-specific detail. Think of a rent roll of an owned leased real estate, an office building, something like that. But generally it's public.

GOVERNOR SCOTT: Ash, do the audit reports ever deal with conflict of interest, if anybody is accusing anybody of a conflict? Do they deal with that? They don't, do they?

MR. WILLIAMS: We did bring in fiduciary counsel, had them do some work and report to the Audit Committee, say, a year or two ago. Normally the process through which things of that nature would get dealt with would be our attorney, our general counsel acting as chief ethics officer or through Eric Nelson, who of course is our risk management and compliance officer.

GOVERNOR SCOTT: Thank you.

MS. GOODMAN: Regarding enterprise risk management and compliance, the SBA presented to the Audit Committee an overview of strategic risk, enterprise risk management framework and internal governance structure. In addition, the committee received updates on risk management and compliance activities. Recently the SBA hired a director of enterprise risk management.

On August 12, 2011, the SBA contracted with Crowe Horwath to evaluate the progress made by the SBA relative to its compliance and enterprise risk management program. The engagement plan and report format outline are approved by the Audit Committee. Crowe Horwath personnel are on site currently at the SBA performing their field work, and the bidding specs call for the final audit report to be delivered to the Audit Committee by October 24th.

This concludes our progress report, and thank you for the pleasure of serving.

GOVERNOR SCOTT: Sure. Is there anything that keeps you up at night?

MS. GOODMAN: The truth? What kind of questions I might get up here and if I can answer them.

GOVERNOR SCOTT: That's truthful. I'd be the same way. Don't worry. It happens to me, with all these gaggles I do.

MS. GOODMAN: Oh, no, no. I have confidence. All the external auditors, they add value, and they're looking at everything. So, yes, I think we're addressing the problems as they come up.

ATTORNEY GENERAL BONDI: Thank you, Judy. You did great.

CFO ATWATER: Governor.

GOVERNOR SCOTT: Good job.

CFO ATWATER: We just hired a director of enterprise risk management?

MS. GOODMAN: Yes, sir.

CFO ATWATER: Who does that person report to?

MS. GOODMAN: The young man back here, I believe. Chief compliance is Eric, in the back.

CFO ATWATER: Okay. Thank you.

MR. WILLIAMS: Lest there be any doubt that the Audit Committee's oversight is thorough. Okay. Let's move on. As I mentioned earlier, we have a number of attachments in here that are the standing staff reports. I'm not going to go into those unless any of you have questions about specific reports.

A couple of minor items. Well, I wouldn't say minor. A couple of items I'd like to draw your attention to. One is quite germane to the line of conversation we just had. If you look immediately ahead of Tab 11 in your hard copy book, you will see a risk management and compliance report template. This is a new template that Eric Nelson and his team in Risk Management and Compliance put together that breaks down relevant areas of compliance, statutory, investment policy compliance, ethics, conflicts of interest, Governor, to your point, governance policy and oversight. And we will populate this document no less than quarterly, provide it to you and to the Audit Committee. I think it's a nice way to very concisely cover a wide range of areas of compliance.

I would also mention that we are well along the way to filling several key vacancies on our team. We have had turnover in three senior investment officer slots. We've been in the marketplace recruiting both in the external marketplace and internally for people to fill the slots of senior investment officer fixed income, SIO real estate and also an SIO for private equity and strategic. We've had turnover in those positions recently. We're well along the way with fixed income and real estate.

More recently the private equity and strategic position became vacant. We've been through the ad process. We're waiting on HR to give us the qualified screen of candidates, and then we'll get going on that one. We're hopeful to have the fixed income and real estate positions filled early October, and we'll do the other as soon as prudently reasonable thereafter.

GOVERNOR SCOTT: Ash.

MR. WILLIAMS: Yes, sir.

GOVERNOR SCOTT: If somebody -- if a senior person leaves, do they have the same sort of limitation on ability to come back and do business with the SBA --

MR. WILLIAMS: Yes.

GOVERNOR SCOTT: -- like lobbyists do?

MR. WILLIAMS: I believe they do, and it actually goes further than that. We even have a bar that say if I left the SBA tomorrow, for a period of, I believe, two years I could not go to work for any of our vendors. So there's a pretty sweeping --

The only other area I wanted to touch on is that we are also moving along in an orderly fashion on several vendor selection processes that represent standard practice of reviewing key relationships regularly, making sure they're competitive, we have best in class providers, competitive fee structures and terms, et cetera. So we're working along on those, including the areas of master custody, a couple of our consulting relationships have recently been revisited, clearing broker and a total fund risk model.

So unless you have questions about the staff reports, why don't we move ahead, if we could.

ATTORNEY GENERAL BONDI: Ash, I don't want to lose you. Where are you now in the book?

MR. WILLIAMS: Let's go, if it's all right with you, Trustees, to Item 11, which is the annual Pension Plan real estate review. And we have with us a team from The Townsend Group, who are our outside specialty real estate consultants.

MR. BROWN: Richard Brown with The Townsend Group, Attorney General Bondi, Governor Scott, CFO Atwater.

GOVERNOR SCOTT: Where do y'all live?

MR. BROWN: We're in different places. I'm in Denver, and my two partners here are in Cleveland.

ATTORNEY GENERAL BONDI: He's going to try to move you to Florida.

GOVERNOR SCOTT: So when are you moving to Florida? Why would you live someplace else? You like to pay taxes?

MR. BROWN: Those are all good points. Terry Ahern, our CEO, is going to walk you through the market, and then Jack and I, Jack Koch and I will walk you through the program review.

MR. AHERN: Good afternoon.

MR. WILLIAMS: Terry, while you're setting it up, you might show the trustees your driver's license.

MR. AHERN: Yes, I'm a Florida resident.

GOVERNOR SCOTT: If it's not Florida, it's not a good one.

MR. AHERN: It is.

GOVERNOR SCOTT: Oh, it is. Okay. That's good. They should let you be the spokesman always then.

MR. AHERN: I'm going to provide you a brief market update, and then Dick and Jack are going to walk through your portfolio for you. On the slide, on page 88, our two indices, in the private market, institutional and commercial real estate, the blue line is the lowest risk sector. It's called core real estate, charactered by institutional quality properties that are operating substantially leased with low or no leverage.

And the red line is what we call the value sector. It's the next riskiest sector. And it is institutional quality properties, but it has moderate amount of leverage, and the strategy is life cycle risk, leasing, redevelopment, rehabilitation.

And this chart spans from 2008 to the present. And what it illustrates is that the market has gone through a significant correction, not surprising, given what's happened to the economy, but that it has bottomed and it's on recovery, in both sectors. And not surprising, during a period of recovery, the riskier sector showing a stronger recovery than the more moderate, just as they had a greater loss on the downturn.

What's interesting about the recovery, though, is it's bifurcated and that the strength of the recovery really is in a limited number of elite markets, and it's characterized by a flight to quality. And that's really -- the capital flows that came back to real estate were really a flight to quality. Also there was offshore global capital flows attracted by the weak U.S. dollar as well.

The only property type that has recovered, I would say, across more than the elite markets in a meaningful way is the apartment sector. And that's because there's both secular and cyclical events that are promoting a recovery of the underlying fundamentals in the apartments.

ATTORNEY GENERAL BONDI: So you feel good about the recovery?

MR. AHERN: Yes, I do. And I'll explain it towards the end. I think some of the recent events actually have made us feel more comfortable in our investment committee meetings than we did, say, before August.

