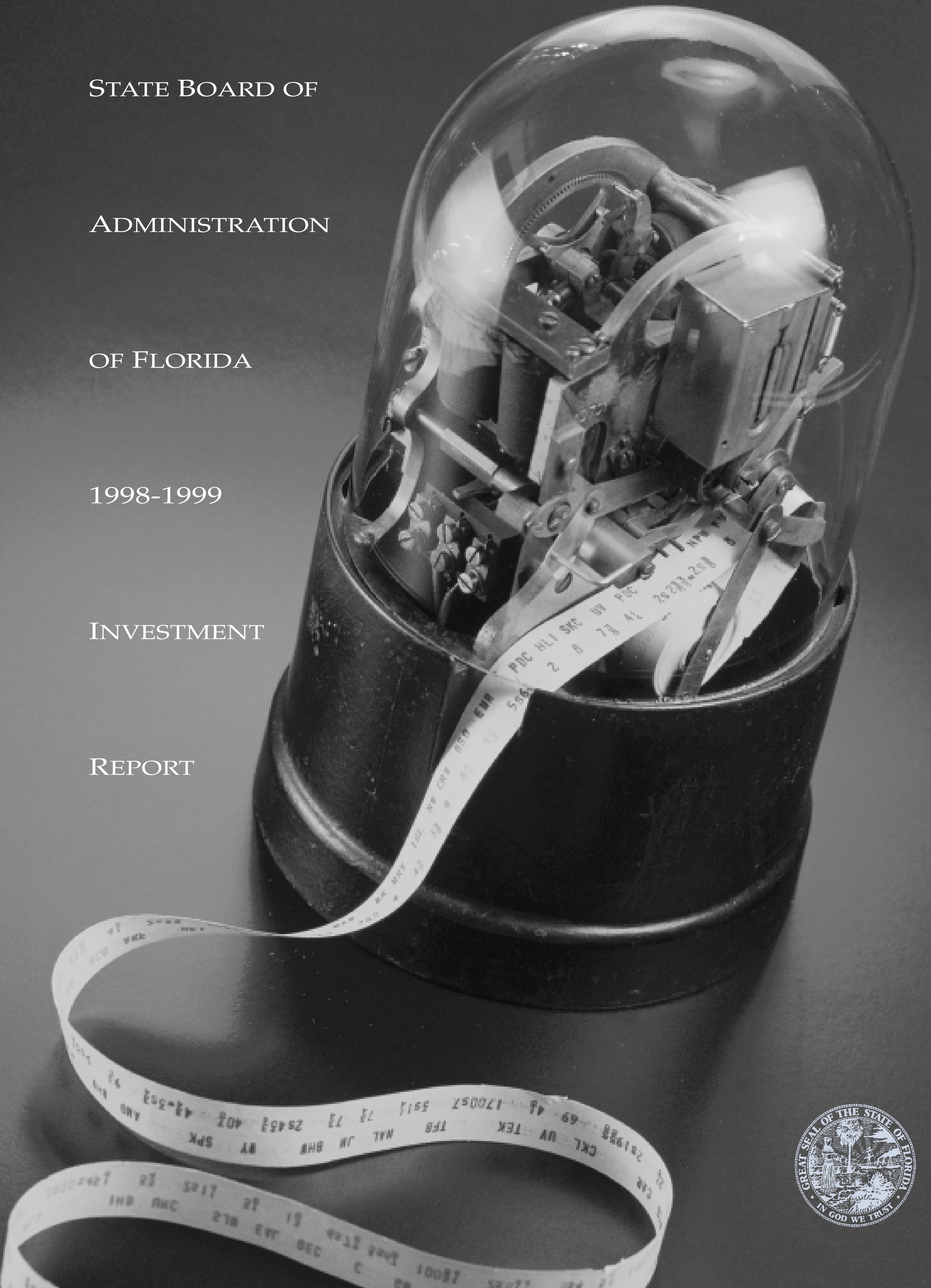
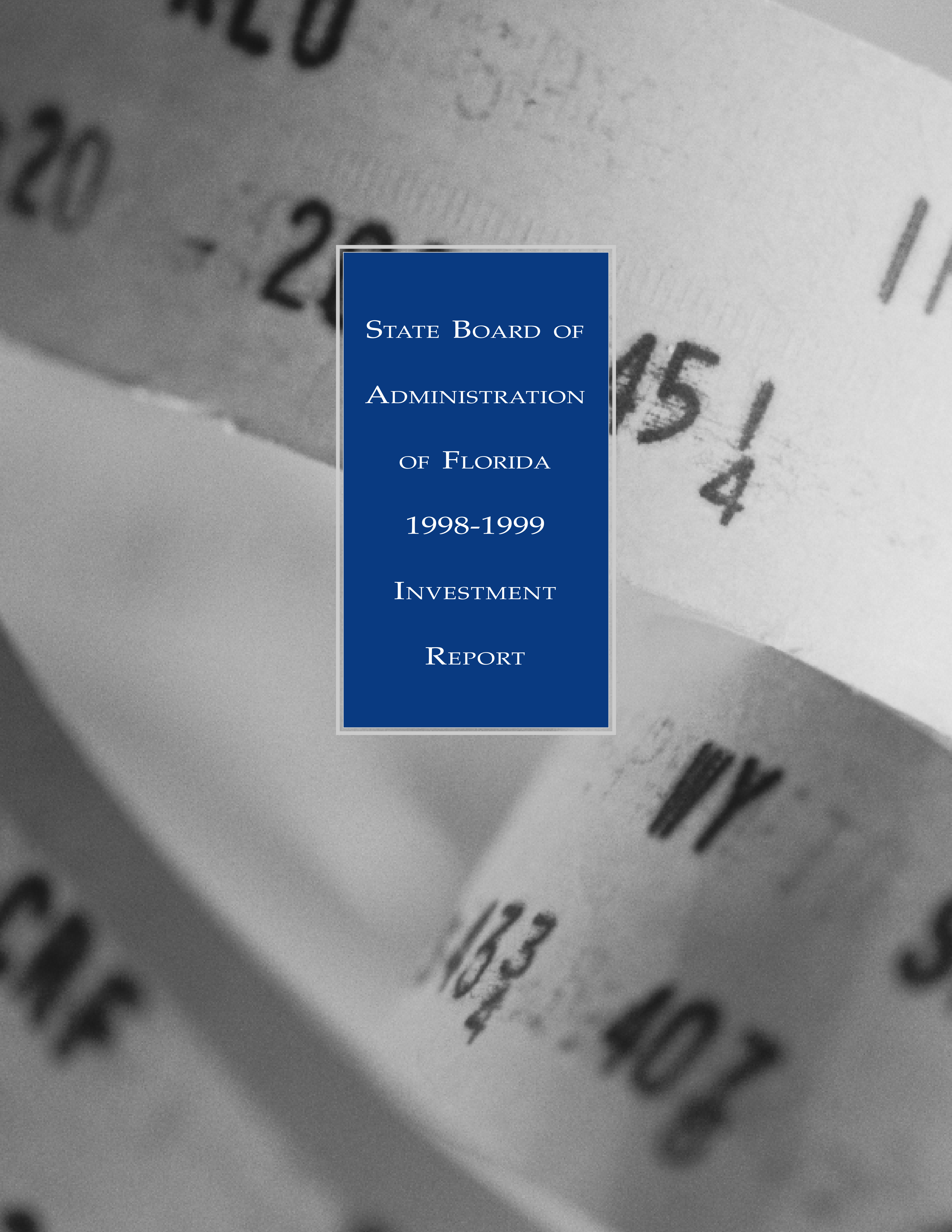
State Board of Administration of Florida

1998-1999 Investment Report



Great Seal of the State of Florida
In God We Trust



State Board of Administration of Florida 1998-1999 Investment Report

STATE BOARD OF ADMINISTRATION OF FLORIDA
Post Office Box 13300
32317-3300
1801 Hermitage Boulevard
Tallahassee, Florida 32308
(850) 488-4406

January 1, 2000

To The Honorable Members Of The Florida Senate
And House Of Representatives:

It is our privilege to transmit the annual Investment Report for the State Board of Administration for Fiscal Year 1998-99 pursuant to the requirements of Subsection 215.44(5), Florida Statutes. The Report presents an analysis of fund performance and investment considerations during the fiscal year covered by the Report, as well as the longer term performance, which more appropriately reflects the long-term nature of our responsibilities.

The SBA is a team of people dedicated to providing exceptional investment, financial, and administrative services to members of the Florida Retirement System and state and local governments. In order to maintain our position as a recognized leader in the industry, we will strive to:

- Maximize the return on investment while prudently managing risk.
- Effectively carry out assigned responsibilities while controlling costs.
- Perform our duties ethically and with integrity.

The Board has as its major investment responsibilities: the Florida Retirement System, the Local Government Surplus Funds Trust Fund, the Debt Service accounts for State bonds, the Florida Hurricane Catastrophe Trust Fund and managing the assets of various other trust funds. Each area of responsibility is covered in the Report.

In FY 98-99 the board had another excellent year of overall performance. With a 14% return on our investment we exceeded our actuarial requirement of 8% by 6%. We were able to reduce the SBA's management fees for the year and for the first time in our history, we were deemed by our actuaries to have actuarial full funding.

Respectfully submitted,

Jeb Bush
Governor, as Chairman

Bill Nelson
State Treasurer, as Treasurer

Robert F. Milligan
Comptroller, as Secretary

1998-99 Investment Report

State of Florida
State Board of Administration

Governor Jeb Bush, Chairman

State Treasurer Bill Nelson, Treasurer

State Comptroller Robert F. Milligan, Secretary

Executive Director
Tom Herndon

Investment Advisory Council
James H. Pugh, Jr., Chairman

William H. McBride, Vice Chairman

Dr. Donald A. Nast

Randi K.Grant

Russell Bjorkman

Gil Hernandez

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1998-99 Investment Report
State Board Of Administration

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SECTION I

INTRODUCTION

The State Board of Administration of Florida (SBA) has the following investment responsibilities: 1) managing the assets of the Florida Retirement System Trust Fund; 2) managing the assets of the Local Government Surplus Funds Trust Fund; 3) managing debt service accounts for State of Florida bond issues; 4) managing the Florida Hurricane Catastrophe Trust Fund; and 5) managing the assets of other various trust funds. SBA also administratively houses the Florida Division of Bond Finance and the Florida Prepaid Postsecondary Education Expense Board, which operate independently. The activities for Fiscal Year (FY) 98-99 are described in seven sections of this report.

Section I introduces the Report.

Section II contains the Executive Director's report on investments and organizational issues.

Section III describes the FY 98-99 investment activities for the Florida Retirement System Trust Fund (FRSTF). This section describes the economic environment existing during the year; an analysis of the changes in investment strategy; and presents aggregate portfolio asset allocations.

Section IV reviews the FRSTF investment performance and market environment for each asset class as written by the respective asset class Chiefs.

Section V summarizes FY 98-99 investment activities for the Local Government Surplus Funds Trust Fund (LGSFTF). The LGSFTF is a short-term, very liquid, high quality investment vehicle for participating local governments.

Section VI describes the investment activities in debt service accounts for state-issued bonds.

Section VII describes the other trust funds managed by the SBA. The funds include:
Department of the Lottery Fund
Institute of Food and Agricultural Sciences
Health Insurance Subsidy Trust Fund
Gas Tax Trust Fund
Florida Endowment for Vocational Rehabilitation Trust Fund
SBA Administrative Trust Fund
Bond Proceeds Trust Fund
Arbitrage Compliance Trust Fund
Revenue Bond Fee Trust Fund
Police and Firefighters Premium Tax Trust Fund
Florida Hurricane Catastrophe Trust Fund
Florida Prepaid Postsecondary Education Expense Program
Inland Protection Financing Corporation
Investment Fraud Restoration Financing Corporation
Tobacco Settlement Clearing Trust Fund
Portfolio expenses are reported in the SBA Administrative Trust Fund report, included in Section VII.

SECTION II

REPORT OF THE EXECUTIVE DIRECTOR

THE FLORIDA RETIREMENT SYSTEM TRUST FUND (FRSTF)

During FY 98-99, beginning July 1, 1998 and ending June 30, 1999, growth brought the market value of funds under management to $118,127,509,695 from $102,684,863,518, an increase of $15,442,646,177. This represents an increase of 15% and each section of this report will identify the components of this growth for the funds under management.

The Florida Retirement System Trust Fund (FRSTF) is the largest investment services "client" of the SBA. The SBA invests the assets of the FRSTF consistent with statutory guidelines, administrative rules, the FRSTF Total Fund Investment Plan (Investment Plan), and internal policies of the SBA. The Investment Plan was constructed with the goal of maximizing the probability that investment results will be adequate to make funds available when benefit payments are due in future years.

The Investment Plan was established in 1988. It establishes the various asset classes to be used in the management of the Fund, and defines the target and policy ranges for each of those respective asset classes. There were no modifications made to the Investment Plan during FY 98-99. Further detail regarding the Investment Plan asset allocation targets and policy ranges is contained in Section III of this report.

The asset allocation decision is the most fundamental one faced by any investor and will explain in excess of 90% of subsequent investment performance experience over time. The policy ranges established in the Investment Plan afford the SBA staff some investment flexibility but clearly prescribe ranges within which its tactical investment activities must take place. This limits the amount of risk that can be assumed through active asset allocation in the decision making process. The asset classes established in the Investment Plan for management of FRSTF assets in FY 98-99 include:

Domestic Equities

International Equities

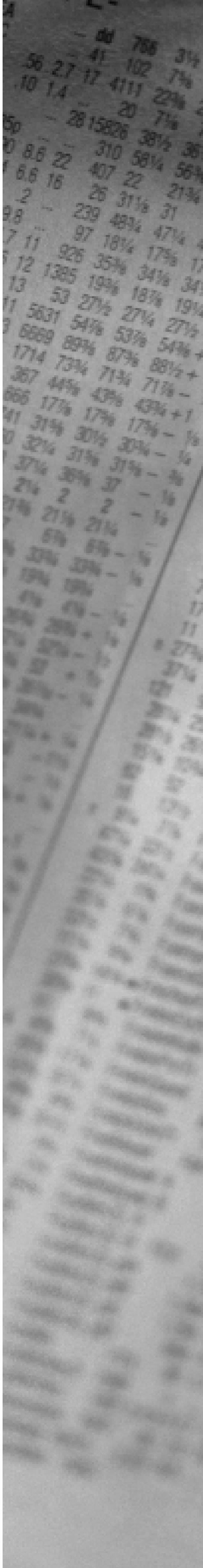
Fixed Income

Real Estate

Cash and Cash Equivalents

Since asset allocation is the major determinant of long-term performance, the Investment Plan is designed to assure that the Fund benefits from the long-term asset class returns regardless of management's potential reaction to short-term market phenomena. The policy ranges reflect the liquidity constraints for a portfolio the size of the FRSTF and the desire for a disciplined approach to investment management. This philosophy is best expressed in a book entitled ***Investment Policy*** authored by Charles D. Ellis: "The principal reason for articulating long-term investment policy explicitly and in writing is to enable the client and portfolio manager to protect the portfolio from ad hoc revisions of sound long-term policy and help them hold to long-term policy when short-term exigencies are most distressing and the policy is most in doubt."

Alterations to asset allocation within the prescribed ranges are typically a consequence of natural market movement and economic cycles within the U.S. and internationally, as well as relative valuation across asset classes.

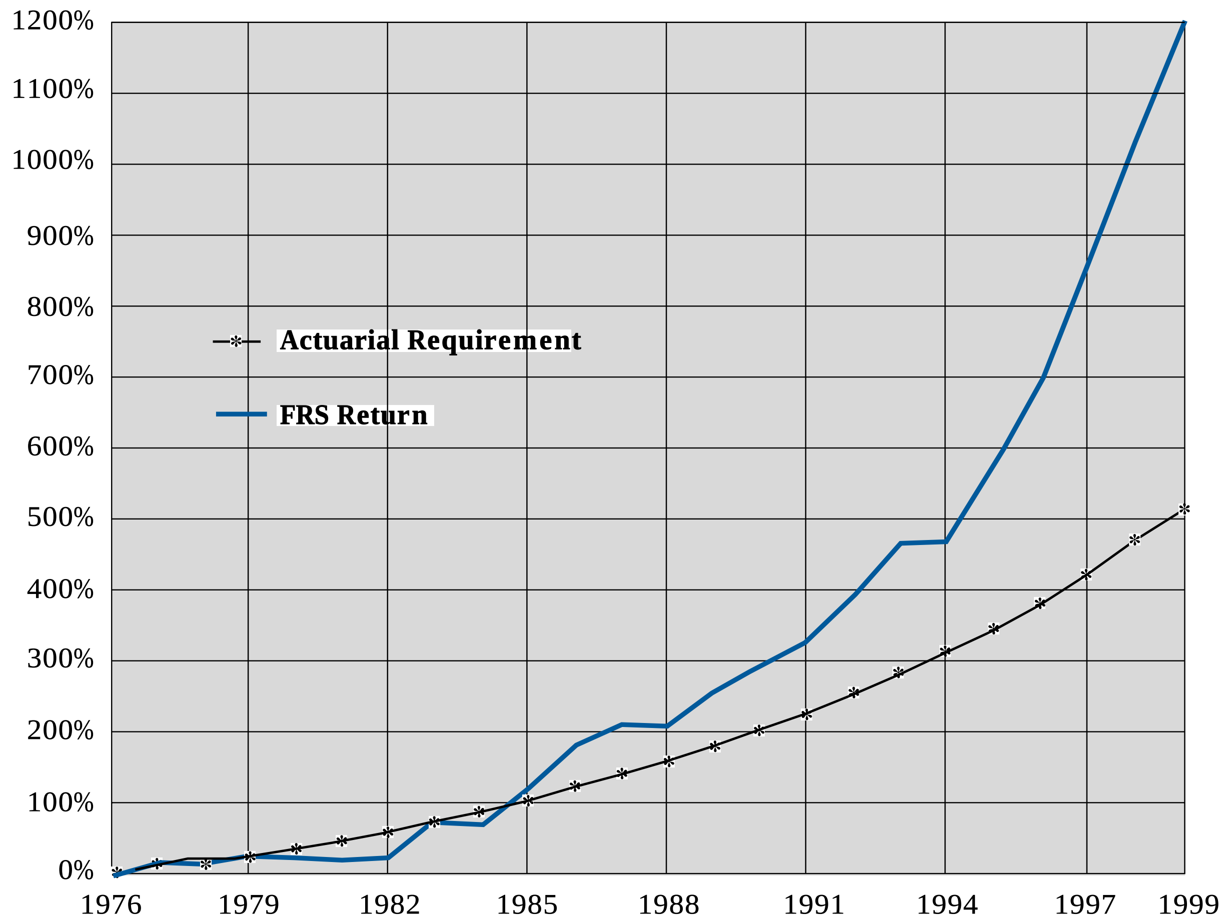


Actuarial Investment Return Assumption And Actual Investment Performance

The fundamental mission of the SBA's investment activity on behalf of the FRSTF is to achieve or exceed the "actuarial return assumption" over the long-term. Our current actuarial return assumption is 8% per year and this has been our return assumption since 1987. Eight percent (8%) is a commonly used actuarial return assumption among pension plan sponsors. This is likely because 8% is a reasonable approximation of returns one could anticipate by holding an appropriate mix of the dominant asset classes mentioned above using expected returns based on historical data. While the SBA establishes internal investment targets we hope to achieve, the most fundamental measure of our investment success is, in fact, our performance relative to the actuarial return assumption.

For FY 98-99, the investment return for the FRSTF was 14%, as shown in the Performance Table on page 26, calculated net of external management fees, versus an actuarial investment return assumption of 8%. While actual investment experience for the specified period materially exceeds the actuarial investment return assumption and is welcome news, one must remember that it is the long-term perspective that is most important for pension plan sponsors and beneficiaries. Investment experience will naturally vary from year to year with the financial market environment. The astute observer will note investment performance in individual years with interest but will place the greater weight on long-term experience and trends. Over the past twenty-two years, the average actuarial requirement has been 8%. The chart below shows how the cumulative return on the FRSTF has consistently exceeded the actuarial requirement, net of external management fees.

