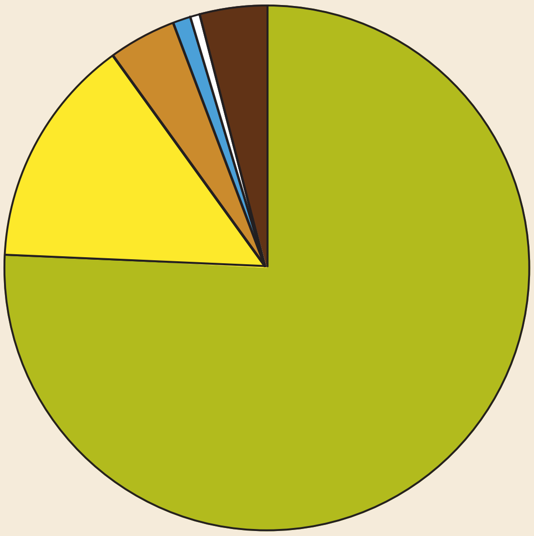
INVESTING FOR FLORIDA'S FUTURE

trust • performance • integrity

STATE BOARD OF ADMINISTRATION
2003-2004 INVESTMENT REPORT

Contents

C1: Total Assets Under Management
As of June 30, 2004



- FRS Pension Plan: $102,409m
- Local Government Investment Pool: $19,132m
- Florida Hurricane Catastrophe Fund: $5,476m
- Lawton Chiles Endowment Fund: $1,739m
- FRS Investment Plan: $707m
- Other: $4,776m

The total net asset value of funds under SBA management increased 11.1% to $134.2 billion at the end of the fiscal year.

Mission Statement

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

Letter from the Trustees

December 31, 2004

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

It is our privilege to submit the annual Investment Report of the State Board of Administration of Florida (SBA) for the fiscal year ended June 30, 2004 pursuant to the requirements of Florida Statutes, Section 215.44(5). This public report provides detailed information about the SBA and the investment performance of the 25 funds under SBA management, including the assets of the Florida Retirement System (FRS) Trust Fund.

> …the SBA is one of the nation's best and most trusted public sector investment and trust services providers in the country.

We invite you to read this report to learn more about the investment performance of each of the 25 funds, including the FRS Pension Plan, the fourth-largest public pension fund in the nation. As you know, changing economic and market conditions and other factors may affect investment returns from year to year. The investment objective of the SBA is to provide investment returns on FRS assets that are sufficient to ensure timely payments of promised benefits to current and future plan participants, while maintaining low plan costs. To achieve this, the SBA aims to produce a net long-term real return of 4% per annum using a strategy that emphasizes prudent risk management to avoid excessive volatility in returns.

We are pleased to report that the FRS members and taxpayers were served well this fiscal year. The total net asset value of funds under SBA management increased 11.1% to $134.2 billion at the end of the fiscal year. This fiscal year's strong investment performance helped the Florida Retirement System Pension Plan achieve an actuarial surplus of $11.5 billion as of June 30, 2004, *after* paying $4.3 billion in pension benefits. It is noteworthy that this year's FRS net investment return ranks eighth highest over the past 30 years. Moreover, the fund beat its investment benchmark by 19 basis points, which added $181 million in value to the FRS portfolio.

In addition, the SBA streamlined its operations to enhance efficiency and invested in cutting-edge technology that will improve and speed its ability to make and monitor investment transactions. At the same time, the SBA decreased its investment fees this fiscal year, thus reducing costs for FRS employers and other SBA clients.

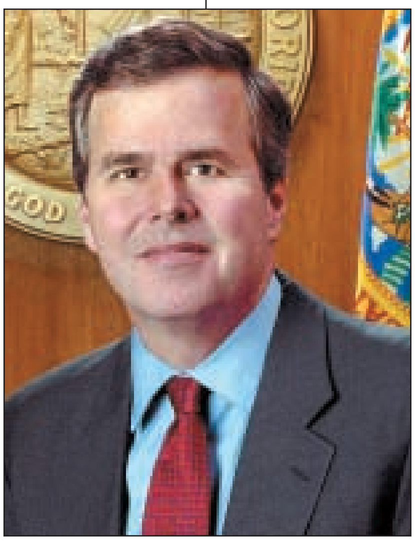
As Trustees, we take pride in the fact that the SBA is one of the nation's best and most trusted public sector investment and trust services providers in the country. Our goal is to ensure that the SBA continues to meet the highest ethical, fiduciary and professional standards – now and in the future.

Following your review of the annual Investment Report, please let us know if you have questions.