On this page, on 89, it's really an indication of the fundamentals of real estate. The top chart is the NOI, net operating income growth rate for the primary index in the core sector, called the NPI. And basically it shows the health of the underlying fundamentals. Positive growth means positive health of the underlying fundamentals, comprised of the level of rent one can charge and the amount of occupancy there are in properties.

And as you can see, towards the right-hand side of the chart, the above chart, the NOI growth rate was declining as we were going into -- this is a rolling four quarter chart -- in the correction. And then over the last year or so it's bottomed. It's been slightly negative, but it's bottomed and it's trending positive.

Below is the by property type, and the reason I put that chart in there is just to highlight the green line to the far right. The green light is the apartment property sector exclusively. And you can see that the recovery in the fundamentals have been extremely strong there.

We do a survey of private market core real estate funds as well, on their projections. And for 2011, 75 percent of the funds projected that their NOI growth would be better than it had been in 2010. So we're not only seeing it in the data, we're seeing it in the forecasts going forward.

Also, the absorption, which is the amount of space taken versus new development, across all four property types, starting the fourth quarter of last year, has been positive. So not only was there a recovery in value, but there was beginning to be a recovery in the underlying fundamentals in the property type as well.

The next chart on page 90, the top line is the index cap rate, and the cap rate is essentially the yield at which a property is being acquired. And the line, as you go to the far right, of particular interest, you can see the line sloping down, the top line. And that essentially meant that the cap rates were compressing. People were willing to pay more for a lower current yield in real estate.

The diamond, as opposed to the rolling four, is the most recent cap rate for the quarter. As you can see, a significant compression in that cap rate. If you recall the fundamentals I showed you, while they were bottoming and beginning to turn positive, with the only exception being apartments, they weren't positive, but we saw significant value appreciation in the indices. And that's because the cap rate was compressing, capital flows into real estate affecting the pricing, in anticipation of a recovery in fundamentals.

One of the reasons for this occurring and a very strong reason is the attractive yield of real estate relative to fixed income. And the blue line there is the Treasury, the ten-year Treasury. If we were to take that Treasury today, you can see, sitting at about three, it's probably down to about two right now, the ten-year or below. And so as a result, the spread of real estate continues to look attractive relative to the ten-year Treasury. It also looks attractive relative to corporates. And as a result, real estate has been attracting capital from the capital markets.

The next page, page 91, deals with supply and demand. And I had referenced earlier that for this year and since last quarter, supply-demand has been favorable for all four property types in terms of more space being absorbed than is completed.

Now, these charts don't go back, candidly, far enough to give you a good picture. If we were to go back, say, to the year '99 or 2000, for office, industrial and retail completions, you would see that the completions, which is new supply, would be -- the bar would be above the top of each of these charts.

The reason I bring that up is part of the other attractiveness of real estate to the capital markets is that this time as opposed to '90, '94 correction in the market, this time supply remained relatively modest. So the supply of new real estate coming onto the market wasn't as strong. There wasn't as much speculative development as the last correction. So investors feel more comfortable that as they look out on the horizon, they can see their competition.

GOVERNOR SCOTT: This is national data. Well, going back to the last one, that was national data?

MR. AHERN: Pardon me?

GOVERNOR SCOTT: The last slide, that's national data, right?

MR. AHERN: Yes, it is.

GOVERNOR SCOTT: Do you have Florida data, just Florida?

MR. AHERN: I don't have Florida data. We can see if we can find Florida data.

GOVERNOR SCOTT: If you have something, can you send it to me?

MR. AHERN: Yes, absolutely. The question had been asked about our comfort level with the recovery. And it was very interesting. Our feeling was, because of monetary policy in the government, that they were promoting valuations in the asset classes, the equity markets and in real estate.

So our read on the market was that properties were appreciating further in advance of when they normally would, in expectation of the recovery of fundamentals, because real estate is a lagging indicator in the economy. First you have jobs, then the -- first the business comes back. Then it's strong enough over a long enough period of time that the owners feel comfortable. Then they hire people. And as a result, they need more office space.

And then those people have jobs, and they can go to the retail stores and shopping centers and buy, they can rent apartments. So real estate tends to be a lagging indicator of the economy. And we were a bit surprised at how quickly the values were recovering in advance of the recovery in the economy.

Last year, up until last year, it was probably a flight to quality, I would say. Like in many of the asset classes, you know, money was gravitating towards quality. And you saw that in real estate, and that's why it was primarily focused in the elite markets.

And I would say we read about it more than we would as representative of the total real estate market because the elite markets are those that are published, Washington, D.C., San Francisco, Boston, New York, et cetera.

And about the first or second quarter of this year we were a bit concerned and anxious because we had some money through our clients' portfolios in the market, and we were seeing that the managers were becoming extremely aggressive in projecting out rents and occupancy improvements in order to rationalize the price they would pay for a property in the bidding.

Interestingly enough, right after the second quarter, anecdotally we saw that begin to soften a little bit. In talking to some of the major brokers, in those elite cities, while there still was highly competitive bidding, the number of bids anecdotally might be five instead of ten at the end of the day. They were real and strong. And in the middle of the market we were actually seeing evidence that perhaps the bidding wasn't as rich as it was earlier in the year.

Then in August, of course, Standard & Poors came out with their rating reduction, and I think more importantly for us was when the Fed came out and said they were going to hold interest rates low through 2013. And our belief is that, for many of the investors, it was an affirmation that any concerns about whether the growth was coming were probably validated. And as a result, the markets took a little more conservative view as to what the future might look like.

And if you go to the next page, on 93, there are two charts that relate to the public equity real estate market, not the private equity real estate market. And directing your attention to the chart on the right, to the far right, those are the cap rates. Again, I had referred to cap rates as the price, the yield at which people were buying properties.

And you can see, because of the correction in valuation of publicly traded shares of REITs, that the cap rates, the implied cap rate went up significantly, indicating that investors were seeing more risk in that sector.

And to the left is a chart done by a third party, Green Street, and they were estimating the value of the properties relative to the value of the company's stock. And prior to the correction, as a generalization, the companies were trading above the value of their properties, and that was a reason for our concern in the market, because not only do you invest in this sector but you compete against this sector's capital flows when you buy properties.

And as you can see, post-correction the property -- the company valuations fell more in line with or below the value of the properties. So the market clearly perceived additional risk in the sector.

If you were to go to the debt sector as opposed to the equity sector, mortgage loans, in the public market, CMBS market, one CMBS offering was pulled from the market, but the spreads widened for all offerings in the market, again indicating a greater concern of the potential risk and the timing of the recovery in the market.

In the private market there's still meaningful capital from insurance companies and banks for first mortgage loans, but there's a void of capital from the 60 percent slice up, again indicating an increased sensitivity in the market to risk that may be there now. And the spreads over Treasuries are wider today in the private market as well as the public debt market.

What we've seen in our market is, as I'd indicated earlier, we saw some indications after the second quarter going into this month. But since that time we've seen less competitive bidding and perhaps more thoughtfulness, as we would put it, behind the assumptions for growth in the NOI when bids are made.

And to conclude, what our feeling is the following. Your portfolio is primarily valued on appraisals, and an appraisal is the compromise of three types of valuations, one of which is looking at comparable sales in the market.

So as a result of the process, appraisals tend to lag the market. And our feeling is that your valuations were probably lagging the market recovery, as were all funds.