FRS Cumulative Return
Fiscal Years 1976-1999



Perhaps the most significant event of FY 98-99 was the conclusion reached by the actuaries that for the first time the FRS was fully funded on an actuarial basis. In large measure this is due to the strong returns in the U.S. equity markets; however, the SBA has been positioned well to take advantage of the bull market. Our strong financial position resulted in a significant decrease in employers' contributions effective July 1st, 1999. The 1999 Legislature acted to implement the results of the Unfunded Actuarial Liability (UAL) working group and authorized a reduction in contribution rates of approximately 1/3 or $1.1 billion systemwide. These reductions are reflected in the operating budgets of the various FRS employers in the form of lower pension cost per employee.

Investment Management And Risk Controls

The SBA is attuned to meeting the needs of its investment clients and provides customized portfolio management appropriate to the liabilities of the client. The SBA is likewise attuned to the priority of maintaining an appropriate institutional investment environment emphasizing competent management and adequate risk controls. The growth of funds under management and the associated growth and expansion of the organization, as well as the complexity and increased responsibilities assigned to the SBA, have demanded that risk management be a primary area of focus. Organizations which enjoy the reputation of not only being good investment managers but also good managers of both investment and organizational risks generally have the following characteristics:

- Risks have been clearly identified, and detailed policies, guidelines, and/or procedures are in place to control those identified risks.
- Policies, guidelines, and procedures are periodically reviewed to determine if any new policies need to be established or existing policies need to be enhanced. During the year, a draft policy was developed to better manage the risks associated with the implementation of the Investment Plan. The policy is expected to be finalized and adopted in the upcoming fiscal year.
- A system to monitor compliance with the policies is in place and periodically reviewed.
- Senior management is committed to risk management as one of its primary objectives.
- External resources are utilized to provide additional oversight.

Unfortunately, for the first time in our history the SBA was the victim of a staff embezzlement. Thankfully, the crime was uncovered by internal personnel and the perpetrator was brought to justice. As a result however, the SBA has terminated soft dollar funding and successfully transitioned to a commission recapture program. In addition the SBA has created an internal compliance office and filled that vacancy with a compliance officer.

External oversight of SBA activities is accomplished in several ways. Florida Statutes provide for an Investment Advisory Council (IAC) to be composed of six individuals with appropriate financial expertise, appointed by the Trustees and confirmed by the Florida Senate. This group meets quarterly for the purpose of reviewing investment performance, strategy and decision making, and providing insights, advice and counsel on these and other matters when appropriate. Members of the IAC serve without compensation and provide a constructive forum for consideration of investment and organizational issues and provision of information to beneficiary constituencies. Furthermore, in January 1999 Jeb Bush was elected Governor and took his place as Chairman of our Board of Trustees. Governor Bush appointed two new IAC members to replace two members whose terms had expired. Mr. Russell Bjorkman and Mr. Gil Hernandez began their service at the Spring 1999 IAC meeting. Recognition and thanks are due those who served on this council during fiscal year ended June 30, 1999:

James H. Pugh, Jr., Chairman
William H. McBride, Vice Chairman
Dr. Donald A. Nast
Randi K. Grant
Russell Bjorkman
Gil Hernandez

An additional element of oversight is independent production of performance data relating to SBA's portfolios. Performance numbers used in this report are generated by third party performance reporting services independent from SBA staff to provide a greater level of credibility to users. The SBA currently uses a number of external consultants and third party vendors to provide oversight, counsel, and program perspective on a variety of issues. Finally, audit oversight provided by the Florida Auditor General's office is appropriately intensive for an investment institution of SBA's size and responsibilities. It should also be noted that third party vendors utilized in the management of our investment activities such as bank custodians and investment managers are likewise subject to regulatory authority and audit.

Local Government Surplus Funds Trust Fund (LGSFTF)

The Local Government Surplus Funds Trust Fund (LGSFTF) is designed to offer a liquid, high quality, low cost investment vehicle to counties and municipalities in Florida as well as other eligible local governmental entities. The LGSFTF market value of funds under management was $10,561,795,073 on July 1, 1998 and $11,308,052,029 on June 30, 1999. Net contributions and transfers totaled $121,729,011 and income and investment market value gain totaled $624,527,945. Section V contains additional detail regarding this Fund.

Debt Service Funds

The SBA has continued to work with the Division of Bond Finance, other governmental entities and outside technical advisors, in managing compliance with Federal regulations relating to investment arbitrage earnings. Investment activities designed to maximize reserve efficiencies are conducted consistent with lawful allowances for such activity. The total market value of Debt Service Funds managed at June 30, 1999 was $4,476,313,442. Additional details regarding Debt Service activity are contained in Section VI of this report. Of note is the fact that the Board of Trustees approved a further reduction in fees for the administration of non-escrowed bonds (or debt outstanding) from 1.75 bp to 1.0 bp effective July 1, 1999. This fee reduction will result in additional savings to bond issuers of approximately $1,095,000.

Other Trust Funds

In our specialized trust fund management activities, we review the investment requirements of each participating entity and manage those assets consistent with known fiduciary obligations. Investment strategies undertaken to achieve the long-term objective and to enhance return are consistent with the obligations and specific purposes for which the trusts were created. The SBA began managing funds for the Investment Fraud Restoration Financing Corporation and the Tobacco Settlement Clearing Trust Fund during FY 1998-99. Additionally, the Lawton Chiles Endowment for Children and Elders was established by the legislature during 1998-99 for implementation July

1. This endowment will initially be funded at $725 million and expected to grow to $1.7 billion. Further, the SBA expects to implement a new trust agreement with the Division of Blind Services in early FY 1999-2000.

Investment Issues

The following is a brief review of investment related issues pertinent to the administration of funds under management during FY 98-99.

- **Domestic Equity Asset Class** - The long time Chief of Domestic Equities retired December 31, 1998 after many years of distinguished service. His replacement, Mrs. Susan Schueren, came on board early in 1999 and is working vigorously to manage the various asset class activities.
- **Real Estate Asset Class** – The portfolio management system described in last year's report is now on line and operating. Staff turnover in this unit was significant in FY 98-99. While all vacancies have been filled there will be some transitional challenges as the new personnel execute their duties.
- **Fixed Income Asset Class** – This asset class has the responsibility for managing all non-pension fund assets as well as the long-term fixed income assets for the pension fund. Asset class activities are organized under three senior managers -–Long-Term Active Management, Short-Term Portfolio Management, and Passive Management/Operations & Compliance. Additionally, at the close of the fiscal year all credit and quantitative research was consolidated under a single supervisory position for efficiency and enhanced administrative management.
- **International Equity Asset Class –** With the transfer of the former International Equity Chief to Domestic Equities, Scott Seery was promoted into the position of Chief of International Equities. Other vacancies were filled as well.

Organizational Development

As our organization grows and activities become more complex, it is extremely important to recruit and retain talent and to provide the training and experience which will enable us to fill new management roles as duties expand and to plan for smooth succession as current senior managers contemplate retirement over the next decade. Our recently instituted internship program has produced good initial results. Nevertheless, we continued to face relatively high staff turnover, especially in our critical investment classes. In response the Board approved a targeted competitive pay adjustment for investment class personnel, which is expected to aid in solving this serious issue.

We continued to place renewed emphasis on developing our vision and strategic direction. We continued our strategic planning process that allows the leaders of the organization to develop the vision and provide the direction to the organization. Through this process we developed a strategic plan that identified the most critical issues facing the Board. Building on these issues we developed near and longer-term goals through the budgeting activities to support the objectives. We also incorporated achievement of objectives into individuals' performance evaluations.

Of particular note is the fact that the SBA received the prestigious "Top Gun" award from the National Association of State Investment Officers (NASIO) for CY 1998. This award recognizes the SBA for attaining the best investment performance for the year for all the state funds who are members of the association.

Focus on Cost Control

Fiduciary duty focuses not only on the attainment of desired investment returns within a prescribed level of risk, but also on effectively managing costs. In the previous section on organizational development we emphasized SBA's desire to continue to recruit and retain quality staff. This is particularly important to the SBA since we currently manage approximately half of the pension fund assets and all of the local government and miscellaneous trust assets internally. This enables the SBA to be an extremely cost effective provider of investment services. Substantial investment activities are accomplished internally by SBA professionals at a fraction of the cost that would be paid for similar services purchased from outside providers. The infrastructure which exists to allow the SBA to operate the Local Government Investment Pool, for instance, enables us to also perform pooled cash management services for the large number of individual pension fund accounts which may at various times hold residual cash.

The FRS investment service charge was reduced to 1.75 basis points for the first three quarters of the fiscal year and during the last quarter of the fiscal year we implemented a "fee holiday"; there was no charge for services for that quarter.

Florida Hurricane Catastrophe Fund

The Florida Hurricane Catastrophe Fund (FHCF), created by the Legislature during the November 1993 special session, was one of the Legislature's responses to the State's property insurance crisis, which followed in the wake of Hurricane Andrew. The FHCF is a tax-exempt state trust fund administered by the SBA. The purpose of the FHCF is to provide additional insurance capacity by reimbursing insurers for a portion of their catastrophic hurricane losses. Insurers which write residential property insurance on structures or their contents are required to enter into a reimbursement contract with the SBA, to report their exposures, to pay premiums, and to report losses by calendar year-end or at other times as required by the SBA. Covered losses are reimbursed at year-end on an occurrence basis.

The FHCF is obligated only to the extent of its accumulated assets and borrowing capacity. Obligations of the FHCF are not obligations of the State. Should current assets be insufficient to pay obligations under the reimbursement agreements, the FHCF has the ability to finance a deficit by the issuance of tax-exempt revenue bonds. Such revenue bonds are financed by a special emergency assessment on all property and casualty insurers' direct written premiums, excluding workers compensation and accident and health. The bonding capacity for the FHCF has been estimated at $7.9 billion. The projected calendar year-end balance of the FHCF is $3.1 billion. Therefore, total projected capacity for the Fund at calendar year-end 1999 for the payment of losses, which may occur during the 1999 hurricane season is $11 billion.

The 1999 Legislature made an appropriation of mitigation funds as required by existing statute. The Legislature allocated a total of $8.1 million to the Department of Community Affairs for the following; public schools, shelters, computers, residential housing, highwind watching, received loan and underground utilities. In 1997, $2.8 million of the appropriated $10 million in mitigation funds was vetoed. In 1998, the Legislature allocated the $10 million set aside for that purpose by the SBA and $2.5 million of the $2.8 million vetoed in 1997. In 1999 the Legislature appropriated $10.3 million mitigation funds, of which $2.2 million was vetoed.

In addition, legislation was passed to essentially provide for subsequent season coverage. Please refer to the "Legislative Activity" section of this report for details on that action.

The Board wishes to acknowledge the Florida Hurricane Catastrophe Fund Advisory Council. The members of the Council include:

Yolanda Cash-Jackson, Chairperson
William Huffcut, Vice-Chairperson
Barney T. Bishop, III
Larry Johnson
Jim W. Henderson
Rade Musulin
Robert M. Peduto
Charles Michael Rucker
Joseph Varon

Also, in accordance with Section 627.0628, F.S., the SBA has the statutory assignment to house and staff the Florida Commission on Hurricane Loss Projection Methodology (Commission). Staff responsibility for the Commission was assigned to the FHCF staff. The FHCF coordinated the third year of the Commission activities. The statutory deadline to revise standards was successfully met. The Commission is ongoing and remains a responsibility of the SBA. The members of the Commission during FY 98-99 included:

Elsie Crowell, Chairperson
David Nye, Vice Chairperson
Jack Nicholson
Larry Johnson
Shahid Hamid
Joseph Myers
Jay Newman
Mark Homan
Ken Ritzenthaler
James O'Brien
Tim Lynch

Legislative Activity

The SBA followed several pension reform and investment related initiatives during the 1999 Legislative Session. Though immersed in pension reform issues, including a yearlong study of the Fund's Unfunded Actuarial Liability (UAL) status, SBA business interests fared remarkably well and were not adversely affected.

We continued to monitor proposed defined contribution legislation. One such piece of legislation provided for a fourth optional retirement program (ORP) for public employees in lieu of membership in the Florida Retirement System. The proposed program would have been a personally owned, fully portable defined contribution plan for the regular class members of the FRS. Vesting for both the defined contribution and the current defined benefit plan would have been in the second year, with full vesting by year six. The bill allowed the SBA to act as one of the nine providers, pending Trustee approval. Additionally, the SBA could have provided recommendations to the Division of Retirement in the vendor selection process if so requested by the Division.

Additional amendments were adopted during the legislative process, including language regarding a contribution rate estimating conference, a mechanism allowing the Trustees to comment to the Legislature on the rate estimating conference recommendations, a rate stabilization fund and wage indexing.

The bill underwent various permutations and ultimately was stripped of the defined contribution/pension reform language. However, the House and Senate negotiated intent language regarding pension issues. This language calls for an interim study on pension reform issues and will include a review of the current FRS and recommendations regarding the costs and benefits of alternative retirement plan options. The intent language states that the recommendations shall include a defined contribution plan. The report is to be compiled by Senate and House appropriations and governmental operations committees, prior to February 1, and sent to the presiding officers.

The final bill, as passed, includes the intent language mentioned above, as well as the contribution rate estimating conference and trustee commentary provisions. The contribution rate-estimating group will develop official information with respect to the economic and non-economic assumptions and actuarial methods and a determination of whether changes to the assumptions or methods need to be made due to experience changes or revised future forecasts.

We fully expect the defined benefit/defined contribution issue to reappear next Session as proposed legislation. We will continue to effect positive change within the framework of the pension reform process.

The Lawton Chiles Endowment Fund for Children and Elders created an endowment fund from a portion of the $13 billion tobacco settlement monies. Ultimately, the House and Senate agreed upon a $1.7 billion endowment and funds will be deposited over a four-year period with the SBA. Investment earnings on the endowment will be spent on children's programs, health and human services and biomedical research.

Legislation was passed to preserve reinsurance capacity in the Florida Hurricane Catastrophe Fund as a stable and ongoing fund for the years following a major hurricane. The legislation also intends to minimize the rate increases and policy cancellations for residential property insurance policies that are likely to occur following a hurricane that significantly depletes the reinsurance capacity of the CATF. Essentially, the legislation provides for subsequent season coverage. There were a number of technical/cleanup amendments to the bill as well.

The Florida Forever initiative, a successor to the P-2000 program, will continue the State's $300 million a year land preservation program. Ultimately, the program will spend $3 billion over 10 years, largely on land purchases.

The Department of Management Services bill carries the Florida Employee Long-Term Care Plan Act, which we reported last year. It calls for the Department of Management Services (DMS) and the Department of Elderly Affairs to design and implement a long-term care plan for public employees and their families. The SBA will enter into a Trust Agreement with DMS to invest the funds, and as the plan progresses, we expect to work with DMS regarding the investment strategy and trust agreement provisions.

The Florida Prepaid College Program initiated legislation this Session for a qualified state tuition program. The legislation authorizes tax deductible investments to pay for the cost of higher education, a type of state-sponsored mutual fund. The tax-exempt college savings program (expenses associated with tuition, housing, fees, books, supplies and equipment) is open to anyone and may be used for any approved school in any state (the current program allows the money to be used only at four-year Florida schools).

The Florida Endowment Foundation, created by the Jobs for Florida's Graduates Act during the 1998 Session, supports a school-to-work program for 12th grade at-risk students. The Foundation is a direct-support organization of the Department of Education. Our role will be to manage the Foundation's endowment fund moneys. The endowment's principal comes primarily from legislative appropriations (to date, approximately $3.5 million) as well as grants, donations, etc.

Pursuant to language in the Appropriations bill, the Board of Directors of the Florida Education Fund will transfer the management of its endowment to the SBA no later than June 30, 2000. The endowment of approximately $10.5 million supports the efforts of the McKnight Doctoral Fellowship Program, a program to assist candidates with their educational endeavors and increase opportunities for the program's graduates to be hired for faculty positions in Florida.

We will continue to monitor a wide variety of investments and pension reform issues during the upcoming 2000 Legislative Session.

Corporate Governance

The SBA continues to be active in the corporate governance area, voting proxies on issues presented at annual meetings of companies in which we invest. We believe that corporate governance plays an important role in enhancing our financial objectives as a long term investor. In addition to voting approximately 1,500 proxies on various management and shareholder proposals, the SBA has been actively involved in developing shareholder proposals where we feel it is in the best interest of the beneficiaries to do so. The SBA continued its participation in the Council of Institutional Investors, an organization which is the leading proponent of shareholder issues affecting public pension funds in the national arena. The SBA has also been active in the area of litigation, bringing suit directly and through derivative actions to protect shareholder interests.

Annual And Long-term Fund Growth

The following schedule provides the market values of SBA managed funds, by program, for FY 1995-99.

Investments, by Program

	Fiscal Year				
	1995	1996	1997	1998	1999
Florida Retirement System	$44,702,656,798	$54,005,340,686	$67,082,341,873	$83,444,658,787	$96,393,916,000
Local Government Pool	6,549,093,870	8,122,568,839	8,964,772,699	10,297,051,676	11,214,028,422
Local Government Nonpool	208,846,080	87,872,323	242,814,372	264,743,397	94,023,607
Debt Service	4,112,548,415	3,964,151,972	3,681,526,377	4,071,933,138	4,476,313,442
Department of the Lottery	1,692,691,820	1,797,560,515	1,978,545,882	2,238,476,987	2,156,603,913
Institute of Food & Agricultural Sciences	9,328,601	10,172,265	10,909,249	11,659,328	12,503,941
Health Insurance Subsidy	12,074,079	24,661,120	37,659,673	53,503,458	71,103,637
Student Loan Escrow	25,390	26,822	28,275	0	0
Gas Tax	0	0	0	75,203	0
Vocational Rehabilitation Endowment	9,549,644	10,905,951	5,867,016	6,080,065	6,339,158
SBA Administrative Expense	6,307,363	9,622,485	14,252,999	23,614,530	28,786,725
Bond Proceeds	305,797	401,381	218,066	0	0
Arbitrage Compliance	328,930	384,657	386,760	585,929	752,693
Revenue Bond Fee	2,231,248	2,328,892	2,613,846	2,980,727	3,198,312
Police and Firefighters	0	43,206,648	48,344,149	42,675,710	46,186,260
Florida Hurricane Catastrophe	604,334,505	1,086,338,987	1,624,611,774	2,184,067,944	2,549,857,078
Florida Prepaid Postsecondary Education (1)	3,273,407	1,786,782	2,102,714	4,168,076	86,771,488
Florida Prepaid College Foundation	1,622,103	2,722,572	3,865,275	3,576,784	5,303,979
Inland Protection Financing Corporation	0	0	10,480	35,011,779	24,833,952
Investment Fraud Restoration Fin. Corp.	0	0	0	0	10,964,847
Tobacco Settlement Clearing (2)	0	0	0	0	946,022,241
Market Value Totals	$57,915,218,050	$69,170,052,897	$83,700,871,479	$102,684,863,518	$118,127,509,695

(1) In past years, the total market value of the Florida Prepaid Postsecondary Education Expense Trust Fund was presented, including funds managed by external managers under the direction of the Florida Prepaid Postsecondary Education Expense Board. The amounts presented in prior years have been restated to include only funds managed by the SBA. SBA provides short-term investment services to the Florida Prepaid Postsecondary Education Expense Trust Fund. The total funds under management by the SBA at June 30, 1999 were $86,771,488.