Respectfully submitted,

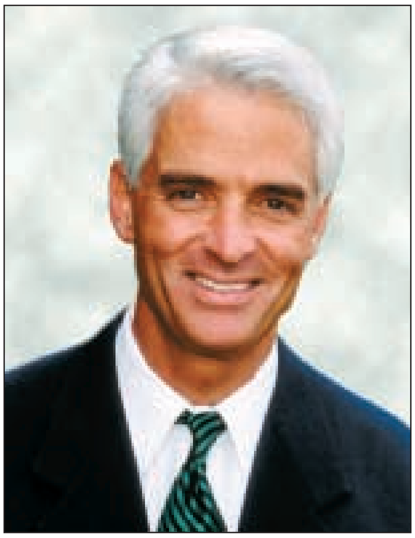
State Chief Financial Officer, as Treasurer

Tom Gallagher



Governor, as Chairman

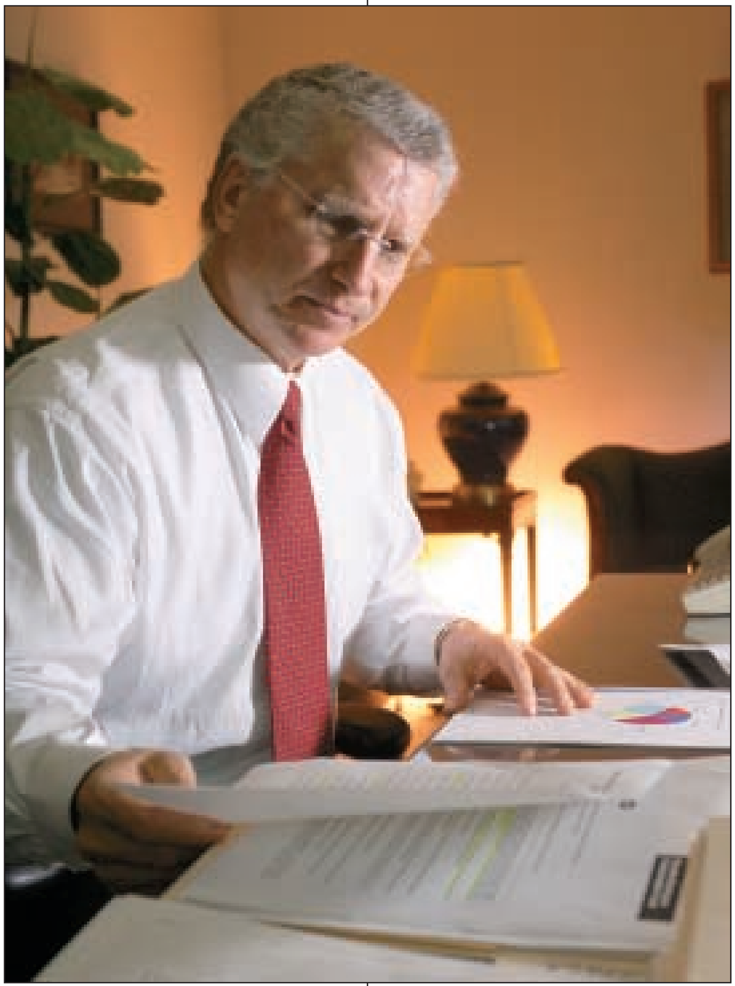
Jeb Bush



State Attorney General, as Secretary

Charlie Crist

Executive Director's Report
Fiscal Year 2003-2004



By any measure, the State Board of Administration of Florida had a successful year. Our organization delivered impressive investment results as our dedicated professional staff provided cost-effective investment and trust services. More specifically, the SBA fulfilled its fiduciary obligation to the 850,000-plus participants and beneficiaries of the Florida Retirement System (FRS), guided by a strong commitment to safeguarding and increasing the long-term value of the assets that we manage and invest on their behalf.

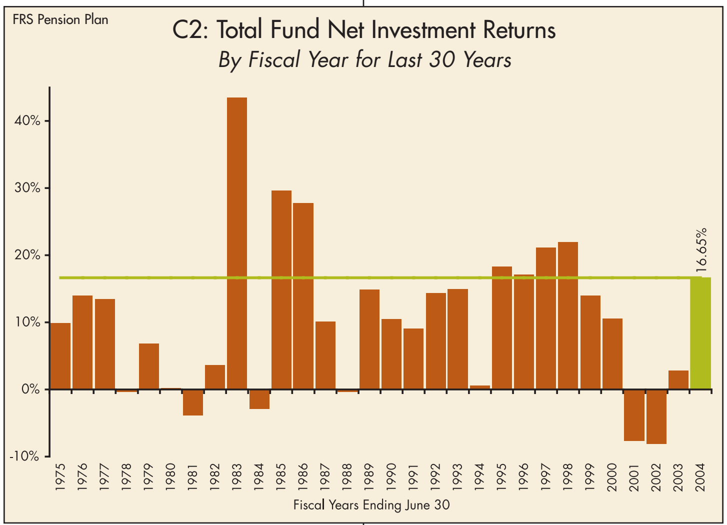
At the SBA, we understand, first and foremost, that thousands of Floridians, from state government workers and public school teachers to local public safety officers and firefighters, count on us, every day, to make objective investment management decisions. They count on us to manage the FRS Trust Fund and other funds with integrity and the highest degree of professionalism. They count on us to minimize investment volatility through our focus on prudent risk management and investment diversification. They count on us to manage our operations and our annual budget in an efficient, fiscally responsible manner. They count on the SBA to achieve long-term investment results that ensure the financial stability of the FRS Pension Plan, the fourth-largest public pension fund in the nation.

…thousands of Floridians, from state government workers and public school teachers to local public safety officers and firefighters, count on us, every day, to make objective investment management decisions.

I'm proud to say that the SBA succeeded on all those counts in the fiscal year ended June 30, 2004. It was a year of steady progress and achievement for our organization as we continued to demonstrate why the SBA is one of the nation's leading public-sector providers of investment and trust services.

