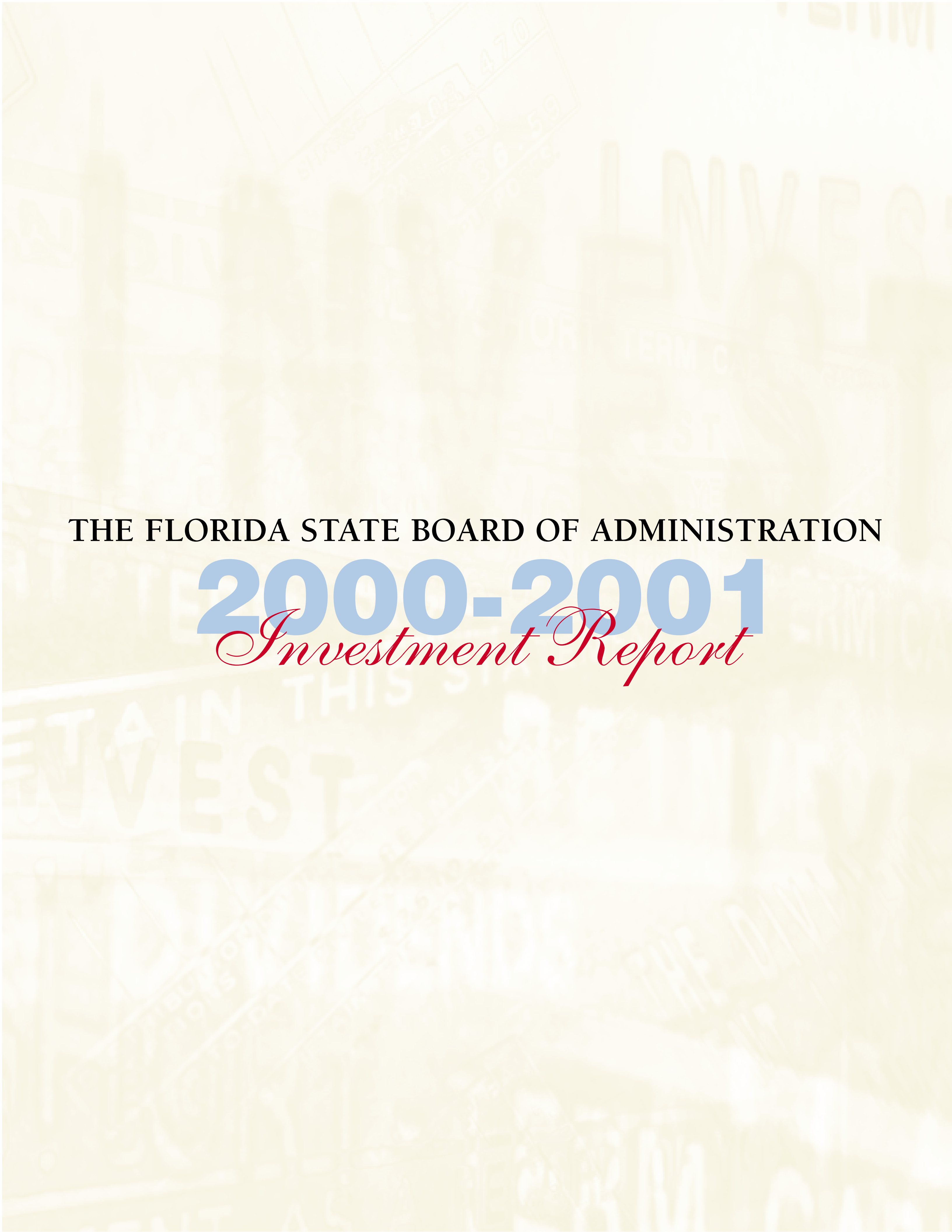
FLORIDA STATE BOARD OF ADMINISTRATION

2000-2001 Investment Report



THE FLORIDA STATE BOARD OF ADMINISTRATION

2000-2001 *Investment Report*

STATE BOARD OF ADMINISTRATION OF FLORIDA

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January 1, 2002

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 2000-2001 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 Trust 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 investment fund 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.

FY 2000-2001 was a disappointing year for investors generally, and specifically for the FSBA. Although the FSBA outpaced its performance benchmark in relative terms by 1.2%, this translates into losing less than we might have otherwise. For the first time since FY 1987-1988 we ended the year with negative performance results. On an absolute basis the fund earned a –7.6% return on our investment.

The FRS is still in a surplus condition and the FSBA continues to be a disciplined long-term investor. We eagerly await the reversal of economic fortune and believe we are well positioned to take advantage of any long-term recovery.

Please don't hesitate to contact our offices if we can provide any further information.

Respectfully submitted,

Governor, as Chairman

State Treasurer, as Treasurer

Comptroller, as Secretary

2000-2001 Investment Report

THE FLORIDA STATE BOARD OF ADMINISTRATION

Governor Jeb Bush, Chairman
State Treasurer Tom Gallagher, Treasurer
State Comptroller Robert F. Milligan, Secretary

Executive Director
Tom Herndon

Investment Advisory Council
Randi K. Grant, Chairman
Russell Bjorkman, Vice Chairman
Donald W. Burton
James Dahl
Gil Hernandez
Dr. Donald A. Nast

2000-2001 Investment Report

Florida State Board of Administration

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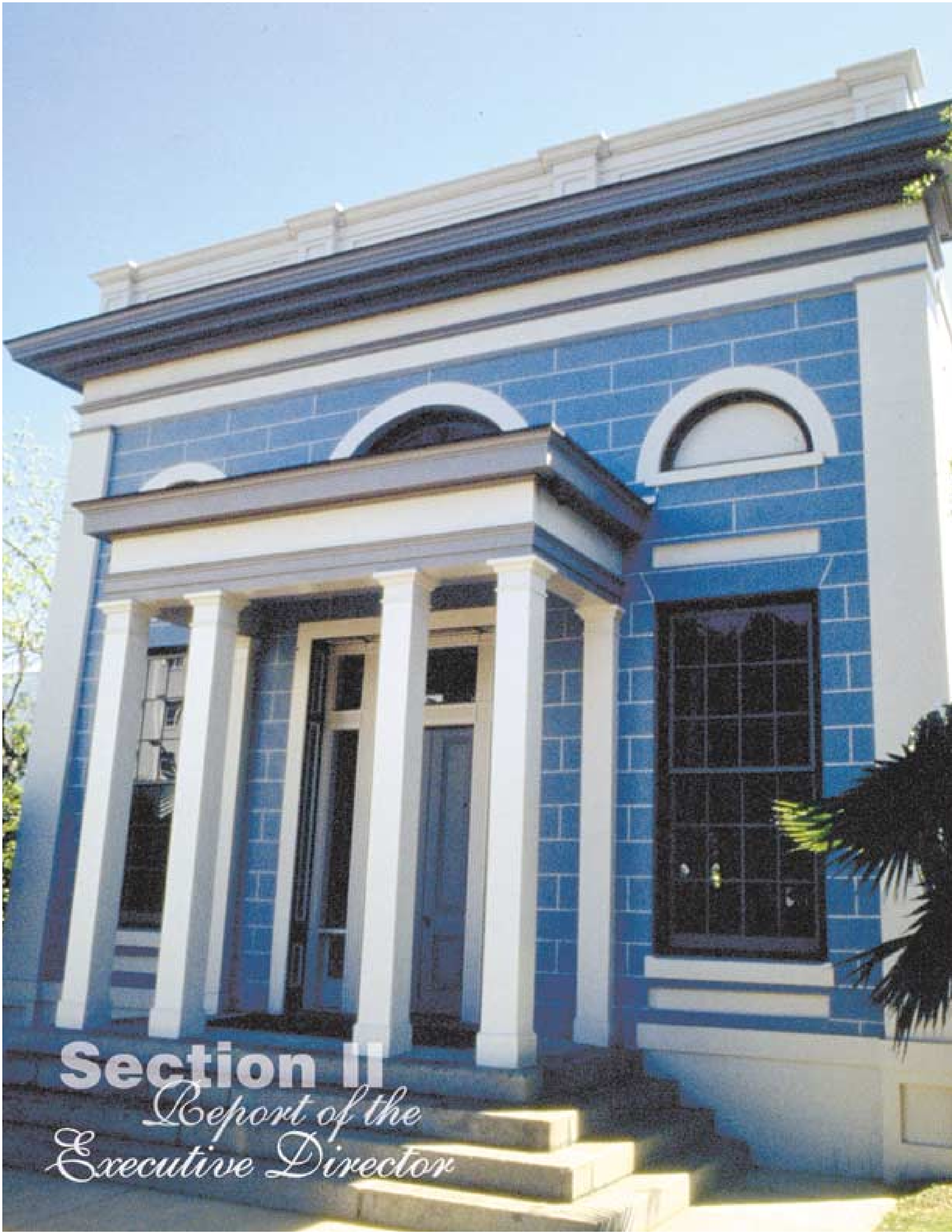
Section I
Introduction

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 2000-2001 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 2000-2001 investment activities for the FRSTF. This section describes the economic environment existing during the year; provides 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 2000-2001 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
- Inland Protection Financing Corporation
- Investment Fraud Restoration Financing Corporation
- Florida Education Fund, Inc.– McKnight Doctoral Fellowship Program
- Blind Services Trust Fund
- FSBA Administrative Trust Fund
- Commingled Asset Management Program Money Market Fund
- Public Employee Optional Retirement Program
- 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
- Tobacco Settlement Clearing Trust Fund
- Florida Endowment Foundation


Section II
Report of the
Executive Director

FY 2000-2001 has been a difficult year for the Florida State Board of Administration (FSBA). In absolute terms, we have fallen off our peak valuation by 11%. Furthermore, as this commentary is written, we know that the market has continued to plunge, in part in response to the terrorist attacks on the United States. This horrendous tragedy will mark our lives forever.

In relative terms, the FSBA continues to outperform our composite benchmark, but it's difficult to take solace in this fact. Since we are overweight in the equities market compared to our peers, we have benefited disproportionately from the market enthusiasm and suffered disproportionately during this market downturn. When you closely examine our performance attribution statistics, it's clear that the major cause of our poor performance relative to our peers is due to the equity overweight and not daily execution or overall implementation.

Nevertheless, the past months have been disappointing at best, but we maintain the view that as long-term investors, we must ride the downturns out and take advantage of buying opportunities when we can.

On other fronts, the FSBA has been fully occupied with implementing the Public Employee Optional Retirement Program (PEORP). It has proven to be an arduous undertaking and has consumed substantial time, energy, and money. Progress is being made, however, and the program is still on track, on budget, and on time.

In all other respects, the FSBA continues to function smoothly. Coleman Stipanovich is working as Deputy Executive Director for the FSBA, and we have reshuffled some other positions. Doc Schow, our longtime General Counsel, has moved to a part-time position in preparation for retirement, and Linda Lettera has taken his place as General Counsel.

Aside from the normal ebb and flow of people and minor organizational changes, the FSBA has functioned well. In large measure, this is due to the talented workforce we have and their unswerving commitment to the members of the Florida Retirement System.

During FY 2000-2001, beginning July 1, 2000 and ending June 30, 2001, the market value of funds under management dropped to $125,598,064,683 from $128,175,759,597, a decrease of $2,577,694,914. This reduction in market value represents a decrease of approximately two percent and each section of this report will identify the components of this change 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 and minimizing the volatility of employers contributions.

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 2000-2001, there was one change made to the Investment Plan. A revised set of asset allocation policy targets were adopted for Domestic Equities and Alternative Investments. 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 2000-2001 include:

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

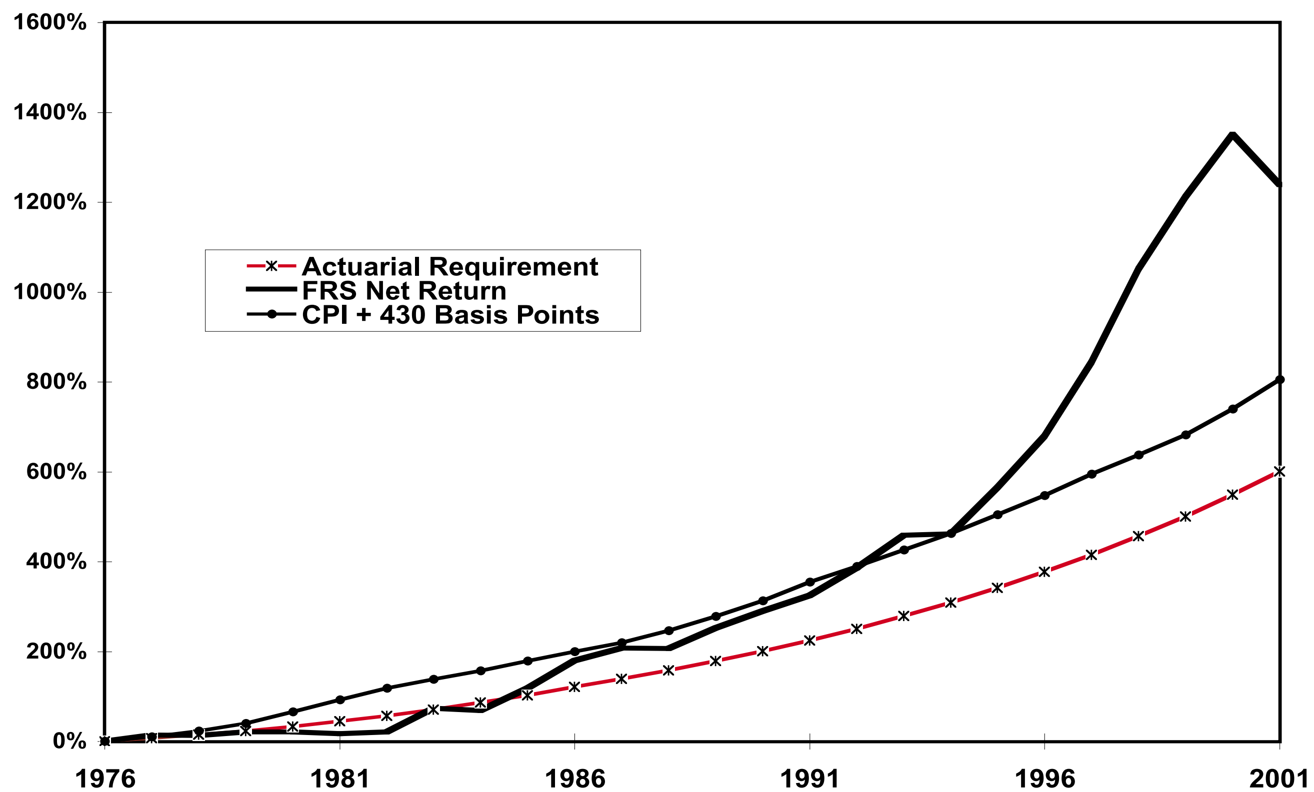
Since asset allocation is the major determinant of long-term performance, the Investment Plan is designed to assure that the Fund benefits from the long-term asset class returns, regardless of management's potential reaction to short-term market phenomena. The policy ranges reflect the liquidity constraints 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. However, a new approach has been adopted in setting our annual invest-

TABLE II-1
FRS CUMULATIVE RETURN*
FISCAL YEARS 1976-2001



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

ment target. The new target is based on achieving a real yield of 4.3 percent over the rate of inflation. This change was recommended by our consulting actuary in April 2000, 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 2000-2001, was the fact that the investment activities of FSBA staff and outside managers added 120 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 $1.2 billion in outperformance during the year.

For FY 2000-2001, the investment return for the FRSTF was -7.6 percent, as shown in Table III-6. While actual investment experience for the fiscal year does not exceed the absolute target return assumption, 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 25 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 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.

FY 2000-2001 was a disappointing year for the FRS. However, even with the drop in investment performance, the cumulative return on the FRSTF still materially exceeds the cumulative absolute target return.

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, 2001:

Randi K. Grant, Chairman	James Dahl
Russell Bjorkman, Vice Chairman	Gil Hernandez
Donald W. Burton	Dr. Donald A. Nast

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. Also, the FSBA is subject to financial audits performed by the Florida Legislature's Office of Program Policy Analysis and Government Accountability (OPPAGA). 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.

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 $10,981,847,796 on July 1, 2000 and $15,803,153,725 on June 30, 2001. Net contributions totaled $4,057,245,955 and income and investment market value gain totaled $764,059,974. 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, 2001 was $4,224,394,821. 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 $375 million in January and February 2000. Additional funding of $200 million in FY 2000-2001 brought the total invested principal to $1.3 billion. Withdrawals of $27,390,000 were removed from the fund and transferred to other state agencies during the year. The FSBA underperformed the target by 19 basis points, and as of June 30, 2001 assets in the fund stood at $1.26 billion. See Section IV of this report for additional information and details on the Lawton Chiles Endowment Fund activities.

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 2000-2001:

Domestic Equities Asset Class – The overall allocation to Domestic Equities was reduced this year, although compared to our peers we are still an aggressive equity investor. This change in equity allocation lowered our exposure to the market downturn but did not eliminate the negative absolute performance. On a relative basis, the asset class has performed well with outperformance compared to the benchmark of 1.27%. Fees were also reduced during this period and performance remained strong during all periods.

International Equities Asset Class – For International Equities, performance continues to be good on a relative basis but the effects of a worldwide recession have been especially distressing. Virtually all of the investable markets have been impacted with some emerging markets down so far as to rival the NASDAQ in poor performance. Staff continues to do a good job however, and the asset class will recover in time.

Fixed Income Asset Class – Falling interest rates have highlighted almost the entire period covered in this report. Consequently, performance has been extremely good, although an overweight to corporates has mitigated performance gains relative to the benchmark. Nevertheless, performance was strong, and coupled with the non-FRS asset management activities, Fixed Income had another solid year. Organizational changes to consolidate all long-term portfolio management (active and passive) under one supervisory position and consolidation of several active internally managed portfolios into one resulted in a more effective use of resources and operational efficiency. These changes reflect the "team approach" to internal management.

Real Estate Asset Class – With the recession in full grip during this period, business failures have increased and occupancy rates have fallen. Overall, rental rates are also down throughout the country and this has adversely impacted the asset class performance. Nevertheless, performance was good and overall the quality of the portfolio seems strong.

Alternative Investments – In excess of 25% of the assets in this division are still held at cost due to the young age of the investments. Furthermore, with our self-imposed moratorium still in place, opportunities to significantly strengthen the portfolio in size or quality have been limited. In spite of these facts, the overall portfolio has done well but time will tell as to ultimate achievements. The Trustees did authorize a limited focus, $25 million Venture Capital program this year and implementation will occur once the infrastructure is in place.

