The Florida State Board of Administration

1999-2000 Investment Report

State Board of Administration of Florida

Post Office Box 13300
32317-3300
1801 Hermitage Boulevard, Suite 100
Tallahassee, Florida 32308
(850) 488-4406

January 1, 2001

To the Honorable Members of the Florida Senate and House of Representatives:

It is our privilege to submit the Annual Investment Report for the Florida State Board of Administration (FSBA) for Fiscal Year 1999-2000 pursuant to the requirements of Subsection 215.44(5), F. S. The Report presents an analysis of fund performance and investment considerations during the fiscal year, as well as the longer-term performance, which more appropriately reflects the long-term nature of our responsibilities.

The FSBA has as its major investment responsibilities the Florida Retirement System (FRS), the Local Government Surplus Funds Trust Fund, the debt service accounts for state bonds, the Florida Hurricane Catastrophe Fund, the Lawton Chiles Endowment Fund, as well as managing the assets of various other trust funds. The FSBA has also been assigned the lead implementation role in activating a new pension fund option for FRS members. This new program (a defined contribution plan established under Section 401(a), Internal Revenue Code) is a voluntary, employee-directed investment option that marks a dramatic new course for the FRS. During the next two years, we will focus considerable attention on the successful establishment of this exciting new program.

In FY 1999-2000, the FSBA had another year of solid FRS overall performance. With a 10.5 percent return on our investment, we exceeded the actuarial return assumption of eight percent by 250 basis points. FRS performance also exceeded a new absolute return target, approved by the Trustees effective November 1999, and a weighted-average of broad financial market returns. We were able to maintain our reduced fee schedule and offer our clients a fee holiday during the last two months of the fiscal year. Our assets have grown to the point that we have enhanced our FRS surplus condition. In fact, on an actuarial basis, the FRS is approximately 118 percent funded. The year also marked the adoption of a Rate Stabilization Mechanism (RSM), which will operate to dampen the volatility of surplus and deficit cycles.

In sum, it was a year of extremely positive outcomes for the FSBA due, in no small part, to the excellent performance of the FSBA staff. In fact, the agency was identified as a Davis Productivity Award winner as an "Exemplary State Agency." We look forward to the continued solid performance by the FSBA in the years to come. Please do not hesitate to contact our offices or Tom Herndon, Executive Director of the FSBA, if you have any questions.

Respectfully submitted,

Jeb Bush
Governor, as Chairman

Bill Nelson
State Treasurer, as Treasurer

Robert F. Milligan
Comptroller, as Secretary

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Section I

Introduction

The Florida State Board of Administration (FSBA) has the following investment responsibilities: 1) managing the assets of the Florida Retirement System Trust Fund (FRSTF); 2) managing the assets of the Local Government Surplus Funds Trust Fund (LGSFTF); 3) managing debt service accounts for the state of Florida bond issues; 4) managing the Florida Hurricane Catastrophe Fund (FHCF); 5) managing the Lawton Chiles Endowment Fund; and 6) managing the assets of other various trust funds. The FSBA also administratively houses the Florida Division of Bond Finance and the Florida Prepaid College Program. Both organizations are directed by separate policy setting boards. The FSBA activities for FY 1999-2000 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 1999-2000 investment activities for the 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. Further, the section reviews the FRSTF's investment performance and market environment for each asset class, as written by the respective asset class Chiefs.

Section IV Provides an overview and investment performance of the Lawton Chiles Endowment Fund.

Section V Summarizes FY 1999-2000 investment activities for the LGSFTF, 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 FSBA. These funds include:
Department of the Lottery Fund
Retiree Health Insurance Subsidy Trust Fund
Gas Tax Trust Fund
Revenue Bond Fee Trust Fund
Bond Proceeds Trust Fund
Florida Hurricane Catastrophe Fund
Florida Education Fund, Inc. - McKnight Doctoral Fellowship Program
Blind Services Trust Fund
FSBA Administrative Trust Fund
Commingled Asset Management Program Money Market Fund
Institute of Food and Agricultural Sciences Supplemental Retirement
Florida Endowment for Vocational Rehabilitation Trust Fund
Arbitrage Compliance Trust Fund
Police and Firefighters Premium Tax Trust Fund
Florida Prepaid College Trust Fund
Inland Protection Financing Corporation
Investment Fraud Restoration Financing Corporation
Tobacco Settlement Clearing Trust Fund
Florida Endowment Foundation

Section II

Report of the Executive Director

During FY 1999-2000, beginning July 1, 1999 and ending June 30, 2000, growth brought the market value of funds under management to $128,175,759,597 from $118,127,509,695, an increase of $10,048,249,902. This increase in market value represents an increase of approximately nine percent and each section of this report will identify the components of this growth for the funds under management.

II.1 The Florida Retirement System Trust Fund

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

The Investment Plan was established in 1988. The Investment Plan 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. During FY 1999-2000, there were several changes to the Investment Plan. A new asset class was created for "alternative investments," new benchmark targets were adopted, and a revised set of asset allocation policy targets were adopted. Further detail regarding the Investment Plan asset allocation targets and policy ranges may be found in Section III of this report.

The asset allocation decision is the most fundamental decision faced by any investor and will explain in excess of 90 percent of subsequent investment performance experience over time. The policy ranges established in the Investment Plan afford the FSBA staff some investment flexibility, but clearly prescribe ranges within which our 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 1999-2000 include:

Domestic Equities	Real Estate
International Equities	Alternative Investments
Fixed Income	Cash/Short-Term

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 United States and internationally, as well as relative valuation across asset classes.

II.2 Actuarial Investment Return and Actual Investment Performance

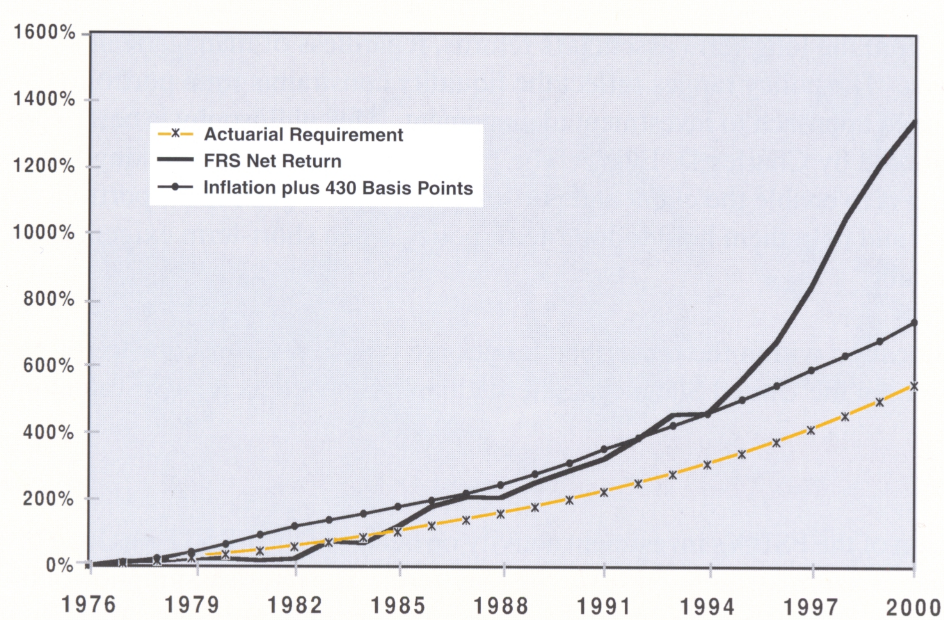
The fundamental mission of the FSBA's investment activity on behalf of the FRSTF has long been defined as achieving or exceeding the "actuarial return assumption" over the long-term. The return assumption of the state actuary has been eight percent per year since 1987. Historically, eight percent was a commonly used actuarial return assumption among pension plan sponsors; eight percent was a reasonable approximation of returns one could anticipate by holding an appropriate mix of the dominant asset classes mentioned above and by using expected returns based on historical data. While the FSBA tries to establish achievable internal investment targets, the most fundamental measure of our investment success has been our performance relative to the actuarial return assumption. During our revisions to the Investment Plan, we proposed a new approach to setting our annual investment target based on achieving a real yield of 4.3 percent over the rate of inflation. This change was recommended by our consulting actuary, and judged to be superior to a flat actuarial rate target. Because FRS Defined Benefit (DB) plan liabilities are driven in significant part by inflation, this change affords a more realistic assessment of how well our investment performance tracks overall growth in liabilities.

Perhaps most noteworthy during FY 1999-2000, was the fact that the investment activities of FSBA staff and outside managers added 149 basis points (bps) of value over and above our relative benchmark, a weighted-average of broad financial market returns. This additional increment of return equates to approximately $1.4 billion in outperformance during the year.

For FY 1999-2000, the investment return for the FRSTF was 10.5 percent, as shown in Table III-6. While actual investment experience for the fiscal year materially exceeds the eight percent actuarial return assumption, as well as the new absolute target 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 24 years, the average actuarial assumption has been eight percent. Table II-1 shows how the cumulative return on the FRSTF has consistently exceeded the actuarial assumption, net of external management fees. The Table also indicates the rationale for the Trustees' decision to adopt the new absolute target return assumption. Because pension liabilities grow with inflation, a flat actuarial return target tends to be a deceptively low bar during times of rising and high inflation. This is apparent in the Table, where a FRS portfolio heavily invested in bonds in the late 1970s and early 1980s significantly underperformed a target rate of return based on achieving a real yield of 4.3 percent over the rate of inflation. Assuming normal contributions are made, if the FRS plan assets grow by 4.3 percentage points in excess of the rate of inflation over the long-term, the plan should maintain its fully-funded status.

TABLE II-1
FRS CUMULATIVE RETURN*
FISCAL YEARS 1976-2000



*Returns are net of investment manager fees for periods after December 1984.

FY 1999-2000 saw a continuation of strong investment performance that increased our surplus status for the FRS. In fact, as of July 1, 2000, preliminary figures from the plan's actuary indicated the FRS enjoyed a surplus of approximately 18 percent on an actuarial basis and an even larger surplus if market value of the trust fund were utilized. This very positive surplus status allowed for a significant discussion of the establishment of a stabilization reserve. The Trustees adopted a Rate Stabilization Mechanism (RSM) as part of our policy framework and the Florida Legislature ultimately followed suit. The RSM manages any actuarial surplus, which exists in the FRS DB plan, according to the following priorities:

- The full amount of the surplus is available to offset experience losses. As long as the surplus is greater than the cost of any adverse experience in the preceding year, FRS employers will not have to contribute more than the normal cost rate in the following year.
- If, after offsetting prior losses, there is a remaining actuarial surplus of less than five percent, the entirety of the surplus is retained to help offset any future losses, which may occur.
- If the remaining surplus is greater than five percent, but not more than 10 percent, one-half of the excess above five percent is used to lower employer contributions below the normal cost rate.
- If the remaining surplus is greater than 10 percent, but not more than 15 percent, three-fourths of the excess above 10 percent is used to lower employer contributions below the normal cost rate.
- In addition, if the remaining surplus is greater than 15 percent, all of the excess above 15 percent is used to lower employer contributions below the normal cost rate.

The last three elements provide temporary contribution rate relief to employers. In all instances, excess surplus amounts are amortized over a 10-year rolling period. The added comfort afforded by the RSM produced a further reduction in contribution rates effective July 1, 2000. These contribution rate reductions serve to lower, even further, the payroll costs borne by public employers throughout Florida.

II.3 Investment Management and Risk Controls

The FSBA is attuned to meeting the needs of its investment clients and provides customized portfolio management appropriate to the liabilities of the client. The FSBA is likewise cognizant of the priority of maintaining an appropriate institutional investment environment, emphasizing competent management and adequate risk controls. The growth of funds under management, the associated growth and expansion of the organization, and the complexity and increased responsibilities assigned to the FSBA 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 are 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.
- 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.

We are pleased with our progress in meeting these objectives.

External oversight of FSBA 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. Recognition and thanks are due to those who served on this council during the fiscal year ending June 30, 2000:

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

An additional element of oversight is independent production of performance data relating to FSBA's portfolios. Performance numbers used in this report are generated by third-party performance reporting services, independent from FSBA staff, to provide a greater level of credibility to users. The FSBA currently uses a number of external consultants and third-party vendors to provide oversight, counsel, and program perspective on a variety of issues. Audit oversight is provided by the Florida Auditor General's office and is appropriately intensive for an investment institution of the FSBA's size and responsibilities. In addition, 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.

FY 1999-2000 brought to an end one of the most unfortunate chapters in FSBA history. The employee who embezzled funds from our soft dollar program was successfully prosecuted and, through a combination of insurance proceeds and recovered assets, we recovered all of the direct loss attributed to the crime. However, not all indirect costs have been recovered. Efforts to recover the indirect costs will continue.

II.4 Local Government Surplus Funds Trust Fund

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 to other eligible local governmental entities. The LGSFTF market value of funds under management was $11,308,052,029 on July 1, 1999 and $10,981,847,796 on June 30, 2000. Net withdrawals totaled $987,614,554 and income and investment market value gain totaled $661,410,321. Section V contains additional detail regarding this fund.

II.5 Debt Service Funds

The FSBA 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, 2000 was $3,884,643,594. Additional details regarding Debt Service activities are contained in Section VI of this report.

II.6 Lawton Chiles Endowment Fund

The Lawton Chiles Endowment Fund for children and elders was established by the Legislature during 1998-99 for implementation on July 1, 1999. This endowment was initially funded at $725 million and received two additional increments totaling $376 million in January 2000, for a total invested principal of $1.1 billion. The FSBA outperformed our target, and as of June 30, 2000 assets in the fund had grown to $1.18 billion.

II.7 Administration

II.7.1 Investment Issues

The following is a brief review of investment related issues pertinent to the administration of funds under management during FY 1999-2000:

- **Domestic Equities Asset Class** - Susan Schueren has been in charge of this asset class during this entire year and continues to strengthen the staff and overall performance. Fees have been reduced and performance has improved significantly during the past 18 months. This year also saw dramatic rebalances, which have been handled quite effectively.

- **International Equities Asset Class** - This asset class has grown dramatically during the past fiscal year. During the November 1999 TFIP review, a decision was made to increase the allocation from eight to 12 percent. This effectively moved over $3 billion into the asset class, all of which was very effectively deployed.

- **Fixed Income Asset Class** - This asset class continued to demonstrate strong leadership and professional competence in spite of a torpid bond market. Performance remained strong and contributions to the FSBA's overall achievements were quite high. The asset class successfully transitioned to a new benchmark for Fixed Income pension assets effective July 1, 1999. Also, this asset class managed over $20 billion in non-pension assets, and during the fiscal year a commingled short-term investment vehicle was created for more efficient management of funds with similar investment objectives.

- **Real Estate Asset Class** - During the year, this asset class completed implementation of new portfolio management software, which is now fully operational. This asset class adopted a new real estate benchmark that includes a publicly traded real estate securities element, as well as the consumer price index plus a premium. An outside performance audit was conducted with the overall performance judged as satisfactory. Real estate investments continue to perform well.

- **Alternative Investments** - This is a new asset class and at present is composed of the FSBA private equity portfolio that was previously managed in Domestic Equities. The unit has been organized and fully staffed under the leadership of William F. (Bill) James and is now operating quite efficiently.

II.7.2 Organizational Development

There is no question that for the FSBA, the most critical element that leads to excellent performance is the caliber of our staff. Our need to recruit and retain high quality employees is the most persistent and pervasive issue in our strategic plan. While we have enjoyed much success during this past year, we cannot afford to relax our focus on this task. The Trustees have continued to strengthen our abilities in this regard, and we look forward to further efforts in this area.

This year has also seen further changes in FSBA leadership. Our long time Chief of Management Policy left the FSBA for employment in the private sector, and our Chief Operations Officer was placed in charge of the Alternative Investments asset class. The Offices of Management Policy and Operations were combined into the Office of Administrative Services. Coleman Stipanovich was hired as Chief of Administrative Services; he has implemented an excellent restructuring of the various units that report to him and has demonstrated strong leadership and competence in managing significant changes in the areas of management policy and operations.

We are especially proud that the FSBA was selected to receive an "Exemplary State Agency" award from the Davis Productivity Program for our overall achievements this past year.

II.8 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 the FSBA's desire to continue to recruit and retain quality staff. This is particularly important to the FSBA 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 FSBA to be an extremely cost effective provider of investment services. Substantial investment activities are accomplished internally by FSBA 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 FSBA to operate the Local Government Investment Pool, for instance, also enables us to perform pooled cash management services for the large number of individual pension fund accounts which may, at various times, hold residual cash.

Our FRS investment service charge remained at 1.75 basis points for the fiscal year and during the last two months of the fiscal year we implemented a "fee holiday"; there was no charge for services for those two months. We take great pride in the fact that we lowered our outside manager fees from an average of .25 percent (of the average of the beginning and ending market value of assets externally managed in FY 1998-99) to .22 percent in FY 1999-2000. By comparison, in FY 1999-2000, the Board had 823 asset dollars under management per dollar of cost compared to 771 asset dollars in FY 1998-99. This equates to a productivity increase of approximately seven percent.

II.9 Florida Hurricane Catastrophe Fund

The Florida Hurricane Catastrophe Fund (FHCF) was created by the Legislature during the November 1993 Special Session. The fund 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 FSBA. Its purpose 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 FSBA to report their exposures, to pay premiums, and to report losses by calendar year-end or at other times as required by the FSBA. Covered losses are reimbursed 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 issue tax-exempt revenue bonds. Such revenue bonds are financed by an emergency assessment of up to four percent on all property and casualty insurers' direct written premiums, excluding workers' compensation and accident and health insurance. Following a hurricane event, which exhausts or seriously reduces the assets available either in cash or through issuance of revenue bonds, the 1999 Legislature provided for additional capacity in a subsequent contract year. Subsequent season capacity was accomplished by putting an upper limit of $11 billion on FHCF reimbursement obligations for any one contract year, providing for an additional two percent emergency assessment for a subsequent season, and limiting the imposition of an emergency assessment in any one contract year to four percent. The projected calendar year-end balance of the FHCF is $3.64 billion. The 2000 season bonding capacity has been estimated at $7.36 billion. If all cash and bonding capacity is exhausted, it is estimated that $4.9 billion could be raised in a subsequent season.

The 2000 Legislature allocated $10 million, as required by existing statute, plus $2.2 million (which was vetoed in 1999) to the Department of Community Affairs for the Hurricane Loss Mitigation Program, Emergency Management and Mitigation Initiatives, and disaster shelter space retrofitting.

The Florida Hurricane Catastrophe Fund Advisory Council provides information and advice to the FHCF. The members of the Council include:

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

In accordance with Section 627.0628, F.S., the FSBA has the ongoing statutory assignment to house and staff the Florida Commission on Hurricane Loss Projection Methodology (the Commission). Staffing responsibility for the Commission was assigned to the FHCF staff. For FY 1999-2000, the statutory deadline to revise hurricane-modeling standards was successfully met. The statute provides for an 11 member Commission; however, the position to be held by an expert in statistics is currently vacant. The members of the Commission include:

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

II.10 Legislative Activity

Our legislative activity for the 2000 legislative session culminated in the adoption by the Florida Legislature of Chapter 2000-169, Laws of Florida, or, as it is commonly referred to, the Defined Contribution (DC) Program. This new optional pension program will be available to FRS members beginning in June 2002. This law marks the end of three years of pension reform debate and offers what may be the most profound change ever made to the FRS. The FSBA was designated as the lead implementation agency and is currently well into transition planning and management activities. Reform of the current DB pension plan to offer a defined contribution option [401(a)] is reportedly the largest such undertaking in the history of the United States. While that may or may not be true, the scale of this project is certainly imposing. Eight hundred employers and more than 650,000 employees will be affected by the implementation of the DC plan and the expectations are that the DB membership plan will shrink in size as the DC plan grows.

The Legislature also reduced the vesting period for active members of the DB plan, from 10 to six years. This step, effective July 1, 2001, will bring 100,000 FRS members into fully vested status. Additional changes were made to contribution rates by class, as were other changes to retroactively upgrade past service for special risk members and the adoption of a RSM. This law will offer the best of a traditional defined benefit plan, as well as the much sought after benefits of a fully portable, self-directed plan.

On behalf of the FHCF, we offered amendatory language to Section 215.555, F.S., to correct an error in last year's legislation relating to the fund's method for determining each insurer's recovery from the fund. In addition, we also agreed to a technical amendment clarifying that the FHCF may provide coverage to insurers assuming liabilities for policies in the Florida Windstorm Underwriting Association or the Florida Residential Property and Casualty Joint Underwriting Association.