Strong Investment Performance

For the fiscal year, the net asset value of total funds under SBA management increased 11.1% to $134.2 billion from $120.9 billion in the previous year. This substantially surpassed the year-earlier growth of 3.6%. It reflects strong absolute investment performance, a more positive global investment climate, accelerating U.S. economic growth, and other factors that boosted investor confidence.



The fiscal year return of 16.65% was the highest in the past six years and 8th best over the last 30.

A total fund risk budget policy, implemented in FY 2002-03, helped the SBA minimize risks to investment performance while enhancing our focus on maximizing long-term returns. Implementation of previously authorized revisions in our Total Fund Investment Policies further diversified and balanced our investments, helping us achieve timely positive returns in international equities and real estate during the year while adjusting our exposure to U.S. stocks and fixed income. Overall, the net asset value of total funds under SBA management has grown 163% over the past 10 years. Our FRS Total Fund performance ranks in the top quartile nationally among large corporate and public pension funds over the same 10-year period.

Overall, 25 funds were under SBA management during the fiscal year, including:

- The Florida Retirement System Trust Fund, comprising 76% of all assets under SBA management, which holds FRS Pension Plan assets;
- The PEORP Trust Fund, which holds assets of the FRS Investment Plan;
- The Florida Hurricane Catastrophe Trust Fund;
- The Lawton Chiles Endowment Fund;
- The Local Government Surplus Funds Trust Fund;
- Debt service accounts for state bonds; and
- Numerous smaller trust funds and accounts.

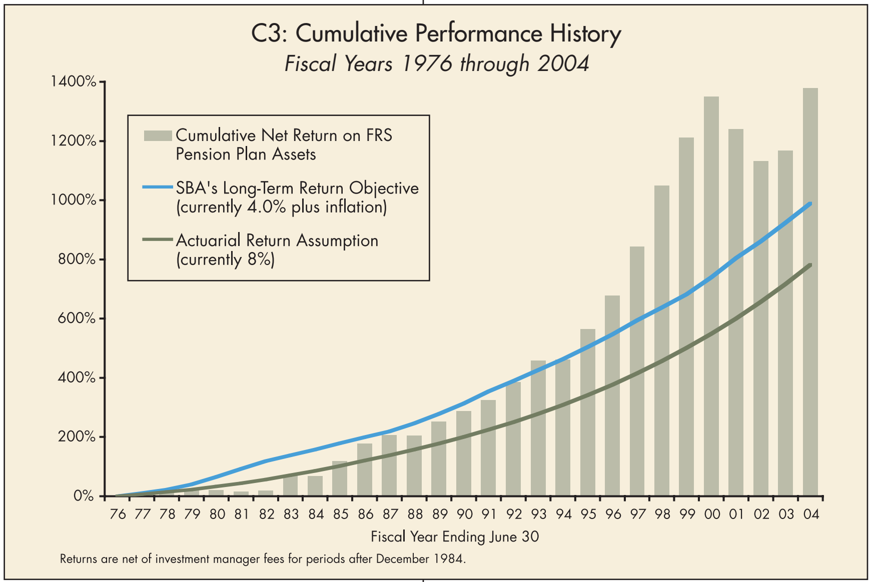
This annual Investment Report provides more detailed information and disclosures on the investment performance and objectives of each fund under SBA management. Below is a brief snapshot of the performance highlights of the two major retirement funds under SBA management: the FRS Pension Plan and the FRS Investment Plan. I should note that the FRS Investment Plan completed its second year as a voluntary defined contribution plan for eligible employees who wish to play an active role in their investment and retirement planning decisions.

FRS Pension Plan

The net asset value of the FRS Pension Plan increased to $102.4 billion from $90.4 billion at the end of the prior year. The investment return of the Plan was 16.65%, marking a significant improvement from a 2.83% return the previous year. The Pension Plan beat its benchmark by 19 basis points, which added $181 million in value to the FRS portfolio. Performance was fueled by strong returns on our investments in international equities and real estate, and a recovery by U.S. stocks. During the year, the SBA reduced fixed income exposure, which proved to be beneficial as interest rates rose 106 basis points during the year (10-year Treasury note yield).

The net asset value of the FRS Pension Plan increased to $102.4 billion from $90.4 billion at the end of the prior year.

FRS Pension Plan assets were invested primarily in domestic



The SBA has a history of delivering solid long-term investment returns.

stocks (50.8%) and fixed income (20.2%) assets, with the remainder allocated to real estate, international equities, alternative investments and cash equivalents.

I'm particularly pleased to report that the FRS Pension Plan finished the fiscal year with an actuarial surplus of $11.5 billion, after paying $4.3 billion in pension benefits to retired public employees during the year.

FRS Investment Plan

The second year of the FRS Investment Plan was marked by growth in its net asset value and increasing plan enrollment. (Participation in this alternative to the traditional FRS Pension Plan is voluntary.) As of June 30, 2004, the net asset value of the FRS Investment Plan increased to $706 million, from the initial deposit of $278 million the first year the plan was offered.

Employees who choose to participate in the FRS Investment Plan select from a wide offering of investment products for their retirement saving purposes. The SBA selects and monitors these products. The number of new hires choosing the FRS Investment Plan more than doubled from the first year as the SBA improved and simplified the plan enrollment process. During the fiscal year, a total of 12,539 eligible employees enrolled, for a total participant count of approximately 40,000 on June 30, 2004, compared with 25,000 in the first year of the plan.