II.7.2 Organizational Development

Staff recruitment and retention continues to be a number one priority for the FSBA. Fortunately, our turnover has been relatively low and our recruitment efforts successful for the most part. Nevertheless, the FSBA completed an incentive pay plan study and continues to work with our Trustees to obtain approval for this proposal.

Our Senior Management team saw some changes this year as our long time General Counsel has gone to part-time in preparation for retirement. Doc Schow has served the FSBA ably and well for over 15 years and will be missed. We have filled this vacancy by recruiting Ms. Linda Lettera, formerly General Counsel of the Department of Revenue, and she is already making her presence felt.

In addition, Coleman Stipanovich, formerly Chief of Administrative Services, has been elevated to the position of Deputy Executive Director with primary responsibility for oversight of the asset classes. He continues to do a fine job for the FSBA.

Other changes during this time were much more routine in nature and no other significant organizational issues warrant reporting.

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 quarter of the fiscal year we implemented a "fee holiday"; there was no charge for services for that quarter. Our outside manager fees increased slightly from an average of .22 percent (of the average of the fiscal year's beginning and quarter ending market value of assets externally managed in FY 1999-2000) to .24 percent in FY 2000-2001.

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 $4.35 billion. The 2001 season bonding capacity has been estimated at $6.65 billion. If initial season capacity is exhausted, it is estimated that $7.5 billion would be available for a subsequent season.

The 2001 Legislature appropriated $30 million for hurricane mitigation purposes. This represents $20 million more than the $10 million that has been appropriated in prior years.

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

William Huffcut, Chair	Larry Johnson
Rade Musulin, Vice Chair	Robert M. Peduto
Yolanda Cash-Jackson	Joseph Varon
Jim W. Henderson	James Woodside

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 2000-2001, 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 insurance finance is currently vacant. The members of the Commission include:

Sneh Gulati, Chair	Craig Fugate
Mark Homan, Vice Chair	Larry Johnson

Kay Cleary	Jay Newman
David Coursey	Jack Nicholson
Elsie Crowell	James O'Brien

II.10 Legislative Activity

Our legislative activity for the 2001 legislative session largely centered upon the ongoing implementation activities of the Public Employee Optional Retirement Program (PEORP). As a follow-up to last year's successful passage of HB 2393, which created the PEORP, the Legislature, industry representatives and the FSBA negotiated a mutually acceptable piece of legislation. Ultimately, the option of selecting bundled providers was left in place, and the services a bundled provider may provide to a participant was clarified. Additionally, the plan will also offer a one-time "switchback" option between the Defined Benefit (DB) and Defined Contribution (DC) plans. That is, a participant will be allowed to exercise the one-time switch from one plan to the other at any time during their employment. Sections of the legislation pertaining to the FSBA and/or the PEORP were effective July 1, 2001, and may be found in Chapter 2001-235, Laws of Florida.

The Legislature also created the PEORP Trust Fund, to be administered by the FSBA, which is not subject to termination provisions of the State Constitution. Additionally, the FSBA is authorized to adopt rules to maintain the qualified status of the PEORP, in compliance with the Internal Revenue Code.

The Legislature enacted legislation related to the Lawton Chiles Endowment Fund, which is administered by the FSBA. Specific intent language was created to provide funds for the support of public health and biomedical research. Additional provisions were made concerning the administration of the endowment fund.

On behalf of the FHCF, we followed the budget process as it related to the appropriation of mitigation funds. The FHCF was tapped for a total of $30 million in mitigation funds for the upcoming year, which represented an increase of $20 million over last year. The FHCF staff estimated that the $20 million increase in mitigation funds would result in a 4.14% increase in premium rates payable to the Fund. Premium payments are used to maintain the current and future obligations and expenses of the fund.

We will continue to monitor a wide variety of investment and pension reform issues during the upcoming 2002 Legislative Session. You may access information concerning the business operations of the FSBA, including the implementation process of the PEORP, at www.fsba.state.fl.us. Additionally, as of February 25, 2002, specific educational information related to the PEORP may be accessed via www.myfrs.com.

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 approximately 2,700 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 have resulted in major improvements in the corporate governance structures of the companies involved.

II.12 Annual and Long-Term Fund Growth

Table II-2 provides the market values of FSBA managed funds, by program, for FYs 1997-2001.

TABLE II-2
INVESTMENTS BY PROGRAM
FISCAL YEARS 1997-2001

Fund Name	Fiscal Years 1997	1998	1999	2000	2001
Florida Retirement System	$67,082,341,873	$83,444,658,787	$96,393,916,000	$106,630,007,835	$98,206,820,075
Lawton Chiles Endowment Fund	0	0	0	1,181,023,545	1,256,760,220
Local Government Pool	8,964,772,699	10,297,051,676	11,214,028,422	10,849,186,521	15,446,050,263
Local Government Nonpool	242,814,372	264,743,397	94,023,607	132,661,275	357,103,462
Debt Service	3,681,526,377	4,071,933,138	4,476,313,442	3,884,643,594	4,224,394,821
Department of the Lottery	1,978,545,882	2,238,476,987	2,156,603,913	2,054,143,520	2,032,150,012
Retiree Health Insurance Subsidy	37,659,673	53,503,458	71,103,637	62,760,211	56,004,038
Student Loan Escrow	28,275	0	0	0	0
Gas Tax	0	75,203	0	0	0
Revenue Bond Fee	2,613,846	2,980,727	3,198,312	2,765,522	2,176,272
Bond Proceeds	218,066	0	0	0	0
Florida Hurricane Catastrophe	1,624,611,774	2,184,067,944	2,549,857,078	3,155,688,060	3,798,479,154
Inland Protection Financing Corporation	10,480	35,011,779	24,833,952	15,293,272	12,326,770
Investment Fraud Restoration Fin. Corp.	0	0	10,964,847	895,189	789,130
McKnight Education Fund	0	0	0	6,227,982	9,473,673
Blind Services	0	0	0	3,915,915	3,780,710
FSBA Administrative	14,252,999	23,614,530	28,786,725	33,280,853	34,502,258
Public Employee Optional Retirement Program	0	0	0	0	14,647,836
Institute of Food and Agricultural Sciences	10,909,249	11,659,328	12,503,941	13,380,858	14,169,227
Florida Endowment for Vocational Rehabilitation	5,867,016	6,080,065	6,339,158	6,833,786	1,799,785
Arbitrage Compliance	386,760	585,929	752,693	811,693	848,434
Police and Firefighters	48,344,149	42,675,710	46,186,260	118,962,662	110,304,525
Florida Prepaid College Program	2,102,714	4,168,076	86,771,488	13,471,604	3,752,723
Florida Prepaid College Foundation	3,865,275	3,576,784	5,303,979	9,006,154	11,171,095
Tobacco Settlement Clearing	0	0	946,022,241	271,225	0
Florida Endowment Foundation	0	0	0	528,321	560,200
Market Value Totals *	$83,700,871,479	$102,684,863,518	$118,127,509,695	$128,175,759,597	$125,598,064,683

* Market value includes cash, investments, accrued income, and pending investment trades for all funds.

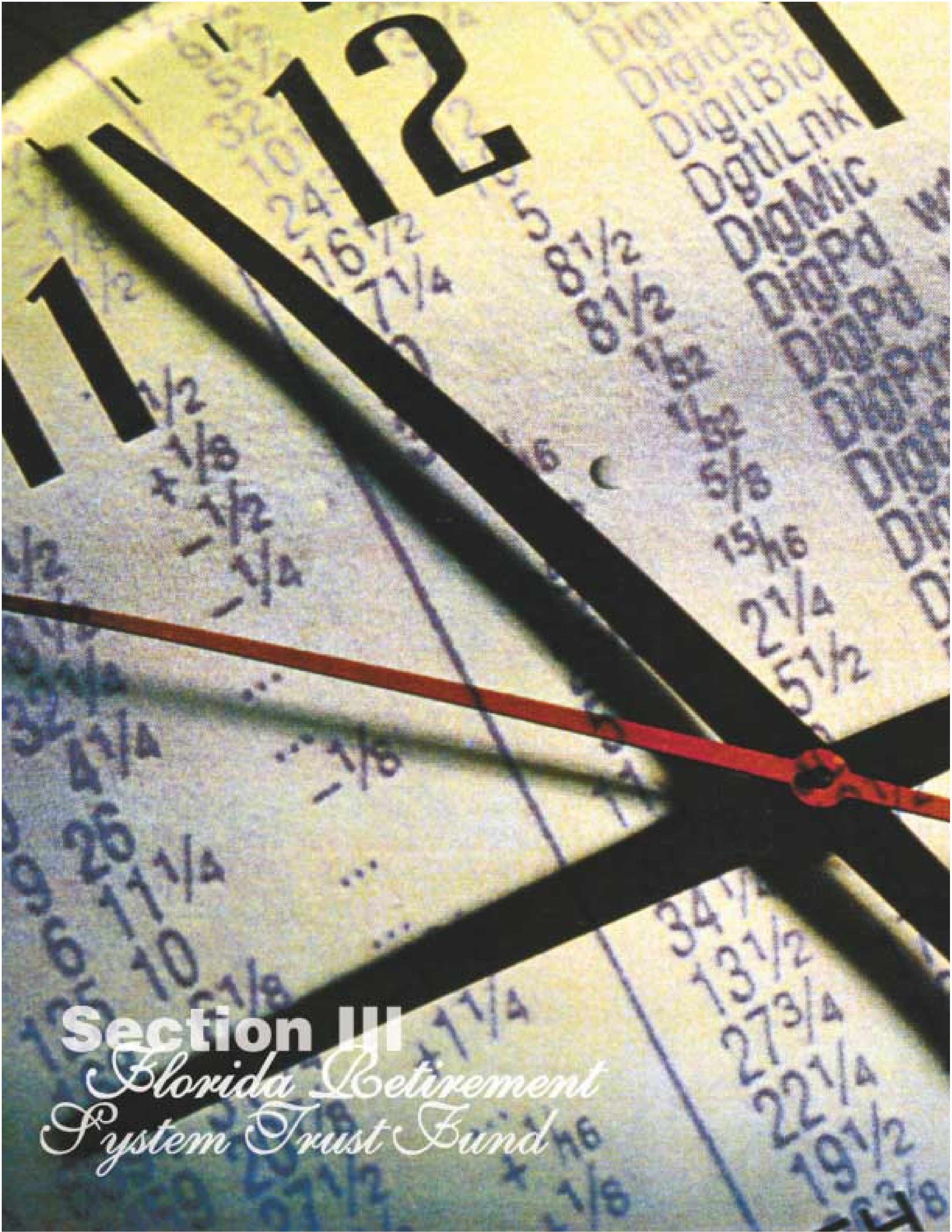
II.13 Market Value Changes, By Fund

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 2000-2001:

TABLE II-3
MARKET VALUE CHANGES, BY FUND
FISCAL YEAR 2000-2001

			- Source of Market Value Changes -	
Fund Name	Market Value* 6-30-00	Market Value* 6-30-01	Net Contributions and Transfers	Investment Gain(Loss)
Florida Retirement System	$106,630,007,835	$98,206,820,075	$(302,390,175)	$(8,120,797,585)
Lawton Chiles Endowment Fund	1,181,023,545	1,256,760,220	172,610,000	(96,873,325)
Local Government Pool	10,849,186,521	15,446,050,263	3,841,065,501	755,798,241
Local Government Nonpool	132,661,275	357,103,462	216,180,454	8,261,733
Debt Service	3,884,643,594	4,224,394,821	49,816,603	289,934,624
Department of the Lottery	2,054,143,520	2,032,150,012	(235,308,774)	213,315,266
Retiree Health Insurance Subsidy	62,760,211	56,004,038	(10,540,400)	3,784,227
Gas Tax	0	0	(219,647)	219,647
Revenue Bond Fee	2,765,522	2,176,272	(741,032)	151,782
Bond Proceeds	0	0	(84,637)	84,637
Florida Hurricane Catastrophe	3,155,688,060	3,798,479,154	422,419,594	220,371,500
Inland Protection Financing Corporation	15,293,272	12,326,770	(3,719,732)	753,230
Investment Fraud Restoration Fin. Corp.	895,189	789,130	(154,832)	48,773
McKnight Education Fund	6,227,982	9,473,673	2,337,573	908,118
Blind Services	3,915,915	3,780,710	89,398	(224,603)
FSBA Administrative	33,280,853	34,502,258	(2,233,200)	3,454,605
Public Employee Optional Retirement Program	0	14,647,836	14,315,917	331,919
Institute of Food and Agricultural Sciences	13,380,858	14,169,227	(19,500)	807,869
Florida Endowment for Vocational Rehabilitation	6,833,786	1,799,785	(5,218,162)	184,161
Arbitrage Compliance	811,693	848,434	(9,594)	46,335
Police and Firefighters	118,962,662	110,304,525	(12,309,300)	3,651,163
Florida Prepaid College Program	13,471,604	3,752,723	(10,512,581)	793,700
Florida Prepaid College Foundation	9,006,154	11,171,095	1,675,000	489,941
Tobacco Settlement Clearing	271,225	0	(579,215)	307,990
Florida Endowment Foundation	528,321	560,200	0	31,879
Totals	$128,175,759,597	$125,598,064,683	$4,136,469,259	$(6,714,164,173)

* Market value includes cash, investments, accrued income, and pending investment trades for all funds.



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; and
- no more than 5 percent of any fund in private equity through participation in limited partnerships and limited liability companies.

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, is to maximize the probability of achieving a long-term real return over the rate of inflation of at least 4.3% per annum on the FRSTF's portfolio, subject to risk considerations. This target is judged to be superior to a flat rate actuarial target. Because FRS Defined Benefit (DB) plan liabilities are driven in significant part by inflation, a long-term real return target affords a more realistic assessment of how well our investment performance tracks overall growth in liabilities. 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.

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 limited partnerships and captive (exclusive) relationships. Portfolio investments are predominantly equity investments in domestic and international 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 FSBA 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 Total Fund Investment Plan was amended to establish new target asset allocation and policy ranges for Domestic Equities and Alternative Investments.

Because of its unique investment characteristics and increased size, Alternative Investment's target allocation was increased from 2.5% to 4.0%, and the policy range was increased from 1-4% to 1-6%. 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 2000-2001

Asset Class	July 1, 2000 to March 31, 2001	April 1, 2001 to June 30, 2001
Domestic Equities	55.50%	54.00%
International Equities	12.00%	12.00%
Fixed Income	25.00%	25.00%
Real Estate	Floating, Centered at 4.0%	Floating, Centered at 4.0%
Alternative Investments	Floating, Centered at 2.5%	Floating, Centered at 4.0%
Cash Equivalents	Floating,Centered at 1.0%	Floating,Centered at 1.0%

TABLE III-2
FLORIDA RETIREMENT SYSTEM ASSET ALLOCATION POLICY RANGES
FISCAL YEAR 2000-2001

Asset Class	July 1, 2000 to March 31, 2001	April 1, 2001 to June 30, 2001
Domestic Equities	47-61%	45.5-59.5%
International Equities	9-15%	9-15%
Fixed Income	15-35%	15-35%
Real Estate	2-6%	2-6%
Alternative Investments	1-4%	1-6%
Cash Equivalents	0-10%	0-10%

III.2 Economic and Market Conditions

The past fiscal year was a difficult one for investors as that age-old bane of market economies – the business cycle – loudly announced that reports of its demise had been exaggerated. The year began with the Federal Reserve still attempting to engineer a 'soft-landing' from growth rates it viewed as being unsustainable and likely to result in an inflationary spiral. Real GDP had grown by over 4 percent in 1998. This was somewhat higher than what was believed to be the economy's long-term non-inflationary speed-limit on growth. The Fed perceived growing risk that tightening labor markets would drive up wages and prices thereby forcing the enactment of recession-inducing tight-money policies. Consequently, in mid-1999 the Fed began a series of incremental interest rate increases designed to brake economic activity modestly. The economy initially shrugged-off the higher interest rates with real GDP for 3rd and 4th quarter 1999 shooting ahead at 4.7 percent and 8.3 percent respectively. Growth for the full year again registered over 4 percent. The Fed's tightening continued and by May 2000 it had raised the federal funds rate a total of 175 basis points to levels unseen since the early 1990's.

As FY 2000-2001 unfolded the economy began to slow appreciably. Real GDP growth moderated to less than 2 percent in both the 3rd and 4th quarters of 2000 (i.e., the first half of the 2000-2001 fiscal year). These were the first back-to-back quarters of sub-2 percent growth since 1995 and were within the parameters of what might be called a soft-landing – assuming no further loss of altitude. However, by late 2000 several disturbing developments were leading the Fed to reassess its policy stance. Prominent among these was a sharp run-up in oil prices. After years of comparative dormancy oil prices accelerated substantially in 1999 and 2000. The average price of OPEC crude traded in the $10 per barrel range through late 1998 and early 1999 but thereafter the oil-exporting countries began to flex a bit of muscle. Third quarter 2000 saw OPEC prices push through the $30 per barrel mark. The impact on the U.S. economy of this higher energy 'tax' was on the order of $50 billion per year, roughly .5 percent of GDP.

Another alarming development came from the nation's heartland as the manufacturing sector of the economy lost momentum. The National Association of Purchasing Managers Index dropped below 50 in August 2000 and stayed there for the rest of the year. Readings below 50 in this widely-watched index signal a reduction in manufacturing activity.

Equity markets were an area of increasing concern for the Fed. A strong bull market had emerged in the late 1990's with nascent technology stocks leading the charge to double-digit annual percent advances in market indexes. But thanks to the double-whammy of higher interest rates and rising oil prices the markets were showing bear tendencies by the end of 2000. Particularly hard-hit were technology sectors, but the broader market was also showing weakness. Stock-market gains had been a major factor in stimulating consumer spending for some time and concerns emerged that falling share prices would lead to a spending slowdown by households. This concern was exacerbated by declines in consumer confidence at year-end 2000.

While business spending remained fairly strong throughout 2000 the latter half of the year did witness a deceleration in purchases of technology-related equipment – one of the main drivers of the late-90's boom. Persistent double-digit growth rates in this category of business investment had added a good deal of impetus to the economy's continuing strength. It has been estimated that high-tech investment (i.e., spending on computers and peripheral equipment, software, and telecommunications equipment) accounted for about one-fourth of real GDP growth in 1998 and 1999. But in the third quarter of 2000 this category of investment grew at a single-digit pace and showed signs of further slowing.