The Legislature created the Florida Water Pollution Control Financing Corporation, a non-profit, public-benefits corporation. The purpose of this corporation is to finance the costs of water pollution control projects and activities pursuant to Section 403.1835, F.S. This Corporation was modeled upon the successful financing structure of the Inland Protection Financing Corporation and the Investment Fraud Restoration Financing Corporation, both administratively housed at the FSBA. Further, the Legislature named the Executive Director of the FSBA as the Chief Executive Officer of the Florida Water Pollution Control Financing Corporation (Corporation). The Corporation will issue bonds, certificates, or other obligations of indebtedness and is authorized to issue bonds not to exceed $50 million in FY 2000-01, $75 million in FY 2001-02, and $100 million in FY 2002-03. The Department of Environmental Protection is slated to administer the funds accrued through the activities of the Corporation.

The Legislature also created the Tobacco Settlement Financing Corporation, a non-profit, public-benefits corporation, for the purpose of purchasing the state's rights, interest, and title to future tobacco settlement payments. Like the Florida Water Pollution Control Financing Corporation, this corporation was modeled upon the Inland Protection Financing Corporation and Investment Fraud Restoration Financing Corporation. The corporation is authorized to sell bonds, the principal, and interest on which will be paid from tobacco settlement payments. Proceeds of the securitization will be deposited directly into the Lawton Chiles Endowment Fund. As with the Florida Water Pollution Control Financing Corporation, the Legislature named the Executive Director of the FSBA as the Chief Executive Officer of the corporation.

The Legislature also created a task force to determine the need for tobacco securitization and evaluate methods for protecting the state's settlement revenue from significant loss. The task force will be chaired by the Governor and will include the Comptroller, the Treasurer, three members of the Senate, and three members of the House of Representatives. The task force submitted a recommendation report to the President of the Senate and Speaker of the House of Representatives on November 1, 2000.

Last session, we reported the Florida Prepaid College Program's initiation of their qualified state tuition program. 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). This session, language was added to provide an exemption from public records requirements for account information associated with the Florida College Savings Program.

We will continue to monitor a wide variety of investment and pension reform issues during the upcoming 2001 legislative session. With the recent redesign of our FSBA Web site, **www.fsba.state.fl.us**, you may access information concerning the business operations of the FSBA, including the implementation process for the new optional retirement pension plan.

II.11 Corporate Governance

The FSBA 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 over 2,600 proxies on various management and shareholder proposals, the FSBA has been actively involved in developing shareholder proposals where we feel it is in the best interest of the beneficiaries to do so. The FSBA continued its participation in the Council of Institutional Investors, an organization that is the leading proponent of shareholder issues affecting public pension funds in the national arena. We also continued our activities in the area of litigation, bringing suit directly and through derivative actions, to protect shareholder interests. In several instances, class-action litigation settlements resulted in major improvements in the corporate governance structures of the companies involved. In a groundbreaking achievement, as part of the litigation settlement with UCAR International, Inc., the FSBA was able to nominate and elect a new independent director on that company's board.

II.12 Annual and Long-Term Fund Growth

Table II-2 provides the market values of FSBA managed funds, by program, for FYs 1996-2000.

TABLE II-2
INVESTMENTS BY PROGRAM
FISCAL YEARS 1996-2000

	Fiscal Years				
	1996	1997	1998	1999	2000
Florida Retirement System	$54,005,340,686	$67,082,341,873	$83,444,658,787	$96,393,916,000	$106,630,007,835
Lawton Chiles Endowment Fund	0	0	0	0	1,181,023,545
Local Government Pool	8,122,568,839	8,964,772,699	10,297,051,676	11,214,028,422	10,849,186,521
Local Government Nonpool	87,872,323	242,814,372	264,743,397	94,023,607	132,661,275
Debt Service	3,964,151,972	3,681,526,377	4,071,933,138	4,476,313,442	3,884,643,594
Department of the Lottery	1,797,560,515	1,978,545,882	2,238,476,987	2,156,603,913	2,054,143,520
Retiree Health Insurance Subsidy	24,661,120	37,659,673	53,503,458	71,103,637	62,760,211
Student Loan Escrow	26,822	28,275	0	0	0
Gas Tax	0	0	75,203	0	0
Revenue Bond Fee	2,328,892	2,613,846	2,980,727	3,198,312	2,765,522
Bond Proceeds	401,381	218,066	0	0	0
Florida Hurricane Catastrophe	1,086,338,987	1,624,611,774	2,184,067,944	2,549,857,078	3,155,688,060
McKnight Education Fund	0	0	0	0	6,227,982
Blind Services	0	0	0	0	3,915,915
FSBA Administrative	9,622,485	14,252,999	23,614,530	28,786,725	33,280,853
Institute of Food and Agricultural Sciences	10,172,265	10,909,249	11,659,328	12,503,941	13,380,858
Florida Endowment for Vocational Rehabilitation	10,905,951	5,867,016	6,080,065	6,339,158	6,833,786
Arbitrage Compliance	384,657	386,760	585,929	752,693	811,693
Police and Firefighters	43,206,648	48,344,149	42,675,710	46,186,260	118,962,662
Florida Prepaid College Program	1,786,782	2,102,714	4,168,076	86,771,488	13,471,604
Florida Prepaid College Foundation	2,722,572	3,865,275	3,576,784	5,303,979	9,006,154
Inland Protection Financing Corp.	0	10,480	35,011,779	24,833,952	15,293,272
Investment Fraud Restoration Fin. Corp.	0	0	0	10,964,847	895,189
Tobacco Settlement Clearing	0	0	0	946,022,241	271,225
Florida Endowment Foundation	0	0	0	0	528,321
Market Value Totals	$69,170,052,897	$83,700,871,479	$102,684,863,518	$118,127,509,695	$128,175,759,597

II.13 Market Value Changes, By Fund

Table II-3 provides the annual beginning and ending asset values and sources of market value changes in the asset value of each fund managed by the FSBA, for FY 1999-2000:

TABLE II-3
MARKET VALUE CHANGES, BY FUND*
FISCAL YEAR 1999-2000

			- Source of Market Value Changes -	
	Market Value* 6-30-99	Market Value* 6-30-00	Net Contributions and Transfers	Investment Gain(Loss)
Florida Retirement System	$96,393,916,000	$106,630,007,835	$106,200,500	$10,129,891,335
Lawton Chiles Endowment Fund	0	1,181,023,545	1,100,000,000	81,023,545
Local Government Pool	11,214,028,422	10,849,186,521	(1,020,519,986)	655,678,085
Local Government Nonpool	94,023,607	132,661,275	32,905,432	5,732,236
Debt Service	4,476,313,442	3,884,643,594	(833,790,721)	242,120,873
Department of the Lottery	2,156,603,913	2,054,143,520	(218,405,871)	115,945,478
Retiree Health Insurance Subsidy	71,103,637	62,760,211	(12,358,000)	4,014,574
Gas Tax	0	0	(271,063)	271,063
Revenue Bond Fee	3,198,312	2,765,522	(597,919)	165,129
Bond Proceeds	0	0	(59,660)	59,660
Florida Hurricane Catastrophe	2,549,857,078	3,155,688,060	430,285,694	175,545,288
McKnight Education Fund	0	6,227,982	6,185,182	42,800
Blind Services	0	3,915,915	3,958,197	(42,282)
FSBA Administrative	28,786,725	33,280,853	2,769,544	1,724,584
Institute of Food and Agricultural Sciences	12,503,941	13,380,858	132,500	744,417
Florida Endowment for Vocational Rehabilitation	6,339,158	6,833,786	132,298	362,330
Arbitrage Compliance	752,693	811,693	15,806	43,194
Police and Firefighters	46,186,260	118,962,662	69,533,312	3,243,090
Florida Prepaid College Program	86,771,488	13,471,604	(77,794,569)	4,494,685
Florida Prepaid College Foundation	5,303,979	9,006,154	3,105,000	597,175
Inland Protection Financing Corporation	24,833,952	15,293,272	(10,572,594)	1,031,914
Investment Fraud Restoration Fin. Corp.	10,964,847	895,189	(10,193,730)	124,072
Tobacco Settlement Clearing	946,022,241	271,225	(948,821,776)	3,070,760
Florida Endowment Foundation	0	528,321	511,891	16,430
Totals	$118,127,509,695	$128,175,759,597	$(1,377,650,533)	$11,425,900,435

* Market value includes accrued income for all funds.

In summary, FY 1999-2000 has been a very successful year for the FSBA. Significant pension reform legislation was adopted, investment performance remained strong, costs were kept under control and, perhaps most striking, over $1 billion per annum in contribution rates have been redirected back to taxpayers in the last year.

Section III

Florida Retirement System Trust Fund

The FSBA 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 (DOR), the administrative agency for the FRS, provides full accounting and administration of benefits and contributions for the retirement system. The DOR initiates actuarial studies, recommends benefit and contribution changes, and proposes rules and regulations for the administration of the FRS. The Legislature has the responsibility of setting contribution rates and benefit levels and providing statutory guidance for the administration of the FRS.

III.1 Overview

III.1.1 The Board

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 Subsections 215.44(2) and 215.47(9), F. S. Statutory limitations include:

- no more than 80 percent of assets can be invested in domestic common stocks;
- no more than 75 percent of assets can be invested in internally-managed common stocks;
- no more than three percent 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 percent of equity assets can be invested in the equity securities of any one corporation;
- no more than 80 percent of assets shall be placed in corporate fixed-income securities;
- no more than 25 percent 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; and
- no more than 20 percent shall be invested in foreign corporate or commercial securities or obligations.

III.1.2 Investment Advisory Council

A six-member Investment Advisory Council (IAC) is appointed by the Trustees, 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 (TFIP or Investment Plan) and supporting documents involved in the evaluation of the Investment Plan.

III.1.3 The Executive Director

The Executive Director is responsible for 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, as well as providing the Trustees 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.

III.1.4 Investment Objectives

Our fiduciary standard requires that investments of the Florida Retirement System Trust Fund (FRSTF) be made solely for the benefit of the beneficiaries and for no other reason. The goal of the FSBA, as stated in the Investment Plan, has been to maximize the probability of achieving the actuarial rate of return on the FRSTF's portfolio, subject to risk considerations. During our revisions to the Investment Plan, we proposed a new approach to setting our annual investment target based on achieving a real yield of 4.3 percent over the rate of inflation. This change was recommended by our consulting actuary, and judged to be superior to a flat rate target. Because FRS Defined Benefit (DB) plan liabilities are driven in significant part by inflation, this change affords a more realistic assessment of how well our investment performance tracks overall growth in liabilities. In setting the framework for achieving its goal, the Trustees also set 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.

III.1.5 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, although changes set in motion by the new Defined Contribution (DC) plan could change liabilities significantly. Risk is the prospect or danger of a shortfall in funds necessary to make these payments. Although the FSBA 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 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 economic growth. Additionally, inflation is particularly important in determining benefit levels so low risk assets 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. However, short-term volatility does not imply that the long-term expected return is in question. 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 as of July 1, 1999, contributions exceeded benefit payments by roughly $100 million in FY 1999-2000. Staff projects that the FRSTF will experience modest net cash outflow in FY 2000-01 and subsequent years. 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 percent 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, as approved by the Trustees, 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 elements: 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 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 asset classes authorized in the Investment Plan are domestic equity, international equity, fixed income, real estate, alternative investments, 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 larger price volatility than any of the other traditional asset classes. Stocks are shares of ownership in businesses, and 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, approximately three percent over the real growth rate of the economy and six percent over inflation. Multi-year periods of high and low inflation had roughly the same return. Stocks are thus a very effective way of participating in economic growth over time. This growth is reassuring on two fronts. First, we can have a high level of confidence of achieving the long-term expected return; and 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 was roughly 17 percent. While the expected annual real return is six percent per year, in any given year, there is a roughly 35 percent chance of earning zero or less, which will periodically generate a great deal of anguish without affecting the long-term risk. Moreover, if inflation remains muted in the intermediate-term, total returns on stocks may be close to eight percent per year—less than one-half as strong as returns over the last five fiscal years.

International stocks share many of the institutional characteristics of domestic stocks. The most widely used international performance figures began in the early 1970s, when the fixed foreign exchange system was eliminated and currency prices became determined in the market. Academic studies have examined longer return series beginning in the 1920s. The overall conclusion is that international stocks have had a slightly lower return than domestic stocks, although volatility was higher. However, the pattern of return 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 two to four percent 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 eight percent. With an expected annual real return of three percent, there is a 35 percent 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 (i.e., there is more uncertainty about earning a real return commensurate with liability needs) because of their inability to respond to changes in economic conditions.

From the FSBA 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 returns will keep pace with economic expansion and liability growth, real estate is less attractive than either foreign or domestic equities.

The Alternative Investments asset class is presently composed of private equity investments through general partnerships or captive (exclusive) partnerships. Portfolio investments are predominantly equity investments in domestic companies, but there are a number of fundamental factors that establish these partnerships as a separate and unique asset type. Once a contractual capital commitment is established with the general partners, limited partners must satisfy capital calls and have no rights to the invested capital. Limited partnerships are also materially higher in risk than a diversified market index of domestic securities because portfolio companies tend to have higher balance sheet leverage and the portfolios tend to be concentrated. In addition, portfolios are actively managed and the portfolio investments and general partnership arrangements are relatively illiquid. Over the long-term, the FSBA expects its private equity investments to surpass a risk-adjusted hurdle rate of 600 basis points over the broad United States equity market return.

The Cash asset class, from our risk perspective, poses the highest level of risk. 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 percent probability of not achieving the FRS real return target 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 a result, cash is overpowered by other, higher returning asset classes as a volatility reducer.

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 higher expected returns; the higher powered the portfolio's earning potential, the less likely it will earn less than the long-term target. 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 is of concern to stakeholders and the Trustees. There is a limit to how much short-term volatility even the staunchest long-term investor can tolerate. The role of the other asset classes in the portfolio (international stocks, bonds, real estate, alternative investments, and cash) is to diversify away some of the volatility. Each asset class has a different pattern of price movement so that their individual variation tends 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. That is, investments are diversified as to asset class, and within asset class by maturity, liquidity, industry, country, company, and size—among other considerations.

III.1.6 Asset Allocation

This year, the FRS Investment Plan was amended to:

- adopt new performance benchmarks and measurement methodologies;
- create a new Alternative Investment asset class; and
- establish a new target asset allocation and policy ranges.

Because of its unique investment characteristics and increased size, Alternative Investments was separated from the Domestic Equities asset class, both administratively and within asset allocation policy. This change was effective November 1, 1999. The Executive Director may vary the actual asset mix from the target asset allocation in order to pursue incremental investment returns. However, during the fiscal year, actual asset allocations were kept very near to the target asset allocations by following a rebalancing discipline that was adopted as an internal procedure in the fall of 1997. Tables III-1 and III-2 summarize the target asset allocation and policy ranges that were in effect during the fiscal year.

TABLE III-1
FLORIDA RETIREMENT SYSTEM TARGET ASSET ALLOCATIONS
FISCAL YEAR 1999-2000

Asset Class	July 1, 1999 to October 31, 1999	November 1, 1999 to June 30, 2000
Domestic Equities	61.0%	55.5%
International Equities	8.0%	12.0%
Fixed Income	26.0%	25.0%
Real Estate	4.0%	Floating, Centered at 4.0%
Alternative Investments	Not Applicable	Floating, Centered at 2.5%
Cash/Short-Term	1.0%	Floating, Centered at 1.0%

TABLE III-2
FLORIDA RETIREMENT SYSTEM ASSET ALLOCATION POLICY RANGES
FISCAL YEAR 1999-2000

Asset Class	July 1, 1999 to October 31, 1999	November 1, 1999 to June 30, 2000
Domestic Equities	55-67%	47-61%
International Equities	5-10%	9-15%
Fixed Income	20-35%	15-35%
Real Estate	2-6%	2-6%
Alternative Investments	Not Applicable	1-4%
Cash/Short-Term	0-10%	0-10%

III.2 Economic and Market Conditions

The national economy turned in another stellar performance over the past fiscal year, much as it has over the latter stages of this record expansion. The explosive growth of business investment in equipment and software, largely in information technologies, contributed to strong labor productivity gains which helped to offset the impact of wage pressures from the tightest labor market in a generation. Growing federal surpluses, an effective proactive monetary policy, a markedly improved global economic environment, and signs late in the fiscal year that the economic growth may be moderating to a more sustainable pace contributed to the general lack of cyclical imbalances. This bodes well for economic growth going forward.

Although economic growth accelerated from the prior fiscal year, aggregate demand moderated appreciably over the last quarter of the fiscal year, helping to strike a better balance with the production side of the United States economy. This balance helped to ease price pressures and credit market concerns, despite a spike in oil prices. The growth of consumer expenditures, which slowed unevenly throughout 2000 from a year-end 1999 peak, slowed dramatically in the second quarter due to a sharp deceleration of goods expenditures. However, service consumption remained robust and the rapid pace of capital investment continued.

Business fixed investment maintained its double-digit growth rate and continues to be a major driver of the expansion, enabling the ratio of business equipment spending to the Gross Domestic Product (GDP) to post a record high in the final quarter of the fiscal year. International economic conditions improved markedly from the 1997-98 global financial crisis and the fear of financial disintermediation that gripped central banks during the crisis. All areas of the global economy posted a strong rebound. Both the International Monetary Fund (IMF) and the Organization for Economic Co-Operation and Development (OECD) raised their world economic growth forecasts appreciably; this bodes well for future United States exports.

Outside of oil, price pressures remained remarkably well contained over the fiscal year given the robust economic growth rate and tight labor markets. Early evidence of a moderating trend in aggregate demand, coupled with favorable productivity gains, helped to ease inflationary expectations. Labor productivity surged in the second quarter and increased 5.2 percent over the fiscal year. Unit labor costs fell fractionally over the same period, bolstering unit profits. Corporate profits were strong over the period, and increased in the last quarter of the fiscal year with widespread gains across major industry groups. The acceleration of productivity this late into an expansion is unprecedented.

Unlike the pattern experienced late in other major postwar expansions, there was no sharp acceleration in core inflation indices. The technology driven boom drove down retailing costs, while deregulation and rising foreign competition also contributed to limiting corporate pricing power. The federal fiscal picture continued to brighten as revenues (buoyed by a tight labor market, as well as strong capital gains and corporate profits) ran well ahead of estimates. The Treasury's buyback of public debt and retiring of maturing debt continued (we are in the midst of the largest privately held Treasury debt reduction in United States' history). The vastly improved fiscal backdrop is also helping to dampen credit market and price pressures.

Despite the benign inflationary backdrop, potential imbalances in the labor and product markets led the Federal Reserve to tighten monetary policy, intervening proactively five times over the fiscal year, culminating in a 50 basis point increase in the target Fed funds rate on May 16, 2000. There was also a flurry of official rate hikes by central banks around the world. Over this tightening cycle (June 30, 1999 through May 16, 2000), the Federal Open Market Committee (FOMC) preceded with a gradualist tightening policy, raising short-term interest rates a total of 175 basis points—which was far below that of other major postwar tightening cycles. The FOMC opted to maintain their existing policy stance on June 28, 2000, while retaining their "balance of risks" statement weighted toward rising inflation (as they have at every FOMC meeting this year). Signs of moderating aggregate demand late in the fiscal year, coupled with the likelihood that the lags from last year's monetary tightening have not yet played themselves out, should give the Federal Reserve some additional flexibility when considering policy moves over the new fiscal year.

A number of factors are increasing the probability that the Federal Reserve's monetary tightening over the past 12 months is coming closer to its desired goal of achieving a soft landing. The United States economy is beginning to exhibit the cyclical dynamics more typically associated with long expansions. Demand for consumer durables and housing has begun to moderate, due in part to the rise in interest rates orchestrated by the Federal Reserve, and to a normal household reaction to the buildup of consumer durable assets over this record expansion. The pace of economic growth is expected to moderate during the next fiscal year to a rate near or below the Federal Reserve's perceived noninflationary growth target. Labor market conditions are forecasted to remain tight throughout the intermediate term, with the unemployment rate not rising appreciably from current levels, accompanied with an uptick in the inflation rate (although inflation is forecasted to remain low by historical standards). Labor markets are expected to remain excessively tight. However, due to the winding down of the temporary deflationary factors associated with the 1997-98 global financial crisis, the best news on the inflation front may well be behind us.

There are many risks to the financial markets that could impact current fiscal year investment performance. Signs of the economy moderating to a more sustainable pace remain uneven and tentative as growth in many aggregate demand components continues largely unabated. Risks remain that the economy may merely be experiencing a pause in its torrid pace, much as it did late in 1998 and 1999, and has not slowed sufficiently to achieve a non-inflationary growth path. Any upside surprise will add to domestic price pressures, and the resulting higher inflation will hurt bond total returns. Growing current account imbalances may eventually weaken the dollar and undermine demand for dollar-denominated financial instruments. Credit spreads remain high by historical standards and cast an uneasy shadow over the financial markets. In addition, there is the inevitability that the current expansion will eventually end. The length of this record expansion, as well as the sizable increase in oil prices and interest rates over the fiscal year, adds to the probability of this event. Lastly, regardless of the future path of the economy, it is highly unlikely that the atypically high equity returns of the past five fiscal years will continue.