(2) The Tobacco Settlement Clearing Trust Fund held $946,022,241 as of June 30, 1999. Of this, $725,124,778 was distributed to the Chiles Endowment Fund on July 1, 1999

Market Value Changes, By Fund

The following schedule provides the annual beginning and ending asset values and changes and sources of changes in the asset value of each fund managed by the Board, for FY 1998-1999:

			— Source of Market Value Changes —	
	Market Value* 6-30-98	Market Value* 6-30-99	Net Contributions and Transfers	Investment Gain(Loss)
Florida Retirement System	$83,444,658,787	$96,393,916,000	$1,246,079,122	$11,703,178,091
Local Government Pool	10,297,051,676	11,214,028,422	298,398,827	618,577,919
Local Government Nonpool	264,743,397	94,023,607	(176,669,816)	5,950,026
Debt Service	4,071,933,138	4,476,313,442	186,610,213	217,770,091
Department of the Lottery	2,238,476,987	2,156,603,913	(152,683,664)	70,810,590
Institute of Food & Agricultural Sciences	11,659,328	12,503,941	219,500	625,113
Health Insurance Subsidy	53,503,458	71,103,637	14,008,115	3,592,064
Gas Tax	75,203	0	(296,599)	221,396
Vocational Rehabilitation Endowment	6,080,065	6,339,158	(42,509)	301,602
SBA Administrative Expense	23,614,530	28,786,725	3,628,308	1,543,887
Bond Proceeds	0	0	(134,074)	134,074
Arbitrage Compliance	585,929	752,693	132,746	34,018
Revenue Bond Fee	2,980,727	3,198,312	43,756	173,829
Police and Firefighters	42,675,710	46,186,260	682,796	2,827,754
Florida Hurricane Catastrophe	2,184,067,944	2,549,857,078	237,822,387	127,966,747
Florida Prepaid Postsecondary Education (1)	4,168,076	86,771,488	81,447,256	1,156,156
Florida Prepaid College Foundation	3,576,784	5,303,979	1,359,000	368,195
Inland Protection Financing Corporation	35,011,779	24,833,952	(11,080,875)	903,048
Investment Fraud Restoration Fin. Corp.	0	10,964,847	10,823,550	141,297
Tobacco Settlement Clearing (2)	0	946,022,241	944,783,937	1,238,304
Totals	$102,684,863,518	$118,127,509,695	$2,685,131,976	$12,757,514,201

* Market value includes accrued income for all funds.

(1) In past years, the total market value of the Florida Prepaid Postsecondary Education Expense Trust Fund was presented, including funds managed by external managers under the direction of the Florida Postsecondary Education Expense Board. The amounts presented in prior years have been restated to include only funds managed by the SBA. SBA provides short-term investment services to the Florida Prepaid Postsecondary Education Expense Trust Fund. The total funds under management by the SBA at June 30, 1999 was $86,771,488.

(2) The Tobacco Settlement Clearing Fund held $946,022,241 as of June 30, 1999. Of this, $725,124,778 was distributed to the Chiles Endowment Fund on July 1, 1999.

SECTION III

FLORIDA RETIREMENT SYSTEM TRUST FUND

Overview

The SBA provides investment management of assets contributed and held on behalf of the Florida Retirement System (FRS). The investment of retirement assets is one aspect of the activity involved in the administration of the FRS. The Division of Retirement, the administrative agency for the FRS, provides full accounting and administration of benefits and contributions for the retirement system. The Division of Retirement initiates actuarial studies, recommends benefit and contribution changes, and proposes rules and regulations for the administration of the FRS. The State Legislature has the responsibility of setting contribution and benefit levels and providing statutory guidance for the administration of the FRS.

The Board

The SBA has the authority and responsibility for the investment of FRS assets. The Board consists of the Governor, as Chairman; the Treasurer, as Treasurer; and the Comptroller, as Secretary. The Board has statutory responsibility for the investment of FRS assets, subject to limitations as outlined in Section 215.47, F. S. The Board discharges its fiduciary duties in accordance with the Florida statutory fiduciary standards of care as set forth in Sections 215.44(2) and 215.47(9), F. S. Statutory limitations include:

- No more than 80% of assets can be invested in domestic common stocks;
- no more than 75% of assets can be invested in internally-managed common stocks;
- no more than 3% of equity assets can be invested in the equity securities of any one corporation, except when the securities of that corporation are included in any broad equity index or with approval of the Board; and in such case, no more than 10% of equity assets can be invested in the equity securities of any one corporation;
- no more than 80% of assets shall be placed in corporate fixed-income securities;
- no more than 25% of assets shall be invested in notes secured by FHA-insured or VA-guaranteed first mortgages on Florida real property, or foreign government general obligations with a 25-year default-free history;
- no more than 20% shall be invested in foreign corporate or commercial securities or obligations.

Investment Advisory Council

A six-member Investment Advisory Council (IAC) is appointed by the Board, subject to confirmation by the Florida Senate. The IAC meets quarterly and is charged with the review and study of general portfolio objectives, policies and strategies, including a review of economic conditions. The IAC met quarterly throughout the fiscal year and reviewed the rules and policies that were adopted, which included the Total Fund Investment Plan and supporting documents involved in the evaluation of the Investment Plan.

The Executive Director

The Executive Director is charged with the responsibility of managing and directing all administrative, personnel, budgeting and investment functions, including the strategic and tactical allocation of investment assets. In addition, the Executive Director is charged with developing specific asset class investment portfolio objectives and policy guidelines, and providing the Board with monthly, quarterly and annual reports of investment activities.

Furthermore, the Executive Director has investment responsibility for maintaining diversified portfolios and maximizing returns with respect to the broad diversified market standards of individual asset classes, consistent with appropriate risk constraints. Investments are made to maximize returns over a long period of time and may utilize a broad range of investments, including synthetic and derivative instruments.

Investment Objectives

The goal of the SBA, as stated in the Investment Plan, is to maximize the probability of achieving the actuarial rate of return on the FRSTF portfolio, subject to risk considerations. Our fiduciary standard requires that investments of the FRSTF be made solely for the benefit of the beneficiaries and for no other reason. In setting the framework for achieving its goal, the Board sets a relative investment performance objective for the Executive Director; to meet or exceed the composite of returns of financial market indices for the respective asset classes, as enumerated in a static "Target Portfolio". Individual portfolios have disciplined investment strategies designed to contribute to return in a positive way on a long-term basis, measured against performance benchmarks.

Risk

Risk must ultimately be assessed in terms of the goal of the FRS: providing funds to cover payment of retirement benefits over the life of the plan. The FRS is a young plan, and most of these liabilities are well out in the future. Risk is the prospect or danger of a shortfall in funds necessary to make these payments. Although the SBA concentrates on the investment risk, total risk for the FRS is affected by both assets and liabilities. Shortfalls typically occur because assets grow more slowly than anticipated, but shortfalls can also occur when liabilities grow faster than anticipated. Risk is thus not a generic abstraction like standard deviation, but the possibility of a real loss.

From the investment perspective, the probability of a shortfall is determined mainly by the expected return on the portfolio. Risk is a long term notion related to how confident we are in our asset return expectations over the life of the plan. Given the great uncertainty about the economic/institutional environment over this long period, we would like to invest in assets with very robust returns, those that can ride out the vicissitudes of economic and political events. From the liability perspective, we would like to minimize the impact of unexpected trends in liability growth due to these same events by using assets that respond to them in much the same way as liabilities do. In particular, FRS liability growth is sensitive to real state and national economic growth. Additionally, inflation is particularly important in determining benefit levels, so low risk assets would provide robust real, rather than nominal growth. A related concept is the short term volatility of the return: how variable the return is from period to period. The more volatile an asset is, the less certain one can be of achieving the expected return at any specific time. Short-term volatility does not imply that the long term expected return is in question, however. The significance of volatility increases as a fund matures from a position of net cash inflows to net cash outflows. With the FRSTF fully funded and with contribution rates having been materially lowered July 1, 1999, staff projects that the trust fund will experience a rough equality between contributions and benefit payments in FY 99-00, and then face net cash outflows beginning in FY 00-01. However, current income receipts from interest, dividends and rents should remain well in excess of net cash outflows for at least the next decade.

The classic goal of portfolio management is to maximize expected long term return (thereby reducing shortfall risk) subject to the ability to withstand the anxiety produced by the short term volatility of the return. The performance characteristics of the total portfolio are a function of the individual securities in the portfolio. To make the assessment of these characteristics manageable, the securities are grouped into homogenous classes referred to as asset classes. Studies have shown that over 90% of the expected return/volatility of any balanced portfolio is determined by the mix of the classes of invested assets, with the remainder coming from security selection within individual portfolios. The Investment Plan promulgated by the Board sets out a target allocation mix, or Target Portfolio, which is expected to satisfy the requirements of the FRS with an acceptable level of risk. The characteristics of the Target Portfolio, and thus its shortfall risk, are based on two things: assumptions on the return/volatility of the asset classes and performance of the asset class portfolios. If each asset class performs according to expectation, and each asset class portfolio matches its asset class's return, then the Investment Plan's expectations will be realized.

Examination of the sources of risk is most meaningfully done at the asset class level. The classes authorized in the Investment Plan are domestic equities, international equities, fixed income, real estate and cash. Each of these asset classes has its own characteristics, which are explained in the following paragraphs.

Stocks (international and domestic) have higher expected return and price volatility than any of the other asset classes. Stocks are shares of ownership in businesses; as such they represent a claim on its profits. Because of the uncertainty of return, stocks have historically yielded a higher return than other assets. Over the past 200 years domestic stocks have shown a remarkable ability to provide a real return, about 3% over the real growth rate of the economy and 6% over inflation. Multi-year periods of high and low inflation had about the same return. Stocks are thus a very effective way of participating in economic growth over time. This is reassuring on two fronts. First, we can have a high level of confidence of achieving the long term expected return; second, stocks are sensitive to the same economic factors as liabilities, suggesting they will move in tandem over time. The downside for stocks is short-term volatility; over the past 30 years the standard deviation is roughly 17%. While the expected annual real return is 6% a year, in any given year there is a roughly 35% chance of earning zero or less, which will generate a great deal of anguish periodically without affecting the long term risk. Moreover, if inflation remains muted in the intermediate-term, total returns on stocks may be close to 8% per year; roughly one-half as strong as returns over the last five fiscal years.

International stocks share many of the institutional characteristics of domestic stocks. Meaningful performance figures are available only since the early seventies, when the fixed foreign exchange system was eliminated and currency prices became determined in the market. Based on that period, international stocks have had a slightly lower return than domestic stocks, although volatility was higher. However, the pattern of returns is significantly different from the pattern for domestic stocks, adding a powerful diversification effect at the total portfolio level.

Bonds are contractual obligations, which may be used to lock in a nominal return for an extended period (typically up to 30 years). The price of this feature is that the real return is uncertain; locking in a nominal return also locks out flexibility. Over the last 200 years and major sub-periods, real returns have been in the 2-4% range, but real returns have waxed and waned with inflation. This makes bonds a poor choice for long term, unknown obligations. The positive for bonds is that their short term volatility is less than stocks at roughly 8%. With an expected annual real return of 3%, there is a 35% probability of earning zero or less in any given year. Although bonds have lower volatility on a short term basis, they are actually more risky in the long run (uncertainty about providing a real return commensurate with liability needs) because of their inability to respond to changes in economic conditions.

From the SBA perspective, real estate is an equity ownership investment. Mortgages and bonds, even those with a real estate base, are still considered to be fixed income investments. Over the relatively short available history of institutional real estate portfolio returns (about 20 years) we see that expected returns and volatility fall between those of stocks and bonds. We expect higher returns than bonds because of the ownership aspect, but the stability of rental income dampens volatility and keeps it closer to bonds than stocks. Returns appear to be correlated with inflation, doing well in periods of high inflation. Because of the difficulty in creating a large exposure and the uncertainty over whether real estate can be a long term capturer of economic expansion and a replicator of liability performance, real estate is less attractive than either foreign or domestic equities.

Cash, from our risk perspective, is the riskiest asset class. The long term historical return on cash has been lower than the other asset classes and in real terms has approximated zero for long periods. As a consequence, in the long run there is virtually a 100% probability of not achieving the actuarial required return using cash. This leaves diversification as the only potential role for cash. While its inclusion in a portfolio of volatile assets like domestic stocks will dampen the short term price volatility, the cost in terms of lower portfolio return is high. As it turns out, cash is overpowered by other, higher returning asset classes as a volatility reducer.

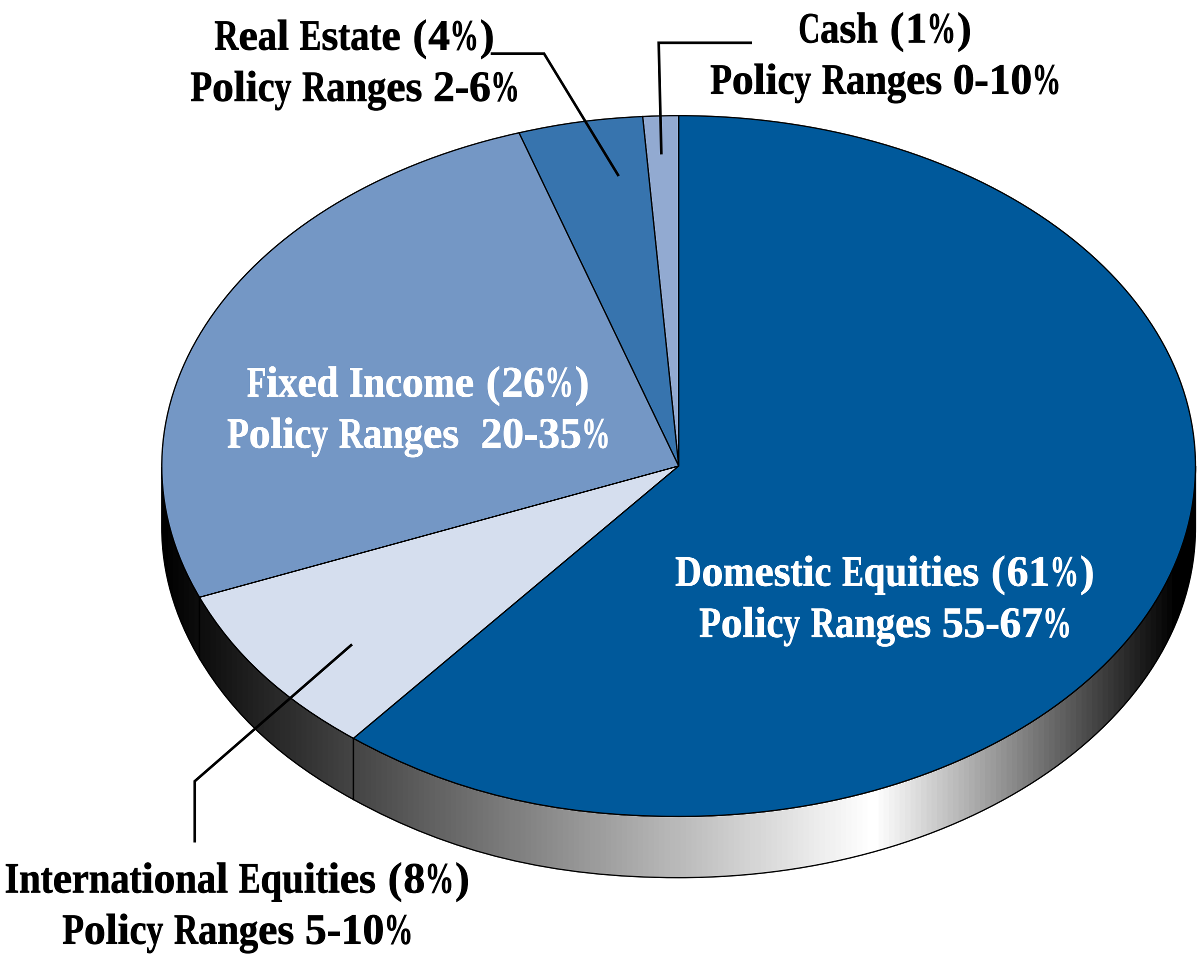
Thus, viewed from the perspective of risk, we have some specific reasons to prefer domestic stocks as the principle return generator in the portfolio. The straightforward way to reduce shortfall risk is to invest in assets with the higher expected returns; the higher-powered the portfolio's earning potential, the less likely it will make less than the actuaries require. The tradeoff is that stocks also have the greatest price volatility. Even for funds like the FRS that would not have to realize losses in market downturns to pay the bills, the size of unrealized short term losses may bear heavily. There is a limit to how much short term volatility even the staunchest long term investor can handle. A diet of straight domestic stocks is too strong and needs watering down. The role of the other asset classes in the portfolio (international stocks, bonds, real estate and cash) is to diversify away some of the volatility. Each asset class has a different pattern of price movement as their individual volatilities tend to cancel out. A judicious combination of various asset classes will thus reduce the total portfolio's volatility in the short run. In general, this is achieved at the cost of lower long-term expected returns.

The Board utilizes independent performance evaluation and actuarial consultants to assist in determining the Target Allocation. The Target Allocation addresses risk as reflected in the rules and statutes. To control for short term volatility and excessive exposure to any specific investment risk, the portfolio is diversified. Investments are diversified as to asset class, and within asset class by maturity, liquidity, industry, country, company and size among other considerations.

Asset Allocation

The Target Asset Allocation contained in the Investment Plan was not changed during the fiscal year. In pursuit of incremental investment returns, the Executive Director may vary the asset mix from the Target Allocation based on economic and market conditions and the investment environment for the individual asset classes. These factors may at times combine to make individual asset classes absolutely attractive (relative to their historical norms) or attractive relative to other asset classes. During the fiscal year, asset allocation was kept very near to the policy target allocation by incrementally addressing underweights as they appeared. The table below summarizes the Target Asset Allocation and Policy Ranges that were in effect during the fiscal year.

TARGET ASSET ALLOCATION & POLICY RANGES



Economic And Market Conditions: FY 98-99

Domestic economic growth continued to gain strength throughout the latter stages of the expansion while exhibiting few signs of price pressures, a highly atypical event from an historical business cycle perspective. Strong productivity gains have accelerated the pace of the expansion while helping to ease pressures on profit margins. The national economy and financial markets weathered a major international economic and financial crisis last fall. Although Asian manufacturing overcapacity limited the pricing power of manufacturing firms; it helped to offset domestic inflationary pressures by fostering deflationary import and commodity prices. World economic conditions stabilized by late spring, with increasing global demand putting upward pressures on commodity prices and rekindling inflationary fears.

The national economy overcame deteriorating trade flows and posted a 3.9% growth rate in FY 98-99, roughly the same robust pace as the prior two fiscal years. Consumer spending remained a major driver of the expansion due to near-record consumer confidence buoyed by high job security associated with a tight labor market, strong salary growth, and substantial increases in household net worth arising from atypically high equity market returns. Housing activity and light vehicle sales remained strong, and consumer credit accelerated over the first half of 1999 driving the personal savings rate to a post-Depression record low.

One of the beneficial ramifications of tight labor markets has been the accelerated pace of business investment. Investment in producers' durable equipment especially in information technologies continued to grow at a double-digit annualized pace over the fiscal year. Capital deepening has contributed to the elevated growth rate of labor productivity since 1995 and has been offsetting wage pressures over the latter stages of the expansion. Although it is still too early to declare that the productivity gains are structural (rather than being due to temporary factors), each additional strong quarterly release reinforces the structural change argument. Productivity growth favorably touches every facet of the domestic economy.

International economic and financial conditions deteriorated last fall for the second time in the last two years. Japan, the world's second largest economy, was mired in a severe recession and initiated a major fiscal stimulus package that addressed the structural problems in their banking system. Japanese and Asian manufacturing overcapacity gave rise to commodity and manufacturing goods price deflation that played havoc on both developing economies and commodity exporting nations. Brazil's economy contracted in the third quarter and was on the brink of falling into a recession that was feared to spread to other Latin American economies, and Russia defaulted on its sovereign debt. The International Monetary Fund's reserves reached their lowest level since the early 1980's after funneling a $47 billion financial rescue package into the economies of Thailand, Indonesia and South Korea. The uncertainties surrounding global economic conditions enabled the U.S. dollar to post record highs against a number of major currencies early in the fiscal year which, coupled with strong domestic income and weakening overseas demand, aggravated the trade deficit. Late in the fiscal year international economic conditions improved markedly, with most global economies at least bottoming out if not entering an expansion.