Also flashing warning signs was the foreign trade sector. The U.S.'s major trading partners were experiencing various difficulties ranging from Japan's chronic stagnation to Europe's need to exercise economic restraint in support of the euro (the newly-introduced European currency unit). This curtailed demand for U.S. exports. Developing nations had suffered economic setbacks as a result of the 1998 financial crisis cutting further into export shipments - particularly to Pacific Rim nations.

By the mid-point of FY 2000-2001 the Fed had seen enough incipient weakness to persuade it that inflation was no longer the primary near-term threat to the economy. A quick about-face commenced with an unexpected 50 basis point cut in the federal funds rate to ring in the New Year. This was to be the first in a series of six rate cuts that would lower the funds rate 275 basis points by fiscal year-end 2000-2001. Unfortunately, the economy's response was less than salutary. Whereas high-tech spending had begun to fade a few months earlier, by second quarter 2001 it was in a free-fall. The sudden, precipitous drop in high-tech investment led many to conclude that the burst of technology-related spending throughout the late 1990's was excessive and had resulted in significant amounts of currently unneeded capacity. This phenomenon goes under the rubric 'overinvestment' in business-cycle nomenclature and tends to make for a slow recovery in investment spending regardless of interest-rate policy.

Lower interest rates are generally expected to stimulate the stock markets, but in the extant milieu the market showed little enthusiasm for Fed cuts. Corporate profits were plunging in early 2001 making valuation levels of a year earlier seem unrealistic, and the markets meandered at levels well below their peaks. This negated one avenue through which the Fed had hoped to rejuvenate the economy – namely a stimulus to consumer spending from rising stock prices. Consumer spending had held up better than business spending throughout 2000 and early 2001, but the Fed did not expect that the consumer alone could keep the economy aloft indefinitely.

The manufacturing sector continued to deteriorate with industrial production and employment steadily falling. Meanwhile, the foreign sector was still experiencing problems as economic weakness around the globe sustained the slide in U.S. exports.

A look back from fiscal year-end 2001 validates the Fed's mid-year policy shift. During FY 2000-2001 the economy grew by just 1.2 percent. This was the weakest growth in real GDP for any contiguous four quarters since calendar 1991 - the first three months of which were the concluding quarter of the 1990-1991 recession. Talk of a soft-landing had faded. The issue had become whether a combination of stimulative monetary and fiscal policy (in the form of 'tax rebates') would be able to keep the economy from slipping into recession.

Many economists believed that the economy would right itself fairly quickly. They placed their bets on the consumer. Buoyed by liquidity extracted from mortgage refinancing and funds liberated from stagnant equities, consumer spending maintained a healthy if unspectacular real growth rate of roughly three percent in the first half of 2001. Relatively low mortgage rates were helping to keep home purchases at respectable levels. The aforementioned tax rebates were expected to assist households in maintaining their spending. Those taking an optimistic view also expected the business sector to turn-around near-term. They pointed to prospects for a return to net investment in business inventories. In a slowing economy, businesses find unwanted inventories piling up. These must be worked off before new orders to producers can recover to normal levels. The rate of decline in inventories was decreasing as the fiscal year closed suggesting that inventory disinvestment might have run its course. Also, oil prices had retreated from their highs and settled near a bearable $25 per barrel. Uncertainty about future price behavior was mitigated by OPEC's stated intent to maintain prices in this range.

On the ever-present other hand a sizeable fraction of economists felt that the near-term outlook was for further weakening. They argued that unemployment – heretofore confined mainly to the manufacturing sector – was likely to rise substantially with perverse impacts on consumer confidence and spending. A retrenching consumer sector would make a resurgence of corporate profits unlikely and dissuade businesses from the resumption of investment at normal levels.

Over the 12 months ending June 30, 2001, financial market returns generally reflected the broad economic environment. Short-term U.S. Treasury Bills provided a respectable 5.6 percent return for the period as the Federal Reserve cut overnight rates six times during the second half of the fiscal year. With falling short-term interest rates, fixed income returns beat cash returns by a large margin. The Lehman Brothers Aggregate Index, a broad market-weighted index containing government bonds, corporate bonds, and mortgage-backed securities, had a return of 10.8 percent for the year. However, on the downside, the Wilshire 2500 Index, excluding tobacco stocks, posted a -15.6 percent loss for the year. The drop in the equity markets reflected slowing worldwide economic growth and falling corporate profits, basically, a bad year for the equity markets.

III.3 Asset Allocation for FY 2000-2001

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 2000-2001

Asset Class	9-30-00	12-31-00	3-31-01	6-30-01
Domestic Equities	55.80%	54.32%	53.95%	54.61%
International Equities	11.21%	11.68%	11.53%	11.45%
Fixed Income	24.93%	25.79%	25.98%	25.28%
Real Estate	3.79%	4.05%	4.24%	4.11%
Alternative Investments	3.34%	3.32%	3.45%	3.58%
Cash/Short-Term	0.93%	0.84%	0.85%	0.97%
	100.00%	100.00%	100.00%	100.00%

TABLE III-4
ACTUAL FISCAL YEAR-END MARKET VALUES BY ASSET CLASS
FISCAL YEARS 1997-2001

Asset Class	6-30-97	6-30-98	6-30-99	6-30-00	6-30-01
Domestic Equities	$40,087,182,634	$51,899,774,220	$61,032,379,077	$59,139,840,559	$53,635,890,472
International Equities	5,830,831,664	6,337,999,093	7,823,315,481	12,962,516,435	11,240,607,146
Fixed Income	16,196,525,581	20,904,267,535	22,875,995,829	25,809,042,664	24,826,006,667
Real Estate	2,121,426,112	3,231,201,996	3,695,348,041	4,203,621,475	4,032,056,999
Alternative Investments	(1)	(1)	(1)	3,624,351,026	3,513,890,755
Cash/Short-Term	2,846,375,882	1,071,415,943	966,877,572	890,635,676	958,368,036
Total Fund Value	$67,082,341,873	$83,444,658,787	$96,393,916,000	$106,630,007,835	$98,206,820,075

(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 2000-2001

Asset Class	9-30-00	12-31-00	3-31-01	6-30-01
Domestic Equities	$59,446,143,136	$55,235,473,865	$50,764,583,644	$53,635,890,472
International Equities	11,937,608,213	11,881,541,986	10,847,767,759	11,240,607,146
Fixed Income	26,554,215,291	26,224,717,514	24,443,344,005	24,826,006,667
Real Estate	4,037,582,608	4,113,651,989	3,987,750,635	4,032,056,999
Alternative Investments	3,560,211,904	3,378,865,842	3,244,476,910	3,513,890,755
Cash/Short-Term	989,053,378	856,521,103	801,115,363	958,368,036
Total Fund Value	$106,524,814,530	$101,690,772,299	$94,089,038,316	$98,206,820,075

III.4 Performance Evaluation for FY 2000-2001

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 as set forth in the TFIP, which is an 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.

TABLE III-6
ANNUALIZED TOTAL FUND INVESTMENT PERFORMANCE*
(by fiscal year periods)

	10 Years 1991-2001	5 Years 1996-2001	3 Years 1998-2001	1 Year 2000-2001
FRSTF Public and Private Market Investments				
Managed Return (1)	12.2	11.5	5.2	-7.6
Absolute Nominal Target (2)	7.1	7.0	7.4	7.7
Relative Target (3, 6)	12.1	11.1	4.2	-8.8
All Passive Portfolios (4)	12.9	12.0	4.1	-12.0
Performance Benchmark (5)	12.7	11.6	3.8	-12.0
All Active Portfolios (4)	11.5	11.1	6.2	-2.9
Performance Benchmark (5)	11.0	9.8	4.2	-4.6

* 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. Source of consumer price inflation data is the U.S. Department of Labor, Bureau of Labor Statistics. Annualized consumer price inflation for the 1 year period was 3.2%, for the 3 year period was 3.0%, for the 5 year period was 2.6%, and for the 10 year period was 2.7%.
(3) The Relative Target is the composite of returns on the respective asset class targets, weighted by the target allocations.
(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 mistatements 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 mistatements 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 1991-2001	5 Years 1996-2001	3 Years 1998-2001	1 Year 2000-2001
FRSTF Public Market Investments				
Managed Return (1)	12.3	11.2	4.6	-8.4
Domestic Equities Excluding Alternative Investments				
Managed Return (2)	14.8	13.8	4.1	-14.2
Target (3)	14.5	13.5	3.6	-15.6
International Equities				
Managed Return	(4)	4.1	1.6	-20.7
Target (5)	(4)	2.1	-0.4	-24.1
Fixed Income	8.5	7.6	5.4	10.9
Managed Return	8.5	7.6	5.5	10.8
Target (6)				
Cash				
Managed Return	5.7	5.9	6.0	6.1
Target (7)	4.9	5.3	5.4	5.6

* 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 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 5 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 3-month U.S. Treasury Bill, Auction Average.

III.5 Domestic Equities Investments

As of June 30, 2001, the Domestic Equities asset class was valued at $53.64 billion and accounted for 54.6 percent of the total FRS portfolio. The Domestic Equity asset class was broadly diversified across 14 active and five passive portfolio strategies. Passive investments comprised 63 percent of the asset class at the end of the fiscal year. Strategically, the portfolio reflects a neutral mix of growth and value strategies that performed well this year relative to their respective benchmarks under extremely volatile conditions.

Over the year, strong outperformance from active portfolios combined with a slight positive return from passive accounts, brought asset class returns to a strong 1.27 percent over benchmark. With positive active and positive misfit (0.14 percent) return, Domestic Equities surpassed its asset class target by 1.41 percent. While results to date have been encouraging, we would be naive to forget that periods of underperformance will always be a part of investment life.

Misfit risk is the difference between the risk exposures of the aggregate benchmark and the asset class target. Positive misfit return (0.14 percent) was the result of an under exposure to Internet technology. Like most investment risks, misfit can have an exaggerated impact on performance during volatile market conditions. Remaining misfit reflects mostly random statistical noise because misfit has been targeted to be as close to zero as possible.

The information ratio provides a risk-adjusted measure of performance. It is computed by dividing active returns by the standard deviation of those returns. Using one year of trailing historical data, the information ratio for active managers, increased from –0.78 in June 1999 to 1.03 in June 2000, and then to 1.15 in June 2001. The annualized information ratio using three years of historical data was 0.72 in June 2001.

The tracking error of passive accounts has been reduced. Using one-year moving averages, passive misfit has been reduced from 0.31 percent in June 2000 to 0.23 percent in June 2001.

Active management outperformed its aggregate benchmark by an impressive 3.7 percent. Over the fiscal year, individual active returns within our active manager group ranged widely from 20.8 percent to –8.5 percent.

Broad market indices continue to be dominated by large-cap companies, which suffered significant declines during the fiscal year. The S&P 500 dropped 14.9 percent, the Russell 3000 declined 14.0 percent, while the Wilshire 2500 and 5000 gave up 14.9 percent and 15.3 percent respectively. Small-cap and value investing were the clear winners as evidenced by the S&P/BARRA Midcap Value Index rising 32.9 percent and the Russell 2000 Value Index rising 31.1 percent. The disparity between winners and losers was exceptional. Losses were pronounced in the technology heavy NASDAQ Composite which declined 45.5 percent. The spread between mid cap value and NASDAQ was over 78 percent.

The technology collapse has been astounding. Tech stocks dropped over 13 percent in the third quarter of 2000, 32 percent in the fourth quarter, and 24 percent in the first quarter of 2001. A modest recovery occurred in the final quarter as the sector regained 12 percent. Despite the small recovery, shares of many prominent technology companies closed the fiscal year 80 percent or more below their prior highs.

These disparate market returns occurred in an environment of slowing economic growth. Rising energy prices and a strong dollar combined with a prime rate that rose to 9.5 percent began to strain business conditions in the last quarter of 2000. The Fed responded in January 2001 with the first of a series of rate cuts designed to provide needed stimulus. Manufacturing layoffs and ongoing pressure in computer spending continue to produce sluggish business conditions despite aggressive rate reductions from the Fed. Corporate profits have weakened in this environment and continue to be a major concern to equity investors.

Reflecting volatile markets, Domestic Equities received rebalance allocations three times and supplied rebalance allocations six times during the fiscal year. Domestic Equities had not received a rebalance allocation since October 1998.

In reallocating assets, we were guided by the competing objectives of misfit risk control and active management enhancement. At the beginning of the year, reallocation efforts were hampered by inadequate capacity in active large cap growth products. To increase capacity, two new large cap growth managers were hired during the year. Our passive investment declined from 65 to 63 percent as a result.

Domestic Equities makes an effort to visit all external managers on a yearly basis, and managers visit the FSBA on a rotating schedule, or as required. Video and teleconferencing meetings are held on a quarterly basis or as needed. Enhanced oversight of performance and activity has contributed positively to these important relationships.

Administrative initiatives during the fiscal year include the development of a proposed risk budget within a framework common to all FSBA asset classes. A new transactions cost-measurement vendor was selected. Considerable staff time was used to analytically support the development of the Defined Contribution program. Other initiatives include continued efforts to control investment management costs and automation of in-house performance measurement systems to increase staff productivity.

Asset class fees (in bps) remained relatively constant, despite an increase in active management and the defunding or termination of lower cost underperforming managers. Total dollars paid in management fees were $5.6 million less than the previous year, primarily because the equity market downturn caused the asset class market value, on which fees are based, to decline.

To summarize, FY 2000-2001 was extremely busy and productive for the Domestic Equities asset class. With the decline in the market, Domestic Equities received its first rebalance asset allocation in several years. The restructuring of active management has been completed to the point where the remaining asset class misfit is not structural but almost completely random statistical noise. During a bad year for equities, our investment exceeded its performance target during the year, despite volatile market conditions.

TABLE III-8
ANNUALIZED DOMESTIC EQUITIES INVESTMENT PERFORMANCE*
(by fiscal year periods)

	10 Years 1991-2001	5 Years 1996-2001	3 Years 1998-2001	1 Year 2000-2001
Domestic Equities				
Managed Return Excluding Alternative Investments (1)	14.8	13.8	4.1	-14.2
Managed Return Including Alternative Investments (2)	14.7	13.7	4.1	-14.2
Target (3)	14.5	13.5	3.6	-15.6
All Passive Portfolios (4, 1)	14.8	14.0	4.1	-15.0
Performance Benchmark (5, 1)	14.8	13.7	3.6	-15.0
All Active Portfolios (4, 1)	15.0	13.8	4.5	-12.7
Performance Benchmark (5, 1)	14.1	12.2	2.3	-16.4

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

(1) These returns exclude Alternative Investments for all time periods.
(2) The Domestic Equities asset class contained Alternative Investments until October 31, 1999.
(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 - June '01, it is the Wilshire 2500 excluding tobacco stocks.
(4) 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.
(5) 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.6 International Equities Investments

On June 30, 2001, the International Equity portfolio was valued at approximately $11.24 billion and was diversified across fifteen portfolio strategies with investments in more than 50 global markets. Passive investments accounted for slightly more than 45 percent of the portfolio. The remaining 55 percent was in 13 distinct active strategies targeting both developed and emerging markets. Consistent with target exposures, at fiscal year end roughly 89 percent of the portfolio was allocated to developed market managers and the remaining 11 percent was invested with emerging market managers.

At fiscal year-end, opportunistic investments by developed market active managers pushed the portfolio to a slight 1.4 percent overweight to emerging markets relative to the MSCI All Country World Index Free ex-U.S. target. In the Pacific, the portfolio maintained a modest two percent underweight to Japan, a slight overweight to Hong Kong, and a small 1.6 percent underweight to the Asia/Pacific region. The portfolio was also modestly underweight to Continental Europe reflecting bets against France, Germany, Italy, and Switzerland. The United Kingdom remained a favorite with our managers who invested almost 20 percent of our portfolio there, which represented a slight overweight relative to the target. Within emerging markets, the portfolio was slightly overweight to both Latin America and Asia and maintained a neutral position in the Europe, Africa, and Middle East regions.

For the fiscal year, the aggregate International Equity portfolio returned -20.7 percent net of all management fees, transaction costs, and commingled custodial expenses. This resulted in an active return of +3.3 percent relative to the –24.0 percent return of the aggregate benchmark.

Misfit for the fiscal year was almost completely contained at +2 basis points. As expected, adoption of the integrated developed and emerging capitalization-weighted target in November 1999 has effectively controlled misfit. We maintained our informal rule to rebalance the portfolio between developed and emerging markets only if the misweight exceeded three percent. Because the developed/emerging market allocation of the portfolio has floated roughly in tandem with the integrated target, no rebalance was necessary under the rule.

Our investment in the Barclay's EAFE plus Canada Index Fund returned 19 basis points over its benchmark. An effective securities lending program, a slight cash position in a declining market, and favorable dividend tax treatment advantaged the portfolio relative to the benchmark.

The SsgA Emerging Market Index Fund underperformed its benchmark by 16 basis points over the fiscal year. High transaction costs and few securities lending opportunities continue to make passive investing difficult in emerging markets. In addition, the migration of Greece from emerging to developed markets cost about 15 basis points to transact.

The developed market active portfolio lost 16.7 percent in absolute terms, but handily beat the benchmark return of –23.8 percent. Strong stock selection accounted for most of the active return. The portfolio's value bias, defensive posture, and avoidance of technology and European telecom stocks were important contributors to return. The emerging market positions of the portfolio detracted slightly from performance as emerging markets marginally underperformed developed markets. Five of the eight active managers beat their benchmark for the fiscal year. The disciplined, value-oriented philosophies of Morgan Stanley, Sprucegrove, and Templeton were rewarded as these managers enjoyed double-digit active returns. Conversely, T. Rowe Price's growth bias and Capital Guardian's core approach, which continued to identify value in growth areas of the market, were less successful and these two managers underperformed for the fiscal year. Putnam also employs a core approach but better navigated the market turn from growth to value and had positive active performance. Blairlogie struggled as their top-down focus failed to add value and stock selection was poor. We have discussed our concerns with Blairlogie, whose performance is now marginally below their benchmark since inception, and will continue to monitor them closely.

The emerging market active portfolio fell by 23.8 percent, 218 basis points less than the benchmark decline of 25.9 percent. Emerging markets were hammered by concerns about global growth, higher energy prices, and intermittent financial crises in Argentina and Turkey, which threatened contagion. Despite uncertain market conditions, three of the five active managers delivered positive active returns. Most notable was Genesis who added more than 1,000 basis points of active return eliminating most of their since inception deficit. As emerging market investors refocused on company fundamentals, our value managers, Genesis and J.P. Morgan excelled. State Street Global's quantitative, risk controlled approach continues to provide steady performance, adding 120 basis points of active return. After a banner fiscal year, Capital International has been unable to add value recently. Consistent with their developed market counterpart, Capital International continued to find value in technology and telecom sectors, which hurt performance. Schroders also maintained a growth bias throughout the year and lagged the benchmark. Schroders has trailed the benchmark for the past two fiscal years and since inception. After the fiscal year, we rebalanced our target to the MSCI provisional index, which has a reduced emerging market component. Given this reduction and our continuing concern with Schroders' performance we liquidated Schroders to fund additional developed market investments.