Over the 12 months ending June 30, 2000, financial market returns generally reflected the broad economic environment. Short-term U.S. Treasury Bills provided a respectable 5.7 percent return for the period as the Federal Reserve boosted overnight rates. With rising short-term interest rates, fixed income returns lagged cash returns. The Lehman Brothers Aggregate Index, a broad market-weighted index containing government bonds, corporate bonds, and mortgage-backed securities, had a return of 4.8 percent for the year. Nearly all of that gain occurred in the final six months of the year, as the bond market became more confident that the Federal Reserve's interest rate increases were sufficient to mitigate the risk of inflationary pressures. Despite rising interest rates and turbulence in technology stocks, the United States stock market produced results in line with long-term expectations. The Wilshire 2500 Index, excluding tobacco stocks, posted a 10.0 percent gain for the year. Although profit growth remained robust throughout the year, cooling investor enthusiasm for technology-related stocks and expectations of slower economic growth helped produce a virtually flat stock market in the last six months of the fiscal year.

III.3 Asset Allocation for FY 1999-2000

Tables III-3 through III-5 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.

TABLE III-3
ACTUAL QUARTER-END ASSET ALLOCATION
FISCAL YEAR 1999-2000

Asset Class	9-30-99	12-31-99	3-31-00	6-30-00
Domestic Equities	60.24%	57.22%	56.56%	55.46%
International Equities	8.65%	12.61%	12.32%	12.16%
Fixed Income	25.84%	22.78%	23.55%	24.20%
Real Estate	4.14%	3.76%	3.76%	3.94%
Alternative Investments	(1)	2.77%	2.98%	3.40%
Cash/Short-Term	1.13%	0.86%	0.83%	0.84%
	100.00%	100.00%	100.00%	100.00%

(1) The portfolios currently included in the Alternative Investments asset class were part of the Domestic Equities asset class prior to November 1, 1999.

TABLE III-4
ACTUAL FISCAL YEAR-END MARKET VALUES BY ASSET CLASS
FISCAL YEARS 1996-2000

Asset Class	6-30-96	6-30-97	6-30-98	6-30-99	6-30-00
Domestic Equities	$29,729,621,775	$40,087,182,634	$51,899,774,220	$61,032,379,077	$59,139,840,559
International Equities	4,326,118,464	5,830,831,664	6,337,999,093	7,823,315,481	12,962,516,435
Fixed Income	14,450,785,882	16,196,525,581	20,904,267,535	22,875,995,829	25,809,042,664
Real Estate	1,416,449,485	2,121,426,112	3,231,201,996	3,695,348,041	4,203,621,475
Alternative Investments	(1)	(1)	(1)	(1)	3,624,351,026
Cash/Short-Term	4,082,365,080	2,846,375,882	1,071,415,943	966,877,572	890,635,676
Total Fund Value	$54,005,340,686	$67,082,341,873	$83,444,658,787	$96,393,916,000	$106,630,007,835

(1) The portfolios currently included in the Alternative Investments asset class were part of the Domestic Equities asset class prior to November 1, 1999.

TABLE III-5
QUARTER-END MARKET VALUES BY ASSET CLASS
FISCAL YEAR 1999-2000

Asset Class	9-30-99	12-31-99	3-31-00	6-30-00
Domestic Equities	$56,152,019,413	$59,930,319,559	$61,102,091,966	$59,139,840,559
International Equities	8,056,985,162	13,205,067,175	13,311,284,944	12,962,516,435
Fixed Income	24,079,780,445	23,875,477,981	25,440,660,722	25,809,042,664
Real Estate	3,854,792,966	3,938,997,218	4,073,611,687	4,203,621,475
Alternative Investments	(1)	2,903,766,331	3,224,883,829	3,624,351,026
Cash/Short-Term	1,053,781,115	902,747,003	896,643,672	890,635,676
Total Fund Value	$93,197,359,101	$104,756,375,267	$108,049,176,820	$106,630,007,835

(1) The portfolios currently included in the Alternative Investments asset class were part of the Domestic Equities asset class prior to November 1, 1999.

III.4 Performance Evaluation for FY 1999-2000

III.4.1 Annualized Total Fund Investment Performance

The performance of each asset class is measured relative to a broad market index as specified in the FRS TFIP and enumerated in the notes to the following tables. The performance of the Total Fund is measured relative to a weighted average of those indices, weighted according to the policy ranges specified in the TFIP. These policy ranges were changed during the fiscal year and are shown in Table III-2. In addition, the performance of the TFIP is measured relative to an absolute long-term performance objective set forth in the TFIP. During the fiscal year, the Trustees approved a new absolute real return target of 4.3 percent. Assuming normal contributions are made, if the FRS plan assets annually grow by 4.3 percentage points in excess of the rate of inflation over the long-term, the plan should maintain its fully-funded status. Combining the absolute real return target and actual inflation results in the absolute nominal target rate of return, which is presented in Table III-6. Table III-7 contains detailed performance data for the public market asset classes within the FRS portfolio. This breakout is intended to allow a comparison of performance across various time periods and asset classes. 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, after accounting for typical securities lending revenue.

Table III-6 also displays aggregate investment returns for all active portfolios and all passive portfolios, and their relevant performance benchmarks. The selective use of active management strategies for the FRSTF is based on the dictate in the TFIP to maximize returns relative to the broad market standards, subject to risk considerations. An important component of risk, in the context of the FRSTF, is the reality that most active managers have historically underperformed passive index alternatives. The sheer size of assets under management for the FRSTF also exacerbates the transactions cost drag resulting from the turnover associated with active investment strategies. Therefore, the FSBA's investment program for the FRSTF has a substantial reliance on passive index funds. Index funds have operational risk. Index funds are intended to closely track market indices over long periods of time, but will occasionally lag the costless market index due to the method of index implementation and transactions costs, although securities lending income is a positive offset to these shortfalls. Nonetheless, index funds are the most effective and lowest cost methods of attaining market returns over the long-term.

The managed return for the Total Fund is effectively a weighted-average of the managed return for all active portfolios and the managed return for all passive portfolios. However, this same aggregation approach cannot generally be applied to the active and passive performance benchmarks with the expectation that the relative target return would result. Two primary factors interfere with this type of calculation: 1) the actual asset allocation across asset classes can differ from the target allocation used to calculate the relative target return; and 2) the actual intra-asset class allocation across sub-sectors of each asset class could differ from the sub-sectors' weights contained in each target index.

The Total Fund Relative Target returns in Table III-6 reflect changes incorporated into the TFIP on November 1, 1999, including a revision to the Real Estate asset class performance benchmark that was retroactive. The former National Council of Real Estate Investment Fiduciaries (NCREIF) Real Estate Target was undesirable for a number of reasons, and we believe the new Wilshire RESI-U Target represents a challenging investable alternative. The annualized impact of the change on the Total Fund Relative Target returns through December 1999 were +0.2 percent since January 1985; +0.1 percent for the trailing 10 years; -0.1 percent for the trailing five years; -0.5 percent for the trailing three years; and -0.6 percent for the trailing one-year period.

TABLE III-6
ANNUALIZED TOTAL FUND INVESTMENT PERFORMANCE*
(BY FISCAL YEAR PERIODS)

	10 Years 1990-2000	5 Years 1995-2000	3 Years 1997-2000	1-Year 1999-2000
FRSTF Public and Private Market Investments				
Managed Return (1)	14.1	16.9	15.4	10.5
Absolute Nominal Target (2)	7.3	6.9	6.9	8.2
Relative Target (3, 6)	14.0	17.1	14.8	9.1
All Passive Portfolios (4)	15.3	18.9	16.8	9.6
Performance Benchmark (5)	15.1	18.5	16.3	9.4
All Active Portfolios (4)	12.9	15.1	14.0	11.0
Performance Benchmark (5)	12.5	14.0	12.1	7.2

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

(1) Managed return is inclusive of dedicated bonds and all public and private market asset class returns.

(2) The Absolute Nominal Target Rate of Return is a combination of Absolute Real Return Target of 4.3 percent and actual consumer price inflation. The resulting return represents the level required to maintain full funding in the long-run.

(3) The Relative Target is the composite of returns on the respective asset class targets, weighted by the target allocations. Prior period Relative Target returns have been restated to reflect a new Real Estate Target index identified in Table III-11.

(4) Returns represent a weighted average of individual portfolios' net managed returns.

(5) Returns represent a weighted average of individual portfolios' performance benchmark returns.

(6) Previously published Domestic Equity target returns have been revised in the report in appropriate places to correct minor misstatements detected since the 1998-99 Annual Investment Report. These corrections are due to the use of misstated security pricing data from external sources, but the misstatements were discovered months after the asset class staff acted in good faith on the original information. These revisions are also reflected in Tables III-7 and III-8.

TABLE III-7
ANNUALIZED PUBLIC MARKET PERFORMANCE*
(BY FISCAL YEAR PERIODS)

	10 Years 1990-2000	5 Years 1995-2000	3 Years 1997-2000	1-Year 1999-2000
FRSTF Public Market Investments				
Managed Return (1)	14.4	16.9	15.2	9.5
Domestic Equities Excluding Alternative Investments				
Managed Return (2)	17.4	23.0	19.6	10.4
Target (3)	17.3	23.0	19.7	10.0
International Equities				
Managed Return	(4)	12.0	10.0	20.1
Target (5)	(4)	10.5	8.8	17.4
Fixed Income				
Managed Return	8.5	6.4	6.1	3.8
Target (6)	8.5	6.4	6.2	4.3
Cash				
Managed Return	5.9	5.9	6.0	6.0
Target (7)	5.0	5.3	5.3	5.7

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

(1) Managed return is inclusive of dedicated bonds and all public market asset class returns.

(2) These returns exclude Alternative Investments for all time periods.

(3) 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.

(4) International Equities began as an official asset class in July 1993. There were international equity investments prior to that date and they are included in the Total Fund return and Public Market Investments Managed Return.

(5) The International Equities Target was EAFE prior to Apr. '95; from Apr. '95 - Oct. '99, it was a mix of 85 percent EAFE and 15 percent IFCI (50 percent weighted in Malaysia). From Nov. '99 to present, it is the MSCI All Country World Ex-U.S. Free Index.

(6) The Fixed Income Target was the Florida Extended Duration Index (FEDEX) prior to August '97; from Aug. '97 - Jun. '99, it was the Florida High Yield Extended Duration Index (HYFEX), which equals 95 percent FEDEX and five percent Merrill Lynch B- and BB-Rated Bond Index. From Jul. '99 - present, it is the Fixed Income Management Aggregate (FIMA), a market-weighted representation of the broad investment grade market and the upper tiers of the high yield market. The two main components are: Lehman Bros. Aggregate Bond Index and the Merrill Lynch B- and BB-Rated Bond Index.

(7) The Cash Target is the Merrill Lynch three-month U.S. Treasury Bill, Auction Average.

III.5 Domestic Equities Investments

As of June 30, 2000, the Domestic Equities asset class was valued at $59.14 billion and accounted for 55.5 percent of the total FRS portfolio. The Domestic Equity asset class was broadly diversified across 15 active and six passive portfolio strategies. Passive investments comprised 65 percent of the investment. The sizable passive component helped capture broad market returns while controlling risk. Strategically, the portfolio now reflects a neutral mix of growth and value strategies that performed well this year. Net all fees and costs, our fiscal year performance was 10.4 percent, exceeding our target return of 10.0 percent under extremely volatile conditions. This performance is exclusive of Alternative Investments.

Small and mid-cap growth stocks emerged as the clear winners for FY 1999-2000. Russell mid-cap growth led the indices with a gain of 49 percent, followed by Russell 2000 growth up over 28 percent. The NASDAQ composite, dominated by technology and Internet companies, became the focus of investors in a climate of extreme volatility. Following a historic rise of 54 percent in the December quarter, the NASDAQ climbed 12 percent in the March quarter, only to tumble 15 percent in April.

April saw a momentous shift in the broader averages, as well as the NASDAQ. The S&P 500 reached its peak in late March with an annual return of 7.3 percent, while the six-month return on June 30, 2000 was down 0.5 percent. Although the technology sector retained market leadership, price momentum began to fade during the unsettled March to June period. Cyclical stocks continued to suffer bear market conditions and be avoided by most investors.

Amid projections of a slowing economy and stubbornly high oil prices, investor sentiment became divided. Some investors grew concerned about a richly valued market with probable slowing earnings growth, while others adopted the more positive view that equated the slower economy with a more accommodative Federal Reserve. Such contradicting viewpoints and election year uncertainties produced a sideways market searching for direction at the close of the fiscal year.

At the start of the fiscal year, the structure of the Domestic Equity asset class included numerous active portfolios with long standing performance problems. Our portfolio was skewed towards contrarian value-oriented products and away from large capitalization growth strategies. The result was misfit risk that exceeded acceptable limits.

During the fiscal year, Domestic Equity responded to several organizational investment initiatives. These included funding $2.8 billion to increase international equity allocations and raising $2.5 billion in cash to implement ongoing asset allocation initiatives. We took advantage of these opportunities to restructure our active portfolio.

To restructure our active portfolio, we terminated and defunded a number of managers. Seven portfolios, including six active and one passive, were eliminated. Four portfolios, including three active and one passive, were defunded. We raised $9.4 billion to revitalize our active investment management team, neutralize our value style bias, and provide needed cash for organizational initiatives. Of this amount, $4.3 billion was moved outside the asset class to Alternative Investments, International Equities, and Fixed Income. The remaining $5.1 billion was reallocated to various Domestic Equity strategies, with $3.0 billion used to fund seven external active accounts and $2.1 billion added to passive funds.

In reallocating these assets, we were guided by the competing objectives of misfit risk control and active management enhancement. Reallocation efforts were hampered by inadequate capacity in active large cap growth products. Therefore, substantial assets were allocated to a passive large cap growth product, pending results of a manager search now in progress. Our passive investment increased from 60 to 65 percent.

Our active management composite outperformed the aggregate benchmark by 3.8 percent. Individual total returns within our active manager group ranged widely from 81.8 percent in a volatile small cap growth strategy to -15.3 percent in a struggling large cap value portfolio. The weighted information ratio for active managers, a risk-adjusted performance measure, increased dramatically from 0.01 to 0.43 percent following this transition. While results to date have been encouraging, we would be naive to forget that periods of underperformance will always be part of investment life.

The strong outperformance from active portfolios combined with a slight positive tracking error from passive portfolios brought total active returns to a strong 1.3 percent over benchmark when weighted at the asset class level. This outperformance enabled us to surpass target performance despite unusual costs associated with restructuring and losses to residual asset class misfit.

The 0.4 percent fiscal year outperformance was the net result of strong returns to active management strategies and substantial losses to misfit. Misfit risk is the difference between the risk exposures of the aggregate benchmark and the asset class target. Like most investment risks, misfit can have an exaggerated impact on performance during volatile market conditions. Our remaining misfit reflects small structural differences between the benchmark and target. Specifically, we remained slightly underweight in the most volatile, high beta technology issues and overweight in the small cap securities. The negative return to misfit also includes losses associated with the costs of structural transitions and asset allocation initiatives. Misfit return for the asset class was a -1.0 percent for the fiscal year, with much of the damage occurring during restructuring.

Investment projects in progress include a Dynamic Completer Fund to lower misfit risk within the asset class, a manager search to identify additional active large cap growth products, and restructuring the passive portfolio to eliminate redundant and unnecessary strategies.

Administrative initiatives during the fiscal year included the separation of private equity investments into a separate asset class, the implementation of our new commission recapture program, enhancement of investment manager oversight, and reduction of investment education management fees.

The private equities area was separated both administratively and within asset allocation policy because of its unique investment characteristics and increased size.

A new commission recapture program was initiated in cooperation with our Chief Financial Office on July 1, 2000. This program contributed over $6 million to the FSBA during the fiscal year. Unusually high levels of trading activity contributed to the success of the program and results of this scope are unlikely in the future.

Enhanced communication with external investment managers was an important element in strengthening the active management team. Quarterly video and/or teleconferences have been initiated to promote consistency in communication. Domestic Equities staff visited the offices of each external investment manager during the fiscal year. Improved Domestic Equities reporting systems have also contributed to better oversight of these important relationships.

As a result of numerous contract renegotiations and a small increase in the size of our passive subcomponent, asset class fees were reduced by 14 percent. These changes achieved a savings of approximately $8.6 million over projected asset class fees.

Administrative initiatives currently in progress include continued efforts to control investment management costs and automate performance measurement systems to increase staff productivity.

To summarize, fiscal year 1999-2000 was extremely busy and productive for the Domestic Equities asset class. Our investment exceeded its performance target during this fiscal year, despite volatile market conditions and the costs associated with numerous transitional efforts. Positive performance stemmed primarily from improvement in the active management program. A major offset to active performance was negative misfit return, the combined bias in the aggregation of individual portfolio benchmarks relative to our target, and the costs associated with substantial cash and asset movement.

TABLE III-8
ANNUALIZED DOMESTIC EQUITIES INVESTMENT PERFORMANCE*
(BY FISCAL YEAR PERIODS)

	10 Years 1990-2000	5 Years 1995-2000	3 Years 1997-2000	1-Year 1999-2000
Domestic Equities				
Managed Return (1)	17.4	23.0	19.6	10.5
Managed Return Excluding Alternative Investments (5)	17.4	23.0	19.6	10.4
Target (2)	17.3	23.0	19.7	10.0
All Passive Portfolios (3, 5)	17.6	23.4	19.8	9.6
Performance Benchmark (4, 5)	17.5	22.9	19.3	9.4
All Active Portfolios (3, 5)	17.4	22.5	19.7	12.0
Performance Benchmark (4, 5)	16.9	21.7	18.1	8.3

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.
(1) The Domestic Equities asset class contained Alternative Investments until October 31, 1999.
(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.
(3) Returns represent a weighted average of individual portfolios' net managed returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.
(4) Returns represent a weighted average of individual portfolios' performance benchmark returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.
(5) These returns exclude Alternative Investments for all time periods.

III.6 International Equities Investments

On June 30, 2000, the International Equities portfolio was valued at $13 billion. The portfolio was diversified across 15 portfolio strategies with investments in more than 50 global markets. Passive investment comprised slightly less than 50 percent of the portfolio, with the remaining 50 percent in 13 distinct active strategies targeting both developed and emerging markets. At fiscal year-end, the portfolio was at target allocations, with approximately 89 percent of the portfolio invested in developed markets and the remaining 11 percent invested in emerging markets.

During the fiscal year, the FSBA's strategic allocation to International Equities was increased from eight to 12 percent of the total fund—an increase of more than $3 billion. The additional funds were efficiently invested in the portfolio during November 1999 with little performance impact.

The increased funding coincided with an asset class target change enabling us to move to target allocations without selling existing positions. The portfolio's prior 85 percent developed /15 percent emerging market target was transitioned to the new MSCI ACWI Free ex–U.S. target. As a result of this change, the target's weight in developed and emerging markets is no longer anchored to a strategic position. Instead, the target's market positions float along with the portfolio based upon the relative performance of the markets. Misfit is moderated because the market weights of the underlying benchmarks and the target floats roughly in tandem with market performance. During the fiscal year, misfit was effectively contained at three basis points.

At fiscal year end, the portfolio was approximately two percent underweight to Japan, but held a slight overweight to other Pacific Rim developed markets. The portfolio was also modestly underweight in continental Europe, while slightly overweight in the United Kingdom. Due to positions held by several developed market active managers who invest opportunistically in emerging markets, the portfolio was marginally overweight to Latin America, but slightly underweight emerging to Asia.

For the fiscal year, the portfolio returned 20.1 percent net of all management fees, transaction costs, and certain custodial expenses. This return compares favorably to the 17.4 percent return of the aggregate benchmark, resulting in a +2.7 percent active return.

The Barclays' EAFE plus Canada Index Fund returned 36 basis points over its benchmark. This positive contribution resulted from securities lending income, dividend smoothing effects, and dividend tax treaty advantages.

The SSgA Emerging Markets Index Fund lagged its benchmark by 183 basis points over the fiscal year, primarily due to two factors. First, during the benchmark transition in November, the manager was unable to gain full exposure to a rapidly appreciating index security in India. Second, MSCI, the index provider made significant changes effective May 31, 2000 resulting in turnover of more than 25 percent. SSgA has provided us with some compensation for their underperformance during the benchmark transition period through fee rebates and payment to the account of 100 percent of the securities lending income earned this calendar year.

Developed market active managers added 580 basis points of active return for the fiscal year. Technology stocks drove global markets upward for much of the year, but "old economy stocks" re-emerged during the second quarter of this year. The diversified nature of our developed market active portfolio proved beneficial as the market's focus shifted from growth to value.