Burgeoning evidence of a possible credit crunch last fall prompted the Federal Reserve to intervene proactively three times over a seven-week period. World economic conditions stabilized by late spring. This, coupled with scant signs of an end in sight in the strong pace of domestic economic growth, excessively tight labor markets and the realization of substantial home resale capital gains, provided the impetus for the Federal Reserve to adapt a tightening bias at their May 18th Open Market Committee Meeting.

The current expansion's lack of excesses is evident in most measures of economic activity. The Federal Reserve has been able to avoid the boom-bust cycles that have been the norm of post World War II economic activity even in the face of exogenous shocks late in the expansion in the form of sharp downturns in many overseas economies and major disruptions in world financial markets. National economic growth during the current expansion has been steady but below that of the other major expansions, enabling the inflationary backdrop to be the most subdued of any of the expansions over the last 40 years.

Long-term interest rates have been volatile. Early in the fiscal year, international uncertainties, increasing equity market volatility, a rapidly improving federal surplus outlook, and a benign inflationary environment provided a bond friendly environment. But a wave of inflationary fears hit the credit markets in the spring due to a spike in oil prices, strong corporate supply, the persistent strength of domestic demand coupled with improved economic conditions overseas which put upward pressures on interest rates in the second quarter. The worldwide glut early in the fiscal year and tight domestic labor markets squeezed corporate profits from both the revenue and costs sides. Late in the fiscal year, the improvements in the global economy and benign domestic price pressures (other than the sizable increase in oil prices) improved the corporate earnings outlook.

Despite dropping sharply in the fall of 1998, domestic stock markets posted another strong showing of 19 percent in FY 1999. The average compound return has been a startling 26 percent for the past five fiscal years, far in excess of our long-term expectations for the asset class. International stock markets posted mixed results as emerging markets were hurt by Russia's default. However, Japan posted strong returns and helped non-U.S. stock markets rise by 10 percent for the year. Bonds provided roughly a 2 percent return as a wave of inflationary fears hit the credit markets and investors gravitated away from securities with credit risk. Double-digit real estate investment returns resulted from continued employment growth, steady office space absorption and brisk retail sales growth.

Looking forward, moderation in U.S. economic growth is forecast but the exact timing remains in question. Demographics and forecasted rising mortgage rates are expected to slow the housing industry. Y2K related expenditures will also be winding down although it is possible to get one last boost in third and fourth quarter activity. Excess capacity present in most business sectors will eventually lead to a slowdown in producers' durable equipment investment. Lastly, the stellar pace of consumer spending is unsustainable, and a slowdown in its growth rate is inevitable. A favorable inflationary backdrop is forecasted, the CPI and GDP price index are expected to drift upward but still remain at historically low levels throughout the intermediate forecast.

There are many risks to the financial markets that could impact current fiscal year investment performance. Although the Federal Reserve's proactive intervention markedly improved credit market conditions, lingering concerns over the instability in the global economy and a capital flight to quality remain, revealing a dichotomy between sound domestic economic fundamentals and the unusual strains in the financial markets. The inevitability of an eventual downturn in the stock market and its impact on the wealth effect also looms over the financial markets. It is highly unlikely that the stellar returns of the past four fiscal years will continue. Scant signs of an end in sight to the strong, unsustainable pace of domestic economic growth, an excessively tight labor market, and any upside surprise in the Asian growth rate will add to domestic price pressures.

Economic fundamentals remain strong, however. The continued absence of cyclical imbalances that are typical in the latter stages of an expansion and the rebounding in the global economy offers the most promise for the path of corporate earnings. The Federal Reserve has succeeded in orchestrating a sustainable economic growth backdrop that will likely propel the current expansion to the longest in the annals of U.S. business cycle history.

Asset Allocation For FY 98-99

The following schedules reflect asset allocation and market values by asset class. This perspective is appropriate for monitoring compliance with statutory limitations on asset holdings and is consistent with the target and range policies contained in the Investment Plan. The schedules on pages 24, 25, 27, 29, and 32 are presented by manager account. On page 35, Real Estate performance is presented by manager account and market values for direct-owned properties are grouped by property type. The intent of the latter presentation is to provide the reader with further insight into the diversified nature of direct-owned properties and partnership interests in individual properties.

Quarter-end asset allocations by asset class for FY 1998-99 were as follows:

	9-30-98	12-31-98	3-31-99	6-30-99
Domestic Equities	59.90%	62.87%	61.97%	63.32%
International Equities	7.35%	7.84%	8.01%	8.12%
Fixed Income	27.18%	24.39%	25.04%	23.73%
Real Estate	4.39%	3.81%	3.95%	3.83%
Cash/Short Term	1.18%	1.09%	1.03%	1.00%
	100.00%	100.00%	100.00%	100.00%

Aggregate Market Values

The aggregate market values by asset class for FRSTF funds under management for FY 1995-99 were as follows:

	6-30-95	6-30-96	6-30-97	6-30-98	6-30-99
Domestic Equities	$25,003,132,177	$29,729,621,775	$40,087,182,634	$51,899,774,220	$61,032,379,077
International Equities	3,273,959,700	4,326,118,464	5,830,831,664	6,337,999,093	7,823,315,481
Fixed Income	11,963,970,198	14,450,785,882	16,196,525,581	20,904,267,535	22,875,995,829
Real Estate	1,187,785,998	1,416,449,485	2,121,426,112	3,231,201,996	3,695,348,041
Cash/Short Term	3,273,808,725	4,082,365,080	2,846,375,882	1,071,415,943	966,877,572
Total Fund Value	$44,702,656,798	$54,005,340,686	$67,082,341,873	$83,444,658,787	$96,393,916,000

Quarter-end market values by asset class for FY 98-99 were as follows:

	9-30-98	12-31-98	3-31-99	6-30-99
Domestic Equities	$46,414,981,888	$55,866,803,202	$56,520,074,071	$61,032,379,077
International Equities	5,698,825,909	6,964,969,733	7,309,415,938	7,823,315,481
Fixed Income	21,060,547,552	21,678,474,561	22,834,830,337	22,875,995,829
Real Estate	3,401,945,927	3,385,552,321	3,607,329,158	3,695,348,041
Cash/Short Term	910,852,146	968,432,574	937,285,890	966,877,572
Total Fund Value	$77,487,153,422	$88,864,232,391	$91,208,935,394	$96,393,916,000

SECTION IV

FLORIDA RETIREMENT SYSTEM TRUST FUND PERFORMANCE

The following schedule provides the aggregate market value of each individual portfolio on a quarterly basis.

FRS Pension Fund Market Value at End of Quarter for Fiscal Year 1998-99

Account Name	6-30-98	9-30-98
Public Market Domestic Equities:		
- Active Core Portfolio	$ 4,757,047,512	$ 4,264,016,733
- Alliance Capital Management	3,679,634,127	3,319,754,947
- American Express Asset Mgt. Group, Inc.	1,360,328,062	1,165,891,590
- Aronson & Partners	327,852,129	378,312,134
- Barclays Global Investors Index	9,269,837,263	8,321,104,284
- Barclays Global Investors Low Cap	1,310,886,090	1,048,230,854
- Barrow, Hanley, Mewhinney & Strauss	1,433,723,224	1,182,076,143
- CAPFORM Portfolio	1,060,851,275	876,331,473
- Carl Domino Associates	95,969,445	85,331,942
- COMBAL	458,043	497,088
- David L. Babson	367,223,959	295,976,218
- Denver Investment Advisors	1,091,539,462	886,264,967
- Domestic Asset Allocation	164,250,522	407,480,839
- Enhanced Investment Technologies, Inc.	950,751,534	847,927,116
- First Quadrant Corporation	1,226,241,202	1,185,953,289
- Goldman, Sachs & Company	1,563,782,571	1,448,819,194
- Haven Capital Management	112,036,156	93,816,099
- Independence Investment Associates, Inc.	951,284,511	928,311,193
- Lazard Freres Asset Management	1,020,007,136	865,750,768
- PIVOT Portfolio	12,695,279,812	11,259,306,410
- Private Capital Management	107,140,976	85,878,620
Progress Trust: (1)		
- American RE Asset Management	56,087,478	47,100,482
- Brown Capital Management	71,044,652	63,263,842
- Edgar Lomax	49,910,507	52,475,444
- Fortaleza Asset Management	14,124,466	10,951,789
- Globalt, Inc.	60,187,922	52,033,450
- John Hsu Capital Group (2)	0	42,476,708
- New Amsterdam Partners	46,333,574	55,613,344
- Paradigm Asset Management	52,510,012	52,341,945
- Sloate, Weisman, Murray & Company (3)	59,648,534	122,095
- Sturdivant & Company	59,535,155	26,041,304
- Valenzuela Capital Management	35,331,166	28,140,630
- Prudential Asset Management Company, Inc.	1,837,880,186	1,656,571,772
- Putnam Advisory Company, Inc.	494,967,449	403,627,770
- Smith Barney Capital Management	548,250,476	543,323,894
- Special Situations	868,199,283	390,647,063
- Trinity Investment Management	521,334,491	442,379,709
- Wilshire Large Growth Fund	723,895,591	967,002,058
- Wilshire Large Value Fund	429,591,880	382,930,324
- Yieldtilt Portfolio	1,179,540,671	1,048,627,277
Private Market Domestic Equities:		
- Apollo Investment Fund IV, L.P.	8,912,856	18,400,457
- Carlyle Investment Management	100,448,751	101,281,302
- Centre Capital Investments	88,515,725	101,706,073
- Chartwell Capital Investors (2)	0	0
- Corporate Advisors, L.P.	99,138,841	52,547,393
- Cypress Equity Fund	4,379,656	5,671,856
- Green Equity Investors (2)	0	0
- Hicks, Muse, Tate & Furst	249,374,145	198,026,459
- Hicks, Muse, Tate & Furst Equity Fund IV (2)	0	0
- Liberty Partners	550,158,157	526,392,668
- LPNY Coinvestment Partners, L.P.	114,758,714	165,347,525
- Private Equity Cash (2)	0	0
- Ripplewood Partners, L.P.	23,412,247	26,739,672
- THL Equity Fund IV, L.P.	6,176,624	6,165,682
- TSG Capital Fund III, L.P. (2)	0	0
- Willis, Stein & Partners, L.P. (2)	0	0
International Equities:		
- Barclays Global Investors EAFE	3,294,649,683	2,831,358,970
- Barclays Global Investors Malaysia (2)	0	0
- Blairlogie Capital Management	255,922,729	262,083,921
- Capital Guardian Trust Company	354,492,215	300,391,339
- Capital Int'l Emerging Markets Growth Fund	109,877,942	144,998,938
- DICAM Emerging Markets (3)	5,213	0
- Genesis Emerging Markets	89,022,158	129,610,936
- International Asset Allocation	25,654,817	166,085,409
- Int'l Asset Allocation Commission Recapture (2)	0	104,081
- JP Morgan Investment Managers-Commingled (3)	6	0
- JP Morgan Investment Managers-Separate	119,918,667	130,124,126
- Morgan Stanley Asset Management	363,961,474	315,685,337
- Progress Common Trust	4,879,944	4,180,747
- Putnam International Advisors	389,603,724	317,802,533
- Rowe Price Fleming International, Inc.	320,020,898	236,163,729
- Schroder Global Emerging Markets	85,548,645	98,397,658
- Sprucegrove Investment Management	186,228,893	160,656,116
- SSGA Emerging Markets	297,739,695	231,983,706
- SSGA Daily Active Emerging Markets	83,759,783	77,919,582
- Templeton Investment Counsel	356,712,607	291,278,781
Fixed Income		
- ActiFed Portfolio	1,010,123,089	1,257,671,635
- Credit Suisse Asset Management	253,287,574	251,983,742
- FED Index Portfolio	5,459,968,846	5,495,874,209
- Fixed Income Core Portfolio	2,937,789,211	2,886,292,292
- Index Plus Portfolio	2,361,965,532	2,394,331,983
- MBS Index Portfolio	0	0
- Mortgage Asset Allocation (2)	0	0
- Offitbank	253,954,901	274,617,650
- Pacific Investment Management Company	267,776,097	280,879,520
- Salomon Brothers Asset Management	253,470,208	243,384,781
- Tactical Strategies Portfolio	2,133,402,785	1,918,099,038
- Taplin, Canida & Habacht (2)	0	103,390,808
Mortgage Group Trust: (1)		
- Alliance Capital Management	1,289,668,370	1,243,896,694
- APAM, Inc.	1,155,932,994	1,103,890,422
- Glenmede Asset Management	1,149,462,460	1,101,873,163
- Lincoln Capital Management	316,354,218	401,424,443
- Smith Breeden Associates	396,551,036	406,210,023
- Trust Company of the West	1,345,167,745	1,302,461,528
- Wellington Management Company	319,392,469	394,265,621
Real Estate:		
- Real Estate Directly Owned Investments	2,147,521,580	2,277,478,999
- Real Estate Commingled	357,705,331	362,827,596
- Real Estate Non-Capitalized Expenses	500,000	0
- Real Estate Short-term interest	0	1,783,670
- Real Estate Cash	334,623,755	396,671,872
- Real Estate Stock	390,851,330	363,183,790
Cash:		
- Cash & Central Custody	1,071,415,943	910,852,146
	$ 83,444,658,787	$ 77,487,153,422

(1) For presentation purposes the managers that make up the Progress Trust and the Mortgage Group Trust are reported individually.
(2) Account opened during the fiscal year.
(3) Account closed during the fiscal year.

12-31-98	3-31-99	6-30-99	Net Contributions and Transfers	Investment Gain (Loss)
$ 4,710,156,647	$ 4,492,128,745	$ 4,811,486,066	$ (996,700,410)	$ 1,051,138,964
4,392,347,281	4,867,269,913	5,041,596,577	100,000,000	1,261,962,450
1,317,531,125	1,234,803,898	1,421,126,052	54,000,000	6,797,990
473,587,872	498,472,571	540,769,219	94,000,000	118,917,090
10,348,322,157	10,924,197,648	11,683,041,474	175,000,000	2,238,204,211
1,294,896,706	1,222,793,065	1,433,417,445	57,000,000	65,531,355
1,348,618,106	1,430,191,574	1,585,379,662	0	151,656,438
1,101,178,275	1,036,815,501	950,712,739	(212,814,632)	102,676,096
98,195,463	100,579,118	109,410,220	0	13,440,775
526,141	600,708	613,736	0	155,693
336,221,303	310,563,016	364,498,689	0	(2,725,270)
1,125,904,239	1,173,805,499	1,269,785,932	0	178,246,470
70,338,389	1,614,374	100,800,169	(60,001,233)	(3,449,120)
1,046,989,048	1,092,130,591	1,176,819,995	0	226,068,461
1,442,066,209	1,497,154,631	1,578,636,873	100,000,000	252,395,671
1,779,553,549	1,819,049,422	2,001,284,585	50,000,000	387,502,014
104,790,287	103,903,505	113,504,237	0	1,468,081
1,148,040,226	1,182,991,258	1,282,218,796	100,000,000	230,934,285
1,064,670,322	1,109,398,027	1,208,440,712	0	188,433,576
13,556,684,931	13,966,732,810	15,002,807,571	(287,899,548)	2,595,427,307
100,723,566	104,927,853	134,206,064	0	27,065,088
58,348,813	58,757,159	63,997,532	0	7,910,054
80,093,506	80,243,679	98,815,521	15,800,000	11,970,869
58,727,116	58,845,458	68,570,896	7,500,000	11,160,389
13,316,213	11,485,760	6,780,239	(5,000,000)	(2,344,227)
63,217,989	65,036,028	82,269,006	13,300,000	8,781,084
54,784,452	62,595,206	94,878,695	80,000,000	14,878,695
68,993,864	69,965,039	73,805,710	19,000,000	8,472,136
60,183,974	61,547,263	34,593,069	(22,300,000)	4,383,057
0	0	0	(59,829,878)	181,344
30,256,915	30,573,860	33,561,743	(28,416,388)	2,442,976
33,235,620	31,211,214	10,315,565	(21,300,000)	(3,715,601)
1,870,092,433	1,860,067,520	2,121,291,187	100,000,000	183,411,001
475,553,739	422,852,061	499,133,712	0	4,166,263
624,776,779	641,434,472	691,579,488	60,000,000	83,329,012
463,597,027	467,494,868	501,423,961	(395,431,161)	28,655,839
509,797,202	488,211,320	544,661,800	0	23,327,309
1,216,154,327	1,315,519,169	1,361,788,403	280,000,000	357,892,812
436,011,138	435,908,416	470,344,068	0	40,752,188
1,164,333,176	304,221,188	216,410,141	(1,001,578,238)	38,447,708
54,555,803	64,607,415	114,669,640	92,643,230	13,113,554
149,885,970	154,761,136	185,519,946	3,342,702	81,728,493
127,051,297	137,273,945	167,456,276	44,701,336	34,239,215
2,682,727	6,392,000	12,068,000	12,719,110	(651,110)
47,466,647	36,572,151	29,480,064	(61,138,509)	(8,520,268)
6,019,203	6,907,604	7,220,109	2,319,380	521,073
0	240,131	0	550,382	(550,382)
230,369,982	221,689,379	241,497,419	(1,586,069)	(6,290,657)
213,635,267	223,680,743	250,572,920	228,211,018	22,361,902
671,680,290	685,227,682	747,147,441	172,676,114	24,313,170
165,042,317	186,317,020	255,864,112	110,710,070	30,395,328
0	60,289,576	77,585,886	77,021,193	564,693
37,401,571	42,654,872	46,761,631	16,777,572	6,571,812
18,196,003	26,164,154	61,637,941	31,281,311	24,180,006
0	31,202,856	40,120,335	43,505,993	(3,385,658)
0	0	9,999,808	10,936,655	(936,847)
3,397,642,476	3,441,609,890	3,541,003,077	(6,515,540)	252,868,934
12,117,762	13,729,366	23,547,224	8,416,828	15,130,396
372,668,083	382,476,313	386,325,485	114,000,000	16,402,756
429,250,801	491,336,032	535,609,406	95,085,409	86,031,782
198,218,553	224,712,870	216,233,593	45,000,050	61,355,601
0	0	0	(2,546)	(2,667)
182,787,105	190,503,915	202,462,303	89,992,707	23,447,438
370,990	1,903	7,692	(26,954,902)	1,307,777
198,704	323,796	492,004	0	492,004
0	0	0	(6)	0
146,619,950	159,423,485	192,379,721	41,000,000	31,461,054
472,645,802	511,062,455	542,208,806	130,000,000	48,247,332
4,993,705	4,981,263	5,357,695	0	477,751
405,014,728	459,640,892	490,332,240	64,378,000	36,350,516
278,508,538	281,617,395	289,583,424	(50,000,000)	19,562,526
114,203,947	126,470,973	123,249,910	0	37,701,265
210,770,255	217,557,255	305,378,475	90,900,000	28,249,582
273,470,169	300,710,983	323,982,851	(46,294,069)	72,537,225
99,035,962	126,520,034	155,346,235	34,294,069	37,292,383
366,452,203	376,737,118	489,815,340	102,200,000	30,902,733
1,337,258,587	1,583,562,991	1,575,125,823	560,884,627	4,118,107
263,046,023	279,895,246	273,197,230	21,250,000	(1,340,344)
5,606,350,415	6,005,234,644	5,941,532,916	430,570,000	50,994,070
2,966,388,260	2,980,207,508	2,951,297,412	17,700,000	(4,191,799)
2,381,496,060	2,439,122,292	2,417,964,456	30,900,000	25,098,924
564,663,500	725,612,586	722,498,921	715,868,660	6,630,261
100,632,693	512,110	2,232	(1,153,287)	1,155,519
278,890,057	289,898,606	291,305,037	30,000,000	7,350,136
284,457,932	323,032,741	363,060,408	86,400,000	8,884,311
252,040,872	242,198,952	241,259,183	(8,250,000)	(3,961,025)
1,874,770,770	1,983,003,611	1,984,256,878	(183,975,000)	34,829,093
206,742,281	202,610,439	232,440,823	232,000,000	440,823
1,158,118,761	1,161,809,864	1,129,809,730	(206,125,000)	46,266,360
991,267,787	965,117,303	961,643,470	(240,100,000)	45,810,476
984,641,079	994,368,691	990,298,115	(203,000,000)	43,835,655
404,995,393	418,787,056	416,147,129	85,000,000	14,792,911
409,869,736	480,576,282	512,109,551	101,300,000	14,258,515
1,216,290,688	1,281,765,332	1,276,534,879	(118,300,000)	49,667,134
396,553,667	477,514,083	595,511,636	259,280,000	16,839,167
2,551,449,014	2,568,593,721	2,553,236,541	137,249,446	268,465,515
364,296,625	368,201,197	369,382,823	(29,073,824)	40,751,316
0	0	0	(371,421)	(128,579)
108	1,071,825	0	(61,512)	61,512
117,683,911	334,975,953	422,766,670	74,121,295	14,021,620
352,122,663	334,486,462	349,962,007	(83,088,984)	42,199,661
968,432,574	937,285,890	966,877,572	(147,445,878)	42,907,507
$ 88,864,232,391	$ 91,208,935,394	$ 96,393,916,000	$ 1,246,079,122	$ 11,703,178,091

Annualized Total Fund Investment Performance

The performance of each asset class is measured relative to a broad market index as specified in the FRS Total Fund Investment Plan, and enumerated in the notes to the table below. The performance of the total fund is measured relative to an average of those indices, weighted according to the policy shares specified in the Plan. During FY 98-99, those weights were 61% Domestic Equities; 8% International Equities; 26% Fixed Income; 4% Real Estate; and 1% Cash. In addition, the performance of the total fund is measured relative to a long-term performance objective set forth in the Plan, currently 8%. Managed (actual) returns and returns of the target indices are presented below. A chart depicting cumulative long-term total fund returns relative to the investment objective is shown on page 4.