Our belief in the transaction market is that to the extent that it was overheated and there's any correction, you shouldn't see that in your portfolio because the appraisal market lags the transaction market in terms of when it's moving up in a recovering market. And any of the perhaps correction in the transaction pricing in the market will be absorbed in the spread between the valuation of portfolios and what they're actually transacting at.

On the other hand, in terms of opportunities, we think there will be more rational assumptions and make us more comfortable as managers go forward to buy, with a better -- without perhaps -- at least we hope, and that can change -- without what we thought might be a little froth in the market.

We also think it will create opportunities where lenders -- as you recall, they amended and extended loans, and I think for them it turned out to be a very good program for a whole variety of reasons. But I think as they look out now, they may not see the recovery in the values as strong. And this may be the opportunity for them to recognize some of the losses, recover some of the value on those loans.

And that in turn means, for investors like yourself, the opportunity to buy perhaps attractive opportunities for distressed debt or provide mezzanine lending for owners who need to refinance their first mortgages, as the banks are looking to move those off the books.

So our feeling is that, you know, big picture, when you say the recovery of the economy is going to be further out in the future than we thought, that's not good for real estate as a lagging indicator of the economy. But based upon we saw capital flows and the froth in the market, our feeling is that this type of message probably will be healthy for investing for us.

And I can take any questions you have regarding the real estate markets. Jack and Dick are going to talk about your portfolio. I thought I might take maybe a minute to describe the big picture of your portfolio, and then they're going to fill in.

What you're going to see is, we measure your portfolio against a variety of time periods. But the one we focus on the most is a five-year period. And you're going to see that your portfolio has outperformed its benchmark and performed strongly relative to a survey of peers over that five-year period.

And I would say the following: Your portfolio has a large core component, and within that core component -- and recall I said core was the least risky sector of private market, operating substantially leased, relatively low leverage. It's comprised of funds and direct properties bought for you.

Your staff in that portfolio has been able to design a core portfolio that has lower risk than the core index because your direct portfolio has lower leverage in it. That's been accretive to your returns relative to your index. Also within that core portfolio the property selection in the direct portfolio has been very good, particularly six of the properties. That's been accretive relative to your index.

So you performed well relative to your core index because your core portfolio, as designed by your staff, has lower risk and had superior investment selection in it. You've performed well relative to your peer group because your core portfolio, which was the lowest risk sector of the private market, was a greater portion of your portfolio than it was of your peer groups.

So as a result, you had a more conservative portfolio relative to your peers going into the market downturn. And then within that, through stock selection and structure, they were able to make it even less risky than the core index itself. And as a result, that was the primary driver of your returns.

Two other components drove -- were accretive to your returns. One was that you didn't have farmland as part of your index but your staff made a farmland commitment. And farmland, over the five-year period, performed at about 13 percent. Your farmland portfolio performed at about 14 percent. But the real estate benchmark was at about a negative 1 percent over the five years. So the inclusion of farmland was accretive relative to your benchmark and to your peers as well.

And then finally you have a public REIT component that's around 10 or 12 percent, and the stock selection in that public REIT component was superior to the index that's part of your total portfolio benchmark. So the combination of your weighting to core, your investment selection and structuring of your core by your staff, your inclusion of farmland in your portfolio and then, within your public REIT portfolio, the stock selection of the REIT portfolio, were accretive to the total return relative to your index, your benchmark and also relative to your peers.

The two components that were dilutive were the two higher risk sectors, which were the value. And you had seen at the initial chart the value underperformed, and in the higher risk sector, the opportunistic. But the combination of the good things that occurred in the core portfolio, farmland and the public sector, outweighed the dilutive effect of those. And as a result, your total program outperformed your benchmark and outperformed your peer group. Okay.

GOVERNOR SCOTT: Thank you.

MR. BROWN: Thank you, Terry. We're on page 96. And, again, just big picture highlight, your target allocation is 7 percent. At June 30th you had about 8.3 billion in net assets in real estate, just slightly below six and a half percent. And, again, as Terry said, when we look at real estate over the five-year period, your program exceeded it by 240 basis points. And that core investment that Terry had highlighted exceeded the ODCE by 410 basis points. So what that demonstrates is active management and the strategy is working.

Again, big picture, the program, the target is 90 percent public and 10 percent in private REITs. Jack is going to indicate in more detail how each of those components performed.

The public, as we indicated here, 30 basis points of outperformance net of fees. The farmland, almost 15 percent over a five-year period. And one of the things that real estate does is it provides cash to pay benefits, almost $322 million.

In that first -- at the end of the first quarter and through the second quarter we transitioned the domestic REIT portfolio to a global REIT portfolio. What that does is that gives you -- roughly 40 to 45 percent of the REIT index is in North America, and the balance is international.

Again, we've got a blended benchmark of roughly 90 percent of the ODCE net of fees and 10 percent of the REIT index. You can see here how over time, this is rolling five-year periods, so peaking obviously in '07 and early '08 at over 15 percent. Obviously, the recession hurt every institutional investor, including Florida. But in the recovery this past year -- this isn't indicated here.

There's a table in the back that shows you the one-, three-, five- and ten-year returns, 18.4 percent for the portfolio.

As Terry indicated, this is just a survey of a peer group, and you were up almost to the top of the peer group of five-year returns. Finally, this just highlights -- the left graph shows the core portion of the portfolio, just shy of 75 percent, 73.4; the public REITs, about 13 percent; and then the value added and opportunistic make up just shy of 14 percent.

When we look on the right side, the principal investments -- now, these are the direct-owned properties where Florida, SBA still retains the discretion. You have managers that implement the strategy and acquire and manage the assets. That's just a little over 50 percent of the portfolio. And then the externally managed, just shy of 50 percent, that includes the public REITs, that includes the farmland, that includes pooled funds, both open-end pooled funds, core pooled funds, and closed-end value and opportunistic funds, and it includes some joint ventures in which the managers retain discretion.

And with that, I'm going to turn it over to

Jack.

MR. KOCH: Good afternoon, everybody.

GOVERNOR SCOTT: Good afternoon.

MR. KOCH: Sorry it's a little bit of musical chairs here this morning, or this afternoon. What we wanted to do was walk you through beginning on page 100 here, of what Terry had mentioned before, with regards to the breakdown and the drivers and/or detractors from your overall performance.

You can see here, on page 100, the core performance. And what I can tell you is that, as Terry indicated before, the allocation and the strategic decision to allocate a significant part of the overall portfolio to core has been accretive to the overall performance.

The chart on the bottom left here, the top blue, darker blue bar, or line, excuse me, is Florida's overall real estate performance. Underneath that, the lighter blue line, is core performance, followed by opportunistic, followed by value-add. If the decision would have been made to weight the portfolio more heavily towards opportunistic or more heavily towards value-add, certainly your overall performance would have come down.

Similarly, if you would have just invested 100 percent of the portfolio in core, your performance, your overall performance would have been slightly below where it is today. But that, aided by investment selection, has also proved accretive.

The chart on the right is another explanation of that, taking a look at the portfolio in core, public, value-add and opportunistic. This simply illustrates that core has provided approximately 120 basis points of accretive performance to your overall portfolio performance. So think of it as the zero line is the portfolio's real estate performance. A hundred and 20 basis points of additional performance was provided by core. If you didn't have that core aspect, your performance would have been 120 basis points less than it is today.

Within core, as Dick alluded to before, we have separate accounts or those direct assets that you all own. Those have provided significant enhancement to the overall performance of the portfolio. On slide 101 you can see the overall principal investments return, so 4 percent over that five-year period. The benchmark performed a negative 1.9 for those principal investments, and then the overall real estate portfolio benchmark performed a negative 1.3. So certainly providing some strong performance versus the individual benchmark but also the overall portfolio benchmark.