The emerging market active portfolio exceeded its benchmark return by 292 basis points. Technology stocks also powered emerging markets during the year. The portfolio outpaced its benchmark as strategic holdings in key telecommunication companies benefited from their new allure as technology stocks.

Lower management fees were negotiated in conjunction with the increased funding to the international equity portfolio, resulting in significant benefits. When compared to the 1998-99 fiscal year end, active management fees fell from 46 to 39 basis points and passive management fees fell from five to two basis points.

The Lawton Chiles Endowment Fund added an international component in January 2000. The allocation to International Equities, representing 12 percent of the total fund, is equally split between a passive and an active strategy. At fiscal year end, both managers had contributed to the allocation's 435 basis points of active performance.

In summary, the International Equities portfolio performed well in both relative and absolute terms. Both the developed and emerging market portions of the portfolio were significant contributors to the outperformance. Active management also added considerable value, outpacing volatile markets that rotated from growth to value and from "old" to "new" economy stocks.

TABLE III-9
ANNUALIZED INTERNATIONAL EQUITIES INVESTMENT PERFORMANCE*
(BY FISCAL YEAR PERIODS)

	10 Years 1990-2000	5 Years 1995-2000	3 Years 1997-2000	1-Year 1999-2000
International Equities				
Managed Return	(1)	12.0	10.0	20.1
Target (2)	(1)	10.5	8.8	17.4
All Passive Portfolios (3)	(1)	10.8	9.1	18.1
Performance Benchmark (4)	(1)	10.6	8.9	18.0
All Active Portfolios (3)	(1)	14.2	10.9	22.2
Performance Benchmark (4)	(1)	10.2	8.3	17.0

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

(1) International Equities began as an official asset class in July 1993.
(2) The International Equities Target was EAFE prior to Apr. '95; from Apr. '95 - Oct. '99, it was a mix of 85 percent EAFE and 15 percent IFCI (50 percent weighted in Malaysia). From Nov. '99 to present, it is the MSCI All Country World Ex-U.S. Free Index.
(3) Returns represent a weighted average of individual portfolios' net managed returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.
(4) Returns represent a weighted average of individual portfolios' performance benchmark returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.

III.7 Fixed Income Investments

In last year's annual report we talked about the unusually meager returns posted by the broad investment grade bond market and the fortuitous timing of our switch from a longer duration custom index to a less interest rate sensitive broad market target. Returns in FY 1998-99 were 3.3 percent, indicating that price declines eroded about half of the coupon return. Uncharacteristically, this fiscal year proved to be quite similar, with investment grade bonds returning only 4.3 percent.

It is extremely rare for bonds to earn less than their coupon for two consecutive years and this is the first occurrence in the last 20 years. We believe this occurrence is an important signal of a fundamental shift in the entire fixed income market that began with the Asian currency crisis in late 1997 and continues to evolve. Even more striking, is the disparity in returns between U.S. Treasuries and investment grade corporate bonds. The Treasury component of the index returned approximately 5.5 percent for the year while the Corporate component returned only about 2.8 percent. This is even more unusual when one considers that the Corporate index began with an additional one percent more coupon income than Treasuries.

The reasons for the poor performance of "spread product" are several and somewhat related. Since 1998, there has been a major change in the market for both investment grade and high yield corporate debt. Dealers who make markets in debt securities would normally accumulate larger positions of bonds when investors wanted to sell them, paying lower prices to equate supply and demand. Dealers could finance the larger inventories at positive carry and hedge interest rate exposure by selling Treasuries. Enlarged balance sheets, earning income, could be held until demand for bonds returned and they could be re-sold to investors at profits. In short, dealers were always willing to "take the other side of the trade" because it was a profitable and low risk business. In 1998, the financial panics, which rolled through the capital markets, changed the game, perhaps forever. Sellers of credit product overwhelmed dealers, and Treasuries, which were the hedge for interest rate volatility, did not work satisfactorily. Many dealers experienced significant losses from market making and management imposed a new risk-based capital allocation system. The effect of the system was essentially to take dealers out of "the other side of the trade." As a result, investors are now faced with very poor liquidity in all but a few corporate issues. Instead of selling corporate bonds, risk is reduced by using derivatives, particularly interest rate swaps, creating a "liquidity premium" component in a credit portfolio. This premium is measured by the difference in yield between interest rate swaps and similar maturity treasuries. Rising rates and a shrinking supply of U.S. Treasuries has forced swap spreads wider, taking credit spreads with them. From a January 2000 low of 70 basis points above Treasuries, 10-year liquidity premium increased to over 130 basis points. This could explain as much as a three percent underperformance in credit product during the period.

The shrinking supply of public U.S. Treasury debt has been talked about for many years, but has only recently caught the market's attention, creating a real dilemma for index-based bond managers like us. Based on projections by the Congressional Budget Office, the continuation of federal surpluses for the next 10 years could eliminate the entire marketable public Treasury debt by 2007. However, long before that, and we believe it has already begun, investors will anticipate it and buy more Treasury securities than they normally would, pushing Treasury prices higher than those of other high grade bonds. In the final analysis, however, the disappearing Treasury debt will be much too illiquid and far too expensive relative to other high quality substitutes leaving the holders with a poor investment. The thorny issue for index-based portfolio managers is when this realization will occur and at what relative prices.

In an attempt to assess the potential impact of further outperformance by U.S. Treasuries, we modeled both portfolio and benchmark returns under a number of scenarios with horizons of one and two years. The results show that an immediate decline in Treasury yields of 50 basis points, with no change in credit yields, results in portfolios that underperform the benchmark initially but break even within one-year. After two years, the same portfolios exceed the benchmark by approximately 40 basis points per year. Since roughly 60 percent of our $26 billion bond portfolio is managed against the Lehman Government/Corporate Index, of which 47 percent is represented by U.S. Treasuries, we believe the appropriate long-term decision is to resist the urge to chase the shrinking supplies and invest in what will ultimately be the best investment, high grade corporate bonds. We believe it is far too difficult, risky, and expensive to sell high grade corporate bonds, which currently generate two percent more income per year, and buy U.S. Treasuries whose ultimate returns are unknown. While we fully expect some form of this scenario to play out over the next several years, it is far from certain just how and to what extent it will be manifested. Until then, we intend to own U.S. Treasury bonds in our portfolios, but at a lower representation than our benchmark. This long-term strategy, which for the reasons cited above, we believe is sound, has and may continue to cause portfolios to underperform their benchmark in the short-term. We believe that the ultimate total return of bonds over longer periods is due to coupon income and compounding and that superior performance of lower yielding securities is due to temporary factors affecting mark-to-market pricing. High grade corporate bonds offer default-adjusted yields, which are superior to U.S. Treasuries and, consequently, should represent a larger component of our portfolios.

The one-year period ending June 30, 2000, was characterized by a fairly steady rise in interest rates all along the term structure. The Federal Reserve increased the Federal Funds rate five times during the period, for a total of 150 basis points in an effort to slow a robust economy at full employment. Two-year Treasury note yields rose from 5.4 percent in July 1999 to 6.9 percent in May 2000, while 10-year rates peaked in January after rising 120 basis points. While Treasury rates were rising, corporate bond yields were rising even more, in response to the factors mentioned previously, resulting in the considerable difference in returns between the two.

Government/Corporate portfolios returned 60 basis points less than the Lehman Mortgage Index for the year, due primarily to greater holdings of corporate bonds. Consequently, longer-term performance (three-year annualized), which had previously exceeded the benchmark, is now slightly under the benchmark.

Mortgage-Backed Securities (MBS), like their corporate bond brethren, returned less than U.S. Treasuries for the 12 months ending June 30, 2000. The MBS index posted a return of 5.04 percent for the review period, while Treasuries returned approximately 5.5 percent. Mortgages outperformed corporate bonds due to the overall lower duration of MBS and higher relative quality. Mortgage securities perform best in an environment where actual and expected interest rate volatility is low. Investors buy AAA quality securities with promised yields in excess of 100 basis points over Treasuries, expecting that it is enough compensation for being "short" a number of options to the issuer. The options are primarily related to the mortgage holder's ability to repay principal at any time and are highly, but not exclusively, correlated with interest rates. Falling rates make higher coupon mortgages subject to prepayment at par, thereby retarding their price rise. Rising rates cause prices to fall faster as investors assume mortgage holders will not prepay what are now below market rate loans. In the last 12 months, interest rates have been volatile since the Fed has been actively adjusting monetary policy. Ten-year Treasury yields have moved more than 50 basis points six times, enough to cause negative price and paydown return to exceed the additional yield compensation of MBS.

Managed returns for mortgages slightly exceeded the Lehman Mortgage Index for the year and for the longer-term (the annualized three-year returns). Our guidelines constrain managers to index securities for the most part, and the traditional mortgage-backed market continues to become more efficient. Consequently, we expect performance of these managers to be close to the index.

In an effort to reduce fees associated with active management, we have developed internal portfolios, which synthetically replicate mortgage returns. AAA rated, floating rate assets are combined with contractual obligations to receive the mortgage index return for periods up to five years. Depending on the yields of the floating rate securities, we are able to contract for returns ranging from seven to 40 basis points in excess of the benchmark. With approximately $1.6 billion in synthetic mortgage portfolios, we are saving over $1.1 million per year in fees.

Performance of the high yield market has followed that of the high grade corporate market, but to a greater extent. Higher interest rates, better returns in competing products, and rising default rates have combined to make the sector the worst performer during the period under review. The one-year return for the index was -.08 percent, substantially below high grade and mortgage securities. The high yield market now yields in excess of 12 percent, or about 600 basis points above 10-year Treasuries, a historically high cushion for defaults. Currently, default rates have been steadily rising from lows of 3.5 percent to near 6.5 percent and market expectations are still negative. The volatility of default rates is not unusual over short periods, but long-term, an average of four to five percent is reasonable. With a six percent beginning cushion, even if long-term defaults averaged eight percent, the net spread, after recoveries, would still be 1.2 percent above Treasuries. Clearly, current valuations in the high yield market are discounting other factors, which may or may not be relevant. However, from a fundamental standpoint, there appears to be value in the high yield sector.

Aggregate managed returns are less than the benchmark for both one-year and since inception (34 months). Managed returns trailed the benchmark by 94 basis points for the year and 28 basis points since inception. The combined numbers belie very disparate individual performance by managers. The best manager exceeded the benchmark by 120 basis points for the fiscal year, while the worst lagged by 303 basis points. Out of four original managers, we have one that we consider to be superior, one that we believe can add value over time, one that we are monitoring closely, and one that we terminated in January 2000. Of the three remaining managers, their allocations are 53 percent, 30 percent, and 17 percent of high yield assets, in order of their performance record and our assessment of future success stated above.

Our "team approach" to managing internal fixed income portfolios began in the second half of 1998 and continues to work very well. The objective was to create an environment in which the productivity, creativity, and efficiency of the group would exceed that of the individuals. While each individual is responsible and accountable for his area of expertise, everyone is expected to contribute to the decision-making process. We have a well-developed and well-communicated investment process, which requires individual group members to share information for the benefit of better overall performance. We have assembled a group which is committed to the "team" concept and has the ability to make good investment decisions.

TABLE III-10
ANNUALIZED FIXED INCOME INVESTMENT PERFORMANCE*
(BY FISCAL YEAR PERIODS)

	10 Years 1990-2000	5 Years 1995-2000	3 Years 1997-2000	1-Year 1999-2000
Fixed Income				
Managed Return	8.5	6.4	6.1	3.8
Target (1)	8.5	6.4	6.2	4.3
All Passive Portfolios (2)	8.8	6.8	7.0	4.6
Performance Benchmark (3)	9.0	6.8	7.0	4.5
All Active Portfolios (2)	8.4	6.3	5.8	3.4
Performance Benchmark (3)	8.2	6.3	6.0	4.1

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

(1) The Fixed Income Target was the Florida Extended Duration Index (FEDEX) prior to August '97; from Aug. '97 - June '99, it was the Florida High Yield Extended Duration Index (HYFEX), which equals 95 percent FEDEX and 5 percent Merrill Lynch B- and BB-Rated Bond Index. From July '99 - present, it is the Fixed Income Management Aggregate (FIMA), a market-weighted representation of the broad investment grade market and the upper tiers of the high yield market. The two main components are: Lehman Bros. Aggregate Bond Index and the Merrill Lynch B- and BB-Rated Bond Index.

(2) Returns represent a weighted average of individual portfolios' net managed returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.

(3) Returns represent a weighted average of individual portfolios' performance benchmark returns. The FRS portfolio-level performance supplement identifies which portfolios are active and passive in each asset class.

III.8 Real Estate Investments

We ended the fiscal year with a market value of $4.2 billion, which was approximately four percent of the total FRS portfolio, thereby, meeting our asset allocation target. We continued to emphasize directly owned investments, which now account for 82 percent of our market value. Commingled funds and Real Estate Investment Trusts (REITs) make up the remainder. We are not investing additional dollars in our commingled funds or REITs, but have enjoyed good returns during this fiscal year.

We acquired 10 properties as a part of our directly owned investment strategy, for a total equity investment of $691.5 million. The acquisitions included three office buildings with a total value of $306.4 million, 15 industrial buildings valued at $53.3 million, two retail buildings valued at $64.4 million, and four apartment communities valued at $265 million. We also acquired a parcel of land for future development, valued at $2.4 million. The properties are located in Chicago, Washington, D.C., Los Angeles, San Francisco, New York, Atlanta, and Tallahassee. These investments represent our strategy of investing in geographically and economically diverse metropolitan cities. We also attempt to diversify our portfolio by owning various asset types, such as offices, apartments, retail shopping centers, and warehouse/ distribution buildings. These investments are high quality institutional grade properties.

Our investment returns have benefited from the robust United States economy, which we continued to experience this past fiscal year. While our investment properties enjoyed high occupancies and increasing rental revenues, so too did the properties representing the investment opportunities we culled through this year. Investment grade properties that came on the market were fully priced and still brought out willing buyers. Investors feel that this real estate market has a lot of life left in it due primarily to the balance between supply and demand seen in most markets. This real estate cycle has not experienced the overbuilding seen in past bull markets. Developer's exuberance has been held in check by a much more rational and disciplined debt and equity market. The catalyst has been the giant leap made in developing a more transparent market. We can blame, or better still, thank the real estate securities market, as well as the telecommunications and Internet service providers. Investor services and the media, via vast improvements in data transmission, have combined to increase awareness as to the relative strengths and weaknesses of the real estate market. Markets are more thoroughly watched, and by more people, so that the money that once fueled overbuilding is quickly recognized by investors as the folly it is. There are still investors and lenders who will misread a market and contribute to oversupplying a market, but the egregious behavior of the past will probably be difficult to repeat.

Other activities this year included the sale of three residential apartment communities and two office buildings, for a total of $152.5 million. In addition, we created a real estate investment vehicle, using the Wilshire Real Estate Securities Index, for the Lawton Chiles Endowment Fund. We also completed the implementation of our new portfolio management software. Personnel changes resulted in three new faces on the Real Estate staff, each of whom hit the ground running and are making significant contributions to our program. We decreased our investment manager ranks by one and meshed those assets into two of our remaining investment managers. We also cooperated with an outside performance audit of our real estate activities, which found our operations to be satisfactory. We discovered areas for improvement and are setting our sights on making those improvements.

We are again pleased that this year the fees paid to our investment managers and professional services providers fell below the midpoint average of our peers. We continue to structure all of our investment management fees on an incentive basis. We are also continuing to focus on creating a better portfolio risk management tool. Understanding and managing the risk associated with our structured portfolio has been an evolving process. We expect to continue contributing to this industry-wide effort in creating a better and clearer understanding of this vital measurement. All in all, it has been a busy, productive, and successful year.

TABLE III-11
ANNUALIZED REAL ESTATE INVESTMENT PERFORMANCE*
(SELECTED PERIODS ENDING JUNE 20, 2000)

	Since Inception (5)	10-Year 1990-2000	5-Year 1995-2000
Real Estate (1)			
Managed Return (2)	6.8	7.0	11.2
Primary Target: RESI-U (3)	8.0	7.4	7.6
Secondary Target: CPI+450 (4)	7.5	7.2	7.0
Directly Owned Real Estate Managed Return (2)	9.7	11.8	14.2
Primary Target: RESI-U (3)	7.4	7.5	7.4
Secondary Target: CPI+450 (4)	7.2	7.1	7.0

* 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) The performance methodology used for the managed return is the Internal Rate of Return (IRR). An IRR is a measure of performance that recognizes the timing and amount of fundings into, and distributions from, portfolio investments. Performance is measured over since inception, 10, and five-year periods to reflect the long-term nature of the investments.
(3) The Primary Target for all periods is the Unlevered Wilshire Real Estate Securities Index (RESI-U). It tracks the returns of publicly-traded real estate equity shares, after adjusting to remove the leverage used by these firms to buy properties.
(4) The Secondary Target for all periods is the annual rate of consumer price inflation grossed up by 4.5 percent. The latter represents one measure of real returns expected from SBA real estate investments.
(5) The inception dates for Real Estate and Directly Owned are December 1984 and November 1986, respectively.

III.9 Alternative Investments

On June 30, 2000, the Alternative Investments portfolio was valued at $3.6 billion. The asset class was comprised of 20 portfolios that, due to the division of Liberty Partners into five "vintage portfolios" for reporting purposes, represented 15 distinct partnerships. Alternative Investments accounted for 3.4 percent of the total FRS portfolio. This asset class remains entirely actively managed, as one would expect, since it is currently made up of private equity investments. All, except the cash portfolio, are externally managed.

The Alternative Investments asset class was formed November 1, 1999. The portfolio's initial funding was comprised of the assets of the private equity portfolio, formerly a part of the Domestic Equities asset class. At the time of transition, the market value of the assets was $2.7 billion, and the structure of the portfolio was fully developed through the initial phases of the private equity investment plan. This plan contemplated a three-component private equity portfolio:

- a core long-term investment in a relatively small number of world-class general partnerships, with places guaranteed in follow-on funds, if desired, with those same partners;
- a captive (exclusive), innovative co-investment effort, with the Board acting as a value-added partner, heavily involved in generating quality deal flow; and
- an exclusive, high-quality private equity partnership that would form a significant part of the overall portfolio.

These exclusive portfolios have terms that are considerably more attractive than those available in the market. These components were in place as the asset class was formed. The relatively compact structure of the portfolio makes investment, legal, and operational support manageable, while affording a moderate degree of diversification due to the differing industry and style concentrations in the portfolios and the number of investments represented.

During FY 1999-2000, no new partnership commitments were made. Efforts to build the departmental infrastructure were successful, and as the fiscal year ended a new chief and additional portfolio management staff were in place. A new work plan was developed outlining our research and investment efforts for the next fiscal year. We are confident that these efforts have positioned the portfolio to meet or exceed our long-term objectives.

During the fiscal year, a number of significant trends fueled the year's strong market activity. The technology section was very active for most of the year, generating a great deal of acquisition activity. In addition, there was an increase in the use of convertible preferred securities to bolster the capital position of public corporations. The capital markets were generally buoyant through the year. However, the high yield market collapsed at the beginning of the fiscal year, derailing a number of transactions in progress. Corporate high yield bonds reached their highest level since 1990. As the year progressed, activity generally increased as the high yield markets showed a small appetite for new issues and sponsors began using more equity in transactions.

As the fiscal year ended, weakness in the public equity markets slowed liquidity events for many buyout funds. Many technology-related companies that would have been excellent candidates for public offerings must now wait as investors focus more on profitability and cash flow. Most portfolio companies in these areas held by major buyout firms were still trading at several times their investments, even with a typical 30 to 40 percent pullback in valuations for many e-commerce and Internet-related industries. Many portfolio companies are focusing on improving cash flow until the capital markets recover.

Alternative Investment portfolio strategies, are by their nature, long-term, with contractual terms and expected investment periods of such length that the appropriate portfolio performance measurements are different from those of public asset portfolios. Internal Rates of Return (IRR), which are dollar-weighted, replace the time-weighted Rates of Return normally used to measure performance in the FRS fund. Performance measures must be of sufficiently long length to be meaningful in this investment context. The Alternative Investments portfolio is relatively young, and therefore few portfolios have return histories of sufficient time length to report comparisons to benchmark returns, and several of these portfolios are still in their initial investment period. Nevertheless, the buyout group, which is currently 99 percent of the asset class and is the component that will remain the core of the portfolio for many years to come, is exceeding its highly expectational target return since the inception of the program. It is only because of the performance drag of the one special situations portfolio, Corporate Advisors, which pursued a public market mandate that is not representative of our strategic portfolio style, that the overall portfolio has not met its long-term performance objectives.

In summary, during the fiscal year, Alternative Investments greatly strengthened the performance of our investments and pursued a pace of acquisitions that has us approaching fully invested status within our current structure.