With the exception of the real estate asset class, the asset class target indices are not adjusted for implementation costs. Research indicates that the costs of earning these particular target index returns is on the order of zero. In the case of real estate, however, research indicates the typical cost of implementing a large-scale institutional program is on the order of 60 basis points.

ANNUALIZED TOTAL FUND INVESTMENT PERFORMANCE*
(by fiscal year periods)

	Five Years 1994-99	Four Years 1995-99	Three Years 1996-99	Two Years 1997-99	One Year 1998-99
FRSTF Total Fund (1,7)					
Managed Return	18.5	18.5	19.0	17.9	14.0
Target	19.2	19.2	19.5	18.2	14.1
Domestic Equities (2)					
Managed Return	25.6	26.2	26.1	24.4	19.0
Target	26.0	26.4	26.6	24.7	19.4
Public Market Equities (2)					
Managed Return	25.8	26.4	26.4	24.6	19.2
Target	26.0	26.4	26.6	24.7	19.4
International Equities (3)					
Managed Return	8.2	10.0	8.7	5.2	10.3
Target	7.7	8.9	7.5	4.7	10.8
Fixed Income (4)					
Managed Return	8.6	7.0	7.8	7.3	1.9
Target	8.6	7.0	7.7	7.1	1.5
Real Estate (5,8)					
Managed Return	9.3	10.1	10.8	10.6	11.3
Target	11.5	12.5	13.8	15.2	12.9
Cash (6)					
Managed Return	5.8	5.9	5.8	5.9	5.8
Target	5.3	5.2	5.2	5.1	4.8

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

(1) The Total Fund Target is the composite of returns on the respective asset class Targets, weighted by the Target Allocations. The Real Estate Target is not cost-adjusted in this calculation.

(2) The Domestic Equities Target was the S&P 500 prior to Oct. '94; from Oct. '94 - May '97 it was the Wilshire 2500; and from June '97 - present it is the Wilshire 2500 excluding tobacco stocks. The same Targets are used for Public Market Equities.

(3) International Equities began as an official asset class in July, 1993. There were limited international equity investments prior to that date and they are included in the Total Fund return. The International Equities Target was EAFE prior to Apr. '95; from Apr. '95 - present it is a mix of 85% EAFE and 15% IFCI (50% weighted in Malaysia).

(4) The Fixed Income Target was the Florida Extended Duration Index (FEDEX) prior to August '97; from August '97 - present it is the Florida High Yield Extended Duration Index (HYFEX) which equals 95% FEDEX and 5% Merrill Lynch B- and BB-Rated Bond Index.

(5) The Real Estate Target is the NCRIEF Classic Property Index.

(6) The Cash Target is the Merrill Lynch 3 month U.S. Treasury Bill, Auction Average.

(7) Dedicated Bond returns are included at the Total Fund level and are not included in the Fixed Income returns.

(8) For purposes of measuring asset class performance, Real Estate's annual Target return has been lowered by 60 basis points to account for the typical cost of implementing a large-scale institutional real estate program.

Domestic Equity Investments

As of June 30, our domestic equity portfolio was valued at $61.032 billion including an investment of $58.785 billion, or 96% in publicly traded equities and the remaining $2.248 billion in private equity strategies. Domestic equities accounted for 63.3% of the total FRS portfolio.

Equity market activity during the fiscal year might be viewed as an uneasy quest for leadership. Large-cap technology generally prevailed, however the ride proved bumpy with major corrections to tech stocks in September and April. The volatility was most pronounced in the internet group. Internet leaders AOL and Yahoo increased over five fold from July to April only to surrender nearly half their value from April through June. The latter part of the year witnessed strong relative performance by the oils, based upon the projected earnings benefit of a 70% rise in the price of crude in the January to June period.

Domestic equities established a definitive bottom in September. The 20% decline of the S&P 500 in June through September reflected the exceptional concerns by investors surrounding what became termed "the Asian meltdown" and added fear as the hedge fund, Long Term Capital Management, teetered on the edge of disaster. Following a quick snap-back, the market haltingly moved to new highs at fiscal-year-end despite an environment of rising interest rates.

Private equity markets were extremely active. The record-breaking levels of private equity investment seen in 1998 continued during the first six months of 1999. During the fiscal year, new private equity funds totaling $42.9 billion were launched and commitments to private equity funds totaling $46.0 billion were closed.

In this volatile market environment, the total domestic equity asset class produced a strong 19.02% total return net of external management fees and transaction costs. However, this performance falls short of the 19.38% return earned by our target and results in a relative performance of -0.36%. Over half of this fiscal year underperformance, -0.20%, stems from the weak relative returns in our developing private equity program during this period.

In total, the SBA closed the year with a portfolio of 15 private equity investments with total committed capital of just over $3.2 billion and a market value of $2.2 billion. The portfolio holds equity interest in over 100 companies in diverse industries and geographic locations. Over the fiscal year, the SBA experienced significant growth in its private equity portfolio, with invested capital increasing from $1.4 billion to $2.2 billion. We added four new private equity relationships with commitments of $250 million and expanded three existing relationships by providing commitments for an additional $850 million. Because early stage private investments typically produce flat to negative returns, these developments produced a noticeable short-term drag on annual returns of the asset class.

The public equity portfolio returned 19.23% and was broadly diversified across a total of twenty-one active and seven passive portfolio strategies at fiscal year end. Passive investments comprised 59.5% of our public equity portfolio. This sizable passive component helped us to capture broad market returns. Strategically, the active portfolio reflected an underweight to growth strategies, where extremely strong returns and relatively high valuations suggested a degree of caution. Net of external management fees and expenses, we underperformed our asset class target by 0.16%. Virtually all of this difference reflects our portfolio misfit – primarily the underweight to growth strategies during this period.

Our passively managed portfolio added an unusually large 1.2% return increment above benchmark during the fiscal year. The huge performance differential between large capitalization vs. small capitalization stocks during this period in concert with the fact that most of our passive indices utilize a sampled approach that underweights smaller, less liquid securities caused this performance differential.

As a group, our active managers underperformed their benchmarks by a disappointing 1.59% in a market environment that generally did not treat active strategies kindly. Individual results within our active manager group ranged widely, with individual relative returns as positive as +22.4% and as negative as -18.9% compared to their respective performance benchmarks.

The strong outperformance from passive portfolios neutralized the negative relative performance from active managers over the fiscal year and brought total active returns to a disappointing 0.0% across all strategies.

Following senior staff realignment, a new Chief was assigned to Domestic Equities at mid-point during the fiscal year. Subsequent to a reevaluation of each individual investment product, new investment initiatives have included efforts to revitalize our active strategies and lower tracking error on passive portfolios. New administrative initiatives have included termination of the soft dollar program, initiation of a new commission recapture program, improved cash flow controls for the private equity program, improved depth and breadth in performance reporting for both the public and private equity investments, and functional cross-training across various staff disciplines. As always, adequate staffing remains a challenge. During the fiscal year, domestic equities lost six employees to private sector employment and other forms of attrition.

Current investment and administrative initiatives in progress that are expected to bear fruit over the coming fiscal year include investment management fee renegotiations to cut costs, manager restructuring to improve relative performance and employee recruitment to achieve full staffing.

To summarize, the domestic equity portfolio slightly underperformed its performance target during the most recent fiscal year despite achieving strong total returns. Over half of the performance shortfall stemmed from growth in the private equity program. The remainder of the underperformance resulted from misfit – an overall value bias in the aggregation of individual portfolio benchmarks relative to the target. Active returns between individual portfolios and their benchmarks varied broadly among strategies and neutralized each other in aggregate.

The following schedules provide the relevant information for domestic equity portfolios during FY 98-99. The information includes:

- characteristics of the portfolios as to internal or external management;
- characteristics as to active or passive management;
- market values at the beginning and end of the fiscal year;
- net contributions for the fiscal year;
- investment returns for the portfolios measured in dollars;
- rate of return for fiscal year 1998-99; and
- attainment of benchmark returns for active and passive portfolios over the fiscal year, prior three fiscal years and prior five fiscal years, after deduction of external manager fees.

Domestic Equity Investments

	Account Name	Market Value 6-30-98	Market Value 6-30-99	Net Contributions and Transfers	Investment Gain (Loss)	FY 98-99 Rate of Return*	Meets or Exceeds Benchmark Prior 1 year (1)	3 years (1)	5 years (1)
	PUBLIC MARKET EQUITIES								
	EQUITY MANAGERS - EXTERNAL								
A	Alliance Capital Management	$ 3,679,634,127	$ 5,041,596,577	$ 100,000,000	$ 1,261,962,450	32.7%	Y	Y	Y
A	American Express Asset Mgt. Group, Inc.	1,360,328,062	1,421,126,052	54,000,000	6,797,990	-0.4%	N	N	Y
A	Aronson & Partners	327,852,129	540,769,219	94,000,000	118,917,090	22.9%	Y	Y	Y
P	Barclays Global Investors Index	9,269,837,263	11,683,041,474	175,000,000	2,238,204,211	23.0%	Y	Y	Y
P	Barclays Global Investors Low Cap	1,310,886,090	1,433,417,445	57,000,000	65,531,355	3.1%	Y	Y	Y
A	Barrow, Hanley, Mewhinney & Strauss	1,433,723,224	1,585,379,662	0	151,656,438	10.6%	N	N	N
A	Carl Domino Associates	95,969,445	109,410,220	0	13,440,775	14.0%	Y	N	Y
A	David L. Babson	367,223,959	364,498,689	0	(2,725,270)	-0.7%	Y	Y	Y
A	Denver Investment Advisors	1,091,539,462	1,269,785,932	0	178,246,470	16.3%	N	N	N
A	Enhanced Investment Technologies, Inc.	950,751,534	1,176,819,995	0	226,068,461	23.8%	Y	N	N
A	First Quadrant Corporation	1,226,241,202	1,578,636,873	100,000,000	252,395,671	18.1%	N	N	N
A	Goldman, Sachs & Company	1,563,782,571	2,001,284,585	50,000,000	387,502,014	23.3%	Y	Y	Y
A	Haven Capital Management	112,036,156	113,504,237	0	1,468,081	1.3%	N	N	N
A	Independence Investment Associates, Inc.	951,284,511	1,282,218,796	100,000,000	230,934,285	20.1%	N	N	N
A	Lazard Freres Asset Management	1,020,007,136	1,208,440,712	0	188,433,576	18.5%	N	N	N
A	Private Capital Management	107,140,976	134,206,064	0	27,065,088	25.3%	Y	Y	(2)
A	Progress Trust (5)					12.9%	N	N	(2)
A	American RE Asset Management	56,087,478	63,997,532	0	7,910,054	14.1%	(4)	(4)	(4)
A	Brown Capital Management	71,044,652	98,815,521	15,800,000	11,970,869	15.1%	(4)	(4)	(4)
A	Edgar Lomax	49,910,507	68,570,896	7,500,000	11,160,389	19.4%	(4)	(4)	(4)
A	Fortaleza Asset Management	14,124,466	6,780,239	(5,000,000)	(2,344,227)	-15.0%	(4)	(4)	(4)
A	Globalt, Inc.	60,187,922	82,269,006	13,300,000	8,781,084	13.5%	(4)	(4)	(4)
A	John Hsu Capital Group	0	94,878,695	80,000,000	14,878,695	(3)	(4)	(4)	(4)
A	New Amsterdam Partners	46,333,574	73,805,710	19,000,000	8,472,136	13.0%	(4)	(4)	(4)
A	Paradigm Asset Management	52,510,012	34,593,069	(22,300,000)	4,383,057	11.8%	(4)	(4)	(4)
A	Sloate, Weisman, Murray & Company	59,648,534	0	(59,829,878)	181,344	(3)	(4)	(4)	(4)
A	Sturdivant & Company	59,535,155	33,561,743	(28,416,388)	2,442,976	10.2%	(4)	(4)	(4)
A	Valenzuela Capital Management	35,331,166	10,315,565	(21,300,000)	(3,715,601)	-8.1%	(4)	(4)	(4)
A	Prudential Asset Management Company, Inc.	1,837,880,186	2,121,291,187	100,000,000	183,411,001	8.4%	N	N	Y
A	Putnam Advisory Company, Inc.	494,967,449	499,133,712	0	4,166,263	0.8%	Y	Y	Y
A	Smith Barney Capital Management	548,250,476	691,579,488	60,000,000	83,329,012	11.8%	Y	(2)	(2)
A	Trinity Investment Management	521,334,491	544,661,800	0	23,327,309	4.5%	N	(2)	(2)
P	Wilshire Large Growth Fund	723,895,591	1,361,788,403	280,000,000	357,892,812	29.7%	N	Y	(2)
P	Wilshire Large Value Fund	429,591,880	470,344,068	0	40,752,188	9.5%	Y	Y	(2)
		29,928,871,386	37,200,523,166	1,168,753,734	6,102,898,046				
	EQUITY MANAGERS - INTERNAL								
P	Active Core Portfolio	4,757,047,512	4,811,486,066	(996,700,410)	1,051,138,964	23.9%	Y	Y	Y
A	CAPFORM Portfolio	1,060,851,275	950,712,739	(212,814,632)	102,676,096	10.9%	N	N	N
NA	COMBAL	458,043	613,736	0	155,693	(7)	(7)	(7)	(7)
NA	Domestic Asset Allocation	164,250,522	100,800,169	(60,001,233)	(3,449,120)	(7)	(7)	(7)	(7)
P	PIVOT Portfolio	12,695,279,812	15,002,807,571	(287,899,548)	2,595,427,307	20.8%	Y	Y	(2)
A	Special Situations	868,199,283	501,423,961	(395,431,161)	28,655,839	17.2%	N	Y	N
P	Yieldtilt Portfolio	1,179,540,671	216,410,141	(1,001,578,238)	38,447,708	9.0%	N	N	N
		20,725,627,118	21,584,254,383	(2,954,425,222)	3,813,052,487				
	TOTAL PUBLIC MARKET EQUITIES	50,654,498,504	58,784,777,549	(1,785,671,488)	9,915,950,533				
	PRIVATE MARKET EQUITIES								
	EQUITY MANAGERS - EXTERNAL								
A	Apollo Investment Fund IV, L.P.	8,912,856	114,669,640	92,643,230	13,113,554	(6)	(5)	(2)	(5)
A	Carlyle Investment Management	100,448,751	185,519,946	3,342,702	81,728,493	(6)	(5)	(2)	(5)
A	Centre Capital Investments	88,515,725	167,456,276	44,701,336	34,239,215	(6)	(5)	N	(5)
A	Chartwell Capital Investors	0	12,068,000	12,719,110	(651,110)	(3),(6)	(5)	(2)	(5)
A	Corporate Advisors, L.P.	99,138,841	29,480,064	(61,138,509)	(8,520,268)	(6)	(5)	N	(5)
A	Cypress Equity Fund	4,379,656	7,220,109	2,319,380	521,073	(6)	(5)	N	(5)
A	Green Equity Investment, L.P.	0	0	550,382	(550,382)	(3),(6)	(5)	(2)	(5)
A	Hicks, Muse, Tate & Furst	249,374,145	241,497,419	(1,586,069)	(6,290,657)	(6)	(5)	(2)	(5)
A	Hicks, Muse, Tate & Furst Equity Fund IV	0	250,572,920	228,211,018	22,361,902	(3),(6)	(5)	(2)	(5)
A	Liberty Partners	550,158,157	747,147,441	172,676,114	24,313,170	(6)	(5)	N	(5)
A	LPNY Coinvestment Partners, L.P.	114,758,714	255,864,112	110,710,070	30,395,328	(6)	(5)	(2)	(5)
A	Ripplewood Partners, L.P.	23,412,247	46,761,631	16,777,572	6,571,812	(6)	(5)	(2)	(5)
A	THL Equity Fund IV, L.P.	6,176,624	61,637,941	31,281,311	24,180,006	(6)	(5)	(2)	(5)
A	TSG Capital Fund III, L.P.	0	40,120,335	43,505,993	(3,385,658)	(3),(6)	(5)	(2)	(5)
A	Willis, Stein & Partners, L.P.	0	9,999,808	10,936,655	(936,847)	(3),(6)	(5)	(2)	(5)
		1,245,275,716	2,170,015,642	707,650,295	217,089,631				
	EQUITY MANAGERS - INTERNAL								
NA	Private Equity Cash	0	77,585,886	77,021,193	564,693	(7)	(7)	(7)	(7)
	TOTAL PRIVATE MARKET EQUITIES	1,245,275,716	2,247,601,528	784,671,488	217,654,324				
	TOTAL DOMESTIC EQUITY MANAGERS	$ 51,899,774,220	$ 61,032,379,077	$ (1,001,000,000)	$ 10,133,604,857				

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.
A - Active P - Passive NA - Not Applicable

(1) A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/-10 basis points of the benchmark return.
(2) Performance data was not available for the entire measurement period.
(3) These accounts were opened or closed during the fiscal year and information is not available for the entire fiscal-year period.
(4) Progress Trust is an aggregate of individual portfolios. Performance relative to a benchmark is not measured on the individual accounts included in Progress Trust.
(5) Private equity portfolio performance relative to its benchmark is calculated since inception and is indicated in the 3-year column.
(6) Because of the long-term nature of the investments, private equity portfolio performance during a single year is not considered meaningful.
(7) These accounts are either administrative or transitionary and individual performance is not considered meaningful. They are included in the appropriate aggregate combination performance.