When compared to the prior fiscal year end, investment management fees decreased by three basis points. During the fiscal year there was a slight reduction in the level of passive management, from approximately 50 percent to 45 percent of the portfolio, and some loss of economies of scale due to negative market performance. However, the reduced market value of the portfolio resulted in lower investment management fees relative to last fiscal year.

To summarize, our international equity investments performed relatively well during a difficult year. Equity markets provided investors few hiding places as earnings and expectations were ratcheted down in the face of declining global economic growth. We were encouraged that our diversified portfolio was able to add significant value relative to its target amidst volatile market conditions.

TABLE III-9
ANNUALIZED INTERNATIONAL EQUITIES INVESTMENT PERFORMANCE*
(by fiscal year periods)

	10 Years 1991-2001	5 Years 1996-2001	3 Years 1998-2001	1 Year 2000-2001
International Equities				
Managed Return	(1)	4.1	1.6	-20.7
Target (2)	(1)	2.1	-0.4	-24.1
All Passive Portfolios (3)	(1)	2.3	-0.5	-23.8
Performance Benchmark (4)	(1)	2.2	-0.6	-24.0
All Active Portfolios (3)	(1)	6.3	3.6	-17.8
Performance Benchmark (4)	(1)	1.9	-0.1	-24.2

* 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% EAFE and 15% 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

Fixed income returns, as measured by the Lehman Aggregate Index, rebounded well from Fiscal Year 2000's anemic 4.57% to return 11.23% in the fiscal year ended June 30, 2001. The bulk of the return came during the first half of the year as the market correctly anticipated an economy coming off the boil and an easing in monetary policy by the Federal Reserve. Beginning the fiscal year at over 7.0%, bond yields fell to just above 6.0% by January 2001, allowing investors to earn 3.75% in price appreciation on top of the 3.6% in coupon income. For the balance of the year however, yields on longer-term securities remained steady even while the Fed was consistently lowering short-term rates.

Two-year treasury yields, which are highly correlated to monetary policy, began to decline dramatically in December and continued to do so throughout much of the remainder of the fiscal year. In contrast, the net change in ten-year yields for the entire fiscal year was a decline of just over 55 basis points, compared to the 225 basis point fall in two-year yields. With an average maturity of over eight years, one can see how the second half of the fiscal year basically reflected the effect of coupon income on the market.

As discussed in last year's annual report, the return of the aggregate target, which represents the overall market of outstanding public bond issues, masks what is happening in the major sectors that comprise it. We highlighted the very substantial differences in returns, particularly between U.S. Treasury bonds and corporate bonds, both high and low grade. The difference in performance between treasuries and high grade corporates was +2.31% in favor of treasuries, virtually unheard of in a one-year period. Much of that difference was attributed to three major factors which had not been present and to which risk adjustments were being made by investors. Those factors were the effect of the shape of the yield curve and the level of rates on interest rate swap spreads, the shrinking supply of U.S. Treasury securities and the lack of market making by dealers.

Returns in this fiscal year, as seen by the large absolute number of 11.23%, are indicative of investors partially resolving some of the above mentioned issues and the effect of monetary easing on interest rate swaps. The dramatic fall in short-term rates, resulting in a lower and more positively sloped term structure had a favorable effect on interest rate swap spreads, an important driver of corporate bond returns. After reaching a wide of 130 basis points in August 2000, ten-year swap spreads narrowed to less than 80 by June 2001. This change implied a significant reduction in the liquidity risk premium imbedded in non-treasury bonds, allowing their prices to increase on a relative basis. Prospects for much slower economic growth, the reduction of budget surpluses and fewer buy backs of long dated treasuries alleviated investors' immediate concerns about a scarcity premium. This had the effect of lowering treasury bond returns relative to other sectors in the fixed income market. While market participants seem now to be unconcerned with shrinking supplies of treasury securities, the effect of compositional changes will remain an issue over the next several years. In the last two years alone, U.S. Treasuries outstanding declined by over $350 billion (20.4%), while corporate bonds increased by $512 billion (45.6%). The future growth path of these two sectors remains both a political and economic question. Stronger economic growth should be positive for surpluses but only to the extent that politicians refrain from spending them. Finally, the issue of dealer market making will probably not be resolved soon. Secondary trading of high-grade bonds cannot generate the high return on capital required by broker-dealers. Consequently, inventory levels will remain small relative to the needs of an asset management community that continues to consolidate its asset base.

All actively managed fixed income portfolios returned 10.6% in fiscal year 2000-2001, exceeding their performance benchmark by 24 basis points. Passively managed portfolios earned 11.3% versus their benchmark return of 11.2%. The combination of all active and passive portfolio returns, plus the return difference due to sector allocation (misfit) against the Fixed Income Management Aggregate resulted in a 10 basis point performance advantage in the fiscal year ended June 30, 2001.

As was the case last year, decomposition of sector returns in the bond market showed large relative differences. In descending return order, high grade corporates exhibited the strongest performance (12.27%), followed by mortgage-backed securities (11.28%), treasuries (9.83%) and high yield (2.82%). Compared to last fiscal year, the performance reversal between high-grade corporates and treasuries was again substantial (+2.44%). The return to favor of high-grade corporates had a very positive effect on the internally managed Government/Corporate portfolios. The return on roughly $15 billion invested in this sector exceeded the benchmark return by 49 basis points for the year and by 13 basis points (annualized) over a three-year period.

The $8 billion mortgage-backed securities portfolio returned 1 basis point less than its target for fiscal year 2001 and averaged 1 basis point above for three years. As mentioned in prior reports, our expectation is for benchmark returns for this portfolio due to the efficiency of the pass-through market, a 30 percent passively managed share and somewhat restrictive investment guidelines. However, our internally managed "synthetic" mortgage portfolio, representing $1.6 billion, continued to outperform its benchmark as expected. For the year, the portfolio exceeded its target by 31 basis points. In the nearly three years since inception, the portfolio exceeded the benchmark by 26 basis points per year. The portfolio consists of AAA rated floating rate securities, combined with total rate of return swap contracts on either the Lehman or Merrill Lynch MBS index. Since its source of funds is externally managed active or passive mortgage portfolios, this generates a savings of approximately $1 million per year in management fees.

The high yield sector, which represents about 4.5 percent of the aggregate fixed income target, continued to substantially lag the other sectors. Even with significantly greater coupon income than default-free treasuries, high yield bond price declines more than offset the advantage. Treasury bond price return was positive 3.24 percent in fiscal year 2001, while high yield price return was negative 6.91 percent. The decline in price of high yield bonds reflected investors' demand to be compensated for additional risk, primarily due to higher expected defaults. Perceptions were borne out since actual trailing 12 month defaults rose from 5.73 percent in July 2000 to 9.42 percent in June 2001. Breaking down the high yield market into sector and quality cells, it becomes clearer what happened. On a purely sector basis there were two segments which performed poorly – Telecom and Technology, both battered by the bursting of the Tech bubble in the equity market. While both sectors had large negative returns, it was the weight of Telecom in the index that influenced returns, especially in the single B sector. At 11 percent of the total high yield market, Telecom is the largest single sector. Within quality cells Telecom represents over 20 percent of single B's, four times the weight in double B's. The return of Telecom for the year was about –32 percent. The Technology sector, representing another 9.5 percent of the market, returned –19 percent. Together these two sectors, representing over 20 percent of the market, had a return of –26 percent. This large negative return in sectors with large market cap was responsible for the paltry 2.82 percent return for high yield. Eliminating these two sectors would have left the remaining high yield market with a much more palatable 10.3 percent return for the year.

Externally managed high yield portfolios returned 151 basis points less than the benchmark for the fiscal year and 97 basis points less (annualized) over the last three. Both the short and longer-term records indicate the difficulty faced in finding managers who deliver good, consistent long-term performance. Overall, since the inception of our high yield program, managers (both current and former) have underperformed the benchmark by 61 basis points annually. Only two of the original four managers remain. Personnel turnover, structural changes within firms and poor execution of portfolio strategy were the major issues resulting in the termination of two managers. Except for the latter issue, neither of the other two can be forecasted based on historical performance or predicted based on any information gleaned at the time of hire. The two remaining managers have very recently undergone some of the same problems alluded to above. In one case we continue to believe the personnel in place can produce long-term excess returns. However, we are somewhat at risk to the firm's strategy of growing their high yield business and stretching limited expertise too thin. The other manager recently had a departure of one member of the firm's two-person portfolio management team. There is currently no plan to replace the individual who departed, so once again we may find ourselves more at risk to future performance. In order to mitigate what seems to be potentially higher performance risk, we are in the process of hiring two additional high yield managers. Each was identified through an exhaustive search process recently concluded for the new PEORP pension plan to be offered to Florida Retirement System members.

TABLE III-10
ANNUALIZED FIXED INCOME INVESTMENT PERFORMANCE*
(by fiscal year periods)

	10 Years 1991-2001	5 Years 1996-2001	3 Years 1998-2001	1 Year 2000-2001
Fixed Income				
Managed Return	8.5	7.6	5.4	10.9
Target (1)	8.5	7.6	5.5	10.8
All Passive Portfolios (2)	9.0	8.2	5.8	11.3
Performance Benchmark (3)	9.1	8.2	5.9	11.2
All Active Portfolios (2)	8.3	7.4	5.3	10.6
Performance Benchmark (3)	8.1	7.4	5.4	10.4

* 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% FEDEX and 5% 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

Real Estate ended the 2001 fiscal year with investments valued at 4.032 billion dollars which was 4.11 percent of total FRS pension fund assets, slightly exceeding our target of 4 percent. The investments are 87.39 percent directly owned, 2.6 percent in pooled funds, 8.7 percent in publicly traded stock and 1.4 percent in short term cash equivalent investments. Our directly owned portfolio is diversified by property type as well as by geographic region. Office properties make up 51 percent, apartments 17 percent, industrial 12 percent, retail 11 percent and agricultural properties 9 percent. We have 48 percent of our directly owned non-agricultural properties in the Western region of the U.S., 13 percent in the Midwest, 28 percent in the East and 11 percent in the South. Our pooled funds are also diversified by property type and geographic region. Our agricultural properties are diversified by crop variety, permanent plantings and row crops, as well as geographic regions.

We have maintained our commitment to pursuing general purpose properties such as office buildings (suburban and central business district), retail (primarily grocery anchored or community centers), warehouse and distribution facilities, as well as apartments (garden style, mid-rise and high rise). While we have participated in development joint ventures, our preferred investment continues to be completed and leased properties. We do invest in value plays where we consider the leasing and construction risk to be manageable. We have not increased our investment in agriculture investments, pooled funds, and real estate securities. We have focused on directly owned assets in order to actively manage investment risk and portfolio risk.

During the fiscal year we have seen real estate markets, in general, slow in concert with the slowing national economy and GDP. The slow down is reflected in rising vacancies and slower rent growth and in some metro areas such as San Francisco, declining rents. The slow down is across all property types. Exposure to dot coms and related tech commerce centers has proved to be especially painful to landlords, developers and the construction industry. A good note is the notion in the real estate community that we are not swimming in excessive vacant space, at least compared to previous economic downturns. Dot coms and related tech firms are not going away, they will continue to be important players in our commerce and will once again prove to be a significant element in the demand for space. Though this year has brought challenges to the real estate investor, we anticipate a softer landing than in previous cycles and a more robust recovery.

We began the fiscal year with $4.2 billion of real estate assets and at our target real estate allocation of four percent. We focused our attention on managing the portfolio's assets, selecting assets for disposition and looking for acquisitions to replace culled assets. We continued to oversight the development of our office building joint ventures in Minneapolis and Phoenix as well as our warehouse development ventures in Denver and Southern California. The portfolio enjoyed good occupancies and rent growth as the year started, but our expectations became clouded as the year progressed. We will be challenged in the coming months, but we have a portfolio of high quality assets and are prepared to ride out the bumps.

We acquired a 264,000 square foot community shopping center located in Issaquah, Washington, a submarket of Seattle. The purchase price was $42 million. We sold three assets during the fiscal year. The first was an office building located in Larkspur, CA. which we purchased in 1988. The selling price was $37.4 million. The second was a garden style apartment community located in Austin, TX. which we purchased in 1994. The selling price was $19.5 million. The third sale was an office building in Washington, D.C., which we purchased in 1988. The selling price was $73 million.

We had the pleasure of working with two interns this year and hope that they have benefited as much as we have. We are continuing our efforts to quantify portfolio risk measurements and are developing an in house capability to better assess specific market supply and demand characteristics. Again, this year we have managed to be below the midpoint average of our peers in the fees paid to professional service providers for our investment activities.

TABLE III-11
ANNUALIZED REAL ESTATE INVESTMENT PERFORMANCE*
(selected periods ending June 30, 2001)

	Since Inception (5)	10 Year 1991-2001	5 Year 1996-2001
Real Estate (1)			
Managed Return (2)	7.3	8.3	11.6
Primary Target: RESI-U (3)	9.2	9.3	9.1
Secondary Target: CPI+450 (4)	7.5	7.2	7.1
Directly Owned Real Estate Managed Return (2)	9.7	12.7	11.7
Primary Target: RESI-U (3)	9.5	9.7	9.5
Secondary Target: CPI+450 (4)	7.3	7.2	7.2

* 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 portfolios investments. Performance is measured over since inception, ten 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. Source of consumer price inflation data is the U.S. Department of Labor, Bureau of Labor Statistics. Annualized consumer price inflation for the 5 year period was 2.6%, for the 10 year period was 2.7%, and since inception periods for both total Real Estate and for Directly Owned Real Estate was 3.2% and 3.3% respectively.

(5) The inception dates for Real Estate and Directly Owned are 12/84 and 11/86 respectively.

III.9 Alternative Investments

On June 30, 2001, the Alternative Investments portfolio had a market value of $3.51 billion. The entire portfolio is actively managed. The portfolio generally consists of limited partnerships, which are externally managed by general partners, to which the SBA has made fixed commitments of capital. Alternative Investments has made commitments to 25 current partnerships. Due to multiple successor funds, these partnerships are managed by 15 separate private equity relationships.

Alternative Investments committed $950 million during FY 2000-2001 to new funds of existing relationships. These commitments were made consistent with the goals and objectives outlined for the asset class when it was created in November 1999. This outline included a three-component alternative investment portfolio:

- a core long-term investment in a relatively small number of successful general partnerships, with places guaranteed in follow-on funds, if desired, with those same partners;
- a captive and 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 forms a significant part of the overall portfolio.

As of June 30, 2001, the Alternative Investment portfolio accounted for 3.58 percent of Florida Retirement System assets. Earlier in the year, the target allocation for Alternative Investments was increased from 2.5 percent to 4 percent. This revised target is consistent with the expected maturation of the portfolio in the near-term and does not contemplate new relationships.

On the surface, the Alternative Investment market did not change much over the past year. Currently, deal pace remains slow and private equity firms continue to concentrate on current portfolio companies. In this environment, a significant number of capital calls are made pursuant to follow-on needs while investments are exited opportunistically and infrequently. This continues a trend that began in 2000. Below the surface, however, some of the variables of private equity deals had been making modest progress. The high yield spread above ten-year treasuries had fallen to 838 basis points from a high of over 1000 earlier in the year. With asset prices depressed for over a year, many sellers were beginning to recognize that prices were stabilizing at depressed levels and there was a risk of greater decline. Those that desired liquidity were beginning to explore options. The one variable that did not change materially over the year was the lack of senior debt. Senior debt remained at 2.5x to 3.0x EBITDA for buyouts for most of the year, with historical averages at 4.0x. This one element did more to slow down the pace of new acquisitions than any other during 2001. As 2001 progressed, an additional variable received increasing attention in the private equity market: growing uncertainty. Although markets are always characterized as uncertain, uncertainty turned into apprehension as the year progressed. Bankers became increasingly fearful that they had over extended themselves. Private equity managers quietly acknowledged that they might have paid too much for certain assets. Portfolio companies realized that subsequent rounds of financing, let alone exits, would be difficult. During the first half of the year, thoughts were focused on how long the wait would be until the good times returned. In the second half, managers asked if their portfolio companies were properly prepared to endure a protracted slow down. Tremendous focus was brought to existing portfolio companies with an emphasis on reaching and sustaining positive cash flow. Some managers were reluctant to take on new acquisitions in the depressed environment. Many chose to focus their effort on stabilizing existing investments. Accordingly, there is an overhang of committed capital raised in recent years that remains uninvested. It is unclear how and when this overhang will be deployed.

Where there is uncertainty, there is opportunity. As the year progressed, we saw an increase in funds trying to capitalize on the market slowdown and uncertainty. Distressed debt, mezzanine and hedge fund offerings became more common. Due to allocation constraints, Alternative Investments is not actively seeking new relationships and did not participate in these offerings. The asset class did establish tactical preferences, however, among existing managers when implementing our current re-up schedule. We increased our initial allocation from $100 million to $150 million for Apollo V. Apollo has repeatedly demonstrated a focus on value and preservation of capital. Given the current outlook, portfolio management deemed this increase appropriate. Carlyle III received its full $200 million commitment. Carlyle has a proven track record of successful exits and the foresight to position their companies for positive cash flow in a variety of market environments. Ripplewood has solid portfolio companies but no significant exits and has had difficulty raising their target fund size; this last point would have made the SBA a larger percentage of the fund than initially anticipated. Accordingly, we committed $50 million of our initial $100 million allocation. We will reserve the potential for any additional amounts until their final close. At that time, portfolio management can render a judgment whether any supplemental commitment is warranted. Our decision will be based on our portfolio needs, market conditions as well as Ripplewood's progress towards its fundraising goals and exit strategies. One manager that did not demonstrate superior discipline and focus during recent years, Hick Muse, will receive a lower than anticipated commitment. We expect that Hicks Muse will refocus its investment discipline on core industries and strategies that have brought it past success. We will maintain our strong relationship with Hicks Muse and hope to renew our traditional commitments upon their refocus of historical strength. The asset class also committed $200 million to Lexington IV, a secondary fund. We expect that the drastic current liquidity needs will bring tremendous opportunity to the secondary market. Lexington's strong deal flow and organizational reach give it unique advantages to prosper in this growing market.