TABLE III-12
ANNUALIZED ALTERNATIVE INVESTMENTS INVESTMENT PERFORMANCE*
(SELECTED PERIODS ENDING JUNE 30, 2000)

Alternative Investments (1)	Since Inception (7)	10 Years	5 Years
Managed Return (2, 3)	19.3	17.3	27.8
Target (4)	21.6	(8)	(8)
Buyout Investment Managed Return (5)	22.0	(7)	28.4
Target (6)	21.6	(8)	(8)

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

(1) Alternative Investment 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. The market values are self-reported by the external managers of these accounts and incorporate their estimate of the value of illiquid publicly traded securities and private market holdings.
(2) Alternative Investments was not reported as a separate asset class until November 1, 1999. Prior to that time, private equity portfolios were included in the Domestic Equities asset class.
(3) The performance methodology used for the Alternative Investments asset class managed return is the Internal Rate of Return (IRR). IRR is a measure of performance that recognizes the timing and amount of fundings into, and distributions from, portfolio investments. Performance is measured since inception because of the long-term nature of the investments.
(4) The Target for the Alternative Investments asset class is the Domestic Equities Target index return grossed up by a fixed premium return of 600 basis points per annum, adjusted for the average maturity of the asset class portfolios. Calculation of the return is done with an IRR methodology, paralleling the calculation in note (1).
(5) The buyout sub-aggregate excludes two portfolios, Corporate Advisors, L.P. and Cypress Equity Fund.
(6) The benchmark return utilizes the same methodology as the asset class target, but reflects only cash flows associated with buyout portfolios.
(7) The inception date for Alternative Investments and Buyout Investments is January 1989 and February 1993, respectively.
(8) Target calculations over periods shorter than “Since Inception” are not meaningful under the approved benchmarking methodology due to the need to adjust for portfolio maturity.

III.10 CASH/SHORT-TERM INVESTMENTS

The performance measurement of Cash pertains only to the Cash and Central Custody Account, which totaled $890,635,676 at June 30, 2000.

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. Our existing infrastructure enables the FSBA to provide our own cash management services for FRSTF portfolios at a lower cost than those supplied by external service providers, without sacrificing return.

TABLE III-13
ANNUALIZED CASH INVESTMENT PERFORMANCE
(BY FISCAL YEAR PERIODS)

	10 Years 1990-2000	5 Years 1995-2000	3 Years 1997-2000	1-Year 1999-2000
Cash/Short-Term				
Managed Return (1)	5.9	5.9	6.0	6.0
Target (2)	5.0	5.3	5.3	5.7

(1) Managed returns reflect the impact of various fees paid out of the Cash/Short-Term asset class on behalf of the Florida Retirement SystemTrust Fund.

(2) The Cash Target is the Merrill Lynch three-month U.S. Treasury Bill, Auction Average.

III.11 Investment Management Fees

Investment management fees on FRSTF portfolios managed externally are deducted from the portfolios and are not included in budgetary allocations. Table III-14 shows investment management fees by asset class for FY 1999-2000.

TABLE III-14
EXTERNAL INVESTMENT MANAGEMENT FEES BY ASSET CLASS
FISCAL YEAR 1999-2000

Asset Class	Dollar Amount	Return Basis (1)
Domestic Equities Portfolios	$53,595,028	0.15%
International Equities Portfolios	23,705,027	0.23%
Fixed Income Portfolios	9,334,423	0.12%
Real Estate Portfolios	15,962,362	0.48%
Alternative Investment Portfolios	31,746,103	1.10%
Total	$134,342,943	0.22%

(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 Equity during FY 1999-2000 totaled $38,062,786. Brokerage commissions for International Equity during FY 1999-2000 totaled $14,410,807. The FSBA 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 such as those listed above. The FSBA follows Employee Retirement Income Security Act (ERISA) standards that specifically address commission dollars and deem them to be considered as plan assets. Beginning July 1, 1999, the FSBA had a commission recapture program in place and was responsible for making all payments related to the program.

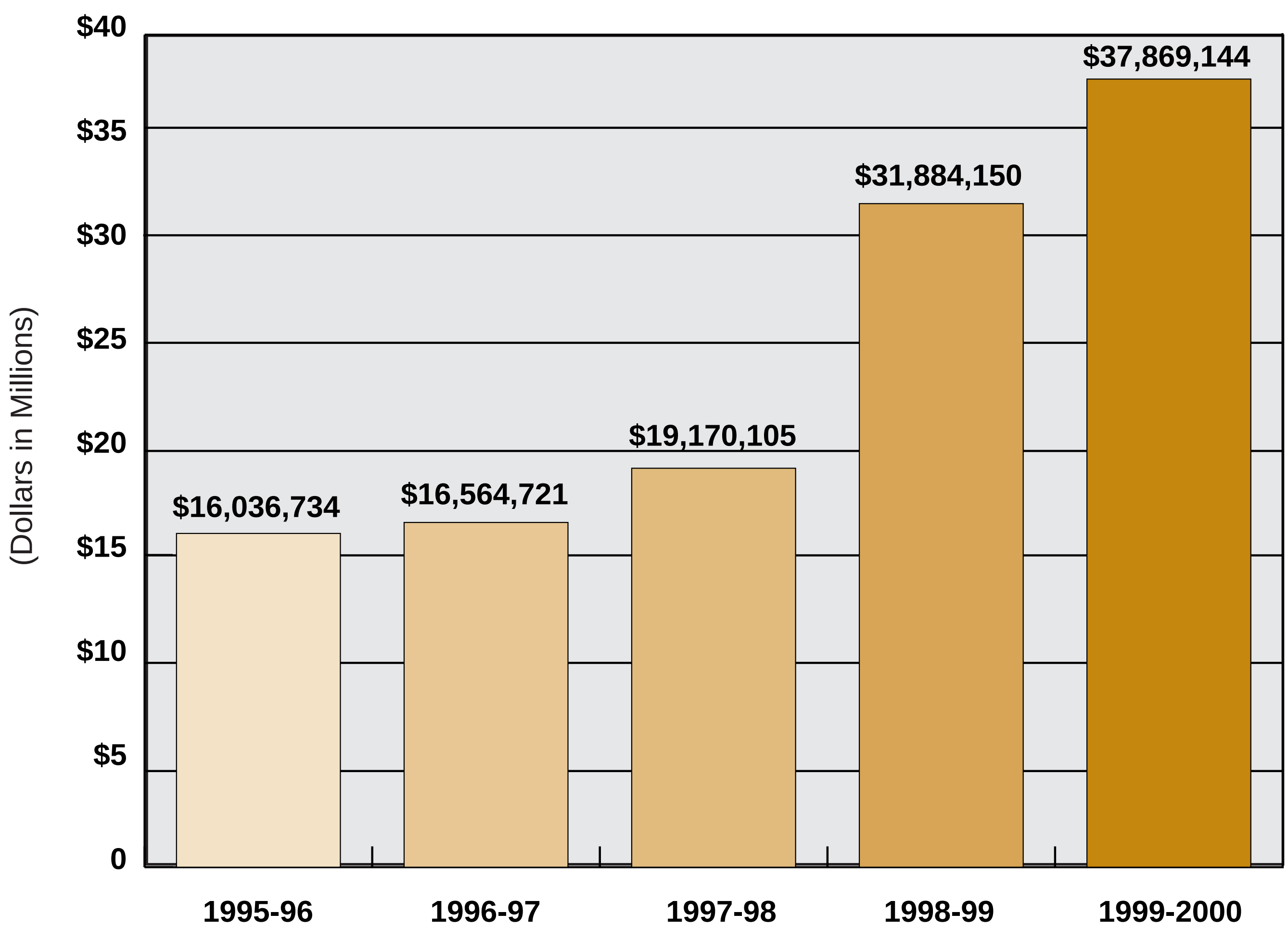
III.12 Supplemental Income Program

Securities lending is an incremental income program affected through the FRSTF master trustee and custodian. During the periods securities are on loan, the FSBA receives collateral equal to or greater than, 100 percent of market value, in a form consisting of market value plus accrued interest for United States government agency securities or cash. Cash is reinvested in securities authorized by the Board.

During the fiscal year, we utilized two security dealers 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 Florida Government/Corporate 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. Chase Manhattan Bank serves as custody agent for the FSBA. Collateral is held in accounts in the FSBA's name and marked to market daily. These programs have the advantage of ensuring that lending income is generated on 100 percent of the Treasury portion of the portfolio and the spreads earned are marginally wider than the generic market spreads. These types of programs can most efficiently be used for a portfolio that is not frequently traded. These programs generated $5,166,933 of the income shown in Table III-15 for FY 1999-2000.

Net income from all FRSTF securities lending programs for the previous five years, including FY 1999-2000 is shown in Table III-15.

TABLE III-15
SECURITIES LENDING REVENUE (NET), LAST FIVE FISCAL YEARS



III.13 Florida Retirement System Portfolio-Level Performance Supplement

Table III-16 provides the aggregate market value of each individual portfolio on a quarterly basis.

TABLE III-16
FRS PENSION FUND MARKET VALUE AT END OF QUARTER
FISCAL YEAR 1999-2000

Account Name	6-30-99	9-30-99	12-31-99	3-31-00	6-30-00	Net Contributions and Transfers	Investment Gain (Loss)
Domestic Equities:							
- Active Core Portfolio	$4,811,486,066	$4,494,952,177	$5,835,331,539	$5,705,831,795	$5,545,782,656	$314,708,051	$419,588,539
- Alliance Capital Management	5,041,596,577	4,749,562,113	5,797,943,667	6,214,918,706	6,024,164,658	0	982,568,081
- American Express Asset Mgt. Group, Inc.	1,421,126,052	1,484,517,455	2,254,742,632	2,754,481,897	2,583,981,558	0	1,162,855,506
- Aronson & Partners	540,769,219	593,678,601	1,304,531,028	1,253,242,148	1,232,180,198	701,729,703	(10,318,724)
- Barclays Global Investors Index	11,683,041,474	10,966,132,514	10,808,055,684	10,373,172,097	10,081,276,799	(2,398,000,000)	796,235,325
- Barclays Global Investors Low Cap	1,433,417,445	1,380,617,851	1,685,938,292	1,788,131,013	1,694,423,931	0	261,006,486
- Barrow, Hanley, Mewhinney & Strauss (3)	1,585,379,662	1,290,456,512	325,657	0	0	(1,321,003,718)	(264,375,944)
- Brown Capital Management (2)	0	0	216,685,997	219,797,234	223,255,679	190,657,547	32,598,132
- CAPFORM Portfolio (3)	950,712,739	519,321,815	1,729	0	0	(867,031,688)	(83,681,051)
- COMBAL	613,736	2,180,169	3,785,656	4,868,542	6,290,011	0	5,676,275
- David L. Babson	364,498,689	344,036,932	420,569,116	432,661,023	450,083,076	50,000,000	35,584,387
- Denver Investment Advisors (3)	1,269,785,932	1,210,561,383	8,488	0	0	(1,222,993,684)	(46,792,248)
- Domestic Equities Asset Allocation	100,800,169	164,585,604	713,245	1,983,595	2,045,336	(101,846,248)	3,091,415
- Domestic Equities Restructuring Account (2)	0	845,503,770	394,794,413	187,509,932	531,244	21,984,736	(21,453,492)
- Enhanced Investment Technologies, Inc.	1,176,819,995	1,110,046,750	1,277,541,215	1,315,665,322	1,298,657,517	0	121,837,522
- First Quadrant Corporation	1,578,636,873	1,488,943,164	1,064,198,127	1,081,316,242	1,052,882,164	(626,131,829)	100,377,120
- Goldman, Sachs & Company	2,001,284,585	1,861,271,464	3,606,623,778	3,650,123,866	3,556,081,036	1,190,393,571	364,402,880
- Haven Capital Management	113,504,237	67,451	19,972	22,577	22,618	(115,786,917)	2,305,298
- Independence Investment Associates, Inc. (3)	1,282,218,796	1,185,440,399	8	0	0	(1,227,024,767)	(55,194,029)
- Lazard Freres Asset Management	1,208,440,712	1,365,549	32,373	32,372	32,372	(1,091,212,658)	(117,195,682)
- Northern Trust Quantitative Advisors, Inc.	109,410,220	97,887,452	292,239,566	281,337,310	273,777,891	199,892,236	(35,524,565)
- PIVOT Portfolio	15,002,807,571	13,960,985,457	18,283,598,628	18,981,707,803	18,430,111,115	1,714,242,869	1,713,060,675
- Private Capital Management	134,206,064	212,656,160	545,432,963	672,465,762	676,111,187	411,470,438	130,434,685
- Prudential Asset Management Company, Inc.	2,121,291,187	1,913,937,115	1,003,192,944	982,611,986	964,778,451	(978,873,560)	(177,639,176)
- Putnam Advisory Company, Inc.	499,133,712	462,084,248	466,543,756	485,842,102	491,885,283	0	(7,248,429)
- Smith Barney Capital Management	691,579,488	761,151,678	973,181,832	991,245,881	968,610,577	346,021,410	(68,990,321)
- Special Situations	501,423,961	396,578,124	222,852,760	236,173,891	221,071,906	(288,003,049)	7,650,994
- Trinity Investment Management (3)	544,661,800	217,766	0	0	0	(541,141,668)	(3,520,132)
- Wilshire Large Growth Fund	1,361,788,403	1,324,605,418	2,493,843,886	2,613,663,887	2,505,547,049	700,000,000	443,758,646
- Wilshire Large Value Fund	470,344,068	404,821,659	406,138,884	400,397,343	380,299,962	0	(90,044,106)
- Yieldtilt Portfolio	216,410,141	17,028	5,201	5,201	5,201	(216,429,205)	24,265
Progress Trust I: (1)							
- American RE Asset Management (3)	63,997,532	62,633,790	17,715	25	0	(73,509,004)	9,511,472
- Brown Capital Management (3)	98,815,521	90,285,403	0	0	0	(90,285,403)	(8,530,118)
- Edgar Lomax (3)	68,570,896	63,030,283	162,860	88	0	(65,045,092)	(3,525,804)
- Fortaleza Asset Management (3)	6,780,239	7,083,578	1,846	3	0	(8,492,666)	1,712,427
- Globalt, Inc. (3)	82,269,006	79,157,751	0	0	0	(86,635,480)	4,366,474
- John Hsu Capital Group	94,878,695	89,666,352	114,475	1,256	1,176	(99,839,267)	4,961,748
- New Amsterdam Partners (3)	73,805,710	69,535,437	0	0	0	(75,447,996)	1,642,286
- Paradigm Asset Management	34,593,069	31,147,587	1,078,111	1,076,492	1,093,557	(37,186,811)	3,687,299
- Sturdivant & Company (3)	33,561,743	30,497,445	35,086	26	0	(32,197,014)	(1,364,729)
- Valenzuela Capital Management (3)	10,315,565	8,954,310	10,523	7	0	(9,343,303)	(972,262)
Progress Trust II: (1)							
- Fuller & Thaler (2)	0	0	105,027,649	116,505,959	85,346,500	67,926,545	17,419,955
- Genesis Capital Management (2)	0	0	101,262,609	127,684,524	148,527,381	106,371,499	42,155,882
- Globalt, Inc. (2)	0	0	96,244,986	106,089,987	79,909,724	59,635,480	20,274,244
- New Amsterdam Partners (2), (3)	0	0	101,085,595	556,013	58,348	(13,343,158)	13,401,506
- Piedra Capital Management (2), (3)	0	0	69,203,293	339,349	283,585	(9,391,772)	9,675,357
- Wall Street Associates (2)	0	0	97,201,775	120,628,710	160,730,813	121,987,994	38,742,819
Total Domestic Equities	58,784,777,549	53,760,175,714	59,930,319,559	61,102,091,966	59,139,840,559	(5,399,173,878)	5,754,236,888

TABLE III-16 (CONTINUED)
FRS PENSION FUND MARKET VALUE AT END OF QUARTER
FISCAL YEAR 1999-2000

Account Name	6-30-99	9-30-99	12-31-99	3-31-00	6-30-00	Net Contributions and Transfers	Investment Gain (Loss)
International Equities:							
Developed Markets:							
- Barclays Global Investors EAFE	3,541,003,077	3,697,855,640	6,265,827,833	6,303,764,510	6,104,789,369	1,718,849,509	844,936,783
- Blairlogie Capital Management	386,325,485	400,221,753	693,456,158	687,339,372	658,496,929	200,000,000	72,171,444
- Capital Guardian Trust Company	535,609,406	580,509,193	1,085,381,921	1,104,765,339	1,061,049,613	275,000,000	250,440,207
- Morgan Stanley Asset Management	542,208,806	564,407,381	889,623,916	889,219,264	964,868,704	280,000,000	142,659,898
- Progress Common Trust	5,357,695	5,639,957	6,810,294	6,870,050	6,489,106	0	1,131,411
- Putnam International Advisors	490,332,240	517,296,422	1,044,350,921	1,109,941,533	1,057,867,777	275,000,000	292,535,537
- Rowe Price Fleming International, Inc.	289,583,424	299,507,466	373,692,278	374,386,693	360,159,764	0	70,576,340
- Sprucegrove Investment Management	305,378,475	310,424,637	512,530,811	495,770,952	523,521,606	180,000,000	38,143,131
- Templeton Investment Counsel	489,815,340	491,765,360	824,068,256	814,341,145	839,983,890	245,000,000	105,168,550
Emerging Markets:							
- Barclays Global Investors Malaysia (3)	23,547,224	19,317,582	32,792	0	0	(20,846,973)	(2,700,251)
- Capital Int'l Emerging Markets Growth Fund	216,233,593	209,767,231	281,054,410	302,932,661	271,757,143	0	55,523,550
- Genesis Emerging Markets	202,462,303	193,122,462	242,590,499	232,877,770	213,766,410	0	11,304,107
- JP Morgan Investment Managers-Separate	192,379,721	183,851,933	233,779,838	230,062,439	216,789,538	0	24,409,817
- Schroder Global Emerging Markets	123,249,910	116,948,737	153,286,373	154,536,197	136,282,736	0	13,032,826
- SSGA Emerging Markets	323,982,851	312,335,130	391,769,412	395,088,509	354,192,743	0	30,209,892
- SSGA Daily Active Emerging Markets	155,346,235	153,355,582	205,937,824	208,403,103	191,955,982	13,000,000	23,609,747
Other International Equities:							
- International Equities Asset Allocation	7,692	6,616	6,711	6,041	6,137	(2,536)	981
- Int'l Equities Commission Recapture	492,004	652,080	866,928	979,366	538,988	0	46,984
Total International Equities	7,823,315,481	8,056,985,162	13,205,067,175	13,311,284,944	12,962,516,435	3,166,000,000	1,973,200,954
Fixed Income:							
Government/Corporate:							
- ActiFed Portfolio	1,575,125,823	1,617,954,767	1,571,208,112	1,667,813,212	1,683,746,197	55,300,000	53,320,374
- Florida Govt./Corp. Index Fund	5,941,532,916	5,808,798,624	5,615,156,852	6,021,791,034	6,116,357,328	(79,391,216)	254,215,628
- Fixed Income Core Portfolio	2,951,297,412	3,031,717,625	2,943,190,722	3,113,457,859	3,139,739,489	92,200,000	96,242,077
- Index Plus Portfolio	2,417,964,456	2,481,030,020	2,409,750,185	2,550,722,976	2,571,994,511	73,900,000	80,130,055
- Tactical Strategies Portfolio	1,984,256,878	2,036,518,192	1,979,949,522	2,099,228,851	2,117,125,650	61,700,000	71,168,772
- Taplin, Canida & Habacht	232,440,823	233,576,317	232,961,893	292,906,379	294,060,976	53,500,000	8,120,153
High Yield:							
- Credit Suisse Asset Management	273,197,230	267,297,216	271,243,662	263,733,525	264,708,824	0	(8,488,406)
- High Yield Asset Allocation (2)	0	0	0	11,324,123	3,793,227	11,274,914	(7,481,687)
- Offitbank	291,305,037	372,476,967	426,801,957	443,584,359	451,835,395	163,000,000	(2,469,642)
- Pacific Investment Management Company	363,060,408	476,756,332	573,287,408	802,859,384	821,493,900	452,051,683	6,381,809
- Salomon Brothers Asset Management	241,259,183	212,120,860	209,419,829	9,353	0	(232,277,547)	(8,981,636)
Mortgage:							
- Fixed Inc. Mortgages-Active Synthetic	722,498,921	729,183,064	1,177,292,323	947,108,866	1,105,155,221	335,180,567	47,475,733
- Fixed Inc. Mortgages-Passive Synthetic (2)	0	0	0	358,722,751	507,506,824	487,819,433	19,687,391
- Mortgage Asset Allocation	2,232	0	0	262,392,710	0	944,119	(946,351)
Mortgage Group Trust: (1)							
- Alliance Capital Management	1,129,809,730	1,140,663,655	836,598,654	847,160,639	865,861,748	(307,000,000)	43,052,018
- Glenmede Asset Management	990,298,115	1,000,936,839	898,051,029	954,255,139	975,967,778	(61,800,000)	47,469,663
- Lincoln Capital Management	416,147,129	750,186,183	771,287,550	758,178,993	789,181,636	336,306,123	36,728,384
- Smith Breeden Associates	512,109,551	517,345,912	525,127,789	533,127,326	544,664,354	7,100,000	25,454,803
- Trust Company of the West	1,276,534,879	1,291,430,990	1,251,703,493	1,246,209,623	1,268,140,650	(71,000,000)	62,605,771
- Utendahl Capital Management	961,643,470	1,309,043,390	1,317,545,640	1,295,642,171	1,251,717,209	230,041,827	60,031,912
- Wellington Management Company	595,511,636	802,743,492	864,901,361	970,431,449	1,035,991,747	393,950,097	46,530,014
Total Fixed Income	22,875,995,829	24,079,780,445	23,875,477,981	25,440,660,722	25,809,042,664	2,002,800,000	930,246,835