International Equity Investments

On June 30, 1999, the international equity portfolio was valued at $7.8 billion. The portfolio was comprised of fifteen distinct portfolio strategies with investments in fifty global equity markets. Slightly less than 50% of the portfolio was invested passively, with the balance in a mix of diversified active strategies in both developed and emerging markets. At fiscal year end, the allocation of the portfolio was largely on target with more than 84% of the portfolio invested in developed markets and the remainder in emerging markets.

This mix of developed and emerging market investments represents a slight – less than 1% - overweight to emerging markets. A long-standing underweight to Japan continued, but by fiscal year end, the gap had narrowed to less than 3%. The portfolio had a roughly neutral weight in the other developed Pacific markets, an underweight to Continental Europe and the United Kingdom, and a slight overweight to Canada and Latin America.

Net of external management fees, transaction costs, and certain custodial expenses, the portfolio returned 10.3%. This compares unfavorably to the 10.8% return of the target, resulting in an active return of –0.5%.

The widely divergent and multi-directional performance of developed and emerging markets led us to both buy and sell emerging markets at points during the fiscal year to maintain our target allocation. Our portfolio rebalancing efforts neutralized misfit to a reasonably small +0.2%. As in past periods, the bulk of the misfit resulted from an occasional deviation between the Developed/Emerging composition of our portfolio versus the 85/15 split of the target. Additional misfit arose from the differences between emerging market commingled benchmarks and the custom IFCI target, which half weights Malaysia. Further misfit arose from the slight difference between the returns of the EAFE target and the EAFE-Free benchmark used by Barclays. The small remaining difference between these two EAFE indices is a product of the expansion or contraction of the foreign premium in Singapore relative to the underlying local shares.

The Barclays EAFE index fund returned 20 basis points over its benchmark. This net advantage is a result of securities lending income and dividend tax treaty advantages.

Without a meaningful positive offset from securities lending income, high transaction costs were a significant net drag on the performance of our SSGA emerging markets index fund, which underperformed its benchmark by 85 basis points. A lending program was initiated in this fund in 1998 but opportunities in emerging markets remain limited. High transaction costs and the portfolio construction issues associated with index replication in relatively illiquid markets pose a continuing challenge to emerging market indexes.

After a difficult 1998, developed market active managers added more than 540 basis points of active return during the January – June 1999 period and outperformed their benchmark by 64 basis points for the fiscal year. As the developed market rally broadened, our value-focused portfolio handily outperformed its benchmark in 1999. Active managers with full positions in Japan and the Pacific were rewarded as the 1998 rally in Europe migrated eastward lifting Pacific basin markets by 32% during the fiscal year.

Net of external management fees and transaction costs, active emerging market managers underperformed their benchmark by 902 basis points. Much of the underperformance is explained by a significant underweight in emerging Asia, which soared by 78% during the fiscal year. Instead, active emerging managers were overweight in relatively poor performing Latin American markets that returned only 6% for the concurrent period. Fundamentals were swept aside in a tide of liquidity that lifted Asian markets and punished those managers who found little to buy from a bottom-up perspective.

Economics of scale and some minor fee concessions decreased total active fees by 1 basis point relative to the same period last year. Similarly, a 1 basis point fall in passive fees was a product of a fee concession from Barclays and economies of scale. However, increased reliance on active strategies in emerging markets increased aggregate fees by 2 basis points.

In summary, the international equity portfolio held up reasonably well in a turbulent environment. The developed market portfolio contributed a small increment of active return, but its performance was more than offset by the emerging market portfolio, which struggled during extremely uncertain market conditions.

The following schedules provide the relevant information for international equity portfolios during FY 98-99. The information includes:

- characteristics of the portfolios as to internal or external management;
- characteristics as to active or passive management;
- market values at the beginning and end of the fiscal year;
- net contributions for the fiscal year;
- investment returns for the portfolios measured in dollars;
- rate of return for fiscal year 1998-99; and
- attainment of benchmark return for active and passive portfolios, over the fiscal year, prior three fiscal years and prior five fiscal years after deduction of external manager fees.

INTERNATIONAL EQUITY INVESTMENTS

	Account Name	Market Value 6-30-98	Market Value 6-30-99	Net Contributions and Transfers	Investment Gain (Loss)	FY 98-99 Rate of Return*	Meets or Exceeds Benchmark Prior: 1 year (1)	3 years (1)	5 years (1)
	EQUITY MANAGERS - INTERNAL								
NA	International Asset Allocation	$ 25,654,817	$ 7,692	$ (26,954,902)	$ 1,307,777	(4)	(4)	(4)	(4)
NA	International Equity Commission Recapture	0	492,004	0	492,004	(4)	(4)	(4)	(4)
		25,654,817	499,696	(26,954,902)	1,799,781				
	EQUITY MANAGERS - EXTERNAL								
P	Barclays Global Investors EAFE	3,294,649,683	3,541,003,077	(6,515,540)	252,868,934	7.7%	Y	Y	Y
P	Barclays Global Investors Malaysia	0	23,547,224	8,416,828	15,130,396	(3)	(2)	(2)	(2)
A	Blairlogie Capital Management	255,922,729	386,325,485	114,000,000	16,402,756	2.3%	N	(2)	(2)
A	Capital Guardian Trust Company	354,492,215	535,609,406	95,085,409	86,031,782	18.0%	Y	Y	Y
A	Capital Int'l Emerging Markets Growth Fund	109,877,942	216,233,593	45,000,050	61,355,601	20.5%	N	(2)	(2)
A	Dicam Emerging Markets	5,213	0	(2,546)	(2,667)	(3)	(2)	(2)	(2
A	Genesis Emerging Markets	89,022,158	202,462,303	89,992,707	23,447,438	8.5%	N	(2)	(2)
A	JP Morgan Investment Managers-Commingled	6	0	(6)	0	(3)	(2)	(2)	(2)
A	JP Morgan Investment Managers-Separate	119,918,667	192,379,721	41,000,000	31,461,054	13.7%	N	(2)	(2)
A	Morgan Stanley Asset Management	363,961,474	542,208,806	130,000,000	48,247,332	6.9%	N	Y	Y
A	Progress Common Trust	4,879,944	5,357,695	0	477,751	9.7%	N	(2)	(2)
A	Putnam International Advisors	389,603,724	490,332,240	64,378,000	36,350,516	6.9%	N	Y	Y
A	Rowe Price Fleming International, Inc.	320,020,898	289,583,424	(50,000,000)	19,562,526	6.4%	N	Y	Y
A	Schroder Global Emerging Markets	85,548,645	123,249,910	0	37,701,265	26.0%	Y	(2)	(2)
A	Sprucegrove Investment Management	186,228,893	305,378,475	90,900,000	28,249,582	11.4%	Y	(2)	(2)
P	SSGA Emerging Markets	297,739,695	323,982,851	(46,294,069)	72,537,225	26.2%	N	N	(2)
A	SSGA Daily Active Emerging Markets	83,759,783	155,346,235	34,294,069	37,292,383	25.7%	Y	(2)	(2)
A	Templeton Investment Counsel	356,712,607	489,815,340	102,200,000	30,902,733	6.1%	N	Y	Y
		6,312,344,276	7,822,815,785	712,454,902	798,016,607				
	TOTAL INTERNATIONAL EQUITY MANAGERS	$ 6,337,999,093	$ 7,823,315,481	$ 685,500,000	$ 799,816,388				

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

A - Active P - Passive NA - Not Applicable

(1) A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/-10 basis points of the benchmark return.
(2) Performance data was not available for the entire measurement period.
(3) These accounts were opened or closed during the fiscal year and information is not available for the entire fiscal-year period.
(4) These accounts are either administrative or transitionary and individual performance is not considered meaningful. They are included in the appropriate aggregate combination performance.

Fixed Income Investments

We mentioned in our prior annual report that the environment during 1997-98 was conducive to strong performance of our customized benchmark relative to the broad market due to its longer duration and overweight to corporate securities. We experienced the reverse situation in 1998-99 with rising interest rates, greater credit and liquidity premium and increased volatility. Broad market returns were not impressive at 3.3% for the year, indicating that a large portion of coupon return was diminished by price decline, but our customized index, having more sensitivity to interest rates and credit risk fared even worse, returning 1.5%. During the previous year our customized index outperformed the broad market by approximately 260 basis points, and we gave back around 180 basis points during the current period. Although overall Fixed Income returns were not impressive, the portfolio beat its benchmark by approximately 40 basis points, and the customized index has served us extremely well over the period it has been in place (which we'll address later in this section).

Fixed Income performed reasonably well during the first half of the fiscal year as the Federal Reserve injected liquidity into the system to alleviate global financial concerns. The Fed provided this liquidity through three successive 25 basis point reductions in short-term rates in September, October, and November 1998. By the end of the calendar year, global concerns had been alleviated and with confidence restored, fixed income investors again returned to fundamentals, which showed the U.S. economy to be healthy. The bond market began to anticipate the reversal of the three previous rate decreases and long-term rates started to rise. Although the credit risk premium was somewhat reduced as warranted by the strong economy, liquidity risk premium was relatively undiminished. Investors who had suffered losses during the fall with spread product were hesitant to recommit heavily. Mortgage-backed securities were the best performing sector of the fixed income market as a result of their high quality, liquidity, and lower interest rate sensitivity. This sector returned 4% for the fiscal year. The government/corporate portion of our index generated only a 1.7% return due to its longer duration and heavier exposure to investment grade corporates as mentioned earlier. While high yield securities are much more sensitive to credit and liquidity risk, the durations are somewhat shorter, allowing this segment of the market to perform almost as well as the government/corporate segment.

Near the close of the fiscal year, staff recommended and our Board subsequently approved a change in the performance benchmark for Fixed Income. The change essentially reduces the asset class exposure to both interest rate and credit risk and primarily affects internally managed government/corporate portfolios. The Board adopted the customized index (the FEDX, which subsequently became the HYFEX with the addition of high yield securities) in 1989. At that time, we had tighter statutory restrictions regarding the percentage of the total fund that could be invested in equities than we have currently, and the added duration and yield from spread product was sought to enhance returns in the context of the overall portfolio. We expected at the time of adoption that the excess annual return from this customized index would be approximately 24 basis points derived from yield compounding over time. We were extremely fortunate with the secular decline in interest rates over the period, and the customized index has actually added over 70 basis points annualized relative to the broad market and most of our peers.

Staff began contemplating a change in the index during the fall of 1998 and requested that our general consultant review this issue on our behalf with the expectation of revising the benchmark effective July 1, 1999. A broad, market capitalization weighted index is more appropriate for us going forward for a variety of reasons. The overall risk profile of the total portfolio has changed substantially through the attainment of a target weight for International Equities and an increase in the statutory limits for both International and Domestic Equities. Additionally, it is much more difficult with customized benchmarks to replicate passive exposure in a cost-effective manner. Further, if defined contribution legislation should pass in the near future, enhanced liquidity in the portfolio will be important, so a market weight to spread product is more desirable. Lastly, as mentioned above, we've had extremely strong relative performance with this customized benchmark as interest rates have declined, and we wanted to "lock-in" this outperformance. Staff recommended a new performance benchmark to be effective July1st (the Fixed Income Management Aggregate, FIMA – capitalization weights of the Lehman Aggregate Bond Index and the Merrill Lynch BB/B High Yield Index) to our Trustees, and the change was approved at a Board meeting in June. We began restructuring the portfolios during the months of May and June in anticipation of this benchmark change due to the size of the portfolios, and these transitional changes turned out to be very timely. During May and June the anticipated new benchmark outperformed the official target by almost 200 basis points so we benefited by the structural changes in the portfolio, particularly the shorter duration, as we moved through this transition.

The following schedules provide the relevant information for fixed income portfolios during FY 98-99. The information includes:

- characteristics of the portfolios as to internal or external management;
- market values at the beginning and end of the fiscal year;
- net contributions for the fiscal year;
- investment returns for the portfolio measured in dollars;
- rate of return for fiscal year 1998-99; and
- attainment of benchmark returns for active and passive portfolios over the fiscal year, prior three fiscal years, and prior five years after deduction of external manager fees.

Fixed Income Investments

	Account Name	Market Value 6-30-98	Market Value 6-30-99	Net Contributions and Transfers	Investment Gain (Loss)	FY 98-99 Rate of Return*	Meets or Exceeds Benchmark Prior 1 year (1)	3 years (1)	5 years (1)
	FIXED INCOME MANAGERS - INTERNAL								
	Government/Corporate:								
A	ActiFed Portfolio	$ 1,010,123,089	$ 1,575,125,823	$ 560,884,627	$ 4,118,107	1.1%	Y	(2)	(2)
P	FED Index Portfolio	5,459,968,846	5,941,532,916	430,570,000	50,994,070	1.2%	Y	Y	Y
A	Fixed Income Core Portfolio	2,937,789,211	2,951,297,412	17,700,000	(4,191,799)	-0.1%	N	N	N
A	Index Plus Portfolio	2,361,965,532	2,417,964,456	30,900,000	25,098,924	1.2%	Y	Y	Y
A	Tactical Strategies Portfolio	2,133,402,785	1,984,256,878	(183,975,000)	34,829,093	1.5%	Y	Y	Y
	Mortgage:								
P	MBS Index Portfolio	0	722,498,921	715,868,660	6,630,261	0.9%	Y	(2)	(2)
NA	Mortgage Asset Allocation	0	2,232	(1,153,287)	1,155,519	(4)	(4)	(4)	(4)
		13,903,249,463	15,592,678,638	1,570,795,000	118,634,175				
	FIXED INCOME MANAGERS - EXTERNAL								
	Government/Corporate:								
A	Taplin, Canida & Habacht	0	232,440,823	232,000,000	440,823	(3)	(2)	(2)	(2)
	High Yield:								
A	Credit Suisse Asset Management Company	253,287,574	273,197,230	21,250,000	(1,340,344)	-0.4%	N	(2)	(2)
A	Offitbank	253,954,901	291,305,037	30,000,000	7,350,136	2.5%	Y	(2)	(2)
A	Pacific Investment Management Company	267,776,097	363,060,408	86,400,000	8,884,311	3.2%	Y	(2)	(2)
A	Salomon Brothers Asset Management	253,470,208	241,259,183	(8,250,000)	(3,961,025)	-1.7%	N	(2)	(2)
	Mortgage Group Trust:								
A	Alliance Capital Management	1,289,668,370	1,129,809,730	(206,125,000)	46,266,360	3.8%	N	Y	Y
A	APAM, Inc.	1,155,932,994	961,643,470	(240,100,000)	45,810,476	4.3%	Y	Y	Y
A	Glenmede Asset Management	1,149,462,460	990,298,115	(203,000,000)	43,835,655	4.1%	Y	Y	Y
A	Lincoln Capital Management	316,354,218	416,147,129	85,000,000	14,792,911	3.9%	N	(2)	(2)
A	Smith Breeden Associates	396,551,036	512,109,551	101,300,000	14,258,515	3.8%	N	(2)	(2)
A	Trust Company of the West	1,345,167,745	1,276,534,879	(118,300,000)	49,667,134	3.9%	N	Y	Y
A	Wellington Management Company	319,392,469	595,511,636	259,280,000	16,839,167	4.6%	Y	(2)	(2)
		7,001,018,072	7,283,317,191	39,455,000	242,844,119				
	TOTAL FIXED INCOME MANAGERS	$ 20,904,267,535	$ 22,875,995,829	$ 1,610,250,000	$ 361,478,294				

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.
A - Active P - Passive NA - Not Applicable

(1) A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/-10 basis points of the benchmark.
(2) Performance data was not available for the entire measurement period.
(3) This account was opened during the fiscal year and information is not available for the entire fiscal-year period.
(4) This is a transitionary account and individual performance is not considered meaningful. It is included in the appropriate aggregate combination performance.

Real Estate Investments

During the year we continued our investment strategy of acquiring institutional quality assets that we believe will provide investment returns that will meet or exceed our total return objectives. We believe our objectives are best served by managing investment risk in such a fashion that our expected total returns have a reasonable probability of achieving the investment's total return estimate. This strategy would characterize us as moderate risk takers. We firmly believe that to understand the risks associated with each investment allows the investor an edge. We believe our staff's and our advisor's experience and expertise as well as our organizational structure, allows us to be good risk managers and effective opportunist and competitors. We have maintained our preference for general purpose property types such as residential rental apartments, office buildings, and retail shopping centers and warehouse distribution properties. We have not ventured beyond mid to large size metropolitan markets since that is where market size dynamics serve us best and where we have had good successes. Our primary investment vehicle is acquiring sole title, creating a corporation within which we hold title. This provides multiple benefits to the Board and creates a manageable platform from which to oversee the property's operation. We continue to use outside investment advisors to augment and add special expertise to assist the Board's real estate professionals in managing the Board's real estate assets. While sole equity ownership remains our preferred structure we do enter joint ventures when it is in the Board's interests to do so. Joint ventures are useful when desired assets can not be acquired without a partner, and when development expertise is required or deal size makes it prudent to share ownership. Also, this year we added to our agriculture holdings, both row crops and permanent plantings.

Our investment results for the reporting period have been very competitive and have met the objective of adding to the goal of ensuring that the liabilities of the FRS are met. As discussed in last years' report our real estate benchmark, the NCREIF Classic Property Index, possesses limitations that challenge its' use as a benchmark. It represents a small segment of the market and it is difficult to differentiate our risk profile from NCREIF; hence, returns cannot be easily compared when risk is a parameter. There is also a lag effect created by the nature of the appraisal process which is used to provide estimates of value for the assets which make up the benchmark; thus the returns that are reported are stale and, depending on the direction of the markets, will lag value increases or alternately will appear to inflate values. We have reviewed the appropriateness of this benchmark during the reporting period and found the benchmark wanting. We have visited the benchmark issue during this year and expect to provide an improved and hopefully a reasonable alternative for future reporting periods. As previously said, we are pleased with our investment results, sans the benchmark comparative, and feel our investments will continue to provide attractive results.

During the reporting period supply and demand in most markets have remained near equilibrium, though generally landlords have benefited. Owners in many markets have been able to increase rents due to healthy economies and constraints on supply. Only retail, and particularly second and third tier malls, has not fully participated in the favorable conditions. Real estate investors and owners have benefited from a rationalization effect provided by the continuing securitization of certain real estate investment products. Mortgage conduits feeding the commercial mortgage backed securities public market, combined with investors participation in the real estate securities market, e.g. Real Estate Investment Trusts and Real Estate Operating Companies, have each made an unintended contribution as an early warning system in preventing excesses or at least moderating them. Lenders and acquirers have paid attention to the signals from these markets and have stepped back from fueling irrational exuberance in the form of unneeded liquidity for new construction. This restraint in the form of limiting funds for new construction, as well as the continuance of our robust national economy, has been a positive catalyst for owners of real estate investments. In our opinion, notwithstanding a significant and sustained correction in the financial markets, real estate markets should continue to provide attractive real returns for seasoned investors.

In the future we expect to stay the course and enhance the asset class performance through intelligent investment selection and proactive investment management. We will continue to focus on investments that provide quantity, quality and durability of income as well as value creation.

Real Estate Investments

The following schedule provides the relevant information for the combined real estate portfolio during FY 98-99. The information includes:

- market value at the beginning and end of the fiscal year;
- net contributions and transfers for the fiscal year; and
- investment return for the portfolio measured in dollars;
- rate of return for fiscal year 1998-99; and
- attainment of benchmark return for pooled funds and broad property groupings over the fiscal year, prior three fiscal years and prior five fiscal years after deduction of external manager fees.