With the portfolio relatively well positioned in its original framework, we have begun to explore additional diversification. Specifically, we have begun to research the venture capital sub-asset class. The venture community lost billions of dollars over the past year. Additional losses will be further disclosed as companies run out of cash and managers report their periodic results. With virtually no exposure to venture capital, the SBA has avoided near-term venture losses incurred by most private equity investors. Long term, however, we believe that tremendous value will be created in this sub-asset class. According to our most recent data, ventures funds raised between 1990 and 1999 have a median IRR of 22.4% and upper quartile returns beginning at 77.4%. Despite the existing challenges, there remains substantial opportunity to create and capture value in early stage companies. We have begun our initial due diligence by meeting with market leaders and professionals in Florida and across the country.

Overall, the portfolio held up well in an increasingly difficult 2001. The majority of portfolio companies are generating positive cash flow. Certain investments are impaired, however, and others have been written off. The closed IPO markets made realizations less frequent and the tight debt markets made acquisitions difficult. We expect that most managers will help add value until successful exits can be achieved. We also expect them to make opportunistic investments in 2002 if market conditions improve. Our managers have the luxury of time to reveal performance. Because partnerships generally have ten-year terms, we measure total performance over a longer period of time than with public markets. We will provide input and render interim judgment of performance as is warranted through our Advisory Boards and direct communication with our partners. We will comment in next year's Report on our progress in venture capital in addition to developments in the existing portfolio.

TABLE III-12
ANNUALIZED ALTERNATIVE INVESTMENTS INVESTMENT PERFORMANCE*
(selected periods ending June 30, 2001)

Alternative Investments (1)	Since Inception (7)	10 Years	5 Years
Managed Return (2, 3)	13.1	13.3	13.4
Target (4)	16.5	(8)	(8)
Buyout Investment Managed Return (5)	13.3	(7)	13.1
Target (6)	15.3	(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 (3).

(5) The buyout sub-aggregate excludes three portfolios: Corporate Advisors, L.P., Cypress Equity Fund and Private Equity Cash.

(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 1/89 and 2/93 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 was valued at $958,368,036 on June 30, 2001.

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. Existing infrastructure enables the FSBA to provide 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 1991-2001	5 Years 1996-2001	3 Years 1998-2001	1 Year 2000-2001
Cash/Short-Term				
Managed Return (1)	5.7	5.9	6.0	6.1
Target (2)	4.9	5.3	5.4	5.6

(1) 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.
(2) The Cash Target is the Merrill Lynch 3-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 2000-2001.

Brokerage commissions are paid for executions of securities orders and are paid on trades of exchange-listed equity investments. Brokerage commissions, net of commission recapture rebates, were as follows for FY 2000-2001 (by asset class):

Domestic Equities	$32,270,248
International Equities	$10,276,940
Fixed Income	$1,534*
Alternative Investments	$80,376

*Fixed Income brokerage commissions resulted from the sale of equity securities received in high yield accounts as distributions in corporate actions.

TABLE III-14
EXTERNAL INVESTMENT MANAGEMENT FEES BY ASSET CLASS
FISCAL YEAR 2000-2001

	Dollar Amount	Return Basis (1)
Domestic Equities	$ 47,997,079	0.15%
International Equities	22,980,757	0.20%
Fixed Income	9,199,777	0.11%
Real Estate	15,366,331	0.42%
Alternative Investments	43,905,326	1.27%
Total	$ 139,449,270	0.24%

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

Commissions recaptured are credited to the accounts that generated the dollars. Therefore, the amounts reported above are net brokerage commissions. The FSBA has one outstanding third party vendor relationship that provides commission dollars to fund performance evaluation and research. The FSBA follows Employee Retirement Income Security Acts (ERISA) standards that specifically address commission dollars and deem them to be considered as plan assets.

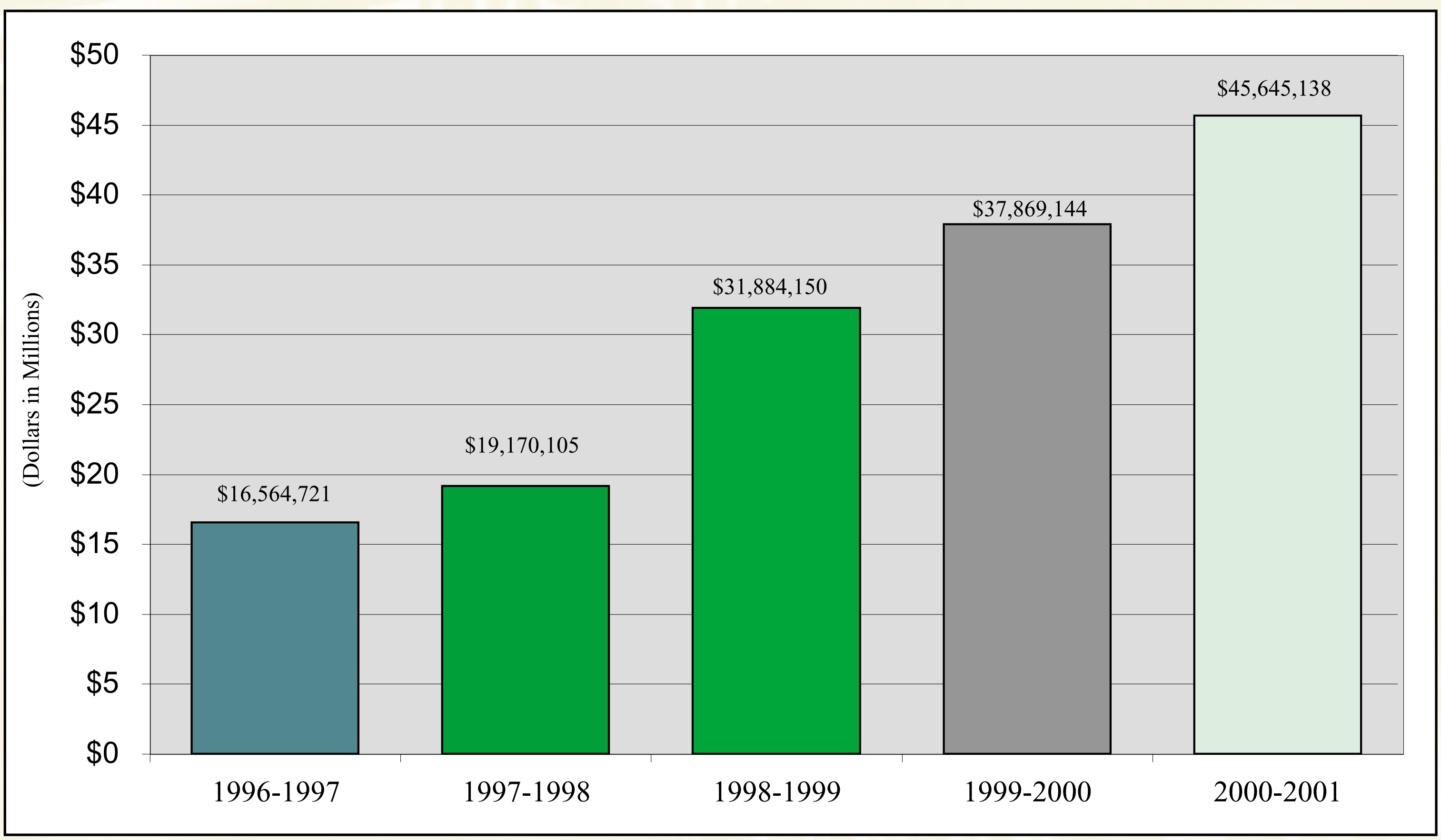
III.12 Supplemental Income Program

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

During the fiscal year, we utilized our master custodian of the FRSTF as a securities lending agent for equities and fixed income products. We also had principal programs with two security dealers where a portion of the Fixed Income assets were borrowed directly. The passive long-term Fixed Income portfolio (the Florida Government/Credit 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 custodian for the FSBA in this tri-party arrangement. Collateral is held in accounts in the FSBA's name and marked to market daily. These principal programs have the advantage of ensuring that lending income is generated on 100 percent of a portion of the treasury holdings in the portfolio. These types of programs can most efficiently be used for a portion of the portfolio that is not frequently traded. The principal arrangements generated $6,347,285 of the income shown in Table III-15 for FY 2000-2001 for the FRSTF. Securities lending income is also generated through our participation in commingled index funds in domestic and international equities.

Net income from all FRSTF securities lending programs for the previous five years, including FY 2000-2001 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 2000-2001

Account Name	6-30-00	9-30-00	12-31-00	3-31-01	6-30-01	Net Contributions and Transfers	Investment Gain (Loss)
Domestic Equities:							
- Active Core Portfolio	$5,545,782,656	$5,500,133,704	$2,536,836,413	$2,823,373,929	$2,990,254,663	$(1,981,419,318)	$(574,108,675)
- Alliance Capital Management	6,024,164,658	5,565,402,991	4,774,383,574	3,914,148,678	4,132,965,944	0	(1,891,198,714)
- American Express Asset Mgt. Group, Inc.	2,583,981,558	3,098,795,594	2,514,389,909	1,948,178,921	1,922,879,953	(200,000,000)	(461,101,605)
- Aronson & Partners	1,232,180,198	1,244,751,005	1,238,001,153	1,444,124,250	1,537,001,264	200,000,000	104,821,066
- Barclays Global Investors Index	10,081,276,799	9,975,299,643	9,346,057,914	8,219,227,941	8,714,707,412	201,200,000	(1,567,769,387)
- Barclays Global Investors Low Cap	1,694,423,931	1,755,137,982	1,440,718,400	1,346,579,418	1,041,437,287	(769,700,000)	116,713,356
- Brown Capital Management	223,255,679	235,410,959	217,657,190	185,167,216	192,970,017	0	(30,285,662)
- COMBAL	6,290,011	2,313	2,352	2,436	2,489	(6,290,051)	2,529
- David L. Babson	450,083,076	458,948,429	469,989,368	452,861,469	501,882,751	0	51,799,675
- Domestic Equities Asset Allocation	2,045,336	2,081,769	640,039,272	6,945	9,192	(23,505,486)	21,469,342
- Domestic Equities Restructuring Account	531,244	463,350,515	986,341,425	413,908	430,185	86,796,645	(86,897,704)
- Dresdner RCM Global Investors, LLC (2)	0	0	0	759,283,819	806,230,757	1,017,848,247	(211,617,490)
- Enhanced Investment Technologies, Inc.	1,298,657,517	1,295,025,753	1,201,227,317	1,809,721,597	1,956,348,837	780,000,000	(122,308,680)
- First Quadrant Corporation (3)	1,052,882,164	1,031,725,372	2,407,491	0	0	(1,020,712,728)	(32,169,436)
- Goldman, Sachs & Company	3,556,081,036	3,562,481,017	3,288,600,773	3,640,118,800	3,902,681,817	798,589,278	(451,988,497)
- Haven Capital Management (3)	22,618	22,663	15	0	0	(2,706)	(19,912)
- Lazard Freres Asset Management (3)	32,372	32,372	0	0	0	0	(32,372)
- Northern Trust Quantitative Advisors, Inc. (3)	273,777,891	288,115,585	974,705	0	0	(305,486,697)	31,708,806
- PIVOT Portfolio	18,430,111,115	18,532,280,245	21,771,506,235	19,570,003,992	20,888,058,727	5,880,758,346	(3,422,810,734)
- Private Capital Management	676,111,187	762,308,156	819,331,619	989,516,957	1,133,327,438	199,300,000	257,916,251
- Prudential Asset Management Company, Inc.	964,778,451	1,062,503,770	1,177,052,061	1,265,740,865	1,367,778,115	100,000,000	302,999,664
- Putnam Advisory Company, Inc. (3)	491,885,283	651,310	549,553	0	0	(516,025,655)	24,140,372
- Sands Capital Management (2)	0	0	0	392,237,007	425,530,375	516,856,357	(91,325,982)
- Smith Barney Capital Management	968,610,577	1,044,023,156	1,102,029,088	1,198,952,600	1,241,875,510	150,000,000	123,264,933
- Special Situations	221,071,906	227,743,519	216,150,420	308,714,380	338,619,831	100,000,000	17,547,925
- Wilshire Large Growth Fund	2,505,547,049	2,411,784,183	1,074,530,127	157,563,708	169,246,163	(1,877,779,909)	(458,520,977)
- Wilshire Large Value Fund (3)	380,299,962	428,377,040	1,702,974	0	0	(442,380,299)	62,080,337
- Yieldtilt Portfolio (3)	5,201	3,026	3,026	0	0	0	(5,201)
Progress Trust I: (1)							
- John Hsu Capital Group (3)	1,176	1,176	1,156	0	0	0	(1,176)
- Paradigm Asset Management (3)	1,093,557	570	544	0	0	(1,105,332)	11,775
Progress Trust II: (1)							
- Fuller & Thaler	85,346,500	83,516,542	71,298,164	59,770,990	67,027,089	0	(18,319,411)
- Genesis Capital Management	148,527,381	161,892,604	136,935,821	111,919,975	117,909,352	0	(30,618,029)
- Globalt, Inc.	79,909,724	85,956,733	70,791,819	63,274,519	68,756,820	0	(11,152,904)
- New Amsterdam Partners (3)	58,348	3,459	0	0	0	(55,509)	(2,839)
- Piedra Capital Management (3)	283,585	0	0	0	0	(285,183)	1,598
- Wall Street Associates	160,730,813	168,379,981	135,963,987	103,679,324	117,958,484	0	(42,772,329)
Total Domestic Equities	59,139,840,559	59,446,143,136	55,235,473,865	50,764,583,644	53,635,890,472	2,886,600,000	(8,390,550,087)

TABLE III-16 (continued)
FRS PENSION FUND MARKET VALUE AT END OF QUARTER
FISCAL YEAR 2000-2001

Account Name	6-30-00	9-30-00	12-31-00	3-31-01	6-30-01	Net Contributions and Transfers	Investment Gain (Loss)
International Equities:							
Developed Markets:							
- Barclays Global Investors EAFE	6,104,789,369	5,643,295,454	5,503,299,674	4,736,488,292	4,814,132,312	164,000,000	(1,454,657,057)
- Blairlogie Capital Management	658,496,929	609,457,447	585,156,466	495,069,658	484,646,725	46,137	(173,896,341)
- Capital Guardian Trust Company	1,061,049,613	961,238,984	899,669,008	838,954,523	993,481,726	222,545,656	(290,113,543)
- Morgan Stanley Asset Management	964,868,704	908,331,504	1,046,226,966	1,035,774,108	1,058,391,293	160,063,724	(66,541,135)
- Progress Investment Management Co.	6,489,106	6,052,689	5,758,422	4,959,128	5,024,795	0	(1,464,311)
- Putnam Investments	1,057,867,777	974,410,549	957,984,244	919,217,211	928,798,534	95,106,665	(224,175,908)
- Sprucegrove Investment Management	523,521,606	505,989,290	591,828,699	617,549,860	647,649,798	136,005,110	(11,876,918)
- Templeton Investment Counsel, LLC	839,983,890	788,367,782	875,345,993	798,262,768	828,295,496	59,564,886	(71,253,280)
- T. Rowe Price International, Inc.	360,159,764	332,282,662	314,521,604	268,168,230	265,690,892	8,122	(94,476,994)
Emerging Markets:							
- Capital Int'l Emerging Markets Growth Fund	271,757,143	231,363,484	193,981,617	179,556,529	202,807,818	10,000,000	(78,949,325)
- Genesis Emerging Markets	213,766,410	191,868,811	189,491,584	198,490,011	218,402,942	36,600,000	(31,963,468)
- JP Morgan Fleming Asset Management	216,789,538	188,934,949	176,902,233	190,750,947	216,433,400	42,300,000	(42,656,138)
- Schroder Global Emerging Markets	136,282,736	117,868,314	100,171,078	91,280,494	95,693,611	0	(40,589,125)
- SSGA Emerging Markets	354,192,743	309,134,824	268,106,716	287,454,519	285,894,441	22,344,416	(90,642,718)
- SSGA Daily Active Emerging Markets	191,955,982	169,004,239	173,070,885	185,764,299	195,077,762	51,000,000	(47,878,220)
Other International Equities:							
- International Equities Asset Allocation	6,137	7,033	26,797	27,182	185,601	154,470	24,994
- Int'l Equities Commission Recapture (3)	538,988	198	0	0	0	(539,186)	198
Total International Equities	12,962,516,435	11,937,608,213	11,881,541,986	10,847,767,759	11,240,607,146	999,200,000	(2,721,109,289)
Fixed Income:							
Government/Corporate:							
- ActiFed Portfolio	1,683,746,197	1,731,907,429	1,752,183,681	1,635,754,272	1,666,715,323	(211,620,755)	194,589,881
- Florida Govt./Credit Index Fund	6,116,357,328	6,291,396,666	5,954,688,022	5,578,546,344	5,649,665,639	(1,131,100,000)	664,408,311
- Fixed Income Core Portfolio	3,139,739,489	3,230,516,131	3,270,048,906	3,080,719,174	3,128,752,818	(368,983,843)	357,997,172
- Index Plus Portfolio	2,571,994,511	2,645,473,124	2,679,152,977	2,520,333,255	2,564,021,448	(304,029,262)	296,056,199
- Tactical Strategies Portfolio	2,117,125,650	2,178,248,717	2,205,396,339	2,075,751,230	2,113,976,678	(249,466,140)	246,317,168
- Taplin, Canida & Habacht	294,060,976	304,103,087	300,811,632	288,437,359	293,865,730	(31,900,000)	31,704,754
High Yield:							
- Credit Suisse Asset Management (3)	264,708,824	267,076,515	213,899,342	1,113,785	386	(267,740,700)	3,032,262
- High Yield Asset Allocation	3,793,227	2,938,161	829,786	62,544,263	57,807,718	62,167,032	(8,152,541)
- Offitbank	451,835,395	456,807,567	444,084,214	567,473,607	570,742,265	107,168,279	11,738,591
- Pacific Investment Management	821,493,900	837,100,355	785,551,577	732,077,218	719,086,960	(111,694,611)	9,287,671
Mortgage:							
- Fixed Income Mortgages-Active	1,105,155,221	1,027,946,203	996,068,224	1,148,291,763	1,089,176,154	(135,646,417)	119,667,350
- Fixed Income Mortgages-Passive	507,506,824	614,335,588	607,193,953	590,811,562	573,611,782	4,000,000	62,104,958
Mortgage Group Trust: (1)							
- Alliance Capital Management (3)	865,861,748	893,216,759	533,782	533,165	0	(924,164,752)	58,303,004
- Glenmede Asset Management	975,967,778	1,007,367,181	1,284,423,807	1,144,050,079	1,215,686,950	123,559,748	116,159,424
- Lincoln Capital Management	789,181,636	774,515,529	739,137,054	699,531,794	705,488,143	(164,400,000)	80,706,507
- Smith Breeden Associates	544,664,354	672,760,707	923,993,855	793,893,246	802,042,186	180,740,195	76,637,637
- Trust Company of the West	1,268,140,650	1,309,183,557	1,433,478,153	1,287,538,313	1,364,508,112	(51,400,000)	147,767,462
- Utendahl Capital Management	1,251,717,209	1,240,744,265	1,289,923,588	1,039,060,876	1,095,735,484	(284,600,000)	128,618,275
- Wellington Management Company	1,035,991,747	1,068,577,750	1,343,318,622	1,196,882,700	1,215,122,891	56,711,226	122,419,918
Total Fixed Income	25,809,042,664	26,554,215,291	26,224,717,514	24,443,344,005	24,826,006,667	(3,702,400,000)	2,719,364,003