> In the past year, we made progress in another key area – we delivered superb investment results while reducing our costs.

MyFRS Financial Guidance Program

During the year, the SBA continued to offer an extensive array of objective financial guidance and retirement planning resources to all employees participating in either the FRS Pension Plan or the FRS Investment Plan. This large-scale effort includes the MyFRS Financial Guidance Program, a groundbreaking educational program that now serves more than 650,000 employees. Thanks to this innovative program, a growing number of participants in the FRS Pension Plan and the FRS Investment Plan are making informed choices about their pension plan preferences and their future retirement needs. It is clear that the SBA's effort to educate all eligible employees is making a difference. Today, more people understand the differences between the FRS Pension Plan and the FRS Investment Plan, and they understand the need to plan for their retirement, regardless of which plan they choose. They also understand that the SBA is there to help, not sell. The SBA is entirely neutral as to which plan employees choose and provides objective guidance solely from the perspective of the employee.

Later in this annual Investment Report, you'll find a special section that discusses the SBA's increasingly important role in providing financial

The SBA takes an active role in strengthening corporate governance.

guidance and planning to thousands of hard-working Floridians.

Strong Operational Performance

In last year's Investment Report, I outlined SBA initiatives that strengthened our ability to perform our duties while adhering to the highest ethical, fiduciary and professional standards. The SBA implemented policies and organizational changes to ensure that we remain a trusted and accountable provider of investment services. In the past year, we made progress in another key area – we delivered superb investment results while reducing our costs. In short, the SBA reaffirmed its standing as a top-tier, cost-effective investment organization.

Here are a few of the year's most notable operational achievements:

- The SBA produced strong results under an operating budget of $50.4 million, which was lower by $15 million than the previous year's budget;
- We reduced costs by streamlining business processes, eliminating non-essential expenses and consolidating or eliminating certain positions;
- We reduced the fees we charge most clients for managing assets during the year to 1.65 basis points from 1.75 basis points. Simply put, we charged FRS employers and other clients less for our investment management expertise, preserving more of the assets for the benefit of our clients; and
- We purchased an Investment Portfolio Accounting System and Data Warehouse, advanced technology that will enable the SBA to make and monitor investments on a real-time basis, improving our efficiency and reducing future costs.

These achievements would not have been possible without the hard work, diligence, expertise and professionalism of our staff. Based on my 23 years of professional investment experience, the SBA and its people compare favorably with any investment management organization in the country.

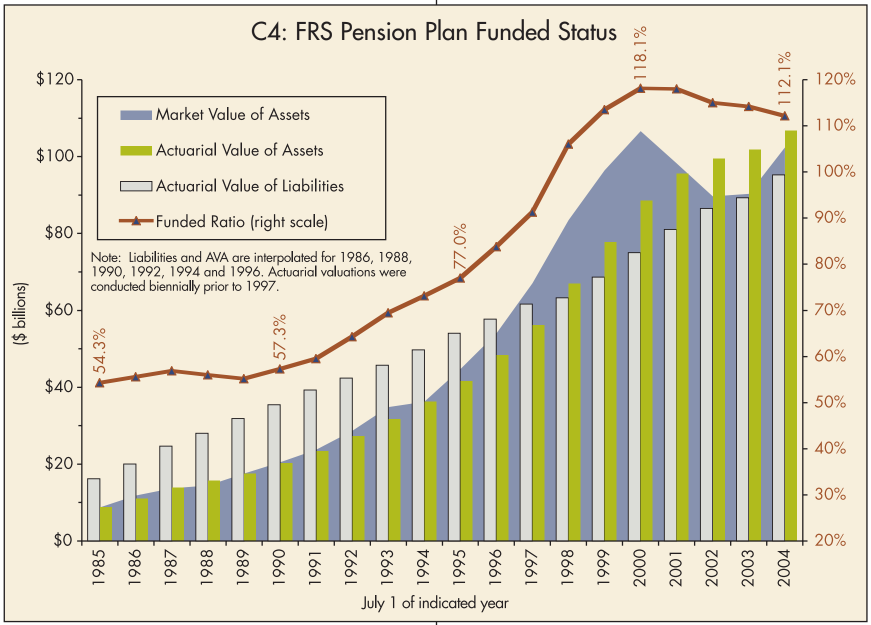
Enhanced Corporate Governance

The SBA takes an active role in strengthening corporate governance. Effective corporate governance can enhance shareholder value and thereby play an important role in achieving our financial objectives as a long-term investor.

Integrity, performance, and accountability are principles that guide the SBA and our staff as we serve as stewards of Florida's public pension funds and other trust funds. We expect nothing less from the companies and funds in which we invest. That's why the SBA supports the adoption of internationally recognized best governance practices for well-managed public companies. These include independent boards and audit committees, transparent procedures and policies covering succession planning for both management and board members, and meaningful shareholder participation in the nomination process.

The SBA enhanced its corporate governance efforts by establishing an Office of Corporate Governance to better focus on this critically important area. We continue to support the U.S.