Real Estate Investments

Account Name	Market Value 6-30-98 (1)	Market Value 6-30-99 (1)	Net Contributions and Transfers (2)	Investment Gain (Loss)	FY 98-99 Rate of Return*	Meets or Exceeds Benchmark Prior 1 year (3)	3 years (3)	5 years (3)
DIRECTLY OWNED INVESTMENTS					12.8%	N, (9)	N, (9)	N, (9)
Agriculture	$ 209,602,000	$ 304,972,225	$ 85,212,642	$ 10,157,583	(4)	(4)	(4)	(4)
Apartments	274,874,529	321,210,267	8,966,984	37,368,754	(4)	(4)	(4)	(4)
Industrial	235,721,341	321,266,556	54,503,120	31,042,095	(4)	(4)	(4)	(4)
Office	1,116,437,337	1,349,719,631	74,644,815	158,637,479	(4)	(4)	(4)	(4)
Retail	310,886,373	256,067,862	(86,078,115)	31,259,604	(4)	(4)	(4)	(4)
	2,147,521,580	2,553,236,541	137,249,446	268,465,515				
COMMINGLED FUNDS								
Allegis - PMSA	50,177,210	51,460,962	(3,497,497)	4,781,249	9.8%	N, (9)	Y, (9)	(8)
Allegis - RESA	125,214,375	130,419,422	(7,414,082)	12,619,129	10.3%	N, (9)	Y, (9)	(8)
FNBC Fund F	534,162	24,334	(546,411)	36,583	56.4%	Y, (9)	Y, (9)	(8)
Hancock Property Fund	8,377,104	5,864,027	(3,362,456)	849,379	11.4%	N, (9)	Y, (9)	(8)
InProp	54,084	0	(116,920)	62,836	(5)	(8)	(8)	(8)
LaSalle Fund II	2,338,806	2,130,830	(446,621)	238,645	10.8%	N, (9)	N, (9)	(8)
Prime Property Fund	82,724,688	85,665,707	(7,413,292)	10,354,311	12.9%	Y, (9)	Y, (9)	(8)
PRISA	88,284,902	93,817,541	(6,276,545)	11,809,184	13.7%	Y, (9)	Y, (9)	(8)
	357,705,331	369,382,823	(29,073,824)	40,751,316				
Non-Capitalized Expenses (6)	500,000	0	(371,421)	(128,579)	(4)	(4)	(4)	(4)
Real Estate Short-term Interest (7)	0	0	(61,512)	61,512	(4)	(4)	(4)	(4)
Real Estate Cash	334,623,755	422,766,670	74,121,295	14,021,620	5.4%	Y	Y	Y
Real Estate Stock	390,851,330	349,962,007	(83,088,984)	42,199,661	11.4%	Y	N	N
TOTAL REAL ESTATE PORTFOLIO	$ 3,231,201,996	$ 3,695,348,041	$ 98,775,000	$ 365,371,045				

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

(1) Real Estate market values are an estimate of value which may or may not represent the value which would be reflected by an actual arms-length sales transaction.
(2) Net Contributions and Transfers include the distribution of income to the Real Estate Cash Account and the receipt of money from the Real Estate Cash Account for the purchase of additional real estate.
(3) A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/- 10 basis points of the benchmark return.
(4) The performance of these property groups is not measured on an absolute basis or relative to a benchmark. They are included in the appropriate aggregate combination performance.
(5) This account was closed during the fiscal year and information is not available for the entire fiscal-year period.
(6) Non-Capitalized Expenses are the costs incurred during the due diligence phase of the acquisition process.
(7) Real Estate Short-term Interest includes miscellaneous interest earned in the property account, but not assigned to a specific property.
(8) Performance data was not available for the entire measurement period.
(9) For purposes of measuring the performance of these accounts and broad property groupings, the annual benchmark returns have been lowered by 60 basis points to account for the typical cost of implementing a large-scale institutional real estate program.

Cash And Cash Equivalent Investments

The performance measurement of cash pertains only to the Cash and Central Custody Account, which totaled $966,877,572 at June 30, 1999.

As previously discussed in the Report, cash is also held in other asset class portfolios. Although it is reported in the market value for those portfolios, it is managed in a pooled fashion by internal fixed income staff. As mentioned in the report of the Executive Director, the existing infrastructure enables the SBA to provide our own cash management services for Florida Retirement System Trust Fund portfolios at a lower cost than external service providers without sacrificing return.

The following schedule provides the relevant information for the internal cash and cash equivalents portfolio during FY 98-99. The information includes:

- market values at the beginning and end of the fiscal year;
- net contributions for the fiscal year;
- investment returns as measured in dollars;
- rate of return for fiscal year 1998-99; and
- attainment of benchmark returns over the fiscal year, prior three fiscal years and prior five fiscal years.

Cash and Cash Equivalent - Investments

Account Name	Market Value 6-30-98	Market Value 6-30-99	Net Contributions and Transfers	Investment Gain (Loss)	FY 98-99 Rate of Return*	Meets or Exceeds Benchmark Prior 1 year (1)	3 years (1)	5 years (1)
Cash Managers - Internal								
A Cash & Central Custody	$ 1,071,415,943	$ 966,877,572	$ (147,445,878)	$ 42,907,507	5.8%	Y	Y	Y
TOTAL CASH MANAGERS	$ 1,071,415,943	$ 966,877,572	$ (147,445,878)	$ 42,907,507				

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.
A - Active
(1) A portfolio is said to have met its benchmark over the measurement period if the managed return is within +/-10 basis points of the benchmark.

Investment Management Fees

Investment management fees on FRSTF portfolios managed externally are deducted from the portfolios and are not included in budgetary allocations. Investment management fees by asset class for FY 98-99 were as follows:

External Investment Management Fees By Asset Class FY 1998-99

	Dollar Amount	Return Basis (1)
Domestic Equity Portfolios	$94,341,624	0.27%
International Equity Portfolios	16,240,282	0.23%
Fixed Income Portfolios	8,253,990	0.12%
Real Estate Portfolios	13,779,731	0.51%
TOTAL	$132,615,627	0.25%

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

Brokerage commissions are paid for executions of securities orders and are paid on trades of exchange-listed equity investments. Brokerage commissions for domestic equities during FY 98-99 totaled $32,116,810. Brokerage commissions for international equities during FY 98-99 totaled $7,638,789.33. The SBA utilizes some of these commission dollars generated by both internal and external trading to fund performance evaluation, research and other investment expenses, depending on the volume of commissions generated and investment services required. To accomplish this, relationships were established with third party vendors to convert trading commissions to pay for investment related goods and services like those listed above. The SBA follows ERISA standards that specifically address commission dollars and deem them to be considered as plan assets. Beginning July 1, 1999, SBA will have a commission recapture program in place and will be responsible for making all payments related to the program.

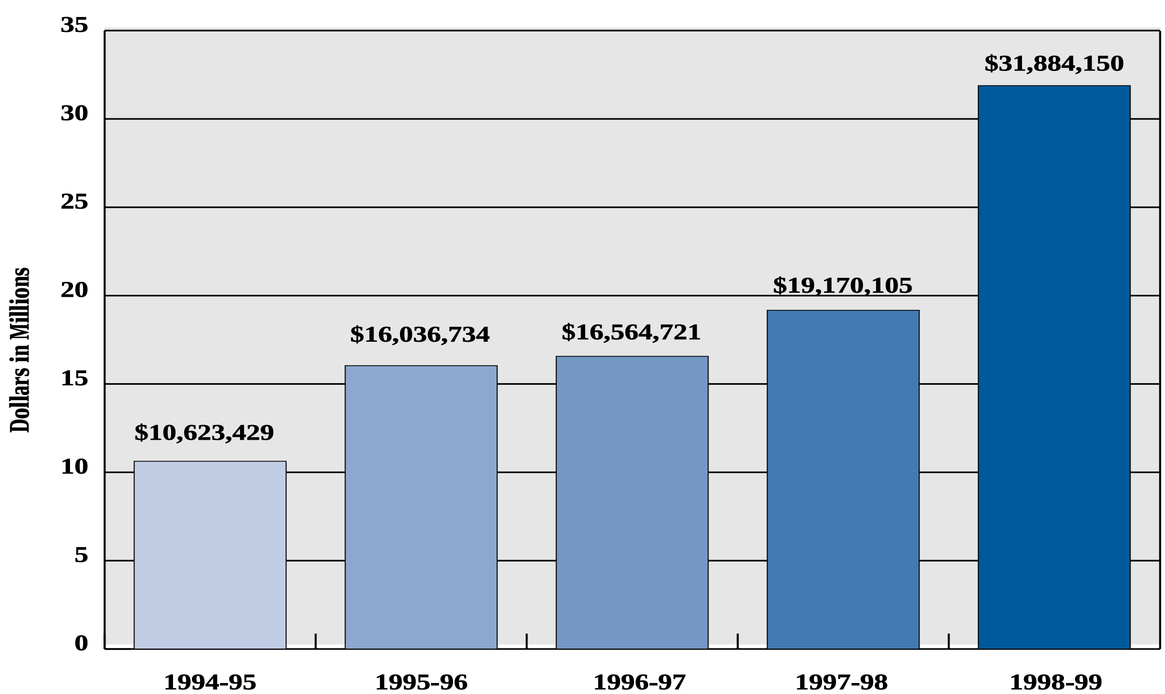
Supplemental Income Program

Securities lending is an incremental income program effected through the FRSTF master trustee and custodian. During the periods securities are on loan, the SBA receives collateral equal to or greater than 100% of market value, in a form consisting of market value plus accrued interest for U.S. Government securities or cash. Cash is reinvested in securities authorized by the Board.

During the fiscal year, we also utilized one security dealer to directly lend a portion of the Fixed Income assets in addition to the program described above. The passive long-term Fixed Income account (the FED Index Fund) consistently maintains an index exposure to U.S. treasury securities. Dealers are willing to pay attractive spreads for access to these large blocks of treasury securities, particularly when the program is structured as a lending arrangement coupled with a tri-party repurchase agreement for the cash reinvestment. The dealers' clearing banks serve as custody agents for the SBA. Collateral is held in accounts in the SBA's name and marked to market daily. These programs have the advantage of ensuring that lending income is generated on 100% of the treasury portion of the portfolio and the spreads earned are marginally wider than the generic market spreads. This type of program can most efficiently be used for a portfolio that is not frequently traded. This program generated $5,034,162 of the income shown on the following securities lending table for 1998-99.

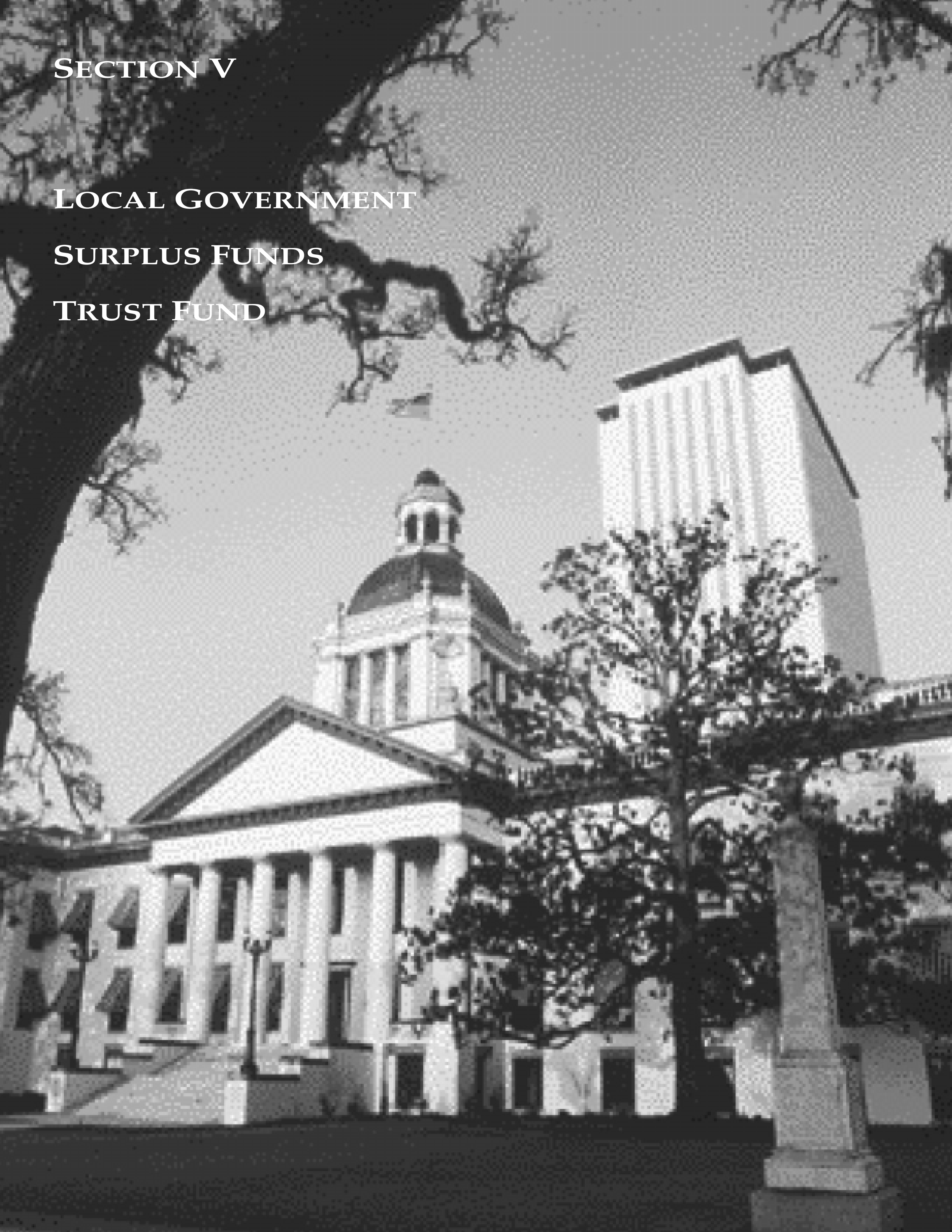
Net income from all FRSTF securities lending programs for the previous five years, including FY 98-99, has been as follows:

Security Lending Revenue (Net)
Five Fiscal Years



SECTION V

LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND



The Local Government Surplus Funds Trust Fund

The Local Government Surplus Funds Trust Fund (LGSFTF) was established to assist units of local government in maximizing net earnings on invested surplus funds, reducing the need for the imposition of additional taxes upon local constituents. The portfolio objective is to provide a short-term, very liquid, high quality investment vehicle to participating local governments. The Board operates the pool like a 2A-7 fund and complies with all investment requirements contained therein as well as all accounting and reporting requirements of GASB #31 which governs investment pools for governmental entities. Local governments typically invest in the pooled fund but may establish separate special accounts at the discretion of the Executive Director, when specific needs exist.

The pooled account emphasizes liquidity and participants' funds are made available on a daily basis. On June 30, 1999, there were 729 local government participants holding 1,587 accounts with funds under management valued at $11,214,028,422. A short average maturity range, consistent with projected cash needs of the accounts, is maintained. The quarterly ending average maturity for pooled investments ranged from 22 days to 34 days during the fiscal year. Average maturity is adjusted during the year, depending upon market conditions and cash flows. For FY 98-99 the rate of return averaged 5.10%. Investment policy enumerates authorized securities for both pooled and special accounts. They consist of U.S. government and agency securities and high quality money market instruments.

Since the local government investment pool typically owns a substantial amount of treasury bills and notes, and agency discount notes, we utilize four securities lending programs to generate supplemental income. Two of the programs are principal programs where the SBA loans securities directly to the dealer, and the other two are agent programs where the agent loans to multiple borrowers. This income is used to pay a significant portion of the fees associated with the pool which otherwise would have to be paid from regular pool earnings. Any residual is used to build the investment pool reserve on behalf of participants. Both of these goals can be accomplished without impacting the regular earnings in the pool and with no change in our pool investment strategy.

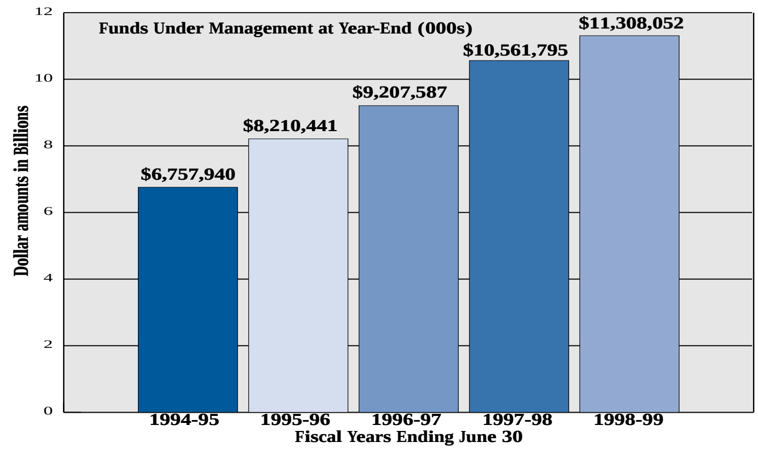
Our agent programs were effected through Merrill Lynch and Bankers Trust. Securities are loaned to qualified borrowers, and the SBA receives collateral equal to or greater than 100% of market value, in a form consisting of market value plus accrued interest for U.S. Government securities or cash. Cash received as collateral is reinvested in securities authorized by the SBA. During the fiscal year these programs generated income of $2,508,306.

We also continued to participate in principal programs with two securities dealers. Attractive spreads are paid for access to large blocks of treasury securities, particularly when the program is structured as a lending arrangement coupled with a tri-party repurchase agreement for cash reinvestment. The clearing bank for the dealer serves as custody agent for the Board, and collateral is delivered into an account in the SBA's name and marked to market daily. These programs allow us to generate significant lending income on a portion of the U.S. treasury and agencies in the portfolio. During the year these programs generated income of $2,082,739.

The SBA invests funds on an individual basis for local governments with specific needs. There were only 2 individual participants on June 30, 1999 with funds under management of $94,023,607 total market value. These accounts exhibit different rates of return due to differing investment strategies.

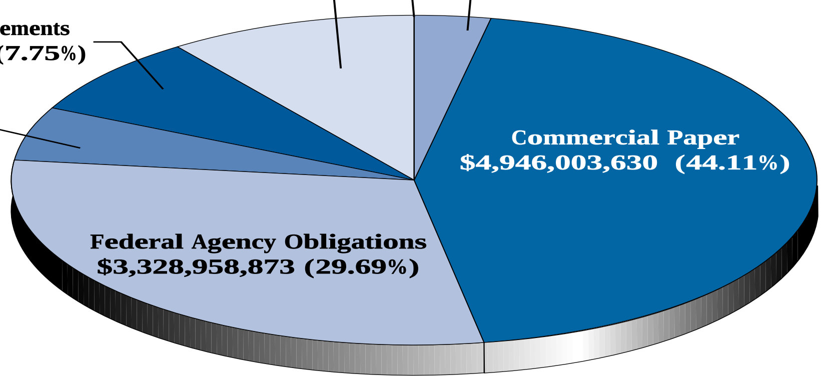
The following schedules show the funds under management for the LGSFTF for FY 98-99 and pooled and nonpooled accounts, by type of investment.

Local Government Surplus Funds Trust Fund Pooled and Nonpooled



Local Government Surplus Funds Trust Fund Pooled Investment Account

06/30/99 Market Value*

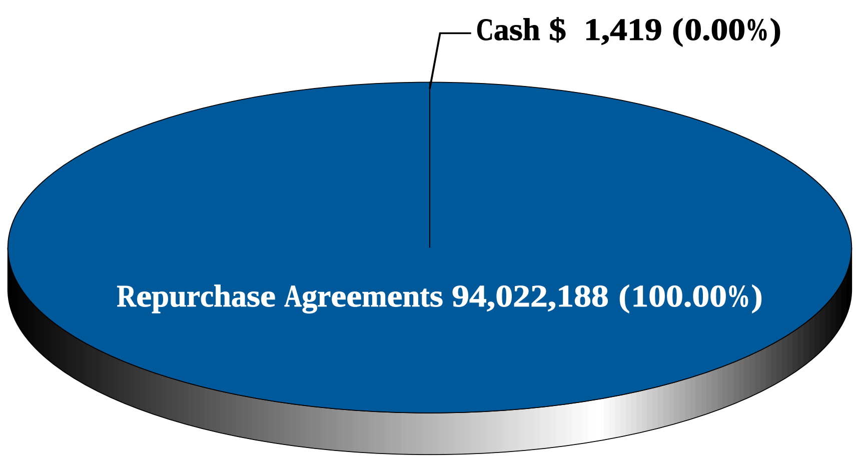


Total Investments $11,214,028,422 (100%)

* Market value includes accrued interest. In addition, the Pooled Investment Account includes the Pool Securities Lending Account.