It's interesting, as Terry alluded to before, there are approximately 50 assets in this aspect of the portfolio. There are about six of them that make up a little under 20 percent. One of them, for example, 10100 Little Santa Monica Boulevard out in Beverly Hills is a great asset, overlooks the L.A. Country Club, has performed an 11.2 percent net return over the five-year period. So strong performance being reported by a number of those assets.

Within the externally managed portfolio, still within the core side, as Dick alluded to before, are a number of investments in open-ended commingled funds. You can think of these as mutual funds in real estate. You can technically buy in and sell out of them on a quarterly basis, assuming that the market provides that liquidity.

But what these -- these investments make up approximately 50 percent of that externally managed pool. And you can see, based on the chart on the bottom left, that these investments have really tracked that index, so haven't necessarily diluted, haven't necessarily been extremely accretive but have really provided you that beta and thus the attributes for real estate.

As Terry alluded to before, farmland once again has proven very accretive from an overall diversifier perspective. So if you just take a look, I'll draw your attention to the 14.7 five-year return under farmland versus the negative 1 percent return on the ODCE on the chart to the left. Certainly farmland has significantly outperformed real estate over this period. And then, once again, your investment selections, that 14.7 over the 13.1, have once again proven beneficial.

REITs, as Terry alluded to before, the allocation to the sector has been beneficial, 1.9 percent over the five-year period versus that same negative 1 percent from the previous page, as well outperforming the benchmark over that period.

What has been slightly dilutive to the overall portfolio has been the non-core investments. These began really in 2006 and 2007 and since that time have certainly been impacted by vintage year performance. And that's what I'm going to speak to slightly on the next page. Bear with me for one second while I explain this a little bit of confusing chart here.

Just take a look at 2001, for example. The light blue -- or I'm sorry -- the light green represents the opportunistic returns for all investments that were made under that time period. The blue would be the core investments and the red would be the value-add investments.

So you can see that over time those investments, and in hindsight here, have certainly decreased over the course leading up to 2007 and '8. In hindsight, certainly those investments that appear to have been made in 2007 and 2008 will be impacted by the overall global recession. Furthermore, the investment selections that were made during those periods will likely underperform the overall benchmark.

Having said that, those investments do represent only approximately 9 percent of the overall private portfolio. So the weighting to core and the investment selections within core have certainly out -- have been further accretive over those investments.

With regards to compliance, we do set out a policy between staff and was ultimately approved by the IAC members. That portfolio -- or the policy is set to be 90 percent private and 10 percent public. We do set ranges around that, 85 to 95 percent in private and 5 to 15 percent in public, with the idea that if there are opportunities or tactical opportunities that we'd like to take advantage of during those periods, that the policy allows for that. You can see where we sit today, at 87 percent in private and 13 percent in public, so within the ranges and the policy.

To the right of the chart -- I'm not going to go through all these individually -- but are the property geography and exposure weightings from the policy and where we sit as of March 31st.

In closing, what I'd like to do is spend just a couple of moments discussing current initiatives that both staff and Townsend are working on. We've alluded to a number of these through our presentation here, and Terry certainly hit on some of them in his opening remarks. But these initiatives are detailed in the bullets on slide 106. The first six really do -- I would say you can break these down into two themes, strategic and tactical, both in the core and non-core aspects of the market.

The first six really do focus on the opportunities to capitalize on core, whether that is buying into strong stabilized assets with durable income that have been underwritten both conservatively and if a slow or no growth type economic environments, or it may be analyzing opportunities in the next ring of primary markets.

As Terry mentioned before, we really have seen a flood of capital move into the elite markets of New York, San Francisco, Washington, D.C. Really the next wave of capital is anticipated to go in still those primary markets, so whether it be Denvers, Seattles, Bostons, Miamis, to really get in and take advantage of the higher cap rates that are in those markets prior to that flood of capital chasing those opportunities.

Additionally, and generally speaking, it would be a time really to cull and review the portfolio, whether it is tactically selling off some of those nonstrategic assets, given the flood of capital that's chasing core, or then buying additional capital -- or buying additional assets prior to that capital chasing those same assets.

On the non-core side, we would focus really on distress and the recovery in the market, and/or recovery and growth -- I'm sorry -- growth in the emerging markets. So it really can be broken down to distress in the developed markets and growth in the emerging markets.

There are opportunities, as Terry alluded to before, with regards to whether it's assets and owners not having the available capital to pay down loans, so therefore it would be an opportunity to go in and take over that loan and ultimately foreclose and own the asset. Additionally, capitalizing on the emergence of the middle case, the availability of credit and strong real estate fundamentals in the emerging markets.

So with that, we go ahead and open it up to any questions that you may have with regard to the overall market or specific portfolio performance.

GOVERNOR SCOTT: Does anybody have any questions? Thank you very much.

MR. KOCH: Great. Thank you.

GOVERNOR SCOTT: Move to Florida soon, next time you present.

MR. KOCH: A tight time line.

GOVERNOR SCOTT: Ash knows what that means.

MR. WILLIAMS: Okay. Thank you. Why don't we move on to Item 12, the review of the Pension Plan policy transition, Kristen Doyle.

MS. DOYLE: Good afternoon. It's good to be here again. I'm going to provide a brief update on the asset transitions that have been noted during this meeting already with regards to the global equity, real estate and fixed income transitions. I also wanted to note that there is a memo that's also included in your materials that has a bit more detail than what my slides I'm going to cover today have on them. So I'd be happy to address any questions that you have on those slides -- on that memo.

Over the past year the SBA staff has been diligently working to restructure the Pension Plan to achieve the new policy targets that were approved last June, as well as to restructure within a few of the additional -- the other asset classes. So given the size and complexity of these asset moves, we felt it was important to highlight them, as well as to provide an overview of the final results of these transitions, including both the cost and risk mitigation, as well as the timing of these transitions.

So just briefly, the global equity transition, the purpose of that transition was to re-allocate assets between U.S. and foreign equity in order to have a more global equity exposure relative to the market. Along those same lines, within the public real estate portfolio, there was a move from U.S. to global. So we expanded the mandates of three of the existing public real estate managers and added one global public real estate manager.

And then lastly, within fixed income, the goal there was to lower the allocation to the active core portfolio and to diversify among other external fixed income managers, as well as to increase the allocation to passive within that asset class.

So given the complexity and the size of the global equity and real estate transitions, the decision was made to hire a transition manager, which is a specialist that provides project management and training expertise when making large asset moves. So BlackRock Transition Management, which is one of the leading transition managers in the industry, was hired for both the global equity and the real estate transitions.

Careful thought and consideration were given to the actual implementation strategy before each of these transitions were embarked upon, taking into account the significant trading size, the complexity, the global nature of the trading that was going to need to occur, market exposure risk and currency risk.

The final decision was to execute over multiple tranches for both transitions based on a pre-defined schedule, and as this was determined to be the most effective way to control the costs and risks that we identified with regards to both of these transitions.

BlackRock has provided estimated transaction costs before each tranche and in addition provided significant transparency at the end of each tranche as well as at the end of the entire transition event, with regards to the costs incurred and where those were incurred and why those were incurred.

We reviewed those costs relative to their pre-trade estimates and determined that they were very close to -- the actual results were very close to what they estimated results would be as far as transaction costs before the transition event. And in addition took another step and hired a third-party transaction cost analysis provider to come in and review those costs that BlackRock had estimated, in order to ensure that they were accurate. And the conclusion there was that, yes, in fact, the information that BlackRock was providing as far as transaction costs were accurate.