TABLE III-16 (continued)
FRS PENSION FUND MARKET VALUE AT END OF QUARTER
FISCAL YEAR 2000-2001

Account Name	6-30-00	9-30-00	12-31-00	3-31-01	6-30-01	Net Contributions and Transfers	Investment Gain (Loss)
Real Estate:							
- Commingled	260,212,119	185,477,651	128,022,717	112,442,192	103,759,963	(176,467,264)	20,015,108
- Directly Owned Investments	3,451,705,138	3,402,708,733	3,550,578,167	3,533,885,319	3,521,202,201	(314,704,815)	384,201,878
- Non-Capitalized Expenses	0	100,000	100,000	0	0	296,519	(296,519)
- Real Estate Cash	148,579,805	102,179,444	107,959,747	20,607,868	54,389,862	(96,507,071)	2,317,128
- Real Estate Short-term interest	0	0	1,383,005	0	0	(28,318)	28,318
- Real Estate Stock	343,124,413	347,116,780	325,608,353	320,815,256	352,704,973	(83,589,051)	93,169,611
Total Real Estate	4,203,621,475	4,037,582,608	4,113,651,989	3,987,750,635	4,032,056,999	(671,000,000)	499,435,524
Alternative Investments:							
- Apollo Advisors V, L.P. (2)	0	0	0	0	4,660,674	5,727,929	(1,067,255)
- Apollo Investment Fund IV, L.P.	207,830,293	211,392,807	223,473,412	237,317,722	258,129,063	50,044,530	254,240
- Carlyle Investment Management	241,393,011	240,236,989	223,373,806	230,372,874	245,145,862	(5,742,181)	9,495,032
- Carlyle Partners III (2)	0	38,590,113	43,462,620	36,043,380	39,305,818	44,108,848	(4,803,030)
- Centre Capital Investments	178,703,393	157,899,251	152,582,787	148,599,717	146,258,313	364,210	(32,809,290)
- Chartwell Capital Investors	33,214,076	34,413,000	35,345,000	37,707,889	36,218,000	4,628,631	(1,624,707)
- Corporate Advisors, L.P. (3)	14,428,169	13	0	0	0	(12,786,940)	(1,641,229)
- Cypress Equity Fund	13,034,102	16,224,762	12,554,612	12,640,625	12,541,663	(5,372,054)	4,879,615
- Green Equity Investors	24,796,078	34,952,411	34,213,375	39,685,729	39,535,280	14,666,087	73,115
- Hicks, Muse, Tate & Furst	300,998,882	234,167,388	185,118,889	155,778,405	162,216,595	(55,340,246)	(83,442,041)
- Hicks, Muse, Tate & Furst Equity Fund IV	470,079,869	408,402,749	354,554,846	309,852,470	364,921,702	10,039,154	(115,197,321)
- Lexington Capital Partners, IV, L.P. (2)	0	0	0	0	51,509,514	48,450,075	3,059,439
- Liberty Partners I	96,155,343	98,049,788	83,796,817	80,904,625	82,920,928	(5,224,958)	(8,009,457)
- Liberty Partners II	341,631,510	315,132,821	303,367,666	298,711,767	246,435,976	448,592	(95,644,126)
- Liberty Partners III	542,721,601	530,015,447	613,576,155	541,698,670	696,807,435	(48,789,580)	202,875,414
- Liberty Partners IV	298,438,329	297,935,324	172,514,884	176,995,981	131,077,151	(98,147,591)	(69,213,587)
- Liberty Partners V	151,519,112	181,976,651	184,205,616	171,947,872	163,597,515	105,916,835	(93,838,432)
- LPNY Coinvestment Partners, L.P.	422,752,777	447,953,930	426,234,854	439,838,815	498,182,207	63,823,843	11,605,587
- Private Equity Cash	11,314,431	10,369,814	32,717,940	17,455,742	12,557,463	177,165	1,065,867
- Ripplewood Partners, L.P.	75,332,234	76,920,351	75,997,111	78,530,110	79,072,254	4,189,150	(449,130)
- Ripplewood Partners II, L.P. (2)	0	0	0	8,132,726	7,355,289	8,036,454	(681,165)
- THL Equity Fund IV, L.P.	103,504,318	124,834,773	105,479,246	99,993,125	116,468,468	1,027,711	11,936,439
- TSG Capital Fund III, L.P.	62,848,970	66,377,428	67,058,147	70,998,091	70,298,468	12,450,505	(5,001,007)
- Willis, Stein & Partners, L.P.	33,654,528	34,366,094	35,469,114	36,183,400	34,633,651	2,140,138	(1,161,015)
- Willis, Stein & Partners III, L.P. (2)	0	0	13,768,945	15,087,175	14,041,466	15,163,693	(1,122,227)
Total Alternative Investments	3,624,351,026	3,560,211,904	3,378,865,842	3,244,476,910	3,513,890,755	160,000,000	(270,460,271)
Cash/Short-Term:							
- Cash & Central Custody	890,635,676	989,053,378	856,521,103	801,115,363	958,368,036	25,209,825	42,522,535
Total Cash/Short-Term	890,635,676	989,053,378	856,521,103	801,115,363	958,368,036	25,209,825	42,522,535
Total FRS Pension Fund	$106,630,007,835	$106,524,814,530	$101,690,772,299	$94,089,038,316	$98,206,820,075	$(302,390,175)	$(8,120,797,585)

(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.

TABLE III-17
DOMESTIC EQUITIES INVESTMENTS

	Account Name	Market Value 6-30-00	Market Value 6-30-01	Net Contributions and Transfers	Investment Gain (Loss)	FY 00-01 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	$6,024,164,658	$4,132,965,944	$0	$(1,891,198,714)	-31.4%	N	N	Y
A	American Express Asset Mgt. Group, Inc.	2,583,981,558	1,922,879,953	(200,000,000)	(461,101,605)	-17.9%	Y	Y	Y
A	Aronson & Partners	1,232,180,198	1,537,001,264	200,000,000	104,821,066	7.0%	Y	Y	Y
P	Barclays Global Investors Index	10,081,276,799	8,714,707,412	201,200,000	(1,567,769,387)	-15.4%	Y	Y	Y
P	Barclays Global Investors Low Cap	1,694,423,931	1,041,437,287	(769,700,000)	116,713,356	9.3%	Y	Y	Y
A	Brown Capital Management	223,255,679	192,970,017	0	(30,285,662)	-13.6%	Y	N	N
A	David L. Babson	450,083,076	501,882,751	0	51,799,675	11.5%	N	Y	Y
A	Dresdner RCM Global Investors, LLC	0	806,230,757	1,017,848,247	(211,617,490)	(3)	(3)	(3)	(3)
A	Enhanced Investment Technologies, Inc.	1,298,657,517	1,956,348,837	780,000,000	(122,308,680)	-10.0%	Y	Y	Y
A	First Quadrant Corporation	1,052,882,164	0	(1,020,712,728)	(32,169,436)	(3)	(3)	(3)	(3)
A	Goldman, Sachs & Company	3,556,081,036	3,902,681,817	798,589,278	(451,988,497)	-13.2%	Y	Y	Y
A	Haven Capital Management	22,618	0	(2,706)	(19,912)	(3)	(3)	(3)	(3)
A	Lazard Freres Asset Management	32,372	0	0	(32,372)	(3)	(3)	(3)	(3)
A	Northern Trust Quantitative Advisors, Inc.	273,777,891	0	(305,486,697)	31,708,806	(3)	(3)	(3)	(3)
A	Private Capital Management	676,111,187	1,133,327,438	199,300,000	257,916,251	34.0%	Y	Y	Y
A	Prudential Asset Management Company, Inc.	964,778,451	1,367,778,115	100,000,000	302,999,664	30.4%	Y	Y	Y
A	Putnam Advisory Company, Inc.	491,885,283	0	(516,025,655)	24,140,372	(3)	(3)	(3)	(3)
A	Sands Capital Management	0	425,530,375	516,856,357	(91,325,982)	(3)	(3)	(3)	(3)
A	Smith Barney Capital Management	968,610,577	1,241,875,510	150,000,000	123,264,933	11.5%	Y	Y	(2)
P	Wilshire Large Growth Fund	2,505,547,049	169,246,163	(1,877,779,909)	(458,520,977)	-27.7%	Y	N	N
P	Wilshire Large Value Fund	380,299,962	0	(442,380,299)	62,080,337	(3)	(3)	(3)	(3)
		34,458,052,006	29,046,863,640	(1,168,294,112)	(4,242,894,254)				
	Progress Trust I (4):					(3)	(3)	(3)	(3)
A	John Hsu Capital Group	1,176	0	0	(1,176)	(3)	(3), (4)	(3), (4)	(3), (4)
A	Paradigm Asset Management	1,093,557	0	(1,105,332)	11,775	(3)	(3), (4)	(3), (4)	(3), (4)
		1,094,733	0	(1,105,332)	10,599				
A	Progress Trust II (4):					-21.7%	Y	(2)	(2)
A	Fuller & Thaler	85,346,500	67,027,089	0	(18,319,411)	-21.5%	(4)	(4)	(4)
A	Genesis Capital Management	148,527,381	117,909,352	0	(30,618,029)	-20.6%	(4)	(4)	(4)
A	Globalt, Inc.	79,909,724	68,756,820	0	(11,152,904)	-14.0%	(4)	(4)	(4)
A	New Amsterdam Partners	58,348	0	(55,509)	(2,839)	(3)	(3), (4)	(3), (4)	(3), (4)
A	Piedra Capital Management	283,585	0	(285,183)	1,598	(3)	(3), (4)	(3), (4)	(3), (4)
A	Wall Street Associates	160,730,813	117,958,484	0	(42,772,329)	-26.6%	(4)	(4)	(4)
		474,856,351	371,651,745	(340,692)	(102,863,914)				
		34,934,003,090	29,418,515,385	(1,169,740,136)	(4,345,747,569)				
	DOMESTIC EQUITIES MANAGERS - INTERNAL								
P	Active Core Portfolio	5,545,782,656	2,990,254,663	(1,981,419,318)	(574,108,675)	-14.9%	Y	Y	Y
NA	COMBAL	6,290,011	2,489	(6,290,051)	2,529	(5)	(5)	(5)	(5)
NA	Domestic Equities Asset Allocation	2,045,336	9,192	(23,505,486)	21,469,342	(5)	(5)	(5)	(5)
NA	Domestic Equities Restructuring Account	531,244	430,185	86,796,645	(86,897,704)	(5)	(5)	(5)	(5)
P	PIVOT Portfolio	18,430,111,115	20,888,058,727	5,880,758,346	(3,422,810,734)	-15.7%	Y	Y	Y
A	Special Situations	221,071,906	338,619,831	100,000,000	17,547,925	2.4%	Y	Y	Y
P	Yieldtilt Portfolio	5,201	0	0	(5,201)	(3)	(3)	(3)	(3)
		24,205,837,469	24,217,375,087	4,056,340,136	(4,044,802,518)				
	TOTAL DOMESTIC EQUITIES MANAGERS	$59,139,840,559	$53,635,890,472	$2,886,600,000	$(8,390,550,087)				

* 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 I and Progress Trust II are aggregates of individual portfolios. Performance relative to a benchmark is not measured on the individual accounts included in Progress Trust I and Progress Trust II.
(5) These accounts are either administrative or transitionary and individual performance is not considered meaningful. They are included in the appropriate aggregate combination performance.

Tables III-17 through III-22 provide relevant information for Florida Retirement System Trust Fund (FRSTF) portfolios, by asset class, during FY 2000-2001. 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 2000-2001; 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-18
INTERNATIONAL EQUITIES INVESTMENTS

	Account Name	Market Value 6-30-00	Market Value 6-30-01	Net Contributions and Transfers	Investment Gain (Loss)	FY 00-01 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	$6,137	$185,601	$154,470	$24,994	(3)	(3)	(3)	(3)
NA	International Equities Commission Recapture	538,988	0	(539,186)	198	(3)	(3)	(3)	(3)
		545,125	185,601	(384,716)	25,192				
INTERNATIONAL EQUITIES MANAGERS - EXTERNAL									
Developed Markets:									
P	Barclays Global Investors EAFE	6,104,789,369	4,814,132,312	164,000,000	(1,454,657,057)	-23.7%	Y	Y	Y
A	Blairlogie Capital Management	658,496,929	484,646,725	46,137	(173,896,341)	-26.4%	N	N	(2)
A	Capital Guardian Trust Company	1,061,049,613	993,481,726	222,545,656	(290,113,543)	-26.1%	N	Y	Y
A	Morgan Stanley Asset Management	964,868,704	1,058,391,293	160,063,724	(66,541,135)	-6.8%	Y	Y	Y
A	Progress Investment Management Co. (4)	6,489,106	5,024,795	0	(1,464,311)	-22.6%	Y	Y	(2)
A	Putnam Investments (5)	1,057,867,777	928,798,534	95,106,665	(224,175,908)	-21.4%	Y	Y	Y
A	Sprucegrove Investment Management	523,521,606	647,649,798	136,005,110	(11,876,918)	-3.0%	Y	Y	(2)
A	Templeton Investment Counsel, LLC (6)	839,983,890	828,295,496	59,564,886	(71,253,280)	-8.3%	Y	Y	Y
A	T. Rowe Price International, Inc. (7)	360,159,764	265,690,892	8,122	(94,476,994)	-26.2%	N	Y	Y
		11,577,226,758	10,026,111,571	837,340,300	(2,388,455,487)				
Emerging Markets:									
A	Capital Int'l Emerging Markets Growth Fund	271,757,143	202,807,818	10,000,000	(78,949,325)	-29.3%	N	Y	(2)
A	Genesis Emerging Markets	213,766,410	218,402,942	36,600,000	(31,963,468)	-15.6%	Y	N	(2)
A	JP Morgan Fleming Asset Management (8)	216,789,538	216,433,400	42,300,000	(42,656,138)	-20.5%	Y	N	Y
A	Schroder Global Emerging Markets	136,282,736	95,693,611	0	(40,589,125)	-29.8%	N	N	(2)
P	SSGA Emerging Markets	354,192,743	285,894,441	22,344,416	(90,642,718)	-25.6%	N	N	N
A	SSGA Daily Active Emerging Markets	191,955,982	195,077,762	51,000,000	(47,878,220)	-24.7%	Y	Y	(2)
		1,384,744,552	1,214,309,974	162,244,416	(332,678,994)				
TOTAL INTERNATIONAL EQUITIES MANAGERS		$12,962,516,435	$11,240,607,146	$999,200,000	$(2,721,109,289)				

* 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 are either administrative or transitionary and individual performance is not considered meaningful. They are included in the appropriate aggregate combination performance.
(4) Progress Common Trust changed its name to Progress Investment Management Co. during the fiscal year.
(5) Putnam International Advisors changed its name to Putnam Investments during the fiscal year.
(6) Templeton Investment Counsel changed its name to Templeton Investment Counsel, LLC during the fiscal year.
(7) Rowe Price Fleming International, Inc. changed its name to T. Rowe Price International, Inc. during the fiscal year.
(8) JP Morgan Investment Managers changed its name to JP Morgan Fleming Asset Management during the fiscal year.

TABLE III-19
FIXED INCOME INVESTMENTS

	Account Name	Market Value 6-30-00	Market Value 6-30-01	Net Contributions and Transfers	Investment Gain (Loss)	FY 00-01 Rate of Return*	Meets or Exceeds Benchmark Prior 1 year (1)	3 years (1)	5 years (1)
	FIXED INCOME MANAGERS - INTERNAL								
	Government/Credit:								
A	ActiFed Portfolio	$1,683,746,197	$1,666,715,323	$(211,620,755)	$194,589,881	11.8%	Y	Y	(2)
P	Florida Govt./Credit Index Fund	6,116,357,328	5,649,665,639	(1,131,100,000)	664,408,311	11.4%	Y	Y	Y
A	Fixed Income Core Portfolio	3,139,739,489	3,128,752,818	(368,983,843)	357,997,172	11.6%	Y	N	N
A	Index Plus Portfolio	2,571,994,511	2,564,021,448	(304,029,262)	296,056,199	11.8%	Y	Y	Y
A	Tactical Strategies Portfolio	2,117,125,650	2,113,976,678	(249,466,140)	246,317,168	11.9%	Y	Y	Y
	High Yield:								
NA	High Yield Asset Allocation	3,793,227	57,807,718	62,167,032	(8,152,541)	(4)	(4)	(4)	(4)
	Mortgage:								
A	Fixed Inc. Mortgages-Active Synthetic	1,105,155,221	1,089,176,154	(135,646,417)	119,667,350	11.9%	Y	(2)	(2)
P	Fixed Inc. Mortgages-Passive Synthetic	507,506,824	573,611,782	4,000,000	62,104,958	11.1%	N	(2)	(2)
		17,245,418,447	16,843,727,560	(2,334,679,385)	1,932,988,498				
	FIXED INCOME MANAGERS - EXTERNAL								
	Government/Credit:								
A	Taplin, Canida & Habacht	294,060,976	293,865,730	(31,900,000)	31,704,754	11.1%	Y	(2)	(2)
	High Yield:								
A	Credit Suisse Asset Management	264,708,824	386	(267,740,700)	3,032,262	(3)	(3)	(3)	(3)
A	Offitbank	451,835,395	570,742,265	107,168,279	11,738,591	3.0%	Y	Y	(2)
A	Pacific Investment Management	821,493,900	719,086,960	(111,694,611)	9,287,671	0.8%	N	Y	(2)
	Mortgage Group Trust:								
A	Alliance Capital Management	865,861,748	0	(924,164,752)	58,303,004	(3)	(3)	(3)	(3)
A	Glenmede Asset Management	975,967,778	1,215,686,950	123,559,748	116,159,424	11.3%	Y	Y	Y
P	Lincoln Capital Management	789,181,636	705,488,143	(164,400,000)	80,706,507	11.0%	N	N	(2)
A	Smith Breeden Associates	544,664,354	802,042,186	180,740,195	76,637,637	11.2%	Y	N	(2)
A	Trust Company of the West	1,268,140,650	1,364,508,112	(51,400,000)	147,767,462	11.5%	Y	Y	Y
P	Utendahl Capital Management	1,251,717,209	1,095,735,484	(284,600,000)	128,618,275	11.1%	N	Y	Y
A	Wellington Management Company	1,035,991,747	1,215,122,891	56,711,226	122,419,918	11.2%	Y	Y	(2)
		8,563,624,217	7,982,279,107	(1,367,720,615)	786,375,505				
	TOTAL FIXED INCOME MANAGERS	$25,809,042,664	$24,826,006,667	$(3,702,400,000)	$2,719,364,003				

* 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 transitionary account and individual performance is not considered meaningful. It is included in the appropriate aggregate combination performance.