Local Government Surplus Funds Trust Fund Nonpooled Investment Accounts

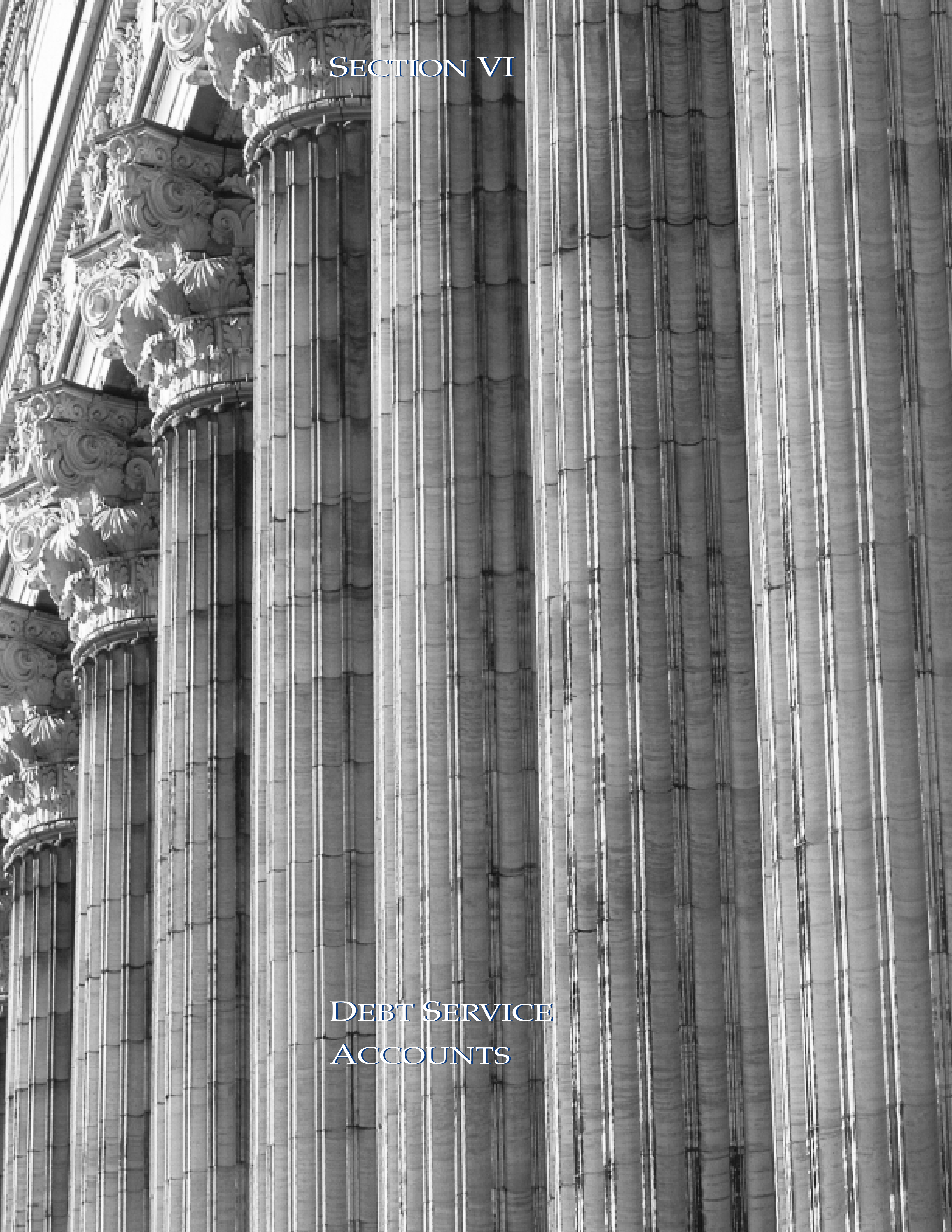
06/30/99 Market Value*



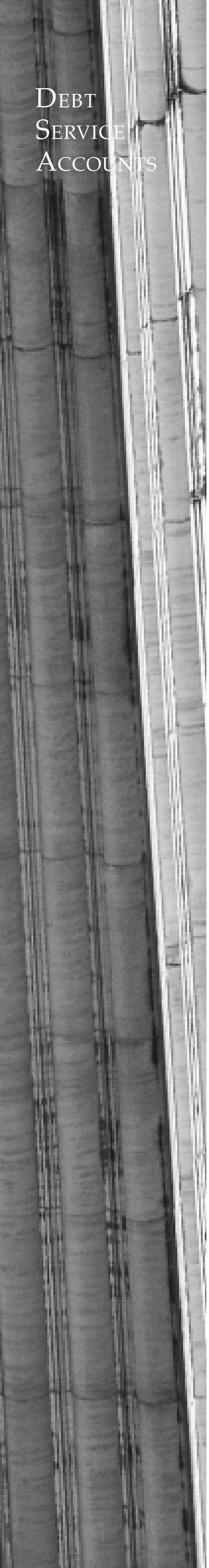
* Market value includes accrued interest

Total Investments $ 94,023,607 (100%)

Section VI



Debt Service Accounts



Debt Service Accounts

In accordance with Section 215.69(1), F.S., the SBA administers all debt service funds for bonds issued by the Division of Bond Finance (the "Division") on behalf of any state agency, except as otherwise provided. Pursuant to Section 215.69(4), F.S., the SBA is the agent of the Division for the investment of all funds of the Division, including all reserve funds. The SBA also acts as the trustee of any sinking funds or other funds as provided for in Section 215.69(5), F.S. All such funds are invested by the SBA in a manner consistent with the provisions of the authorizing bond resolutions, official statements, and the current strategy of the SBA. The Division operates autonomously but is administratively and budgetarily housed at the SBA. Investment policy enumerates authorized securities, consisting of U.S. treasury securities and repurchase agreements backed by U.S. treasury securities.

From time to time, the SBA, as trustee and as escrow agent, enters into an Escrow Deposit Agreement (the "Escrow Agreement") with a state agency, or the Division on behalf of a state agency, for the purpose of refunding previously issued debt (the "Refunded Bonds") by the issuance of new debt (the "Refunding Bonds"). An irrevocable trust fund, also known as an escrow fund, is created and established with the SBA and held in the custody of the SBA separate and apart from all other funds. The State agency makes provision for payment of the Refunded Bonds by depositing in such escrow fund monies and/or securities in an amount which, together with the investment earnings thereon, are sufficient to pay the principal of, interest on and redemption premiums, if any, on the Refunded Bonds as the same mature or are called for redemption. A verification of such sufficiency is required to be provided, in accordance with the Escrow Agreement, by an independent certified public accounting firm. During the fiscal year, all or a portion of seventeen existing bond issues were defeased through the issuance of new debt. Ten of the issues were defeased through current refundings. The remaining seven are currently being administered by the SBA, as escrow agent. In prior years, bonds have been defeased by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. At June 30, 1999, $3,787,486,000 of bonds outstanding had been defeased.

The following schedule shows the total cash and market value of investments held by the SBA as trustee and escrow agent for all above-mentioned funds as of June 30, 1998 and June 30, 1999:

Combined Debt Service Accounts

Cash and Investments as of June 30, 1998 and 1999

	Market Value*	
	6-30-98	6-30-99
Cash	$ 10,836,219	$ 5,659,797
Repurchase Agreements backed by U.S. Government Securities	27,299,248	34,496,955
U.S. Treasury Bills, Notes & Bonds	1,199,902,869	1,403,183,606
Escrow, U.S. Government, State & Local Government Series	2,106,304,848	2,020,753,053
STRIPS	727,589,954	1,012,220,031
Total Investments	$ 4,071,933,138	$ 4,476,313,442

* Market value includes accrued interest.

Section VII

Other Investment Trust Funds

Each of the Funds described herein is invested in U.S. treasury securities, repurchase agreements and money market instruments. The risk profile of each fund varies depending on the investment objective and time horizon. Each fund is fully in compliance with its respective investment policy.

Department Of The Lottery Fund

The SBA accepted responsibility in 1989 for investing funds provided by the Department of the Lottery into U.S. zero coupon treasury bonds (STRIPS). During the current fiscal year the Lotto payout was changed from a 20-year term to a 30-year term coincident with the Lottery offering a cash option to winners. The SBA now purchases up to 29 serial amounts depending upon the game, which along with one cash payment reflects the prize winnings available for disbursement to those winners electing annual payments. The SBA also provides investment services for additional Department of Lottery games. During FY 98-99, investments were made for "Win for Life," "Big Ten Instant Ticket," "Monthly Bonus," "TV Game Show," and "Win a Million" games in addition to Lotto. All Lottery investments at market totaled $2,156,603,913 at June 30, 1999.

Securities lending has also been implemented for the lottery securities. Merrill Lynch and Bankers Trust acted as the SBA's agents, lending the securities to various authorized dealers. Net lending income for the fiscal year totaled $4,143,969.

Institute Of Food And Agricultural Sciences (IFAS)

In 1984 the Florida Legislature enacted the Institute of Food and Agricultural Sciences (IFAS) Supplemental Retirement Act to provide a supplement to the retirement benefits of those paid under the Federal Civil Service Retirement System. The beneficiaries of this program are retirees of IFAS at the University of Florida who are not entitled to benefits from either a state-supported retirement system or social security, based on their service with IFAS. The SBA invests funds set aside for this supplement. Investment policy enumerates authorized securities, and consists of U.S. government and agency securities, and high quality money market instruments. At June 30, 1999, the market value of the fund was $12,503,941.

Health Insurance Subsidy Trust Fund

The Legislature enacted Section 112.363, F.S., during 1987 and funded a subsidy for health insurance premiums for all retired state employees. Investment policy enumerates authorized securities, and consists of U.S. government and agency securities, and high quality money market instruments. At June 30, 1999, the market value of the fund totaled $71,103,637.

Gas Tax Trust Fund

This fund is used to account for the receipt and disbursement of monies received under Section 9(c) of Article XII of the State Constitution. Gas tax collections are sent from various counties to the Department of Revenue and the Department of Highway Safety and Motor Vehicles. This money is remitted to the SBA to fulfill existing debt service requirements. The SBA then returns to the counties any excess gas tax which is not required for debt service. The market value of the fund as of June 30, 1999 was $0.

Florida Endowment For Vocational Rehabilitation Trust Fund

In 1990, the Florida Legislature enacted the Florida Endowment for Vocational Rehabilitation Act (Section 413.615, F.S., 90-330, 1990 supplement) to provide various programs related to the provision of services to disabled persons. Funding for the trust fund is generated from certain authorized municipal surcharges (i.e. fines imposed against designated civil penalties). Investment policy enumerates authorized securities, and consists of U.S. government and agency securities, and high quality money market instruments. At June 30, 1999, the market value of the fund was $6,339,158.

SBA Administrative Trust Fund

The budgeted administrative expenses of the SBA for FY 98-99 totaled $16,453,852 and actual administrative expenses for the period totaled $15,883,567. Investment strategy for this fund includes shorter term government and high quality money market instruments as well as longer term securities. The mix is dependent on liquidity needs to meet operating expenses. At June 30, 1999, the market value of the fund was $28,786,725.

The SBA allocates and collects its total operating expenses from the various funds under management in accordance with the provisions of Sections 215.515, 215.44, and 218.409, F.S., and various bond sinking funds in accordance with an allocation plan approved by the Board.

Bond Proceeds Trust Fund

The Bond Proceeds Trust Fund is a fiduciary fund established to hold good faith deposits or bond proceeds received by the Division of Bond Finance. These monies are to be held by the Division of Bond Finance until issuance of the bonds. The fund typically will be invested in treasuries and high quality money market instruments. At June 30, 1999 the market value of the fund was $0.

Arbitrage Compliance Trust Fund

The Arbitrage Compliance Trust Fund was created by Section 215.655, F.S., during 1989 and is utilized to account for the fees and expenditures of the Division of Bond Finance incident to ensuring compliance with the provisions of federal arbitrage laws. The fund typically will be invested in treasuries and high quality money market instruments. At June 30, 1999, the market value of the fund was $752,693.

Revenue Bond Fee Trust Fund

The Revenue Bond Fee Trust Fund was created by Section 215.65, F.S., during 1969 and is utilized to account for the fees and expenses of the Division of Bond Finance incident to the issuance and sale of any bonds, notes or certificates issued or proposed to be issued pursuant to the provisions of the State Bond Act. The fund typically will be invested in treasuries and high quality money market instruments. At June 30, 1999, the market value of the fund was $3,198,312.

Police And Firefighters Premium Tax Trust Fund

Pursuant to Section 3 and 7 of Chapter 95-250, Laws of Florida, effective July 1, 1995, the SBA shall invest the monies of the Police and Firefighters' Premium Tax Trust Fund in accordance with Section 215.44-53, F.S. Funding for the Trust Fund is generated from quarterly payments from insurance companies collected by the Department of Revenue. Investment policy enumerates authorized securities and consists of U.S. governments and agency securities and high quality money market instruments. Distributions are made annually by the Division of Retirement to eligible municipalities; therefore, securities purchased for this Trust Fund are very liquid with short average maturities. At June 30, 1999, the market value of the fund was $46,186,260.

Florida Hurricane Catastrophe Trust Fund

The Florida Hurricane Catastrophe Fund (FHCF) was created by Section 215.555, F.S., during the November 1993 legislative session, and is administered by the SBA. The FHCF is a state program designed to provide reimbursement to insurers for a portion of their catastrophic hurricane losses. Following Hurricane Andrew, the most expensive natural disaster in history, the market for property insurance in the State of Florida became highly volatile. In order to protect their solvency, it became necessary for many insurers to reduce their Florida hurricane exposure. See Report of the Executive Director for additional information regarding this program.

The investment strategy for this fund will be reviewed periodically as experience is gained over several hurricane seasons. The fund currently is invested in treasuries and high quality money market instruments. The market value of the fund at June 30, 1999 was $2,549,857,078.

Securities lending has also been implemented for the investments in the FHCF. Bankers Trust acted as the SBA's agent, lending the securities to various authorized dealers. Net lending income for the fiscal year totaled $296,125.

Florida Prepaid Postsecondary Education Expense Program

SBA administratively and budgetarily houses the Florida Prepaid College Program, which was created in 1987 by Section 240.551, F.S. The Legislature recognized the need for a program that fosters timely financial planning for postsecondary attendance. Under the Florida Prepaid College Program, a purchaser makes payments to provide tuition and/or dormitory benefits for use in future years by a contractually specified beneficiary. The payments are fixed at a guaranteed level and the program is guaranteed by the State of Florida. The enabling legislation created the Florida Prepaid College Trust Fund ("FPCTF") under the responsibility of the Florida Prepaid College Board ("Prepaid College Board"). The FPCTF consists of "state appropriations, monies acquired from other governmental or private sources, and monies remitted in accordance with advance payment contracts". The FPCTF is used to make contracted payments for tuition and dormitory fees, reimbursements to purchasers who elect out of the program, and administrative expenses of that fund. Beginning July 1, 1998, the program offered purchasers the opportunity to provide local services contracts. The Prepaid College Board is charged to administer the FPCTF in an actuarially sound manner and to invest fund assets in accordance with a Comprehensive Investment Plan, which is established with the approval of the SBA.

Although the program is administratively housed at the SBA, it operates independently under the direction of the Prepaid College Board. The FPCTF is invested externally by the Prepaid College Board. SBA provides investment management services to the Prepaid College Board in respect to 1) interim cash balances pending transfer to external managers selected by the Prepaid College Board, and 2) the Florida Prepaid College Foundation, Inc. The interim cash balances and Foundation assets are invested by SBA in the Florida Prepaid College Program Trust Fund under an investment plan which enumerates investment in treasury securities and high quality money market instruments. At June 30, 1999, the market value of funds invested by the SBA pending transfer to external managers was $86,771,488. The market value of the Florida Prepaid College Foundation Trust Fund at June 30, 1999 was $5,303,979.

Inland Protection Financing Corporation

In 1992 the Florida Legislature passed a law making clean up of leaking underground storage tanks one of the state's top priorities. The legislation established the Department of Environmental Protection as the custodian of the program, and the Inland Protection Trust Fund as the funding source for claims. Several months after the program was started, it became obvious that there were many more contaminated sites than originally thought. Consequently, the quantity and cost of claims against the fund outstripped its financial capacity.

Over the next several months, the backlog of claims to be paid began increasing at an alarming rate. The backlog eventually grew to approximately $500 million. At this point, the Governor and Legislature stepped back in and halted the program until a solution could be worked out. The two important goals of any solution were the successful payment of the claim backlog and the continuation of new clean up.

During the 1996 legislative session, a revision to the existing program was passed. A central component of the new law was the establishment of the Inland Protection Financing Corporation as the entity charged with eliminating the backlog of claims. The Corporation was given the ability to issue bonds to pay claimants and was further authorized to use funds from the Inland Protection Trust Fund to pay debt service. Further, in the legislation, the Corporation was set up to be housed and staffed by the SBA.

On February 11, 1998, the Corporation issued $253,335,000 worth of bonds to finance the payment of a portion of the claim backlog. The rest of the claim backlog will be paid from monies transferred from the Inland Protection Trust Fund, by the Department of Environmental Protection to the Inland Protection Financing Corporation. Once all bonds issued are subsequently paid off, which pursuant to section, F.S. 376.3075(5) can take no longer than six years from the date of original issuance, the Corporation will be eliminated and the SBA will have no further responsibility to the program. The market value of the fund at June 30, 1999, was $24,833,952. The Corporation's Board of Directors is as follows:

Governor Jeb Bush
State Treasurer Bill Nelson
State Comptroller Robert F. Milligan
Secretary of Department of Environmental Protection David B. Struhs
Chairman of Black Business Investment Board Keith Carswell

Investment Fraud Restoration Financing Corporation

During the 1998 Legislative Session, the Investment Fraud Restoration Financing Corporation (IFRFC) was created, pursuant to 517.1204 F.S. The IFRFC was created as a nonprofit public benefit corporation to finance compensation of approximately 1200 Florida citizens who suffered securities losses as a result of actions by the Government Securities, Inc. The total amount of losses was nearly $25 million, with the Corporation expected to satisfy remaining claims of approximately $15 million. The market value of the fund at June 30, 1999, was $10,964,847.

Tobacco Settlement Clearing Trust Fund

During the 1999 legislative session, the Lawton Chiles Endowment for Children and Elders was created to fund specified programs for children and the elderly (F.S. 215.5601). The SBA was assigned the responsibility to develop an investment plan for this perpetuity and to manage the assets accordingly. Also the Tobacco Settlement Clearing Trust Fund was established within the Department of Banking and Finance, and the SBA was likewise assigned the responsibility to manage the assets for this fund (F.S. 17.41(3)). The initial transfers of the Lawton Chiles Endowment and the Tobacco Settlement Clearing Trust monies to the SBA were slated for July 1, 1999. However, the combined funds totaling $944,783,937 were transferred on June 21, 1999 and were managed together in a temporary account since the implementation date for the endowment was July 1. The market value of the combined funds at June 30, 1999 was $946,022,241. Effective July 1, 1999 the monies applicable to the Lawton Chiles Endowment were allocated to the various asset classes for investment in accordance with the investment plan. The moneys designated for the Tobacco Settlement Clearing Trust Fund were invested in high quality short-term instruments until a withdrawal was requested by the Department of Banking and Finance to meet program appropriation needs. Additional information relating to both the endowment and the clearing trust will be provided in our subsequent annual report.

State Board of Administration of Florida
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Tallahassee, Florida 32317 - 3300
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