Gwenn Thomas, SBA's Chief Operating Officer, discusses initiatives to enhance the SBA's cost-effective performance. (l to r): Greg Mathes, Eric Nelson, Gwenn Thomas, Dorothy Melton, Chuck Bunker, Kimbril Stivers and Robert Copeland.



The FRS Pension Plan is fully funded, with an actuarial surplus since 1998.

Securities and Exchange Commission's ongoing implementation of the Sarbanes-Oxley Act of 2002, and other reforms designed to deter illegal or fraudulent corporate activity. The SBA also supported shareholder initiatives by executing votes on 8,442 individual ballot items in the shareholder proxies of public companies.

SBA's Core Mission

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

Overall, the SBA excelled in fulfilling its core mission as the professional investment management organization for Florida. We delivered solid results as we invested for Florida's future, and we did it with integrity, discipline and a focus on managing our investments and costs. I want to thank the SBA staff for their dedication to the principles and standards that make our organization one of the top performers in our profession. I'm extremely proud to be part of the SBA's team of investment professionals. The SBA staff is dedicated to serving the 850,000-plus members and beneficiaries of the Florida Retirement System who count on us every day to preserve and enhance the long-term value of their retirement plan assets and funds.

Throughout this report, we have included representative images of the dedicated investment professionals whose knowledge, skills and fiduciary commitment are the cornerstone of the SBA's success. On behalf of everyone at the SBA, let me say that we look forward to serving Florida in the new fiscal year and in the years to come.

Coleman Stipanovich
Executive Director

We delivered solid results as we invested for Florida's future, and we did it with integrity, discipline and a focus on managing our investments and costs.

Cost-Effective Investment Management for Florida

For the SBA, being a cost-effective professional investment management organization means doing our best to deliver superior investment performance, as efficiently as possible and at a competitive cost. We do this for the benefit of FRS participants and other clients we serve, and for Florida's taxpayers.

Here are some of our accomplishments during the fiscal year:

We streamlined operations to enhance efficiency, reducing our staff from 169 two years ago to 161 today, and by aggressively renegotiating contracts with outside firms.

> During the year, the SBA invested in cutting-edge technology and systems that will improve and speed our ability to make and monitor investment transactions.

During the year, the SBA invested in cutting-edge technology and systems that will improve and speed our ability to make and monitor investment transactions. Our new Portfolio Accounting System and Data Warehouse, for example, gives our investment managers the tools they need to manage Florida's investments professionally and efficiently. This state-of-the-art system automates investment trading and banking processes while speeding up data delivery, which gives the SBA a real-time advantage that also reduces the risk of potential errors. Our goal is to handle higher volumes

Above: Cheryl Garnett monitors SBA's state-of-the-art investment management support system.

of transactions and run increasingly complex portfolios without increasing spending.

Our ability to manage the FRS Retirement System Trust Fund and other funds through a disciplined and cost-effective approach has produced an added benefit: We reduced investment and asset management fees during the year, thus saving our clients (the people of Florida) millions of dollars and preserving assets for the fund beneficiaries. The fees were generally reduced to 1.65 basis points from 1.75 basis points, and we have entered the new fiscal year with plans to lower the fees again.

Our emphasis on cost-effective performance is paying off for Florida. The SBA managed the FRS Pension Plan assets at a total cost, including external investment management fees, of $155.2 million, or 16.9 basis points. According to the firm Cost Effectiveness Measurement, Inc. (CEM), which collects data on over 200 large public and corporate pension plans across the U.S. and Canada, this was well below their Benchmark Cost of 20.6 basis points for a plan of our size and asset mix. CEM also found that the SBA's externally managed investment costs are materially lower than those of our peers.

Overall, the SBA's strategic goals continue to focus on ways to enhance our organization and our infrastructure to better serve Florida in the years to come. During the year, we began an operations audit to address staffing, work processes and ways to further improve our efficiency. We also initiated a cost-benefit analysis to determine an optimal business model for the SBA.

On the investment management side, the SBA manages costs in another significant way – we take a patient, deliberate and highly disciplined approach to investing that focuses on long-term returns and prudent risk management. This approach is embedded in an Investment Policy Statement and a Risk Budget Policy, which guide day-to-day operations. These policies were created to ensure a diversified and balanced investment portfolio and limit risk to only those endeavors where the payoff is likely to be adequate. The SBA doesn't believe it is right to rush into investments or make hasty decisions in pursuit of high-risk gains. We capitalize on the economic cost advantage our large size provides and the return advantage afforded to disciplined long-term investors.

The SBA doesn't believe it is right to rush into investments or make hasty decisions in pursuit of high-risk gains.

Helping Florida's Public Employees Plan for the Future

Florida's public employees are making more informed choices about their retirement needs and options, thanks to a groundbreaking SBA program. We are pleased to report that employees' use of virtually all of the SBA's retirement planning services rose at a double-digit rate during the fiscal year.

Launched in 2002, the MyFRS Financial Guidance Program provides personalized multi-media retirement planning services to *all* 650,000 working members of the Florida Retirement System (FRS). The goal of the program is to provide objective information that can help members make informed retirement planning choices that meet their individual preferences and needs, including choosing between the traditional Pension Plan and the self-directed Investment Plan.