TABLE III-16 (Continued)
FRS PENSION FUND MARKET VALUE AT END OF QUARTER
FISCAL YEAR 1999-2000

Account Name	6-30-99	9-30-99	12-31-99	3-31-00	6-30-00	Net Contributions and Transfers	Investment Gain (Loss)
Real Estate:							
- Commingled	369,382,823	372,267,375	371,398,703	373,884,129	260,212,119	(154,614,116)	45,443,412
- Directly Owned Investments	2,553,236,541	2,652,682,424	3,125,988,846	3,344,576,437	3,451,705,138	466,467,326	432,001,271
- Non-Capitalized Expenses	0	0	0	0	0	246,968	(246,968)
- Real Estate Cash	422,766,670	508,744,233	122,080,341	27,388,071	148,579,805	(287,606,768)	13,419,903
- Real Estate Short-term interest	0	0	2,112,967	0	0	(259,930)	259,930
- Real Estate Stock	349,962,007	321,098,934	317,416,361	327,763,050	343,124,413	(30,533,480)	23,695,886
Total Real Estate	3,695,348,041	3,854,792,966	3,938,997,218	4,073,611,687	4,203,621,475	(6,300,000)	514,573,434
Alternative Investments (4):							
- Apollo Investment Fund IV, L.P.	114,669,640	143,130,630	213,529,699	251,532,213	207,830,293	74,560,129	18,600,524
- Carlyle Investment Management	185,519,946	189,660,564	207,067,373	244,788,056	241,393,011	38,653,196	17,219,869
- Centre Capital Investments	167,456,276	167,237,539	154,598,168	174,160,107	178,703,393	5,841,484	5,405,633
- Chartwell Capital Investors	12,068,000	20,910,000	27,964,106	35,605,075	33,214,076	22,137,566	(991,490)
- Corporate Advisors, L.P.	29,480,064	26,242,895	19,824,802	16,904,701	14,428,169	(8,890,133)	(6,161,762)
- Cypress Equity Fund	7,220,109	9,641,523	11,376,966	11,810,010	13,034,102	172,691	5,641,302
- Green Equity Investors	0	3,526,701	18,333,059	22,944,919	24,796,078	24,197,663	598,415
- Hicks, Muse, Tate & Furst	241,497,419	257,278,733	274,610,456	280,843,454	300,998,882	(6,114,878)	65,616,341
- Hicks, Muse, Tate & Furst Equity Fund IV	250,572,920	290,930,144	383,526,501	429,266,316	470,079,869	127,634,250	91,872,699
- Liberty Partners	747,147,441	808,756,912	1,028,286,856	1,095,965,474	0	(839,623,186)	92,475,745
- Liberty Partners I (2)	0	0	0	0	96,155,343	32,483,801	63,671,542
- Liberty Partners II (2)	0	0	0	0	341,631,510	195,977,355	145,654,155
- Liberty Partners III (2)	0	0	0	0	542,721,601	311,237,826	231,483,775
- Liberty Partners IV (2)	0	0	0	0	298,438,329	184,571,187	113,867,142
- Liberty Partners V (2)	0	0	0	0	151,519,112	79,814,961	71,704,151
- LPNY Coinvestment Partners, L.P.	255,864,112	228,376,029	334,491,649	373,029,271	422,752,777	170,509,948	(3,621,283)
- Private Equity Cash	77,585,886	88,663,564	16,715,169	35,461,121	11,314,431	(68,935,215)	2,663,760
- Ripplewood Partners, L.P.	46,761,631	46,846,982	60,063,244	74,446,380	75,332,234	28,455,899	114,704
- THL Equity Fund IV, L.P.	61,637,941	54,758,646	87,297,384	101,599,878	103,504,318	42,326,937	(460,560)
- TSG Capital Fund III, L.P.	40,120,335	44,103,442	44,370,299	44,784,316	62,848,970	23,611,025	(882,390)
- Willis, Stein & Partners, L.P.	9,999,808	11,779,395	21,710,600	31,742,538	33,654,528	21,451,372	2,203,348
Total Alternative Investments	2,247,601,528	2,391,843,699	2,903,766,331	3,224,883,829	3,624,351,026	460,073,878	916,675,620
Cash/Short-Term:							
- Cash & Central Custody	966,877,572	1,053,781,115	902,747,003	896,643,672	890,635,676	(117,199,500)	40,957,604
Total Cash	966,877,572	1,053,781,115	902,747,003	896,643,672	890,635,676	(117,199,500)	40,957,604
Total FRS Pension Fund	$96,393,916,000	$93,197,359,101	$104,756,375,267	$108,049,176,820	$106,630,007,835	$106,200,500	$10,129,891,335

(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.
(4) Alternative Investments is a new asset class, effective November 1, 1999. All previously existing private equity accounts were moved from Domestic Equities to this asset class.

Tables III-17 through III-22 provide relevant information for Florida Retirement System Trust Fund (FRSTF) portfolios, by asset class, during FY 1999-2000. Real Estate performance is presented by manager account and market values are grouped by property type for direct-owned properties. 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. Tabled 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 FY 1999-2000; 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.

TABLE III-17
DOMESTIC EQUITIES INVESTMENTS

	Account Name	Market Value 6-30-99	Market Value 6-30-00	Net Contributions and Transfers	Investment Gain (Loss)	FY 99-00 Rate of Return*	Meets or Exceeds Benchmark Prior 1-year (1)	3 years (1)	5 years (1)
	DOMESTIC EQUITIES MANAGERS - EXTERNAL								
A	Alliance Capital Management	$5,041,596,577	$6,024,164,658	$0	$982,568,081	19.5%	Y	Y	Y
A	American Express Asset Mgt. Group, Inc.	1,421,126,052	2,583,981,558	0	1,162,855,506	81.8%	Y	Y	Y
A	Aronson & Partners	540,769,219	1,232,180,198	701,729,703	(10,318,724)	-2.7%	Y	Y	Y
P	Barclays Global Investors Index	11,683,041,474	10,081,276,799	(2,398,000,000)	796,235,325	7.6%	Y	Y	Y
P	Barclays Global Investors Low Cap	1,433,417,445	1,694,423,931	0	261,006,486	18.2%	Y	Y	Y
A	Barrow, Hanley, Mewhinney & Strauss	1,585,379,662	0	(1,321,003,718)	(264,375,944)	(3)	(3)	(3)	(3)
A	Brown Capital Management	0	223,255,679	190,657,547	32,598,132	(3)	(3)	(3)	(3)
A	David L. Babson	364,498,689	450,083,076	50,000,000	35,584,387	7.4%	Y	Y	Y
A	Denver Investment Advisors	1,269,785,932	0	(1,222,993,684)	(46,792,248)	(3)	(3)	(3)	(3)
A	Enhanced Investment Technologies, Inc.	1,176,819,995	1,298,657,517	0	121,837,522	10.4%	Y	Y	Y
A	First Quadrant Corporation	1,578,636,873	1,052,882,164	(626,131,829)	100,377,120	8.5%	Y	N	N
A	Goldman, Sachs & Company	2,001,284,585	3,556,081,036	1,190,393,571	364,402,880	12.6%	Y	Y	Y
A	Haven Capital Management	113,504,237	22,618	(115,786,917)	2,305,298	(3)	(3)	(3)	(3)
A	Independence Investment Associates, Inc.	1,282,218,796	0	(1,227,024,767)	(55,194,029)	(3)	(3)	(3)	(3)
A	Lazard Freres Asset Management	1,208,440,712	32,372	(1,091,212,658)	(117,195,682)	(3)	(3)	(3)	(3)
A	Northern Trust Quantitative Advisors, Inc.	109,410,220	273,777,891	199,892,236	(35,524,565)	-15.3%	N	Y	N
A	Private Capital Management	134,206,064	676,111,187	411,470,438	130,434,685	34.6%	Y	Y	(2)
A	Prudential Asset Management Company, Inc.	2,121,291,187	964,778,451	(978,873,560)	(177,639,176)	-9.9%	Y	N	N
A	Putnam Advisory Company, Inc.	499,133,712	491,885,283	0	(7,248,429)	-1.5%	N	N	N
A	Smith Barney Capital Management	691,579,488	968,610,577	346,021,410	(68,990,321)	-10.0%	Y	(2)	(2)
A	Trinity Investment Management	544,661,800	0	(541,141,668)	(3,520,132)	(3)	(3)	(3)	(3)
P	Wilshire Large Growth Fund	1,361,788,403	2,505,547,049	700,000,000	443,758,646	21.7%	Y	N	(2)
P	Wilshire Large Value Fund	470,344,068	380,299,962	0	(90,044,106)	-19.1%	Y	Y	(2)
		$36,632,935,190	$34,458,052,006	$(5,732,003,896)	$3,557,120,712				

TABLE III-17 (Continued)
DOMESTIC EQUITIES INVESTMENTS

Account Name	Market Value 6-30-99	Market Value 6-30-00	Net Contributions and Transfers	Investment Gain (Loss)	FY 99-00 Rate of Return*	Meets or Exceeds Benchmark Prior 1-year (1)	3 years (1)	5 years (1)
DOMESTIC EQUITIES MANAGERS - EXTERNAL (continued)								
A Progress Trust I (4):					(3)	(3)	(3)	(3)
A American RE Asset Management	63,997,532	0	(73,509,004)	9,511,472	(3)	(3), (4)	(3), (4)	(3), (4)
A Brown Capital Management	98,815,521	0	(90,285,403)	(8,530,118)	(3)	(3), (4)	(3), (4)	(3), (4)
A Edgar Lomax	68,570,896	0	(65,045,092)	(3,525,804)	(3)	(3), (4)	(3), (4)	(3), (4)
A Fortaleza Asset Management	6,780,239	0	(8,492,666)	1,712,427	(3)	(3), (4)	(3), (4)	(3), (4)
A Globalt, Inc.	82,269,006	0	(86,635,480)	4,366,474	30.3%	(4)	(4)	(4)
A John Hsu Capital Group	94,878,695	1,176	(99,839,267)	4,961,748	(3)	(3), (4)	(3), (4)	(3), (4)
A New Amsterdam Partners	73,805,710	0	(75,447,996)	1,642,286	(3)	(3), (4)	(3), (4)	(3), (4)
A Paradigm Asset Management	34,593,069	1,093,557	(37,186,811)	3,687,299	(3)	(3), (4)	(3), (4)	(3), (4)
A Sturdivant & Company	33,561,743	0	(32,197,014)	(1,364,729)	(3)	(3), (4)	(3), (4)	(3), (4)
A Valenzuela Capital Management	10,315,565	0	(9,343,303)	(972,262)	(3)	(3), (4)	(3), (4)	(3), (4)
	567,587,976	1,094,733	(577,982,036)	11,488,793				
A Progress Trust II (4):					(3)	(3)	(3)	(3)
A Fuller & Thaler	0	85,346,500	67,926,545	17,419,955	(3)	(3), (4)	(3), (4)	(3), (4)
A Genesis Capital Management	0	148,527,381	106,371,499	42,155,882	(3)	(3), (4)	(3), (4)	(3), (4)
A Globalt, Inc.	0	79,909,724	59,635,480	20,274,244	30.3%	(4)	(4)	(4)
A New Amsterdam Partners	0	58,348	(13,343,158)	13,401,506	(3)	(3), (4)	(3), (4)	(3), (4)
A Piedra Capital Management	0	283,585	(9,391,772)	9,675,357	(3)	(3), (4)	(3), (4)	(3), (4)
A Wall Street Associates	0	160,730,813	121,987,994	38,742,819	(3)	(3), (4)	(3), (4)	(3), (4)
	0	474,856,351	333,186,588	141,669,763				
	37,200,523,166	34,934,003,090	(5,976,799,344)	3,710,279,268				
DOMESTIC EQUITIES MANAGERS - INTERNAL								
P Active Core Portfolio	4,811,486,066	5,545,782,656	314,708,051	419,588,539	8.3%	Y	Y	Y
A CAPFORM Portfolio	950,712,739	0	(867,031,688)	(83,681,051)	(3)	(3)	(3)	(3)
NA COMBAL	613,736	6,290,011	0	5,676,275	(5)	(5)	(5)	(5)
NA Domestic Equities Asset Allocation	100,800,169	2,045,336	(101,846,248)	3,091,415	(5)	(5)	(5)	(5)
NA Domestic Equities Restructuring Account	0	531,244	21,984,736	(21,453,492)	(3)	(3)	(3)	(3)
P PIVOT Portfolio	15,002,807,571	18,430,111,115	1,714,242,869	1,713,060,675	10.1%	Y	Y	(2)
A Special Situations	501,423,961	221,071,906	(288,003,049)	7,650,994	8.2%	Y	Y	Y
P Yieldtilt Portfolio	216,410,141	5,201	(216,429,205)	24,265	(3)	(3)	(3)	(3)
	21,584,254,383	24,205,837,469	577,625,466	2,043,957,620				
TOTAL DOMESTIC EQUITIES MANAGERS	$58,784,777,549	$59,139,840,559	$(5,399,173,878)	$5,754,236,888				

* 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 were not available for the entire measurement period.
(3) These accounts were opened or closed during the fiscal year or the investment manager was hired or terminated during the fiscal year. In either case, meaningful performance data are not available for the entire 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) These accounts are either administrative or transitionary and individual performance is not considered meaningful. They are included in the appropriate aggregate combination performance.

TABLE III-18
INTERNATIONAL EQUITIES INVESTMENTS

Account Name	Market Value 6-30-99	Market Value 6-30-00	Net Contributions and Transfers	Investment Gain (Loss)	FY 99-00 Rate of Return*	Meets or Exceeds Benchmark Prior 1-year (1)	3 years (1)	5 years (1)
INTERNATIONAL EQUITIES MANAGERS - INTERNAL								
NA International Equities Asset Allocation	$7,692	$6,137	$(2,536)	$981	(4)	(4)	(4)	(4)
NA International Equities Commission Recapture	492,004	538,988	0	46,984	(4)	(4)	(4)	(4)
	499,696	545,125	(2,536)	47,965				
INTERNATIONAL EQUITIES MANAGERS - EXTERNAL								
Developed Markets:								
P Barclays Global Investors EAFE	3,541,003,077	6,104,789,369	1,718,849,509	844,936,783	19.1%	Y	Y	Y
A Blairlogie Capital Management	386,325,485	658,496,929	200,000,000	72,171,444	14.9%	N	Y	(2)
A Capital Guardian Trust Company	535,609,406	1,061,049,613	275,000,000	250,440,207	35.9%	Y	Y	Y
A Morgan Stanley Asset Management	542,208,806	964,868,704	280,000,000	142,659,898	19.4%	Y	Y	Y
A Progress Common Trust	5,357,695	6,489,106	0	1,131,411	21.1%	Y	(2)	(2)
A Putnam International Advisors	490,332,240	1,057,867,777	275,000,000	292,535,537	44.6%	Y	Y	Y
A Rowe Price Fleming International, Inc.	289,583,424	360,159,764	0	70,576,340	24.4%	Y	Y	Y
A Sprucegrove Investment Management	305,378,475	523,521,606	180,000,000	38,143,131	8.7%	N	N	(2)
A Templeton Investment Counsel	489,815,340	839,983,890	245,000,000	105,168,550	15.5%	N	Y	Y
	6,585,613,948	11,577,226,758	3,173,849,509	1,817,763,301				
Emerging Markets:								
P Barclays Global Investors Malaysia	23,547,224	0	(20,846,973)	(2,700,251)	(3)	(3)	(3)	(3)
A Capital Int'l Emerging Markets Growth Fund	216,233,593	271,757,143	0	55,523,550	25.7%	Y	(2)	(2)
A Genesis Emerging Markets	202,462,303	213,766,410	0	11,304,107	5.6%	N	(2)	(2)
A JP Morgan Investment Managers	192,379,721	216,789,538	0	24,409,817	12.7%	Y	N	N
A Schroder Global Emerging Markets	123,249,910	136,282,736	0	13,032,826	10.6%	N	(2)	(2)
P SSGA Emerging Markets	323,982,851	354,192,743	0	30,209,892	9.3%	N	N	N
A SSGA Daily Active Emerging Markets	155,346,235	191,955,982	13,000,000	23,609,747	14.7%	Y	(2)	(2)
	1,237,201,837	1,384,744,552	(7,846,973)	155,389,688				
TOTAL INTERNATIONAL EQUITIES MANAGERS	$7,823,315,481	$12,962,516,435	$3,166,000,000	$1,973,200,954				

* 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 were not available for the entire measurement period.
(3) These accounts were opened or closed during the fiscal year or the investment manager was hired or terminated during the fiscal year. In either case, meaningful performance data are not available for the entire 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.

TABLE III-19
FIXED INCOME INVESTMENTS

Account Name	Market Value 6-30-99	Market Value 6-30-00	Net Contributions and Transfers	Investment Gain (Loss)	FY 99-00 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	$1,575,125,823	$1,683,746,197	$55,300,000	$53,320,374	3.3%	N	(2)	(2)
P Florida Govt./Corp. Index Fund	5,941,532,916	6,116,357,328	(79,391,216)	254,215,628	4.4%	Y	Y	Y
A Fixed Income Core Portfolio	2,951,297,412	3,139,739,489	92,200,000	96,242,077	3.2%	N	N	N
A Index Plus Portfolio	2,417,964,456	2,571,994,511	73,900,000	80,130,055	3.2%	N	N	Y
A Tactical Strategies Portfolio	1,984,256,878	2,117,125,650	61,700,000	71,168,772	3.5%	N	Y	Y
High Yield:								
NA High Yield Asset Allocation	0	3,793,227	11,274,914	(7,481,687)	(4)	(4)	(4)	(4)
Mortgage:								
A Fixed Inc. Mortgages-Active Synthetic	722,498,921	1,105,155,221	335,180,567	47,475,733	5.0%	Y	(2)	(2)
P Fixed Inc. Mortgages-Passive Synthetic	0	507,506,824	487,819,433	19,687,391	(3)	(2)	(2)	(2)
NA Mortgage Asset Allocation	2,232	0	944,119	(946,351)	(4)	(4)	(4)	(4)
	15,592,678,638	17,245,418,447	1,038,927,817	613,811,992				
FIXED INCOME MANAGERS - EXTERNAL								
Government/Corporate:								
A Taplin, Canida & Habacht	232,440,823	294,060,976	53,500,000	8,120,153	2.9%	N	(2)	(2)
High Yield:								
A Credit Suisse Asset Management Company	273,197,230	264,708,824	0	(8,488,406)	-3.1%	N	(2)	(2)
A Offitbank	291,305,037	451,835,395	163,000,000	(2,469,642)	-0.9%	N	(2)	(2)
A Pacific Investment Management Company	363,060,408	821,493,900	452,051,683	6,381,809	1.1%	Y	(2)	(2)
A Salomon Brothers Asset Management	241,259,183	0	(232,277,547)	(8,981,636)	(3)	(3)	(3)	(3)
Mortgage Group Trust:								
A Alliance Capital Management	1,129,809,730	865,861,748	(307,000,000)	43,052,018	4.9%	Y	Y	Y
A Glenmede Asset Management	990,298,115	975,967,778	(61,800,000)	47,469,663	5.1%	Y	Y	Y
P Lincoln Capital Management	416,147,129	789,181,636	336,306,123	36,728,384	4.9%	Y	(2)	(2)
A Smith Breeden Associates	512,109,551	544,664,354	7,100,000	25,454,803	4.9%	Y	(2)	(2)
A Trust Company of the West	1,276,534,879	1,268,140,650	(71,000,000)	62,605,771	5.1%	Y	Y	Y
P Utendahl Capital Management (5)	961,643,470	1,251,717,209	230,041,827	60,031,912	4.9%	N	Y	Y
A Wellington Management Company	595,511,636	1,035,991,747	393,950,097	46,530,014	5.1%	Y	(2)	(2)
	7,283,317,191	8,563,624,217	963,872,183	316,434,843				
TOTAL FIXED INCOME MANAGERS	$22,875,995,829	$25,809,042,664	$2,002,800,000	$930,246,835				

* 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 were not available for the entire measurement period.
(3) These accounts were opened or closed during the fiscal year or the investment manager was hired or terminated during the fiscal year. In either case, meaningful performance data are not available for the entire period.
(4) This is a transitional account and individual performance is not considered meaningful. It is included in the appropriate aggregate combination performance.
(5) APAM, Inc. changed its name to Utendahl Capital Management during the fiscal year.