TABLE III-20
REAL ESTATE INVESTMENTS

	Account Name	Market Value 6-30-00 (1)	Market Value 6-30-01 (1)	Net Contributions and Transfers (2)	Investment Gain (Loss)	FY 00-01 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	$325,594,460	$302,519,710	$(33,605,294)	$10,530,544	(4)	(4)	(4)	(4)
NA	Apartments	544,502,764	582,363,262	(54,989,597)	92,850,095	(4)	(4)	(4)	(4)
NA	Industrial	410,641,183	437,147,160	(28,201,501)	54,707,478	(4)	(4)	(4)	(4)
NA	Office	1,821,482,830	1,797,740,244	(212,028,411)	188,285,825	(4)	(4)	(4)	(4)
NA	Retail	349,483,901	401,431,825	14,119,988	37,827,936	(4)	(4)	(4)	(4)
		3,451,705,138	3,521,202,201	(314,704,815)	384,201,878				
COMMINGLED FUNDS									
A	UBS Brinson - PMSA	52,091,299	16,221,922	(39,771,133)	3,901,756	14.7%	N	Y	Y
A	UBS Brinson - RESA	97,190,724	0	(103,037,632)	5,846,908	(5)	(5)	(5)	(5)
A	FNBC Fund F	20,243	21,022	0	779	4.8%	N	Y	Y
A	LaSalle Fund II	307,712	249,948	(122,621)	64,857	29.5%	Y	Y	Y
A	Lend Lease Prime Property Fund	37,376,212	37,910,237	(3,451,889)	3,985,914	17.1%	N	Y	Y
A	Prudential - PRISA	73,225,929	49,356,834	(30,083,989)	6,214,894	18.1%	N	Y	Y
		260,212,119	103,759,963	(176,467,264)	20,015,108				
NA	Non-Capitalized Expenses (6)	0	0	296,519	(296,519)	(4)	(4)	(4)	(4)
NA	Real Estate Short-term Interest (7)	0	0	(28,318)	28,318	(4)	(4)	(4)	(4)
A	Real Estate Cash	148,579,805	54,389,862	(96,507,071)	2,317,128	6.1%	Y	Y	Y
A	Real Estate Stock	343,124,413	352,704,973	(83,589,051)	93,169,611	32.5%	Y	Y	Y
	TOTAL REAL ESTATE PORTFOLIO	$4,203,621,475	$4,032,056,999	$(671,000,000)	$499,435,524				

* 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.
(8) Performance of Directly Owned investments can be found in Table III-11.

TABLE III-21
ALTERNATIVE INVESTMENTS

	Account Name	Market Value 6-30-00 (1)	Market Value 6-30-01 (1)	Net Contributions and Transfers	Investment Gain (Loss)	Since Inception IRR (2)*	Meets or Exceeds Benchmark Since Inception (3),(4)
ALTERNATIVE INVESTMENT MANAGERS - EXTERNAL							
A	Apollo Advisors V, L.P.	$0	$4,660,674	$5,727,929	$(1,067,255)	(6)	(6)
A	Apollo Investment Fund IV, L.P.	207,830,293	258,129,063	50,044,530	254,240	7.5%	Y
A	Carlyle Investment Management	241,393,011	245,145,862	(5,742,181)	9,495,032	19.5%	Y
A	Carlyle Partners III	0	39,305,818	44,108,848	(4,803,030)	(6)	(6)
A	Centre Capital Investments	178,703,393	146,258,313	364,210	(32,809,290)	3.0%	N
A	Chartwell Capital Investors	33,214,076	36,218,000	4,628,631	(1,624,707)	-5.1%	(5)
A	Corporate Advisors, L.P.	14,428,169	0	(12,786,940)	(1,641,229)	(6)	(6)
A	Cypress Equity Fund	13,034,102	12,541,663	(5,372,054)	4,879,615	31.0%	Y
A	Green Equity Investment, L.P.	24,796,078	39,535,280	14,666,087	73,115	0.2%	(5)
A	Hicks, Muse, Tate & Furst	300,998,882	162,216,595	(55,340,246)	(83,442,041)	10.3%	N
A	Hicks, Muse, Tate & Furst Equity Fund IV	470,079,869	364,921,702	10,039,154	(115,197,321)	-0.1%	(5)
A	Lexington Capital Partners IV, L.P.	0	51,509,514	48,450,075	3,059,439	(6)	(6)
A	Liberty Partners I	96,155,343	82,920,928	(5,224,958)	(8,009,457)	19.5%	N
A	Liberty Partners II	341,631,510	246,435,976	448,592	(95,644,126)	14.2%	N
A	Liberty Partners III	542,721,601	696,807,435	(48,789,580)	202,875,414	28.2%	Y
A	Liberty Partners IV	298,438,329	131,077,151	(98,147,591)	(69,213,587)	15.2%	(5)
A	Liberty Partners V	151,519,112	163,597,515	105,916,835	(93,838,432)	-13.2%	(5)
A	LPNY Coinvestment Partners, L.P.	422,752,777	498,182,207	63,823,843	11,605,587	3.8%	N
A	Ripplewood Partners, L.P.	75,332,234	79,072,254	4,189,150	(449,130)	1.3%	N
A	Ripplewood Partners II, L.P.	0	7,355,289	8,036,454	(681,165)	(6)	(6)
A	THL Equity Fund IV, L.P.	103,504,318	116,468,468	1,027,711	11,936,439	19.8%	Y
A	TSG Capital Fund III, L.P.	62,848,970	70,298,468	12,450,505	(5,001,007)	-6.7%	(5)
A	Willis, Stein & Partners, L.P.	33,654,528	34,633,651	2,140,138	(1,161,015)	0.2%	(5)
A	Willis, Stein & Partners III, L.P.	0	14,041,466	15,163,693	(1,122,227)	(6)	(6)
		3,613,036,595	3,501,333,292	159,822,835	(271,526,138)		
ALTERNATIVE INVESTMENT MANAGERS - INTERNAL							
NA	Private Equity Cash	11,314,431	12,557,463	177,165	1,065,867	5.7%	(5)
TOTAL ALTERNATIVE INVESTMENTS		$3,624,351,026	$3,513,890,755	$160,000,000	$(270,460,271)		

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

A - Active P - Passive NA - Not Applicable

(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) 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.
(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) Each portfolio has a custom benchmark reflecting a phased-in, risk-adjusted annual hurdle of 600 basis points over the domestic equity target return.
(5) Private equity portfolio performance relative to its benchmark is calculated since inception and is not presented for periods of less than three years.
(6) 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.

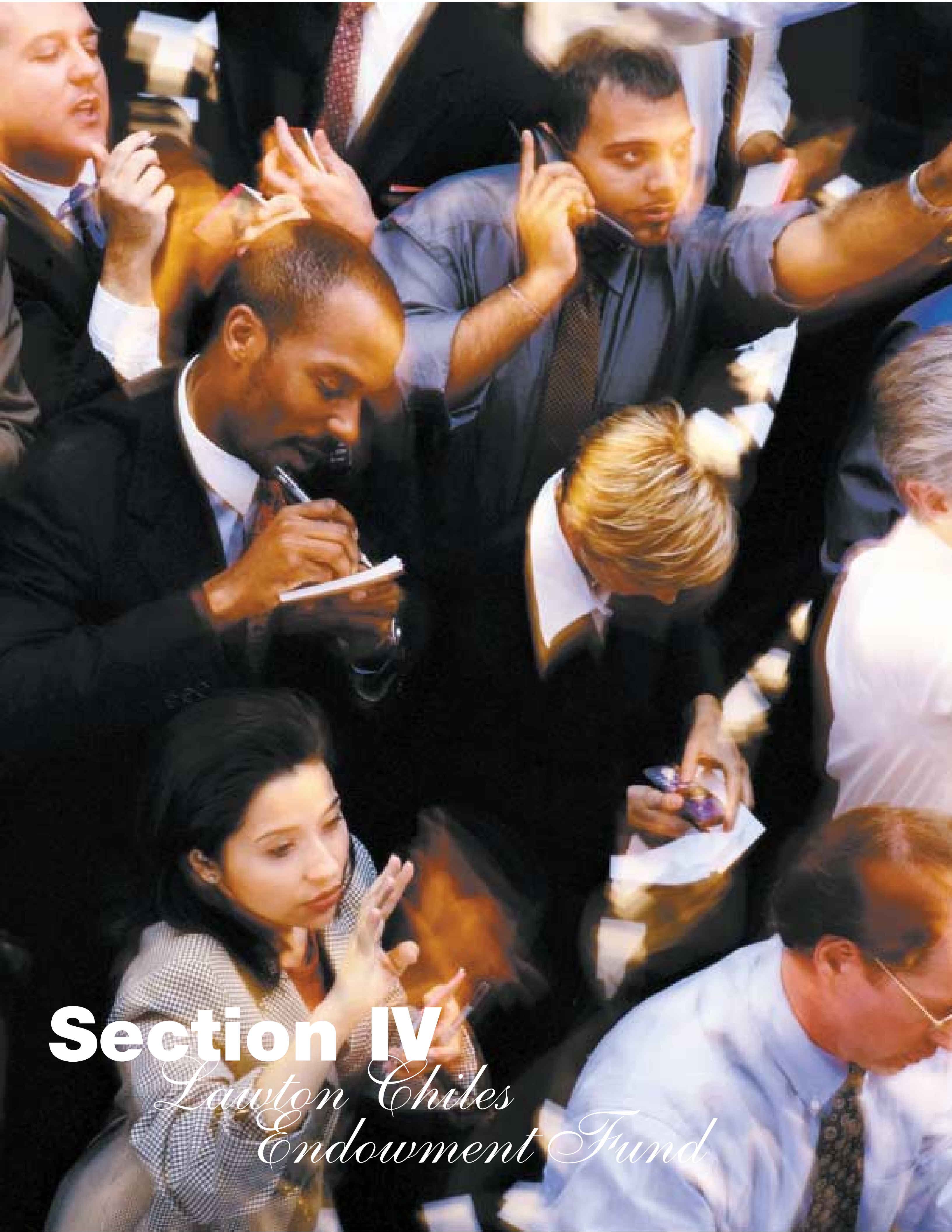
TABLE III-22
CASH INVESTMENTS

Account Name	Market Value 6-30-00	Market Value 6-30-01	Net Contributions and Transfers	Investment Gain (Loss)	FY 00-01 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)	$890,635,676	$958,368,036	$25,209,825	$42,522,535	6.1%	Y	Y	Y
TOTAL CASH MANAGERS	$890,635,676	$958,368,036	$25,209,825	$42,522,535				

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 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 in Section III.1.1 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, 2000 - JUNE 30, 2001

	Account Name	Market Value 6-30-00	Market Value 6-30-01	Net Contributions and Transfers	Investment Gain (Loss)
DOMESTIC EQUITIES MANAGERS - INTERNAL					
P	Chiles Domestic Equities Portfolio	$652,003,039	$697,430,957	$152,555,000	$(107,127,082)
FIXED INCOME MANAGERS - INTERNAL					
P	Chiles Government/Credit Portfolio	126,784,563	142,123,622	1,028,000	14,311,059
FIXED INCOME MANAGERS - EXTERNAL					
P	Lincoln Capital Management	62,847,591	70,493,346	776,000	6,869,755
INTERNATIONAL EQUITIES MANAGERS - EXTERNAL					
P	Barclays Global Investors-MSCI ACWI	66,642,758	66,952,032	18,950,000	(18,640,726)
A	Capital Guardian	69,067,602	67,201,110	18,764,000	(20,630,492)
INFLATION-INDEXED BONDS - INTERNAL					
P	Inflation Linked Treasury	135,202,305	142,777,275	(8,958,000)	16,532,970
REAL ESTATE MANAGERS - EXTERNAL					
A	Chiles Endowment Real Estate	49,966,490	54,136,263	(6,589,000)	10,758,773
CASH/SHORT-TERM MANAGERS - INTERNAL					
A	CAMP Money Market Fund	18,509,197	15,645,615	(3,916,000)	1,052,418
TOTAL LAWTON CHILES ENDOWMENT		$1,181,023,545	$1,256,760,220	$172,610,000	$(96,873,325)

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 2000-2001

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
JULY 1, 2000 - JUNE 30, 2001

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 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-3
LAWTON CHILES ENDOWMENT ACTUAL ASSET ALLOCATION
JULY 1, 2000 - JUNE 30, 2001

Asset Class	7-1-00	9-30-00	12-31-00	3-31-01	6-30-01
Domestic Equities	55.2%	55.5%	54.6%	54.2%	55.5%
Fixed Income	16.1%	16.6%	17.9%	17.6%	16.9%
International Equities	11.5%	10.4%	10.3%	11.1%	10.7%
Inflation-Indexed Bonds	11.4%	11.5%	11.6%	11.7%	11.4%
Real Estate	4.2%	4.4%	4.4%	4.1%	4.3%
Cash/Short-Term	1.6%	1.6%	1.2%	1.3%	1.2%
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 2000-2001

IV.5.1 Annualized Total Fund Investment Performance

The Endowment just edged out its since inception relative target return, however, the Endowment lagged its relative target return for the fiscal year. Also, the Endowment underperformed its long-term absolute target for the fiscal year and since inception. 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 and since inception periods, 3.2 percent and 3.5 percent respectively, with the 4.32 percent annual real target, produces the long-term absolute target returns of 7.7 percent for the fiscal year and 8.0 percent since inception. (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-4. 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 Table IV-2). Managed returns, net of external manager fees, and returns of the target indices are presented in Table IV-4.

TABLE IV-4
LAWTON CHILES ENDOWMENT PERFORMANCE
JULY 1, 2000 - JUNE 30, 2001

	FY 00-01 Rate of Return*	Since Inception Rate of Return*
Total Endowment		
Managed	-8.2%	0.0%
Long-Term Absolute Target (1)(2)	7.7%	8.0%
Relative Target (3)	-8.0%	-0.1%
Domestic Equities		
Managed	-15.9%	-4.2%
Target (4)	-15.6%	-3.7%
Fixed Income		
Managed	11.1%	7.9%
Target (5)	11.2%	7.8%
International Equities		
Managed	-25.5%	-16.8%
Target (6)	-24.2%	-18.2%
Inflation-Indexed Bonds		
Managed	12.8%	14.0%
Target (7)	12.9%	13.3%
Real Estate		
Managed	23.7%	24.5%
Target (8)	24.6%	29.0%
Cash/Short-Term		
Managed (9)	5.2%	5.2%
Target (10)	5.6%	5.6%

* MANAGED RETURNS ARE NET OF EXTERNAL MANAGER FEES.

(1) The Endowment's FY 00-01 Long-Term Absolute Target is based on a 4.32 percent annual real return adjusted for 3.2 percent consumer price inflation over the measurement period. Source of consumer price inflation data is the U.S. Department of Labor, Bureau of Labor Statistics.

(2) The Endowment's since inception Long-Term Absolute Target is based on a 4.32 percent annual real return adjusted for 3.5 percent consumer price inflation over the measurement period. Source of consumer price inflation data is the U.S. Department of Labor, Bureau of Labor Statistics.

(3) The Endowment's Relative Target is the composite of returns on the respective asset class targets, weighted by the target allocations.

(4) The Domestic Equities Target is the Wilshire 2500 Index, excluding the equities of tobacco-related companies.

(5) The Fixed Income Target is the Lehman Brothers U.S. Aggregate Bond Index.

(6) 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.

(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 FY 00-01 and since inception gross managed return for cash was 6.0 percent.

(10) The Cash/Short-Term Target is the Merrill Lynch 3-month U.S. Treasury Bill, Auction Average.

Quarter-end market values by asset class for FY 2000-2001 are presented in Table IV-5, while external investment management fees by asset class for the same period are illustrated in Table IV-6.