GOVERNOR SCOTT: So what are some of the things they do? Is this how fast you get out of a position? Is that what they're doing?

MS. DOYLE: The transition managers, yes. They have significant experience acting as a trader, a trading facility as well as a project manager. So they are solely responsible for moving the assets that are in the legacy portfolio into the target portfolio and minimizing and controlling the costs and risks that are associated with that.

So not only are they -- do they have significant access to liquidity sources, as far as trading is concerned, in order to minimize transaction costs, things like market impact, you have a large trade in a U.S. equity name, you want to make sure you minimize the market impact that you have by trading across multiple trading venues. That's their expertise.

They also have strong back office and operational capabilities. So there's a lot of moving parts. You're dealing with multiple custodians, multiple money managers. And so they are also responsible for the operational controls.

GOVERNOR SCOTT: And they're completely separate from other things BlackRock does? So BlackRock is not on the other side of the trade or things like that?

MS. DOYLE: That's correct. They are 100 percent agency trading shop only, so they are never taking both sides of the trade. They're completely objective and conflict free.

And then lastly the fixed income transition, prior to this transition, this transition was -- we did not use a transition manager for this transition. Instead, the SBA fixed income team was responsible for this transition.

It was completed in two tranches. And prior to both tranches, staff provided a comprehensive transition strategy that was reviewed by Hewitt EnnisKnupp that appropriately measured costs and estimated costs that would be incurred by transitioning these assets. That is an extremely difficult task. As you all know, within the fixed income markets, there is a lack of transparency, and the over-the-counter nature of the fixed income market makes it very difficult to do that. But we felt that their approach was sound and thoughtful and appropriate. They also describe the implementation plan, so the plan is to control both cost and risk in regards to this transition.

So, as I mentioned, estimating and calculating transaction costs before and after a fixed income transition are extremely difficult. But if you look at the transition account, which is where the assets were restructured during the months when the restructuring occurred, given that the end goal for the majority of the transition was to be in a passive portfolio that tracked the Barclays Capital Aggregate Bond Index, we looked at the performance of that transition account relative to that index. And it either approximated that index or outperformed that index during the months when the restructuring was occurring, which indicates that transaction costs were not significant in order to impair performance.

GOVERNOR SCOTT: What does it cost to get a transition team like this? Is it based -- do you pay by basis points?

MS. DOYLE: The transition manager makes money based on commission, and it is a -- in the U.S. equity markets, it's cents per share, and in the non-U.S. equity markets, it's basis points. So there is -- they earn an overall commission based on the amount that they're trading. And that is all they earn. They don't earn any additional revenue from making a spread on a particular trade or trading foreign exchange.

GOVERNOR SCOTT: So you picked them because of expertise and they give you better pricing? Is that how you picked them?

MS. DOYLE: BlackRock is very competitive as far as pricing is concerned, that is true, especially given the fact that they -- they have such significant experience and reputation and relationships within the trading and brokerage communities that they're able to trade at very, very low cost, which means that the pass-through costs to clients like the SBA are very low.

The other reason we chose BlackRock was that they have a very experienced team that really specializes in these types of large global transition events, very complex, with many moving parts. We have a lot of experience using them, they have significant trading capabilities, and believe that they are the leading transition manager in the industry right now.

So, overall, we had one recommendation, that the SBA consider using a fixed income transition manager for the next large fixed income restructuring, whenever that should occur. But overall I just want to make sure that what's communicated is that these transitions were all executed prudently, very thoughtfully and with much time, effort and focus from all of the parties involved on minimizing the costs and risks that are associated with these types of moves.

I'd be happy to answer any other questions.

GOVERNOR SCOTT: So who makes the decision on this? How do you make the decision? There's a suggestion that the SBA utilize a transition manager. So you have nothing we have to do now. You're just talking about the next time.

MS. DOYLE: Yeah. So we -- we recently worked with the SBA staff on a transition manager search. And so what we did was we did complete due diligence on a group of transition managers in the industry that we felt would be appropriate for the SBA staff to have as a bench. So what we've done is signed contracts already with three entities that are currently available and ready for a transition event.

And one thing that we focused on, or one part of the transition manager search was fixed income capabilities, so that we were sure that we would have transition managers on that bench that had fixed income capabilities. And it will depend on the event and the nature of the event. The recommendation really is just for consideration.

GOVERNOR SCOTT: Okay.

MS. DOYLE: Thank you.

GOVERNOR SCOTT: Thank you very much.

MR. WILLIAMS: Thank you, Kristen. Why don't we move on to the revisions to the Lawton Chiles Endowment Fund investment policy. We go back to Mike Sebastian.

MR. SEBASTIAN: Thank you. Hewitt EnnisKnupp was asked to review the appropriateness of the investment policy of the Lawton Chiles Endowment Fund. And that essentially means a review of the asset allocation and overall appropriate risk level and diversification within the fund.

When we did this analysis, we kept at the front of our minds the objectives of the endowment fund, which are, first, the long-term preservation of after-inflation value of contributed capital, so over time, to preserve the real value of the dollars that were put into the endowment fund, and also to maintain regular annual cash outflows as defined by the spending policy of the endowment fund.

Our recommendations are, first, to maintain the current 71 percent allocation to risky assets that help generate long-term growth. And for the endowment fund this means stocks, U.S. and foreign stocks. We believe that the current lineup of asset classes for the endowment fund is appropriate, given its objectives and circumstances.

So essentially this means that, unlike some large endowments that have substantial allocations to areas like private equity and hedge funds, we don't believe that this is appropriate for the endowment fund given, among other things, its need for liquidity.

We do make the investment policy recommendation of combining the existing U.S. and non-U.S. equity asset classes into one global equity asset class that's fully diversified across the opportunity set of public equities.

The current policy is shown on this slide as well as the alternative policy. So we break down by asset class that is currently included in the endowment fund, the current percentage allocations to each and our recommendation as far as the alternative. So, again, no change in the overall stock/bond mix or risky/safe asset allocation of the fund. We do recommend combining the U.S. and non-U.S. components into one global component, as has been done with the defined benefit pension fund.

The impact of doing so is a modest increase in the expected return of the fund, both before and after inflation, a modest increase in risk associated with that, given the increase in the foreign equity allocation that's associated with moving to a global equity stance.

And probability of preserving real value maintaining at 50 percent, indicating that our expectation is that over the analysis period that we used, that the best guess, the median scenario shows real value of contributed capital of the fund being preserved. We'll have some more detail on that in a moment.

ATTORNEY GENERAL BONDI: So when you say modest risk increase, exactly would what do you mean by that?

MR. SEBASTIAN: The 12.3 percent versus 12.7 percent, to give you an idea, the 12.7 is approximately the level of risk or volatility that the FRS, the Defined Benefit Pension Plan operates at.

GOVERNOR SCOTT: So when you say 12.71, is that the spread in a year is going to be 12 percent down, or how are you saying that?

MR. SEBASTIAN: Statistically that means that -- so given an expected return, here about 7.2 percent, in two out of three years, you would expect the total fund to generate a return that's within plus or minus 12.7 percent of that expected return. So, you know, roughly 20 on the upside and, doing math here, about negative 6 on the downside.

So the relative change in risk is from the 12.3 to 12.7. So most of that risk is just being in the markets. And the recommendation we're making here is not to greatly alter that risk.