> Florida's public employees are making more informed choices about their retirement needs and options…

The MyFRS Financial Guidance Program provides an array of easy-to-use services that combine technology and retirement planning expertise to deliver information that FRS members can trust as they plan for the future. These services include:

Print and Video: Employees have access to personalized financial statements and customized material on FRS plan choice, retirement

Above: Kevin SigRist (right) introduces new public employees to the MyFRS Financial Guidance Program, which provides personalized retirement planning services to all 650,000 working members of the Florida Retirement System.

T1: FY 2003-2004 Employee Usage of MyFRS Financial Guidance Program	Usage Counts	Annual Growth[1]
Toll-Free MyFRS Guidance Line Counseling Calls	81,906	10%
MyFRS.com Sessions	575,043	81%
Retirement Income Forecasts	218,340	n/a
New Hire Choice Service	16,900	22%
2nd Election Choice Service	47,104	110%
Personal Online Advisor Service	62,318	173%
Workshop Attendance	6,415	-17%[2]

planning and investing for retirement. New hires also have access to an informative 8-minute video introducing them to the MyFRS Financial Guidance Program and their FRS retirement plan options.

Toll-free MyFRS Financial Guidance Line (1-866-446-9377): Employees confidentially discuss their FRS options and retirement planning issues with experienced and objective financial planners from Ernst & Young. Florida Division of Retirement counselors are also available.

MyFRS.com: This award-winning web portal is the official FRS education Web site. It provides FRS plan choice information and personalized retirement planning applications, including Financial Engines' Choice Services and the Personal Online Advisor Service. Members can enroll and manage their FRS Pension Plan or FRS Investment Plan benefits within the portal's secure single-sign-on architecture.

Workshops: Ernst & Young conducts FRS retirement plan choice, retirement planning and estate planning workshops throughout Florida.

The MyFRS Financial Guidance Program is making a difference. In a Spring 2004 survey of 1,200 FRS members, roughly 80% said they were

[1] Calculated as growth from Apr. - Jun. '03 to Apr. - Jun. '04. Data from Ernst & Young, Financial Engines and Enterpulse.
[2] Workshops were reduced in FY 2003-04 to increase average attendance. Average attendance climbed 134% for the subject quarter.

T2: FRS Enrollments by Newly-Hired Employees

	Defaults into Pension Plan	Active Enrollments-Pension Plan	Active Enrollments-Investment Plan[3]	Total Enrollments
Sep. 2002 – Jun. 2003	86%	5%	8%	100%
FY 2003 – 2004	73%	11%	16%	100%
Six Months Ended Jun. 2004	68%	13%	19%	100%

"extremely positive" or "positive" about having access to ongoing financial planning support and a similar percent said they believed the information they received was fair and balanced.

Table T1 (page 10) illustrates the high and growing demand for the services provided under the MyFRS Financial Guidance Program.

Informed and Active Retirement Plan Choices

New employees have the opportunity to choose from the two retirement plans offered under the FRS:

The traditional defined benefit plan with six-year vesting (FRS Pension Plan); or

A self-directed retirement plan with one-year vesting (FRS Investment Plan).[4]

During the fiscal year, about 80,000 new employees received informative materials and enrollment forms to help them select the retirement plan of their preference. Employees who do not select a specific plan are automatically enrolled, by *default*, in the FRS Pension Plan after six months of service. Conversely, submitting an FRS plan election is called *active enrollment*. All employees also have a one-time opportunity to switch plans at a later date in their FRS career.

During the fiscal year, about 80,000 new employees received informative materials and enrollment forms to help them select the retirement plan of their preference.

Statistics show that about one-half of new FRS hires won't earn the six years of service required to qualify for FRS Pension Plan benefits, reflecting the high mobility of today's workforce. That is one of the reasons the FRS Investment Plan was introduced in the 2002-03 fiscal year. The FRS Investment Plan provides benefits after just one year of service, and employees retain those even if they leave the public sector.

Consistent with the SBA's mission to offer unbiased education that promotes *informed and personalized* decisions, the SBA redesigned the new hire education and enrollment processes starting in Spring 2003. Employee home mailings and MyFRS.com were streamlined. Employers were encouraged to play a more active role in the education process and were equipped with new materials. In Fall 2003, a one-page FRS EZ Enrollment Form was introduced following best practices in the 401(k) defined contribution marketplace. Table T2 illustrates that defaults fell sharply during the fiscal year. Importantly, active enrollments increased in **both** the Pension Plan and Investment Plan. Additional strategies will be implemented in FY 2004-05 to help drive the default rate still lower.

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

4 Returning employees with 5 or more years of prior FRS service may also choose the Hybrid Option which includes aspects of both the Pension Plan and Investment Plan.

SBA Meets High Standards as Florida's Investment Fiduciary

One of the terms used in this annual Investment Report is "fiduciary." It's not a common household word, but it's an important concept that shapes the mission of the SBA.

As defined in Webster's Dictionary, fiduciary means "held or holding in trust for another." Our organization is, by state law, responsible for managing, investing and safeguarding the funds assigned to us, such as the assets of the FRS Pension Plan. We are Florida's investment fiduciary.