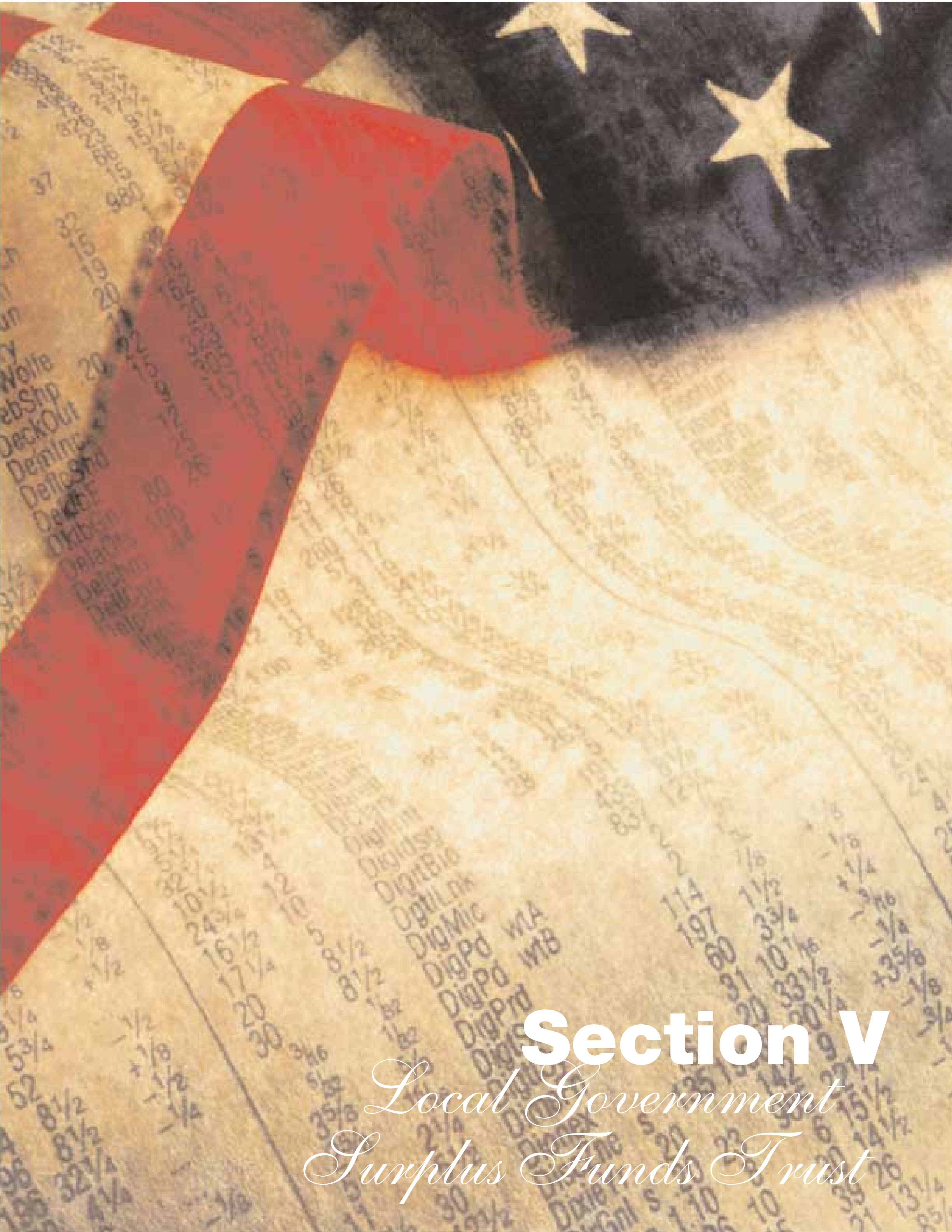
TABLE IV-5
LAWTON CHILES ENDOWMENT FUND
QUARTER-END MARKET VALUES BY ASSET CLASS

Asset Class	9-30-00	12-31-00	3-31-01	6-30-01
Domestic Equities	$652,376,102	$607,821,264	$651,158,576	$697,430,957
Fixed Income	194,946,253	199,084,376	211,875,605	212,616,968
International Equities	122,378,819	115,289,365	134,021,682	134,153,142
Inflation-Indexed Bonds	135,262,566	128,799,962	140,500,339	142,777,275
Real Estate	51,264,629	49,472,942	48,888,726	54,136,263
Cash/Short Term	18,808,097	13,343,773	15,530,845	15,645,615
Total	$1,175,036,466	$1,113,811,682	$1,201,975,773	$1,256,760,220

TABLE IV-6
LAWTON CHILES ENDOWMENT FUND
EXTERNAL INVESTMENT MANAGEMENT FEES BY ASSET CLASS
FISCAL YEAR 2000-2001

Asset Class	Dollar Amount	Return Basis (1)
International Equities	$310,712	0.24%
Fixed Income	30,183	0.03%
Real Estate	103,074	0.20%
Total	$443,969	0.16%

(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

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, when specific needs exist, at the discretion of the Executive Director. 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, 2001, there were 781 local government participants holding 1,714 accounts, with funds under management valued at $15,446,050,263. A short average maturity range, consistent with projected cash needs of the accounts, was maintained. The average maturity on June 30, 2001 was 32 days. Average maturity is adjusted during the year, depending upon market conditions and cash flows. For FY 2000-2001, the rate of return averaged 5.83 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 four 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 two are agent programs where the agent loans to multiple borrowers. This income is used to pay a significant portion of the fees associated with the pool which otherwise would have to be paid from regular pool earnings.

Our agent programs were effected through 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 $5,601,007.

We also continued to participate in principal programs with Credit Suisse First Boston and Lehman Brothers. 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 triparty 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 $2,365,815.

The FSBA invests funds on an individual basis for local governments with specific needs. There were only two individual participants on June 30, 2001 with total market value under management of $357,103,462. Rates of return for separately managed local government accounts may vary from those earned on the LGSFTF due to their special needs and differing investment strategies.

Tables V-I, V-2, and V-3 show the funds under management for the LGSFTF for fiscal years 1997-2001 and June 30, 2001 pooled and non-pooled accounts, by type of investment.

TABLE V-1
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND
POOLED AND NONPOOLED
FISCAL YEARS ENDING JUNE 30, 1997-2001

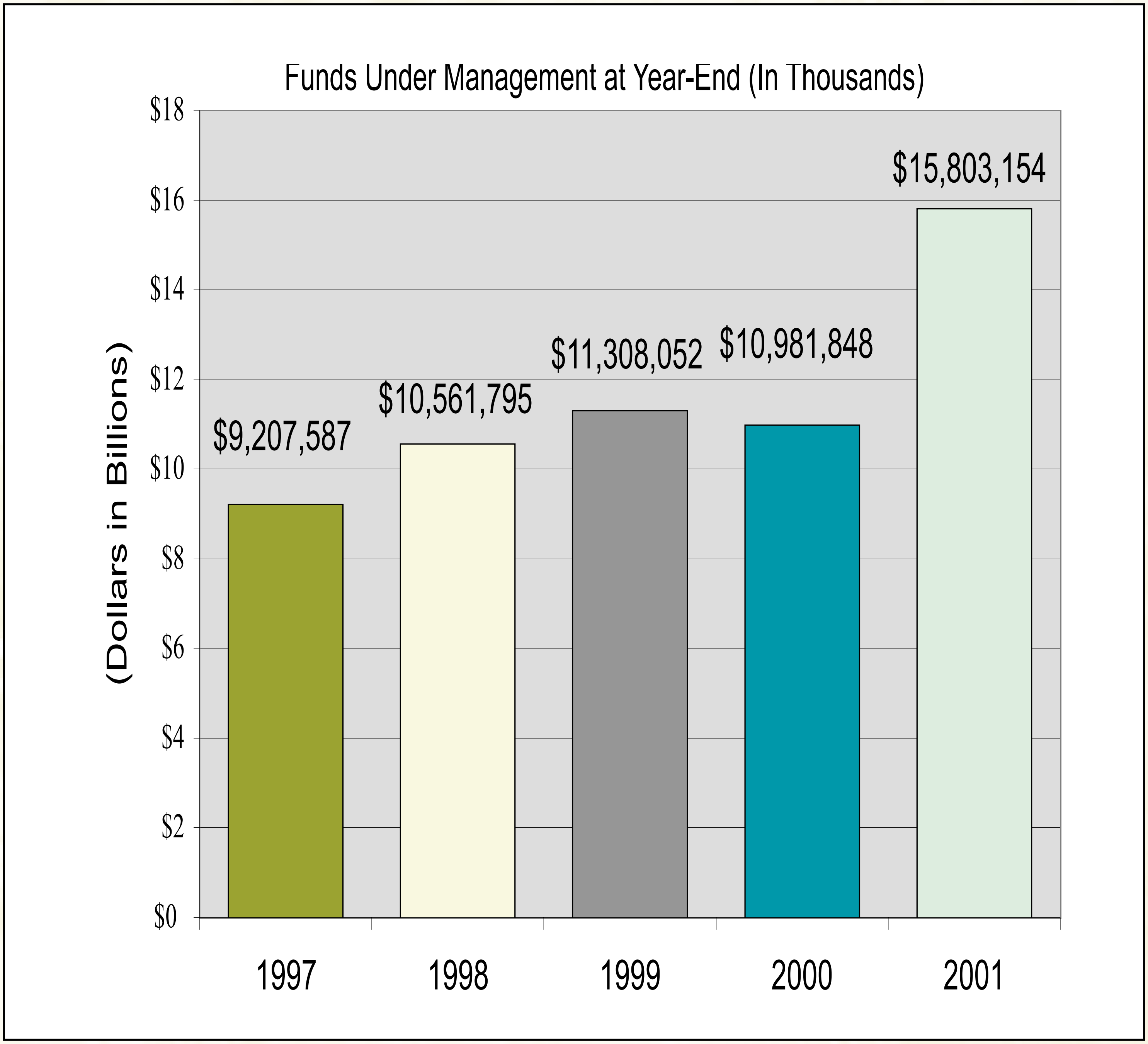


TABLE V-2
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND
POOLED INVESTMENT ACCOUNT

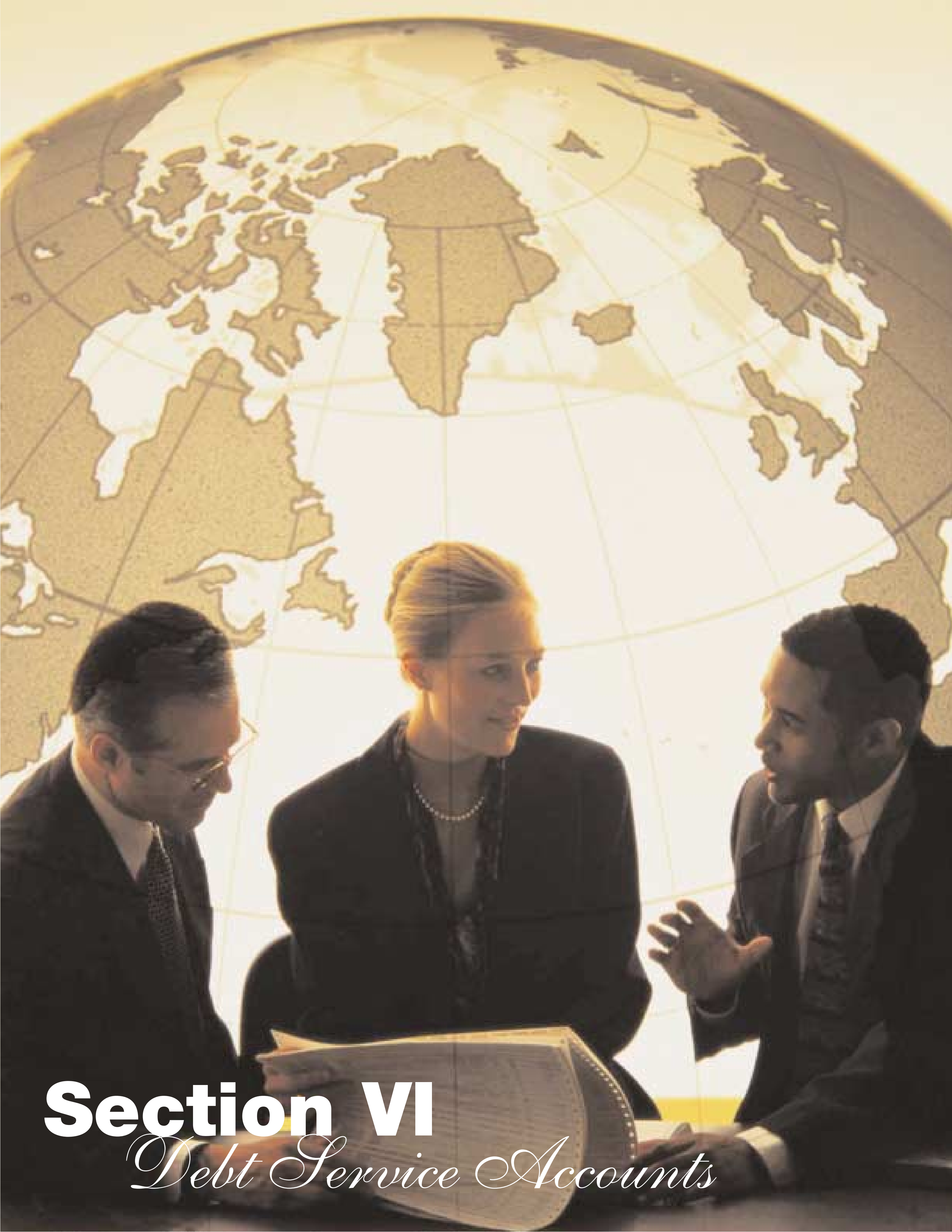
	June 30, 2001 Market*	% of Total Fund
Cash	$20,535,063	0.13
Certificates of Deposit	622,246,525	4.03
Commercial Paper	3,284,252,886	21.26
Federal Agency Obligations	9,703,072,226	62.82
Floating/Adjustable Rate Notes	244,726,656	1.58
Repurchase Agreements	210,936,387	1.37
Treasury Bills, Notes & Bonds	1,360,280,520	8.81
Total Investments	$15,446,050,263	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, 2001 Market*	% of Total Fund
Cash	$1,499	0.00
Repurchase Agreements	357,101,963	100.00
Total Investments	$357,103,462	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, six existing bond issues were either partially or completely defeased through the issuance of new debt. Two of these six bond issues were defeased through current refundings and were called for redemption during this fiscal year. Four other bond issues were either partially or completely defeased by depositing available monies in escrow funds. One of these bond issues was called for redemption during this fiscal year. The bond issues, which were not called for redemption, are 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, 2001, $3,476,866,000 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, 2000 and June 30, 2001.

TABLE VI-1
DEBT SERVICE ACCOUNTS
CASH AND INVESTMENTS AS OF JUNE 30, 2000 AND 2001

	Market Value* 6-30-00	Market Value* 6-30-01
Cash	$1,688,643	$3,682,359
Repurchase Agreements backed by U.S. Government Securities	25,165,137	47,020,146
U.S. Treasury Bills, Notes & Bonds	1,104,753,416	1,129,794,017
Escrow, U.S. Government, State & Local Government Series	1,832,750,434	2,204,892,615
STRIPS	920,285,964	839,005,684
Total Investments	$3,884,643,594	$4,224,394,821

* 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/Credit Commingled Fund, the Domestic Equities Passive Commingled Fund, and the Commingled Asset Management Program Money Market (CAMPMM) fund.

The FSBA separately manages the first eight 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 remaining are invested solely in the CAMPMM fund.

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, reflect 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 2000-2001, investments were made only for the "Lotto" game. All Lottery investments at market totaled $2,032,150,012 at June 30, 2001.

A securities lending program remains in place for the Lottery securities. For FY 2000-2001, Deutsche Bank acted as agent for the FSBA, lending securities to various authorized dealers. Net lending income for the year totaled $5,432,148.

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, 2001, the market value of the fund was $56,004,038.

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, 2001 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, 2001, the market value of the fund was $2,176,272.

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, 2001, 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, 2001 was $3,798,479,154.

A securities lending program remains in place for the investments in the FHCF and is utilized as market conditions warrant. For FY 2000-2001, Deutsche Bank acted as agent, lending securities to various authorized dealers. Net lending income for the year totaled $249,437.

VII.7 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, 2001 was $12,326,770, which included $34,752 in operating monies that were invested in the CAMPMM fund.

VII.8 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. 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. During the 2000-2001 fiscal year, $152,517 in claims were paid from the GIC claims account. The market value of this fund at June 30, 2001 was $789,130 of which $1,434 represented operating monies invested in the CAMPMM fund.

VII.9 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 is invested in the CAMP-MM fund, whose investments the FSBA does manage. The trust agreement also makes available to the client three FSBA-managed commingled pools: the CAMPMM fund, the Fixed Income Passive Government/Credit Commingled Fund, and the Domestic Equities Passive Commingled Fund. At June 30, 2001, the market value of this fund totaled $9,473,673.

VII.10 Blind Services Trust Fund

The Division of Blind Services of the Department of Education entered into a trust agreement with the FSBA in November 1999 to invest monies for the Division. After a rigorous transition of direct investment holdings from November 1999 through June 2000, the Division's funds were invested in various FSBA investment funds. The trust agreement makes available to the client three FSBA-managed commingled pools: the CAMPMM, the Fixed Income Passive Government/Credit Commingled Fund, and the Domestic Equities Passive Commingled Fund. The market value of the Blind Services Trust Fund on June 30, 2001 was $3,780,710.

VII.11 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 2000-2001 totaled $23,225,601, while actual administrative expenses for the period totaled $20,130,364. At June 30, 2001, the market value of the fund was $34,502,258, and the fund was invested in the Fixed Income Passive Government/Credit Commingled Fund and the CAMP-MM fund.

VII.12 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 fund was created to provide a high quality, liquid vehicle for small accounts 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, 2001 was $235,934,288.

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 the CAMPMM fund.

The following accounts are members of the CAMPMM fund:

VII.12.1 Public employee optional retirement program

The Public Employee Optional Retirement Program (PEORP) was created within the Florida Retirement System by Section 121.4501, F.S. in Chapter 2000-169, Laws of Florida, effective July 1, 2002. PEORP was created in compliance with Section 401(a) of the Internal Revenue Code, which requires that funds to implement PEORP be held in trust.

The PEORP Trust Fund was created by Section 121.4502, F.S. in Chapter 2000-255, Laws of Florida, effective July 1, 2001. The PEORP Trust Fund was created to hold the assets of the PEORP in trust for the exclusive benefit of the PEORP participants and beneficiaries, and for the payment of reasonable expenses of the PEORP.

The .10% contribution rate per employee we are charging all FRS employers from July 2000 to June 2002 has been and will continue to be used to fund the start-up costs of the PEORP. This money is currently going into the PEORP Trust Fund. At June 30, 2001, the market value of the fund was $14,647,836.

VII.12.2 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, 2001, the market value of the fund was $14,169,227.

VII.12.3 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 is generated from certain authorized municipal surcharges, such as fines imposed against designated civil penalties. At June 30, 2001, the market value of the fund was $1,799,785.

VII.12.4 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, 2001, the market value of the fund was $848,434.

VII.12.5 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, 2001, the market value of the fund was $110,304,525.

VII.12.6 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 660,000 plans have been purchased statewide.

The College Savings Program was created during the 1999 Legislative Session to complement the current prepaid plan. It will help families save for college expenses not covered by the current prepaid plan, including books, off-campus housing, food, and graduate studies. It will allow families to save for any qualified college, anywhere in the United States. The College Savings Program is authorized by Section 240.553, Florida Statutes, and is governed by Rule 19B, Florida Administrative Code. Program development began in 2000 with the addition of 2 full-time positions and implementation is targeted for Spring 2002.

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, 2001, the market value of funds invested by the FSBA was $3,752,723. The market value of the funds invested by the FSBA for the Foundation at June 30, 2001 was $11,171,095.

At June 30, 2001, the market value of funds invested with external managers was $2,719,563,219. The FSBA provides tracking, reconciliation, and accounting services for these funds.

VII.12.7 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, 2001 was $0.

VII.12.8 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, 2001, the market value of this fund was $560,200.


INVESTMENTS

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