GOVERNOR SCOTT: And when you're saying that, is that the -- you don't anticipate a return of less than 6 percent, or worse than a negative 6 percent?

MR. SEBASTIAN: That could happen as well. So the negative 6 percent is the range we would expect to see between -- in about two out of three years. Clearly there could be years that have worse results than that. We saw that in 2008, early 2009. So that's certainly not out of the question. But we tend to look at that standard deviation, that volatility, as a range that we expect returns to be in most of the time. Downside risk and on the upside are also -- are beyond that potentially.

CFO ATWATER: Governor.

GOVERNOR SCOTT: Yes.

CFO ATWATER: Would it be accurate then for, just to look at the final numbers, would it just be accurate to state that the alternative policy provides maybe two additional basis points of return at 40 basis points of additional risk, or is that not the way to look at that?

MR. SEBASTIAN: No. That's a correct analysis. And you might look at that and think, well, that's not much of a trade-off in terms of additional return for the additional risk you're taking on. We think that the distinction between U.S. and non-U.S. stocks is fading. We think that it's really becoming one global equity asset class, where sales of U.S. companies or non-U.S. companies are so widely drawn around the world, it's no longer common to see companies earning all their revenues within their home country.

We just think that it's becoming one global world. And we think there are risks associated with concentration in one country, the home country bias that's shown here, where most of the public equity investments are in the U.S. We think there are risks there that aren't necessarily shown in the volatility, concentration in one economy, in one fiscal policy, in one currency and so on.

So although it might not show clearly with the 12.3 versus the 12.7, we think that over the long-run, it's an increase in portfolio efficiency to make this shift.

CFO ATWATER: So you don't have confidence in the 12.3 being accurate?

MR. SEBASTIAN: No, no, no. The 12.3 is volatility, is one measure of risk, and there are others as well.

CFO ATWATER: And just curious. Why wouldn't the suggestion be on the near term to just go 59 percent U.S. to 40 and then -- and shift the difference to non-U.S.?

MR. SEBASTIAN: Well, the 71 percent that we -- we don't show a split between U.S. and non-U.S. in that right column, but if we did, given the current market split between U.S. and non-U.S. in the global market, it would be about 32 percent U.S. equity and 39 percent non-U.S. equity. So that's our suggestion.

CFO ATWATER: A significant shift.

MR. SEBASTIAN: It is.

CFO ATWATER: And is that more in the emerging or where?

MR. SEBASTIAN: It's not proportionally more. Our suggestion would be to increase the existing non-U.S. equity component, which is about 75 percent developed markets and about 25 percent emerging markets. So we recommend a proportional increase in your investment in developed and emerging.

GOVERNOR SCOTT: Can you explain the probability of preserving that real value number again? What does that mean?

MR. SEBASTIAN: Sure. Perhaps one good way to do it might be to look at a picture, if that's all right. So this slide, which is six in the materials, shows two things. And we're jumping ahead a little bit, but a blue line to the left of the black divider line is the inflation-adjusted contributed capital of the endowment fund.

So the 700 or so million dollars that was contributed in 1999, the additional 975 or so that was contributed in the following years, the money that was taken out in 2008 and 2009, all that is reflected in that blue line, and then that's also increased year by year by inflation.

The green line shows the progression of the market value of the endowment. So it fluctuates with that contribution of capital in and withdrawals out and also market returns. So if that black divider line in the center between actual on the left, which we've experienced, and the projections in the future, you can see there's a gap right now between the blue line, at about a billion dollars, which is the inflation-adjusted value of contributed capital, and the current value of the endowment, which is about $767 million in the green line. The difference between those two is a gap the investment policy would suggest needs to be closed.

We believe that over a 15-year modeling horizon, which is consistent with what we've done in asset-liability work for the Pension Plan, for example, we believe that the investments suggested in the alternative investment policy, which includes the shift to more non-U.S. equities, we believe that over that 15-year time horizon that gap will be closed. So our best estimate is closure over that period.

But best estimate means that, because there's volatility in the markets, 50 percent of possible scenarios lie above that and 50 percent blow. And that's the 50 percent probability number you saw on an earlier page.

ATTORNEY GENERAL BONDI: And is that the favorable and the unfavorable scenarios we're looking at on this --

MR. SEBASTIAN: That's right, that's right.

ATTORNEY GENERAL BONDI: -- that scare me? Okay.

MR. SEBASTIAN: That's right. So those gray lines, that distribution just reflects the risk of the markets, and about 90 percent of scenarios over that 15 years fall between those, the top and bottom lines. Those are actually the 95th and 5th percentile.

So there could be an increase in risk, which we believe expectationally would close that gap sooner, an increase in risk meaning a larger allocation to stocks, but also widen that distribution of possible outcomes, and the downside outcomes being worse. At the same time you could lower risk and the gap might not be closed on a median basis, but you'd have less uncertainty about what those outcomes are.

We think that where you are in terms of level of risk and the level of risk in the alternative policy is about right. That closes the gap and it's associated with a reasonable level of risk around that. Our suggestion is to maintain overall level of risk, with the exception of the shift to foreign equity, which leaves you in about the same neighborhood.

GOVERNOR SCOTT: Are you picking allocation of risk tied to how much you think we need to get as a return?

MR. SEBASTIAN: I'm sorry. Could you repeat, please?

GOVERNOR SCOTT: Is your allocation of risk partially decided by what you -- what we need to get as a return for this?

MR. SEBASTIAN: That's right. That's right, so -- yes.

GOVERNOR SCOTT: So if we told you we didn't need as big a return, you would have less equity?

MR. SEBASTIAN: That's right.

CFO ATWATER: Just for my benefit, again, just on the near-term horizon, do you mind sharing where you think on the non-U.S. equity the real opportunities present themselves?

MR. SEBASTIAN: We think that -- let me phrase this question this way. When we're doing a planning horizon here, we're looking at a 15-year period.

We're setting an investment policy that you expect to earn a premium for taking risk over a long period of time.

We have views on the markets in more the medium term, the one- to three-years horizon, that might be more along what you're thinking. In that time horizon we're cautious about stocks. We're about the -- we have about the same view on U.S. stocks and non-U.S. stocks, which is consistent with my suggestion that we think global equities are one asset class.

We think that certainly there are risk factors associated with non-U.S. stocks in terms of the Eurozone crisis but also many similar, if not exactly the same, risk factors within U.S. stocks, our debt situation and so on. However, we like both U.S. and non-U.S. stocks more than we like the alternative of fixed income investments for the most part in that medium term, one- to three-year period, just given uncertainties in the fixed income market and the current level of interest rates.

So we think there's a lot of benefit to taking equity risk in general in the medium term, over one to three years, and we think that -- we're relatively indifferent between where you take that, whether it's U.S. or abroad.

CFO ATWATER: Relatively indifferent, but suggesting a rather significant shift from 59 to 32 and 12 to 39.

MR. SEBASTIAN: That's right. And I would frame that as the existing investment policy right now has a significant underweight relative to the opportunity set in non-U.S. stocks. So the current investment policy suggests a 59/12 allocation, so maybe one-sixth in non-U.S. equity, and it's closer to a half and half in terms of the global market and the opportunity set.

So we don't think that the fundamentals, either over the medium term or the long term, suggest having that big of a bet against non-U.S. markets, against the foreign markets.

GOVERNOR SCOTT: How did you come to the conclusion as far as what return we needed to get?