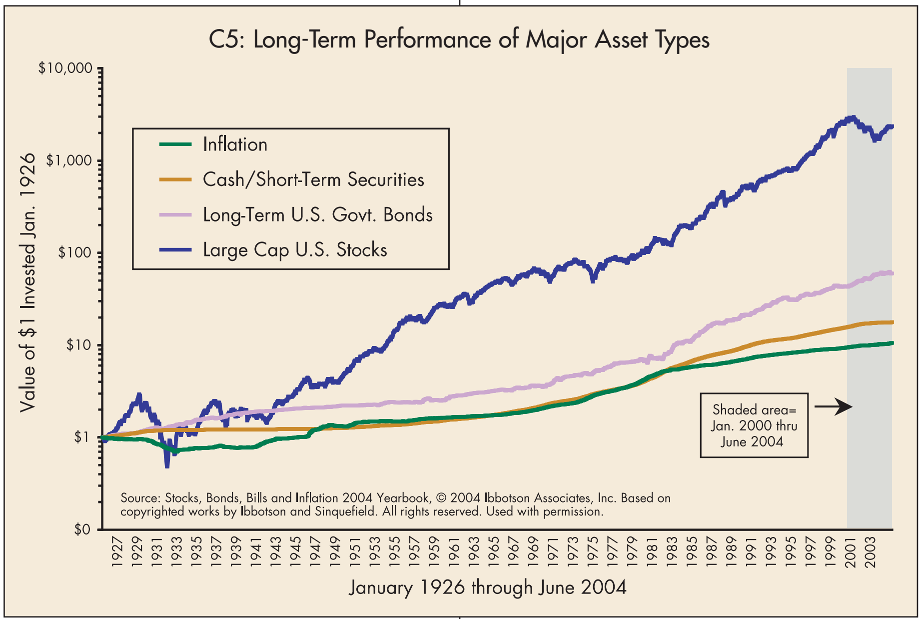
It's no coincidence that the word "trust" appears in the definition of fiduciary. From our perspective, the SBA's relationship with the beneficiaries of the 25 different funds that we manage is built on a foundation of trust. Floridians trust that the SBA will fulfill its legal obligations and maintain the highest standards of professionalism, ethics, accountability and compliance.

Founded 50 years ago, today's SBA is one of the nation's leading investment managers of public pension funds.

Founded 50 years ago, today's SBA is one of the nation's leading investment managers of public pension funds. Our organization has a long track record of delivering positive long-term returns on investment through our focus on prudent – and ethical – investment and risk management.

Under state law, the SBA and its staff are obliged to:

Above: Executive Director Coleman Stipanovich (standing) leads a senior staff meeting to assess the SBA's investment performance and strategies. (l to r): Kevin SigRist, David Villa, Gwenn Thomas, Jack Nicholson, Bruce Meeks, Coleman Stipanovich, Michael McCauley, Flerida Rivera-Alsing, Linda Lettera and James Francis.



Historically, stocks provide significantly greater long-term returns than bonds or money market investments.

- Make sound investment management decisions that are solely in the interest of pension plan participants and their beneficiaries; and

- Make investment decisions from the perspective of subject-matter experts acting under the highest standards of professionalism and care, not merely as well-intentioned persons acting in good faith.

As a professional investment management organization, the SBA is prohibited from pursuing social or political agendas in its investment decisions.

The SBA is required to invest assets and discharge its duties in accordance with Florida law and in compliance with fiduciary standards of care. To ensure compliance, the SBA is subject to oversight and an array of policies and guidelines. For instance, the SBA's investment activities are governed by Florida law, and subject to an investment policy statement approved by the SBA Trustees and formal guidelines for each portfolio.

Independent Oversight

The Board of Trustees governs the SBA and is ultimately responsible for overseeing the organization. In fiscal year 2003-04, Governor Jeb Bush was Chairman of the Board of Trustees, State Chief Financial Officer Tom Gallagher served as Treasurer, and State Attorney General Charlie Crist was Secretary.

Separately, the Investment Advisory Council provides independent oversight of the Florida Retirement System Trust Fund, which is managed by the SBA Executive Director. The six-member Council conducted four meetings in fiscal year 2003-04 to review and study general portfolio objectives, policies, strategies and economic conditions. During fiscal year 2003-04, Donald W. Burton, James Dahl, John Jaeb, Beth A. McCague, Dr. Donald Nast and Gary W. Wood served on the Council. Under state law, the SBA Trustees appoint Council members for four-year terms.

The Audit Committee assists the Board of Trustees in fulfilling its oversight responsibility in the areas of financial reporting, internal controls and risk assessment, audit processes and compliance.

The public is welcome to attend meetings of the Investment Advisory Council. In the interest of keeping the public informed, the SBA discloses information on the committees, scheduled meetings and meeting materials on its Web site, www.sbafla.com.

Investment Objectives

Investment objectives are established for each mandate, or fund, entrusted to the Board. Typically, these objectives aim to maximize long-term returns, subject to risk considerations. The objectives authorize utilization of a broad range of investment vehicles, including synthetic and derivative instruments.

Managing risk is a vital part of the investment process.

For example, the investment goal for the FRS Pension Plan assets is to achieve a long-term real annualized return of 4% over the rate of inflation. Because FRS Pension 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. This target is judged to be superior to a flat rate actuarial target.

Individual portfolios have disciplined investment strategies measured against specific performance benchmarks. Each portfolio is designed to contribute positively to total fund returns on a long-term basis.