TABLE III-20
REAL ESTATE INVESTMENTS

Account Name	Market Value 6-30-99 (1)	Market Value 6-30-00 (1)	Net Contributions and Transfers (2)	Investment Gain (Loss)	FY 99-00 Rate of Return*	Meets or Exceeds Benchmark Prior 1-year (3)	3 years (3)	5 years (3)
DIRECTLY OWNED INVESTMENTS					(8)	(8)	(8)	(8)
NA Agriculture	$304,972,225	$325,594,460	$(2,701,953)	$23,324,188	(4)	(4)	(4)	(4)
NA Apartments	321,210,267	544,502,764	170,181,296	53,111,201	(4)	(4)	(4)	(4)
NA Industrial	321,266,556	410,641,183	55,456,348	33,918,279	(4)	(4)	(4)	(4)
NA Office	1,349,719,631	1,821,482,830	200,665,678	271,097,521	(4)	(4)	(4)	(4)
NA Retail	256,067,862	349,483,901	42,865,957	50,550,082	(4)	(4)	(4)	(4)
	2,553,236,541	3,451,705,138	466,467,326	432,001,271				
COMMINGLED FUNDS								
A Allegis - PMSA	51,460,962	52,091,299	(4,980,405)	5,610,742	14.1%	Y	Y	Y
A Allegis - RESA	130,419,422	97,190,724	(50,511,346)	17,282,648	13.6%	Y	Y	Y
A FNBC Fund F	24,334	20,243	0	(4,091)	-16.9%	N	Y	Y
A Hancock Property Fund	5,864,027	0	(6,003,726)	139,699	(5)	(5)	(5)	(5)
A LaSalle Fund II	2,130,830	307,712	(2,868,966)	1,045,848	86.2%	Y	Y	Y
A Prime Property Fund	85,665,707	37,376,212	(57,296,813)	9,007,318	11.0%	Y	Y	Y
A PRISA	93,817,541	73,225,929	(32,952,860)	12,361,248	13.8%	Y	Y	Y
	369,382,823	260,212,119	(154,614,116)	45,443,412				
NA Non-Capitalized Expenses (6)	0	0	246,968	(246,968)	(4)	(4)	(4)	(4)
NA Real Estate Short-term Interest (7)	0	0	(259,930)	259,930	(4)	(4)	(4)	(4)
A Real Estate Cash	422,766,670	148,579,805	(287,606,768)	13,419,903	6.0%	Y	Y	Y
A Real Estate Stock	349,962,007	343,124,413	(30,533,480)	23,695,886	7.5%	Y	Y	Y
TOTAL REAL ESTATE PORTFOLIO	$3,695,348,041	$4,203,621,475	$(6,300,000)	$514,573,434				

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

A - Active P - Passive NA - Not Applicable

(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) Separate performance over these time periods is not indicated since the groups do not constitute a portfolio. They are included in the appropriate aggregate combination performance.
(5) These accounts were opened or closed during the fiscal year or the investment manager was hired or terminated during the fiscal year. In either case, meaningful performance data are not available for the entire 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. The net withdrawals amount of $259,930 includes a $250,000 commitment fee received by the FSBA for agreeing to keep a bid open for a minimum time period.
(8) Performance of Directly Owned investments can be found in Table III-11.

TABLE III-21
ALTERNATIVE INVESTMENTS

Account Name	Market Value 6-30-99 (1),(2)	Market Value 6-30-00 (2)	Net Contributions and Transfers	Investment Gain (Loss)	Since Inception IRR (3)*	Meets or Exceeds Benchmark Since Inception (4),(5)
ALTERNATIVE INVESTMENT MANAGERS - EXTERNAL						
A Apollo Investment Fund IV, L.P.	$114,669,640	$207,830,293	$74,560,129	$18,600,524	15.2%	(6)
A Carlyle Investment Management	185,519,946	241,393,011	38,653,196	17,219,869	26.8%	Y
A Centre Capital Investments	167,456,276	178,703,393	5,841,484	5,405,633	12.6%	N
A Chartwell Capital Investors	12,068,000	33,214,076	22,137,566	(991,490)	-5.8%	(6)
A Corporate Advisors, L.P.	29,480,064	14,428,169	(8,890,133)	(6,161,762)	12.3%	N
A Cypress Equity Fund	7,220,109	13,034,102	172,691	5,641,302	26.4%	Y
A Green Equity Investment, L.P.	0	24,796,078	24,197,663	598,415	0.3%	(6)
A Hicks, Muse, Tate & Furst	241,497,419	300,998,882	(6,114,878)	65,616,341	26.0%	Y
A Hicks, Muse, Tate & Furst Equity Fund IV	250,572,920	470,079,869	127,634,250	91,872,699	26.4%	(6)
A Liberty Partners	747,147,441	0	(839,623,186)	92,475,745	0.0%	(7)
A Liberty Partners I	0	96,155,343	32,483,801	63,671,542	20.7%	N
A Liberty Partners II	0	341,631,510	195,977,355	145,654,155	21.4%	N
A Liberty Partners III	0	542,721,601	311,237,826	231,483,775	25.3%	N
A Liberty Partners IV	0	298,438,329	184,571,187	113,867,142	48.2%	(6)
A Liberty Partners V	0	151,519,112	79,814,961	71,704,151	191.0%	(6)
A LPNY Coinvestment Partners, L.P.	255,864,112	422,752,777	170,509,948	(3,621,283)	4.9%	(6)
A Ripplewood Partners, L.P.	46,761,631	75,332,234	28,455,899	114,704	2.5%	N
A THL Equity Fund IV, L.P.	61,637,941	103,504,318	42,326,937	(460,560)	28.3%	(6)
A TSG Capital Fund III, L.P.	40,120,335	62,848,970	23,611,025	(882,390)	-6.3%	(6)
A Willis, Stein & Partners, L.P.	9,999,808	33,654,528	21,451,372	2,203,348	5.4%	(6)
	2,170,015,642	3,613,036,595	529,009,093	914,011,860		
ALTERNATIVE INVESTMENT MANAGERS - INTERNAL						
A Private Equity Cash	77,585,886	11,314,431	(68,935,215)	2,663,760	5.6%	N
TOTAL ALTERNATIVE INVESTMENTS	$2,247,601,528	$3,624,351,026	$460,073,878	$916,675,620		

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

A - Active P - Passive NA - Not Applicable

(1) Alternative Investments was not reported as a separate asset class until November 1, 1999. Prior to that time, private equity portfolios were included in the Domestic Equities asset class.
(2) Alternative Investment 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. The market values are self-reported by the external managers of these accounts and incorporate their estimate of the value of illiquid publicly-traded securities and private market holdings.
(3) Internal Rate of Return is a measure of performance that recognizes the timing and amount of funds into and distributions from portfolio investments. Inception varies by portfolio.
(4) 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.
(5) Each portfolio has a custom benchmark reflecting a phased-in, risk-adjusted annual hurdle of 600 basis points over the domestic equity target return.
(6) Private equity portfolio performance relative to its benchmark is calculated since inception and is not presented for periods of less than three years.
(7) Liberty Partners was broken into separate accounts during the fiscal year.

TABLE III-22
CASH INVESTMENTS

Account Name	Market Value 6-30-99	Market Value 6-30-99	Net Contributions and Transfers	Investment Gain (Loss)	FY 99-00 Rate of Return	Meets or Exceeds Benchmark Prior 1-Year (1)	3 Years (1)	5 Years (1)
CASH MANAGERS - INTERNAL								
A Cash & Central Custody (2)	$ 966,877,572	$ 890,635,676	$ (117,199,500)	$ 40,957,604	6.0%	Y	Y	Y
TOTAL CASH MANAGERS	$ 966,877,572	$ 890,635,676	$ (117,199,500)	$ 40,957,604				

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.
(2) Managed returns reflect the impact of various fees paid out of the Cash/Short-Term asset class on behalf of the Florida Retirement System Trust Fund.

Section IV

Lawton Chiles Endowment Fund

The Florida State Board of Administration (FSBA) has the statutory authority and responsibility for the investment of the Lawton Chiles Endowment Fund assets, subject to limitations as outlined in Section 215.47, F.S. and consistent with a Total Fund Investment Plan (TFIP or Investment Plan) approved by the Board. These investment limitations are cited on page 14 of this report. The Board discharges its fiduciary duties in accordance with the fiduciary standards of care as set forth in Subsection 215.47(9), F.S.

Additionally, the Board delegates to the Executive Director the administrative and investment authority, within the statutory limitations, to manage the investment of the Endowment assets. The Executive Director is responsible for managing and directing all administrative, personnel, budgeting, and investment functions, including the strategic and tactical allocation of investment assets. The Executive Director is also 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.

TABLE IV-1
LAWTON CHILES ENDOWMENT FUNDS UNDER MANAGEMENT
JULY 1, 1999 - JUNE 30, 2000

	Account Name	Market Value 6-30-99	Market Value 6-30-00	Net Contributions and Transfers	Investment Gain (Loss)
DOMESTIC EQUITIES MANAGERS - INTERNAL					
P	Chiles Domestic Equities Portfolio	$0	$652,003,039	$600,249,911	$51,753,128
FIXED INCOME MANAGERS - INTERNAL					
P	Chiles Government/Corporate Portfolio	0	126,784,563	120,917,634	5,866,929
FIXED INCOME MANAGERS - EXTERNAL					
P	Lincoln Capital Management	0	62,847,591	59,676,038	3,171,553
INTERNATIONAL EQUITIES MANAGERS - EXTERNAL					
P	Barclays Global Investors-MSCI ACWI	0	66,642,758	66,700,000	(57,242)
A	Capital Guardian	0	69,067,602	66,700,000	2,367,602
INFLATION-INDEXED BONDS - INTERNAL					
P	Inflation Linked Treasury	0	135,202,305	125,300,000	9,902,305
REAL ESTATE MANAGERS - EXTERNAL					
A	Chiles Endowment Real Estate	0	49,966,490	44,500,000	5,466,490
CASH/SHORT-TERM MANAGERS - INTERNAL					
A	CAMP Money Market Fund	0	18,509,197	15,956,417	2,552,780
Total Chiles Endowment		$0	$1,181,023,545	$1,100,000,000	$81,023,545

A - Active P - Passive

IV.1 Investment Objectives

Pursuant to Subsection 215.5601(5), F.S., the Endowment is managed as an annuity and consistent with an Investment Plan approved by the Board. The investment goals of the Chiles Endowment, as stated in the Investment Plan, are twofold:

- to provide a specific real (inflation-adjusted) annual cash flow for legislative appropriation, as nonrecurring revenue; and

- to maximize the probability of maintaining the real value of any original principal investments in the Endowment by the Legislature at the end of a 30-year planning horizon.

The Board's principle means for achieving these goals is through investment directives to the Executive Director in the form of a target asset allocation and identification of the asset class target indices. Asset class target indices are generally broad financial market indices that define the structure of the asset class investments and serve as performance benchmarks. The Board directs the Executive Director to manage the Endowment to maximize the likelihood of achieving the investment objectives. 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 the return in a positive way on a long-term basis, measured against performance benchmarks.

IV.2 Endowment Cash Flow Schedule

According to the Investment Plan, for each $100 of originally invested real principal at the beginning of a fiscal year, there shall be $4.32 in real dollars available for legislative appropriations at the beginning of the subsequent fiscal year. Real amounts are measured in 1999 purchasing power. For example, an original investment of $1,700,000,000 on July 1, 1999 would result in $73,440,000 available for appropriation on July 1, 2000. That amount, adjusted upward by the annual inflation rate, would be available for appropriation in each year thereafter for the term of the annuity.

However, in accordance with the provisions of Subsection 215.5601(6)(a), F.S., in no event can the amounts available for appropriation exceed the following limitations:

- for the appropriation available July 1, 2000, three percent of the fund average net asset value on July 1, 1999;

- for the appropriation available July 1, 2001, four percent of the fund average net asset value for the prior two years;

- for the appropriation available July 1, 2002, five percent of the fund average net asset value for the prior three years; and

- for appropriations available July 1, 2003 and each year thereafter, six percent of the fund average net asset value for the prior three years.

IV.3 Asset Allocation for FY 1999-2000

The current Investment Plan, effective January 5, 2000, identifies the target asset allocation shown in Table IV-2.

TABLE IV-2
LAWTON CHILES ENDOWMENT
TARGET ASSET ALLOCATION AND POLICY RANGES
JANUARY 5, 2000 - JUNE 30, 2000

Asset Class	Target Asset Allocation	Policy Range
Domestic Equities	56%	51-61%
Fixed Income	16%	11-24%
International Equities	12%	6-18%
Inflation-Indexed Bonds	11%	6-16%
Real Estate	4%	1-8%
Cash/Short-Term	1%	0-10%

Table IV-3 presents transitional target asset allocations that were approved by the Board for other periods during the year. A 60-day transitional target asset allocation of 40 percent equity, 35 percent bonds, and 25 percent cash was established for the initial deposit of $725.1 million. After further input from staff, independent consultants, and the Investment Advisory Council (IAC), the Board adopted a new Investment Plan effective August 24, 1999. In that plan, the Board also recognized that four more annual contributions of $200 million to $375 million each were anticipated under current law and directed FSBA staff to evaluate whether investments in additional asset types should be considered at the time of subsequent fundings. The Board approved a new Investment Plan on December 14, 1999 to take effect on January 5, 2000.

TABLE IV-3
LAWTON CHILES ENDOWMENT TARGET ASSET ALLOCATION
JULY 1, 1999 - JANUARY 4, 2000

Asset Class	July 1, 1999 to August 24, 1999	August 25, 1999 to January 04, 2000
Domestic Equities	40%	60%
Fixed Income	35%	35%
Cash/Short-Term	25%	5%

Table IV-4 reflects the actual asset allocation of the Endowment at quarter-end during the reporting period. The actual asset allocation of the Endowment remained relatively close to the target allocations throughout the year.

TABLE IV-4
LAWTON CHILES ENDOWMENT ACTUAL ASSET ALLOCATION
JULY 1, 1999 - JUNE 30, 2000

Asset Class	7-1-99	9-30-99	12-31-99	3-31-00	6-30-00
Domestic Equities	40.0%	57.7%	61.8%	56.6%	55.2%
Fixed Income	35.0%	36.7%	33.1%	15.5%	16.1%
International Equities	0.0%	0.0%	0.0%	11.7%	11.5%
Inflation-Indexed Bonds	0.0%	0.0%	0.0%	11.0%	11.4%
Real Estate	0.0%	0.0%	0.0%	3.7%	4.2%
Cash/Short-Term	25.0%	5.6%	5.1%	1.5%	1.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

IV.4 Investment Risk

Risk is the possibility of not achieving the goals of the investment program. The best chance of achieving the Endowment's specific goals is through investing in assets with:

- a sufficiently high investment return to generate necessary corpus growth and cash flows; and
- a reasonably reliable investment return through periods of fluctuating inflation.

Historically, equity assets have had these characteristics and they represent the largest share of the Endowment's investments. While equity assets can be expected to have greater short-term market volatility than bonds or cash, in the long-run they provide the best opportunity for achieving the Endowment's goals. The use of inflation-indexed bonds also materially adds to the probability of meeting the investment goals. We anticipate that, over time, as the market for these relatively new securities broadens and deepens, our allocation to them will increase. A more detailed exposition on the risk factors associated with different asset types can be found in Section III of this report.

IV.5 Performance Evaluation for FY 1999-2000

IV.5.1 Annualized Total Fund Investment Performance

The Endowment outpaced its long-term absolute target and relative target investment returns for the fiscal year. The long-term absolute target is defined as that rate of return that would allow annual cash flows to remain on plan and preserve the real purchasing power of the original principal deposits over a 30-year horizon. Based on the annuity formula for the Endowment's spending plan, the long-term annual real target rate of return is 4.32 percent. Combining the actual rate of inflation over the 12-month period, 3.73 percent, with the 4.32 percent annual real target, produces the long-term absolute target return of 8.2 percent (Note: The combination is compounded, not additive).

The performance of the Endowment is also measured according to a relative target, the "Target Portfolio" described above. The performance of each asset class is measured relative to a broad market index as specified in the Chiles Endowment Total Fund Investment Plan, and enumerated in the notes to Table IV-5. The Endowment's relative target return is an average of those indices' returns, weighted according to the target allocations specified in the Investment Plan (see Tables IV-2 and IV-3). Managed returns, net of external manager fees, and returns of the target indices are presented in Table IV-5.

TABLE IV-5
LAWTON CHILES ENDOWMENT PERFORMANCE
JULY 1, 1999 - JUNE 30, 2000

	Return*
Total Endowment	
Managed	8.9%
Long-Term Absolute Target (1)	8.2%
Relative Target (2)	8.4%
Domestic Equities	
Managed	9.1%
Target (3)	10.0%
Fixed Income	
Managed	4.8%
Target (4)	4.6%
International Equities	
Managed (6)	NA
Target (5, 6)	NA
Inflation-Indexed Bonds	
Managed (6)	NA
Target (6, 7)	NA
Real Estate	
Managed (6)	NA
Target (6, 8)	NA
Cash/Short-Term	
Managed (9)	5.3%
Target (10)	5.7%

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

(1) The Endowment's Long-Term Absolute Target is based on a 4.32 percent annual real return adjusted for 3.73 percent consumer price inflation over the measurement period.
(2) The Endowment's Relative Target is the composite of returns on the respective asset class targets, weighted by the target allocations.
(3) The Domestic Equities Target is the Wilshire 2500 Index, excluding the equities of tobacco-related companies.
(4) The Fixed Income Target is the Lehman Brothers U.S. Aggregate Bond Index.
(5) The International Equities Target is the Morgan Stanley Capital International All Country World Free Index, excluding the U.S., in dollar terms, and excluding the equities of tobacco-related companies.
(6) Asset classes were not in operation for the entire fiscal year.
(7) The Inflation-Indexed Bonds Target is the Lehman Brothers U.S. Treasury Inflation Note Index.
(8) The Real Estate Target is the Wilshire Real Estate Securities Index.
(9) Managed returns reflect the impact of various fees paid out of the Cash/Short-Term asset class on behalf of the Lawton Chiles Endowment Fund. The gross managed return for cash was 5.9 percent. .
(10) The Cash/Short-Term Target is the Merrill Lynch three-month U.S. Treasury Bill, Auction Average.

Quarter-end market values by asset class for FY 1999-2000 are presented in Table IV-6, while external investment management fees by asset class for the same period are illustrated in Table IV-7.

TABLE IV-6
LAWTON CHILES ENDOWMENT FUND
QUARTER-END MARKET VALUES BY ASSET CLASS

Asset Class	9-30-99	12-31-99	3-31-00	6-30-00
Domestic Equities	$403,280,410	$477,421,283	$679,996,025	$652,003,039
Fixed Income	256,570,760	255,696,595	186,526,064	189,632,155
International Equities	0	0	140,515,117	135,710,359
Inflation-Indexed Bonds	0	0	132,140,020	135,202,305
Real Estate	0	0	44,497,382	49,966,490
Cash/Short-Term	39,281,274	39,807,989	18,294,920	18,509,197
Total	$699,132,444	$772,925,867	$1,201,969,528	$1,181,023,545

TABLE IV-7
LAWTON CHILES ENDOWMENT FUND
EXTERNAL INVESTMENT MANAGEMENT FEES BY ASSET CLASS
FISCAL YEAR 1999-2000

Asset Class	Dollar Amount	Return Basis (1)
International Equities Portfolios	$164,469	0.24%
Fixed Income Portfolios	28,609	0.04%
Real Estate Portfolios	44,698	0.19%
Total	$237,776	0.15%

(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.

Section V

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. 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 FSBA operates the pool like a 2a-7 fund and complies with all investment requirements contained in that SEC regulation, as well as all accounting and reporting requirements of Governmental Accounting Standards Board Statement No. 31, which governs investment pools for governmental entities.