MR. SEBASTIAN: We would do that through two ways. One, there's not an explicit return target. With the DB Pension Plan, there's an actuarially expected rate of return. It's more complex with the endowment fund. So what we look at is, given the rule about spending, which is a complex rule but determines how much those annual distributions are, and given expectations about inflation and so on, what is the chance that the endowment will be sustainable, that you will meet what is specified in the investment policy of preserving real capital.

So we would say the amount of return you need is to achieve that objective over a reasonable time horizon. The reasonable time horizon we work with is 15 years. You can use a different one. But over that period I would point back to this exhibit and say the fact that you achieve that goal of preserving value over that time period, with this investment policy, the one you have now, with the exception of the change to foreign equities, would say that that's about the return you need. And the 7.2 percent or so that we project for that investment policy is about right for this fund.

CFO ATWATER: Governor, I was curious. Is this a -- I know you did this review for us. Is this a recommendation for us to contemplate or for us to approve today?

MR. WILLIAMS: It's on as an action item for today.

GOVERNOR SCOTT: Ash, the distributions that go out of here, how is this used?

MR. WILLIAMS: This is a statutory program where the primary emphasis is on tobacco-related programs.

GOVERNOR SCOTT: But there's not a requirement as far as a percentage distribution, is there?

MR. WILLIAMS: There's a legislative process where we have an annual -- I don't know if it's appropriated annually. How is that done? It's annually appropriated, and we distribute it out.

GOVERNOR SCOTT: I'm sorry?

MR. WILLIAMS: There's an annual appropriation for it, consistent with the statutory model, and we have that history. There has also been some history of extraordinary legislative redemptions. That's the big down line you see here, but that's obviously not what was tried to be modeled here.

CFO ATWATER: Did the investment committee have a chance to review this --

MR. WILLIAMS: Yes.

CFO ATWATER: -- and they've express their --

MR. GIDEL: Mr. CFO, I'm going to take a minute, if I can, just to try to put some of this in perspective. One of the other roles I play during the day is I'm on the endowment board at the University of Florida endowment. Looking at what you do as an individual and how you would appropriate capital to accumulate for retirement sends you in one set of risk-return parameters. In other words, as I sit over here during the day and manage capital for myself and other people, I think about things differently because I have a set of objectives that are very different.

When I approach the defined benefit plan here for the Florida Retirement System, that has a very definitive objective of paying out -- accumulating and paying out benefits over what could be a very long period of time.

It's hard for individuals to think, you know, when they come to deal with this and say, I'm worried about what's going to happen tomorrow in Europe, at the same time we're challenged, these gentlemen and ladies, to appropriate something that could last 40 or 50 years. That's a hard thing to kind of adjust, but you have to put yourself in that world.

Now come over here to the Lawton Chiles Endowment, which is not similar to the University of Florida endowment but not dissimilar, where what the challenge is accumulating capital that is being used to pay out whatever the criteria is over a different period of time. And, again, those time differences set up different investment objectives.

So I can tell you that at the University of Florida endowment, for example, 90 percent of that portfolio is in private equity and hedge funds, because the objective is to take -- is to make sure that you don't reduce volatility but grow those assets over time, because that's for research and scholarships, et cetera, very different than if you were going to pay people retirement benefits out of that.

So when the Council looked at this, you know, we have to kind of shift our hat again. It's a different pool of money than the Florida Retirement System. And as a consequence, one of the things that gets really confusing to people that don't spend all day in this environment is when you talk about risk. For example, if there is no risk, you would get no return.

So when we talk about risky assets, it's doing anything other than investing in a Treasury bill at zero. You have to accept risk. The risk comes with the volatility, which is hard to understand. Each of these asset classes performs differently against each other and against other types of investment environments under different circumstances. And that's what they try to quantify for us.

So when you look at this and say that you're going to take apparently more exposure to foreign markets, in many ways, when you look at the growth opportunities in Europe and the fundamentals, it may actually represent less risk. That's a very hard thing to do if you're not in those markets all day.

All I'm suggesting to you is that we looked at it, we understood what we -- the movement that we're making and thought, for this endowment, with this kind of criteria, that that was the most appropriate shift to make.

And reiterating what Mike just said, to leave it the way it is and make -- it makes five out of -- five-sixths in the U.S. markets and one-sixth, you're betting against the foreign markets in an overall pool of capital, which would be an inappropriate, in our view, investment program.

I'm sorry to take the time, but this is one of those where you have to kind of think about what is the pool of money that you're managing and how best to invest it to get the highest levels of return at the lowest amount of volatility. And that's what we're all --

CFO ATWATER: I think it's a healthy

conversation. I don't think you're wasting our time or need to apologize for coming back up. And I certainly can appreciate, that is a very healthy way to look at all of this. And it is just that when we look at certain GDP numbers around the globe at this moment, ours isn't great, but there aren't that many other places and certainly you can't point to the European continent as the standard bearer at the moment.

And we just worked the last transition -- the last report was how quickly you worked the last transition of those dollars. So all I'm thinking in my mind is that next one to three years. While we're throwing political barbs at each other in this country, they're throwing Molotov cocktails. Okay?

So other than some places in Asia with GDP growth and some places in South America with GDP growth, I'm just curious. That's just a pretty big swap, from 12 to 39.

MR. GIDEL: But you have -- unfortunately government has become a big noise in the capital markets and in the investment markets. Meanwhile a lot of people are going to work and figuring out how to sell more cereal and how to sell more fried chicken in China.

And as a consequence, what's happening that we sometimes have a hard time visioning is how the United States GDP, as part of the world GDP, is shrinking. And just take Procter & Gamble, for example. How much of their sales are actually in the United States versus overseas. If you invest in Procter & Gamble, you're investing overseas.

It's a very hard thing to understand unless you spend your time thinking about what are my investment opportunities. And I think to the average American -- I hate to categorize that -- many of whom have never been overseas or invested overseas, it's a hard thing to contemplate how fast many of these companies are growing and the investment opportunities that really were not available to us in a sophisticated, visual, transparent way just ten years ago.

These markets are evolving, and they're clearly more risk, but they can't be avoided if you're investing for a long period of time.

CFO ATWATER: I'm not just suggesting -- it's just how quickly we worked the last transition. I mean, to someone's credit, we worked that transition, what, in six months? Okay. So we're talking now -- we're still 25 percent of the entire global GDP, even though we're shrinking. That's not bad. So it's just 12 to 39 in six months or whatever the plan may be, that's just --

MR. GIDEL: Remember, this isn't $125 billion that you're talking about either.

CFO ATWATER: I understand. It's --

MR. GIDEL: This is the endowment fund, which is --

CFO ATWATER: But it's everything to that fund. It's everything to that fund. It is the universe to this fund.

MR. GIDEL: Yeah, exactly. Well, the University of Florida endowment is 2 billion.

CFO ATWATER: And I'm pulling for you.

MR. GIDEL: And I'm as much concerned about that as I am about the Lawton Chiles Fund. Trust me, I go home -- the Governor is always asking people what will keep you up at night. All this keeps me up. You know, if I could stop watching CNBC and if I could get my money back on some of the deals I've made overseas, I might feel differently, too.

But we worry about this all the time. Yet at the same time investing requires a process, discipline, you know, and making sure that you're staying on course. I can remember dealing with the State of Maryland, who was a client of mine in 1987. And their Board of Trustees literally sold every equity they had before the market crashed. The problem was they had no money in the market when it came back. And so that's what's difficult. That's what requires patience during these volatile periods, and some faith.

CFO ATWATER: Well, that's kind of all I'm asking for, is what's the transition period that we're talking about here, because if in the near term -- unless, again, there is a strong sense that in the near term we're missing tremendous opportunity in the next six months, I just would be curious how quickly we would attempt to restructure that 71 percent of the portfolio.

MR. GIDEL: We don't deal in tactical allocation or implementation. We're strategy. So we approve the strategy. It's not appropriate for me to comment on how quickly they would make that.

CFO ATWATER: Well, who would?

MR. GIDEL: One other, if I can -- I'm sorry. One other comment that I'd like to make is that when we came before you last meeting and recommended, you know, the further diversification into private equity and alternative investments, it's a further comment, it's a further response to your concern that having so much exposure to the equity markets, both domestic and foreign, is a level of risk that we were uncomfortable with.

And so as a consequence, we were hopeful that we could move forward with those allocation decisions that could put more money in assets that aren't as volatile and who could take advantage of some tactical moves in distressed debt or long-short strategies that can be a little bit more tactical than just putting your money in foreign markets or domestic markets and hope.

And so I would encourage you again, as much as you can, to move that legislative agenda forward and get those changes made so that we don't find ourselves in a position where we have nowhere to go but continue to be exposed to these markets.

GOVERNOR SCOTT: I have a different question. My question is not so much moving the international equity from 12 percent to 39 or whatever you move it to. Is it -- it's more important to get a -- to have growth in the value of the principal than it is to worry about the risk of the principal going down? I guess that's what we're saying?

MR. GIDEL: That's a philosophy. I mean, I will tell you I feel the same way, you know, at the University of Florida, where you have 2,500 endowment people like you or -- you know, that have given money for an endowment. It's a very hard thing to go back and tell somebody that our investment program froze your endowment and it can't go to fund cancer research.

It's the same thing here. You can make that kind of decision, that you reduce risk significantly and it doesn't grow, and then unfortunately at the other end it doesn't provide the capital, the distributions for what the endowment was --

Unfortunately, Governor, I don't really -- I've not spent a lot of time on the distribution side of this. And maybe that's an appropriate discussion to take place, to see if that may in fact be a worthwhile study.

GOVERNOR SCOTT: Having 71 percent in equities, that's the decision we're making. It's more important to grow the principal than it is to take risk that the principal is going to go down.

MR. WILLIAMS: Just to clarify, the decision we're making today is not to change the overall risk level of this portfolio at all. It's to change the composition of it so that it structurally mirrors the global equity capitalization of our world and no longer is an explicit active bet on the U.S.

And we don't generally try to tactically time those sorts of changes. You're the trustees. And if that's your will, it's your decision. But our recommendation was to move forward with it.

GOVERNOR SCOTT: Okay.

CFO ATWATER: I just want to say, I can appreciate that as an investment philosophy, you know. At the same time, I just don't want to run into a burning building. That's all. I can appreciate for a long-term horizon. I just -- you can't help, you know, our own human experiences, and I appreciate your suggesting that we have -- we come to this room with certain biases or observations of the moment. And I just wish I had -- it doesn't seem like an unreasonable question to be asking in return --

MR. WILLIAMS: No, it's not.

CFO ATWATER: -- what is the tactical plan. We made the last transition quite rapidly. And that was the assumption, I think, that may have been taken away from the meetings when those policy changes were made. And maybe somebody out there would have a far different take, that the most hurried and rushed conversion from a 59 percent U.S. portfolio to a 32 percent and a 12 to a 40 should be done posthaste.

GOVERNOR SCOTT: We could do this in a day, though. This size portfolio, you could do this in a day.

MR. WILLIAMS: I don't think this would be a complicated transition to make.

GOVERNOR SCOTT: Yeah. This would be -- it's not that much money.

MR. WILLIAMS: But that said, I guess I'd say two things. Words like "hurried" and "hasty" aren't in our vocabulary. We're about prudence. That's what the analysis was you just heard. And I would say, with something like this, one of the things you have to always keep in mind, keep in mind the way human beings are wired.

The very things -- and you're exactly right, CFO. The very things that would give any of us pause about European markets right now or certain other non-U.S. markets that might be unappealing or even those that are appealing -- some of the Asian markets have their own issues associated with them. Those things in a lot of ways are priced in.

And it is often the case that exactly when it's least comfortable to buy something, it's an opportune to do so over the longer horizon. And our ability to likely perfectly time either tops or bottoms, I don't claim any expertise in that area, but we've been pretty good at being reasonably right in the long-term strategy.

And if the will of the group is to slow this down until you have some higher level of comfort, that's fine. If you want us to take that under advisement and use our own judgment, we'll do that, too. Your call.

GOVERNOR SCOTT: All right. Any other questions?

ATTORNEY GENERAL BONDI: I'd like to hear your thoughts, Governor. If we slowed this down, what impact would that have?

MR. WILLIAMS: Well, that's the thing. Our crystal ball has never been great. We do the best we can, just like everybody else. And I think our advisers sort of constitute all the king's horses and all the king's men in terms of quality of expertise and global views.

But we just have never claimed to have expertise in market timing. And I'm not sure exactly what the bell is we would want to hear ring to say, okay, it's time, let's rebalance the Lawton Chiles Endowment and put it on a global benchmark. Things change day to day.

GOVERNOR SCOTT: I'm comfortable going forward.

CFO ATWATER: Well, Governor, I think there is a point -- and I appreciate how the AG was asking the question, how you've been thinking about it. We put all this process in place. We have talented people on the investment committee that we trust or we wouldn't have picked. I think the conversation we've just had is very healthy. And I wish, you know, we were having this one in April or March, but then I may -- Greece may be gone at that point and we're on to Portugal. I mean, so, I may not be any more comfortable at that point.

I'm -- and no offense to my friends from Greece. I meant the debt, not the country. And so I'm willing, Governor, to move on and accept the --

GOVERNOR SCOTT: All right. Is there a motion for Item 13?

ATTORNEY GENERAL BONDI: So moved.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Moved and second. Show Item

13 is approved without objection.

MR. WILLIAMS: Thank you. And let me just say, we will work with our transition advisers, our other partners, et cetera, and we will not be hasty.

CFO ATWATER: And I didn't mean to suggest that was the philosophy either. We talked -- Governor, I'd just say this. Earlier on the agenda, a Florida State Seminole asked two Florida Gators up here to either motion and second dormitory construction for Florida State. That was a much more difficult decision.

GOVERNOR SCOTT: I think we're doing the right thing. I think we need to have a healthy discussion.

ATTORNEY GENERAL BONDI: Right.

GOVERNOR SCOTT: And the other thing is, I welcome anybody that is -- has money, whether we're talking about the pension fund or anything else, this is the State, citizens' money. And if they have ideas, they ought to be sending them to us. So I look forward to hearing from people. And as you know, I do sometimes.

But thank you very much for your candidness and thank you for the information, and I look forward to seeing you at the next meeting. This concludes our

Cabinet meeting. Thanks, everybody, for their service. We're adjourned.

(Whereupon, the meeting was concluded at 3:30 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, Jo Langston, Registered Professional Reporter, do hereby certify that the foregoing pages 4 through 124, both inclusive, comprise a true and correct transcript of the proceeding; that said proceeding was taken by me stenographically and transcribed by me as it now appears; that I am not a relative or employee or attorney or counsel of the parties, or a relative or employee of such attorney or counsel, nor am I interested in this proceeding or its outcome.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of October 2011.

JO LANGSTON
Registered Professional Reporter