The pooled account emphasizes liquidity and participants' funds are made available on a daily basis. On June 30, 2000, there were 753 local government participants holding 1,636 accounts, with funds under management valued at $10,849,186,521. A short average maturity range, consistent with projected cash needs of the accounts, was maintained. The average maturity on June 30, 2000 was 24 days. Average maturity is adjusted during the year, depending upon market conditions and cash flows. For FY 1999-2000, the rate of return averaged 5.71 percent. Investment policy enumerates authorized securities for both pooled and special accounts, which consist of United States 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, as well as agency discount notes, we utilize five securities lending programs to generate supplemental income. Two of the programs are principal programs where the FSBA loans securities directly to the dealer; the other three 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.

Our agent programs were effected through Merrill Lynch, Metropolitan West Securities, and Deutsche Bank. Securities are loaned to qualified borrowers, and the FSBA receives collateral equal to or greater than 100 percent 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 FSBA. During the fiscal year these programs generated income of $3,502,419.

We also continued to participate in principal programs with Credit Suisse First Boston and Lehman. 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. Chase Manhattan Bank serves as custody agent for the FSBA, and collateral is delivered into an account in the FSBA's name and marked to market daily. These programs allow us to generate significant lending income on a portion of the U.S. Treasuries and agencies in the portfolio. During the year, these programs generated income of $2,087,512.

The FSBA invests funds on an individual basis for local governments with specific needs. There were only two individual participants on June 30, 2000 with funds under management of $132,661,275 total market value. These accounts exhibit different rates of return due to differing investment strategies.

Tables V-I, V-2, and V-3 show the funds under management for the LGSFTF for FY 1996-2000 and June 30, 2000, pooled and non-pooled accounts, by type of investment.

TABLE V-1
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND
POOLED AND NON-POOLED
FISCAL YEARS ENDING JUNE 30, 1996-2000

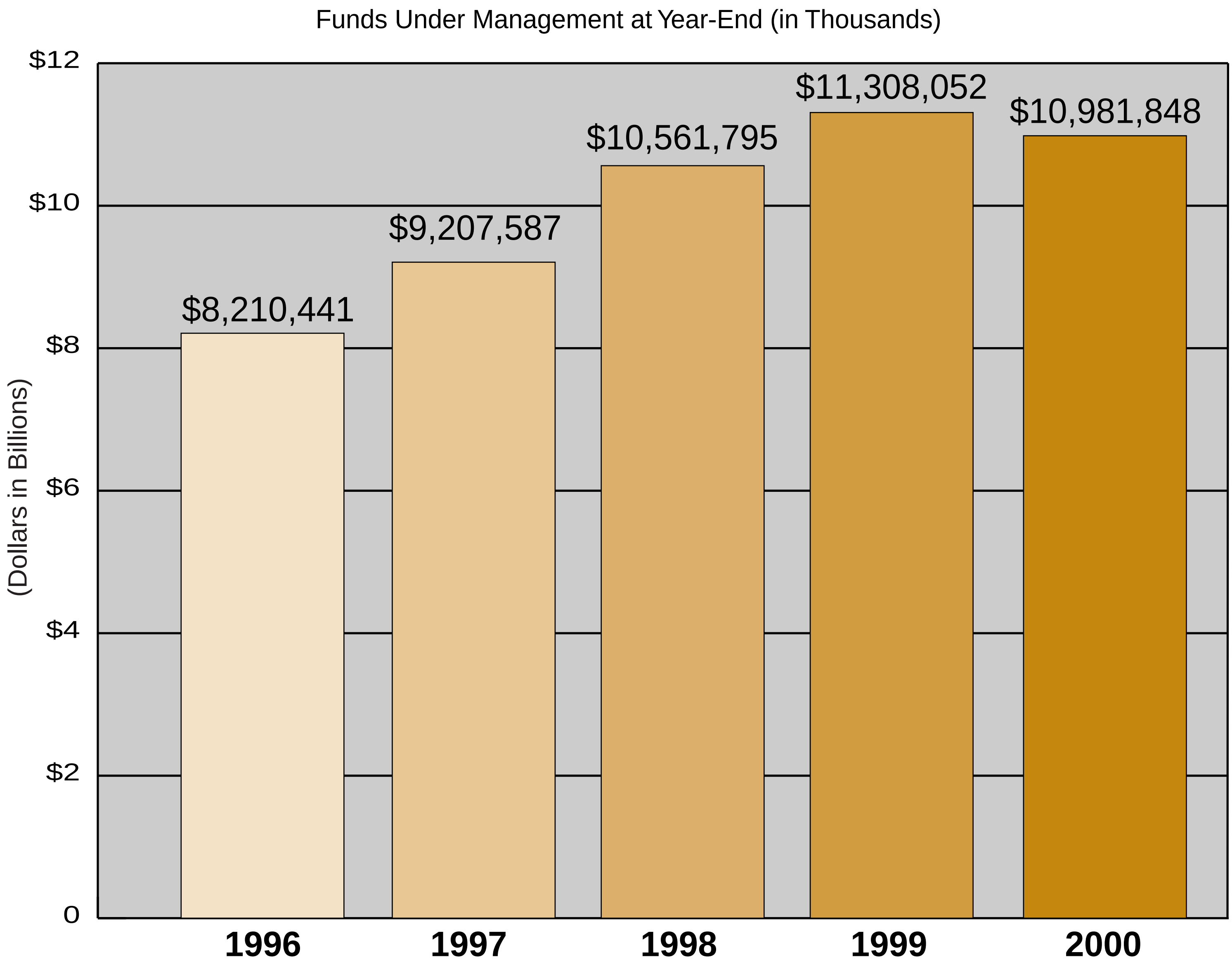


TABLE V-2
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND
POOLED INVESTMENT ACCOUNT

	June 30, 2000 Market*	% of Total Fund
Cash	$9,385,697	0.09
Certificates of Deposit	305,476,104	2.81
Commercial Paper	4,840,510,854	44.62
Federal Agency Obligations	3,397,552,781	31.32
Floating/Adjustable Rate Notes	275,353,357	2.54
Repurchase Agreements	505,204,631	4.65
Treasury Bills, Notes, and Bonds	1,515,703,097	13.97
Total Investments	$10,849,186,521	100.00

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

TABLE V-3
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND
NON-POOLED INVESTMENT ACCOUNTS

	June 30, 2000 Market *	% of Total Fund
Cash	$656	0.00
Repurchase Agreements	132,660,619	100.00
Total Investments	$132,661,275	100.00

* Market value includes accrued interest.

Section VI

Debt Service Accounts

In accordance with Subsection 215.69(1), F.S., the FSBA 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 Subsection 215.69(4), F.S., the FSBA is the agent of the Division for the investment of all funds of the Division, including all reserve funds. The FSBA also acts as the trustee of any sinking funds or other funds as provided for in Subsection 215.69(5), F.S. All such funds are invested by the FSBA in a manner consistent with the provisions of the authorizing bond resolutions, official statements, and the current strategy of the FSBA. While the Division operates autonomously, it is administratively and budgetarily housed at the FSBA. 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 FSBA, 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. An irrevocable trust fund, also known as an escrow fund, is created and established with the FSBA and held in the custody of the FSBA, 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 firm. During the fiscal year, a portion of one existing bond issue was defeased through the issuance of new debt. This issue was defeased through a current refunding and was called for redemption on June 1, 2000. Another bond issue was partially defeased by depositing available monies in an escrow fund. This issue is currently being administered by the FSBA, 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, 2000, $3,230,256,000 of bonds outstanding had been defeased.

Table VI-1 shows the total cash and market value of investments held by the FSBA as trustee and escrow agent for all above-mentioned funds as of June 30, 1999 and June 30, 2000.

TABLE VI-1
CASH AND INVESTMENTS AS OF JUNE 30, 1999 AND 2000*

	Market Value 6-30-99	Market Value 6-30-00
Cash	$5,659,797	$1,688,643
Repurchase Agreements backed by U.S. Government Securities	34,496,955	25,165,137
U.S. Treasury Bills, Notes, and Bonds	1,403,183,606	1,104,753,416
Escrow, U.S. Government, State, and Local Government Series	2,020,753,053	1,832,750,434
STRIPS	1,012,220,031	920,285,964
Total Investments	$4,476,313,442	$3,884,643,594

* Market value includes accrued interest.

Section VII

Other Investment Trust Funds

The FSBA is charged with the investment responsibility for various non-pension trust and endowment funds. Contingent upon portfolio structure and size, these funds may be managed on an individual basis or may be commingled and managed in one or more of the commingled vehicles created under our Commingled Asset Management Program. These vehicles include the Fixed Income Passive Government/Corporate Commingled Fund, the Domestic Equities Passive Commingled Fund, and the Commingled Asset Management Program Money Market (CAMPMM) fund.

The FSBA separately manages the first six trust funds listed below in relatively short-term fixed income instruments. The portfolio structures vary, depending upon each investment objective and time horizon. Authorized investments for these funds may include United States government and agency securities, repurchase agreements, or high quality money market instruments. Each fund is fully compliant with its respective investment policy guideline. The next three trust funds or endowments are invested in multiple commingled vehicles consistent with their investment objectives. The remainder is invested solely in the CAMPMM.

VII.1 Department of the Lottery Fund

In 1989, the FSBA accepted responsibility for investing funds provided by the Department of the Lottery into U.S. Treasury zero-coupon bonds (STRIPS). During Fiscal Year 1998-99, 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 FSBA 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 FSBA also provides investment services for the following Department of Lottery games: "Win for Life," "Big Ten Instant Ticket," "Monthly Bonus," "TV Game Show," and "Win a Million." During FY 1999-2000, investments were made for the "Monthly Bonus" game in addition to "Lotto." All Lottery investments at market totaled $2,054,143,520 at June 30, 2000.

A securities lending program remains in place for the Lottery securities. For FY 1999-2000, Deutsche Bank acted as agent for the FSBA, lending securities to various authorized dealers. Net lending income for the year totaled $4,881,518.

VII.2 Retiree Health Insurance Subsidy Trust Fund

In 1987, the Legislature enacted Section 112.363, F.S., which funded a health insurance subsidy for all retired state employees. The Retiree Health Insurance Subsidy Trust Fund is utilized to account for all Division of Retirement cash flows in this regard. This fund provides monthly subsidy payments to retired members of any state-administered retirement system to assist in paying the costs of health insurance. At June 30, 2000, the market value of the fund totaled $62,760,211.

VII.3 Gas Tax Trust Fund

The Gas Tax Trust 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 remitted to the Department of Revenue and to the Department of Highway Safety and Motor Vehicles. These collections are then transferred to the FSBA to fulfill existing debt service requirements. The FSBA subsequently returns to the respective counties any excess not required for debt service. The market value of the Gas Tax Trust Fund on June 30, 2000 was $0.

VII.4 Revenue Bond Fee Trust Fund

The Revenue Bond Fee Trust Fund was created in 1969 by Section 215.65, F.S. This fund is utilized to account for fees and expenses of the Division of Bond Finance related to the issuance or proposed issuance and sale of bonds, notes, or certificates pursuant to the provisions of the State Bond Act. At June 30, 2000, the market value of the fund was $2,765,522.

VII.5 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 held by the Division of Bond Finance until bond issuance. At June 30, 2000, the market value of the fund was $0.

VII.6 Florida Hurricane Catastrophe Fund

The Florida Hurricane Catastrophe Fund (FHCF) was created during the November 1993 legislative session by Section 215.555, F.S. The FHCF is a state program administered by the FSBA. It was created following Hurricane Andrew, which caused significant volatility in the Florida property insurance market. Under this program, insurers enter into contracts with the FSBA, which provide reimbursement for a portion of their catastrophic hurricane losses. By protecting the solvency of insurers, the FHCF adds capacity and ensures stability in this vital market. The market value of the FHCF at June 30, 2000 was $3,155,688,060.

A securities lending program remains in place for the investments in the FHCF and is utilized as market conditions warrant. For FY 1999-2000, Deutsche Bank acted as agent, lending securities to various authorized dealers. Net lending income for the year totaled $48,409.

VII.7 Florida Education Fund, Inc. - McKnight Doctoral Fellowship Program

The Florida Education Fund, Inc. entered into a trust agreement with the FSBA in June 1999 to manage endowment monies for the McKnight Doctoral Fellowship Program. This program assists candidates with educational endeavors and enhances opportunities for program graduates to be hired for faculty positions in Florida. The initial transfer of $9 million in securities is, at the present time, client-directed, meaning that the FSBA is responsible for custody of the securities, but not for managing them. Income from these assets that is not withdrawn by the client will be invested in the CAMPMM fund, whose investments the FSBA does manage. The trust agreement also makes available to the client three FSBA-managed commingled pools: the CAMPMM, the Fixed Income Passive Government/Corporate Commingled Fund, and the Domestic Equities Passive Commingled Fund. At June 30, 2000, the market value of this fund totaled $6,227,982.

VII.8 Blind Services Trust Fund

As of November 1, 1999, the FSBA had the authority and responsibility for the investment of the Blind Services Trust Fund assets. The FSBA received an initial list of individual domestic stocks and mutual funds, and, per the Trust Agreement, mutual funds were liquidated and odd lots consolidated or sold as needed to construct a diversified portfolio. A majority of the equity positions were not in "good form" for the FSBA to manage (i.e., they were book-entry shares and needed to be mailed to our custodian bank and re-registered) and came into the FSBA's control at various times between November 1, 1999 and June 30, 2000. At the fiscal year-end, the trust fund was predominantly invested in broadly diversified commingled pools: the CAMPMM, the Fixed Income Passive Government/Corporate Commingled Fund, and the Domestic Equities Passive Commingled Fund. Since inception, the FSBA-managed portion of the trust fund outperformed its long-term seven percent annual return target, although it modestly underperformed its asset allocation target index return during the same period. The bulk of the trust fund's underperformance versus its asset allocation target index resulted from the concentrated nature of the original portfolio, a high original exposure to telecommunications companies and an extended transition to a diversified portfolio in turbulent markets. The market value of the Blind Services Trust Fund on June 30, 2000 was $3,915,915.

VII.9 FSBA Administrative Trust Fund

The FSBA Administrative Trust Fund was created to receive and disburse funds for operating expenses. The FSBA allocates and collects its total operating expenses from the various funds under management in accordance with the provisions of Sections 215.44, 215.515, and 218.409, F.S. and from various bond sinking funds in accordance with an allocation plan approved by the FSBA. Portfolio structure is dependent upon liquidity needs to meet operational expenses. Budgeted administrative expenses of the FSBA for FY 1999-2000 totaled $18,180,865, while actual administrative expenses for the period totaled $16,461,256. At June 30, 2000, the market value of the fund was $33,280,853, and the fund was invested in the Fixed Income Passive Government/Corporate Commingled Fund and the CAMPMM.

VII.10 Commingled Asset Management Program Money Market Fund

The number of non-pension trust and endowment funds under FSBA management continues to grow. Since these funds are typically small and have similar investment objectives, the most efficient way to manage these mandates is in a commingled fashion. On July 1, 1999, the CAMPMM was created to provide a high quality, liquid vehicle for small funds with short investment horizons. The CAMPMM pool was structured as a 2a-7 fund, consistent with Part 270 of the Investment Company Act of 1940 (17 CFR 270.2a-7, Money Market Funds). Authorized investments may include United States governments and agencies, repurchase agreements, and high quality money market instruments. The market value of the CAMPMM fund at June 30, 2000 was $240,400,823.

In addition to commingling entire various trust and endowment funds with similar objectives, the CAMPMM pool also invests the cash allocation component or residual cash for longer term, multi-asset class portfolios. The Lawton Chiles Endowment Fund, the Florida Education Fund, Inc. - McKnight Doctorial Fellowship Program, and the Blind Services Endowment are three multi-asset class portfolios with the cash allocation component invested in CAMPMM.

The following accounts are members of the CAMPMM:

VII.10.1 Institute of Food and Agricultural Sciences Supplemental Retirement

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, based upon their service with IFAS, are not entitled to benefits from either a state-supported retirement system or social security. The FSBA is responsible for investing funds set aside for this supplement. At June 30, 2000, the market value of the fund was $13,380,858.

VII.10.2 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.) to provide various programs related to services for disabled persons. Funding for the trust fund is generated from certain authorized municipal surcharges, such as fines imposed against designated civil penalties. At June 30, 2000, the market value of the fund was $6,833,786.

VII.10.3 Arbitrage Compliance Trust Fund

The Arbitrage Compliance Trust Fund is utilized to account for the fees and expenditures of the Division of Bond Finance related to ensuring compliance with the provisions of federal arbitrage laws. At June 30, 2000, the market value of the fund was $811,693.

VII.10.4 Police and Firefighters Premium Tax Trust Fund

Pursuant to Sections 3 and 7 of Chapter 95-250, Laws of Florida, effective July 1, 1995, the FSBA invests the monies of the Police and Firefighters' Premium Tax Trust Fund. Funding is generated from quarterly payments from insurance companies collected by the Department of Revenue. Distributions are made annually, by the Division of Retirement, to eligible municipalities. At June 30, 2000, the market value of the fund was $118,962,662.

VII.10.5 Florida Prepaid College Trust Fund

The FSBA administratively and budgetarily houses the Florida Prepaid College Program. Recognizing the need for timely financial planning for postsecondary attendance, the Legislature created the Florida Prepaid College Program in 1987, pursuant to Section 240.551, F.S. The Florida Prepaid College Program allows parents, grandparents, businesses, and others to lock in the cost of college at current college rates. The program *guarantees* to cover the cost—no matter how much college tuition, fees, and housing increase in the future. The plan prices vary based on the plan type, payment option selected, and the age of the child. More than 600,000 plans have been purchased statewide.

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, dormitory and local fees, reimbursements to purchasers who elect out of the program, and administrative expenses of that fund. 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 FSBA.

Although the program operates independently and the FPCTF is invested externally by the Prepaid College Board, the FSBA provides investment management services with 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. (Foundation). The interim cash balances and Foundation assets are invested by the FSBA in the Florida Prepaid College Program Trust Fund. At June 30, 2000, the market value of funds invested by the FSBA pending transfer to external managers was $13,471,604. The market value of the Foundation at June 30, 2000 was $9,006,154.

At June 30, 2000, the market value of funds invested with external managers was $2,349,740,721. The FSBA provides tracking, reconciliation, and accounting services for these funds.

VII.10.6 Inland Protection Financing Corporation

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

The backlog of claims subsequently grew at an alarming rate, increasing to approximately $500 million. At this point, the Governor and the Legislature halted the program to seek a solution, which would ensure the payment of the claim backlog and a continuation of the cleanup program.

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 (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. The legislation also provided that the Corporation would be housed and staffed by the FSBA.

On February 11, 1998, the Corporation issued $253,335,000 in bonds to finance the payment of a portion of the claim backlog. The remainder 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, which, pursuant to Subsection 376.3075(5), F.S., can take no longer than six years from the date of original issuance, the Corporation's statutory responsibilities will cease and the FSBA will have no further responsibility to the program. Subsection 376.3075(1), F.S. provides that the Corporation shall terminate on July 1, 2011. The market value of the fund at June 30, 2000 was $15,293,272.

VII.10.7 Investment Fraud Restoration Financing Corporation

During the 1998 legislative session, the Investment Fraud Restoration Financing Corporation (IFRFC) was created pursuant to Section 517.1204, F.S. The IFRFC was created as a non-profit, public benefits corporation to finance the compensation of approximately 1,200 Florida citizens who suffered security losses as a result of actions by Guaranteed Investment Contract (GIC) Government Securities, Inc. The total amount of losses was nearly $25 million, with the IFRFC expected to satisfy remaining claims of approximately $10.8 million. During the 1999-2000 fiscal year, the IFRFC paid $10,172,808 in claims from the GIC claims account. The market value of the GIC claims account at June 30, 2000 was $895,189. The GIC claims account was funded primarily by the issuance of bonds issued by the IFRFC in the amount of $8,935,000. The bonds are being repaid by monies from the Department of Banking and Finance, which are derived from a portion of the application and renewal fees paid by "associate persons" for licensure under Chapter 517, F.S.

VII.10.8 Tobacco Settlement Clearing Trust Fund

The FSBA was assigned the responsibility to manage the assets for the Tobacco Settlement Clearing Trust Fund, established within the Department of Banking and Finance (DBF), pursuant to Subsection 17.41(4), F.S. These funds are to be invested by the FSBA, pending notification by the DBF that funds should be released to meet specified program needs approved through the legislative budget process. The DBF is then responsible for the subsequent distribution of monies to the respective agencies. The market value of the Tobacco Settlement Clearing Trust Fund at June 30, 2000 was $271,225.

VII.10.9 Florida Endowment Foundation

During the 1998 legislative session, the Florida Endowment Foundation was created by the Jobs for Florida's Graduates Act. This Foundation was created as a direct-support organization of the Department of Education, supporting the school-to-work transition for 12th grade at-risk students. The FSBA is charged with investment responsibilities for the endowment, which is funded through legislative appropriation, grants, and donations. On June 30, 2000, the market value of this fund was $528,321.