Risk Management

Managing risk is a vital part of the investment process. While there are many dimensions and types of risk that must be considered, ultimately they all bear on the fundamental purpose for which the mandate was established. In the case of the FRS Pension Plan, the purpose is to ensure that the FRS has adequate funds to cover payment of retirement benefits over the life of the plan.

From the perspective of risk, the SBA has specific reasons to prefer stocks as the principal return generator in its investment mandates with long-term return objectives, such as the FRS Pension Plan. To reduce long-term shortfall risk, the SBA typically invests in assets with higher expected returns, namely stocks. For mandates with shorter-term investment horizons, the SBA typically invests in other asset types to meet the specified objectives and reduce volatility. SBA portfolios are diversified within asset classes by maturity, liquidity, industry, country, company, and size, among other considerations.

Asset Classes

The securities in an investment portfolio are grouped into asset classes. More than 90% of the long-term cumulative growth of a diversified investment portfolio is determined by the mix of the classes of invested assets (i.e., by asset allocation), with the remainder coming from individual security selection within the asset classes.

Most assets under SBA management have a target asset allocation that is established in an investment policy statement approved by the Trustees. That allocation is designed, using return and volatility assumptions deemed most appropriate, to satisfy the investment objective with a minimal level of risk. If each asset class performs according to expectations, and each asset class share of the total fund adheres to the target asset allocation, then the investment goal should be realized.

Asset classes typically represent groups of individual securities that have common economic and legal characteristics. SBA investments within the FRS Pension Plan fall into the following seven asset classes:

- Domestic Equities (U.S. stocks)
- Global Equities (U.S. and non-U.S. stocks)[5]
- International Equities (non-U.S. stocks)
- Fixed Income (bonds)
- Real Estate (including direct-owned properties and REITS)
- Alternative Investments (leveraged buyouts and venture capital)
- Cash and Cash Equivalents (short-term instruments)

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

Domestic Equities

History demonstrates that domestic stocks are an effective way of participating in economic growth over time. For more than two centuries, domestic stocks have provided a real return approximately 3% per year over the real growth rate of the U.S. economy and 6% over inflation.

Based on historic economic trends, the SBA continues to be confident about our strategy of achieving robust long-term expected returns by

[5] The Global Equity asset class was established separately from the Domestic Equity and International Equity asset classes for risk management purposes and to facilitate adding value in a fashion not amenable to separate management of U.S. and non-U.S. stocks; its assets are not economically or legally distinct from those of Domestic Equities or International Equities.

investing in equities. Stocks are sensitive to the same economic factors as pension plan liabilities, meaning they are likely to move in tandem over time.

Of course, the downside for stocks is their potential for short-term volatility. Over the past 30 years, the standard deviation of stock returns was about 20%. With an expected (long-term) annual real return of 6% per year, there is a 35% chance of stocks returning zero or less in any given year.

International Equities

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

Fixed Income

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

Real Estate

Historically, institutional real estate portfolio returns have been higher than bonds but lower than stocks. We expect higher returns to real estate than bonds because of the risk attributable to ownership. However, the stability of rental income dampens volatility of real estate returns and keeps it closer to bonds than stocks. Real estate portfolio returns appear to be correlated with inflation and tend to do well in periods of high inflation. However, real estate is generally less attractive than either foreign or domestic equities for two reasons: The difficulty of creating a large exposure and uncertainty over whether real estate returns will keep pace with economic expansion and liability growth.

Alternative Investments

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

Cash and Cash Equivalents

From the perspective of a long-term investor facing substantial growth in payment obligations, the Cash asset class 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.

Summary

For the SBA's long-term investment mandates, our strategy is to invest primarily in assets with the potential for robust long-term returns, namely stocks, while balancing and diversifying our portfolio through other investments in the categories listed above. Although an emphasis on stocks may create short-term volatility when equity markets fluctuate, stocks have proven over the long run to provide the richest asset growth. Chart C5 (page 13) provides perspective on the long-term performance of major asset types.

> History demonstrates that domestic stocks are an effective way of participating in economic growth over time.

Above: Chief Investment Officer David Villa and SBA's senior investment staff evaluate market risks and investment growth prospects. (l to r): Scott Seery, Rob Smith, David Villa, Doug Bennett, Susan Schueren and William James.

Investment Climate
Economic and Market Conditions in Fiscal Year 2003-2004

Renewed vitality and growth in the U.S. economy, coupled with a global economic recovery, fueled investor and consumer confidence and created a more favorable climate for equity markets and investments during the first half of fiscal year 2003-04. The second half of the fiscal year, however, was marked by a run-up in energy prices that hurt the financial markets.

In June 2003, amid concerns about job losses and lingering fear that deflation was still a threat, the Federal Reserve cut the fed funds rate to a 40-year low of 1%. On cue, the U.S. economy grew by 7.4% in the third quarter of 2003 energized by a rebound in what had for some time been a dormant sector – business investment. Real private non-residential fixed investment rose at annual rates of 11.8% and 15.4% in the second and third quarters of 2003, respectively, after nine consecutive quarters of decline.

Renewed vitality and growth in the U.S. economy, coupled with a global economic recovery, fueled investor and consumer confidence…

Consumers continued to do their part to sustain the recovery. Real personal consumption expenditures grew at above average rates in the second half of 2003, aided by a round of federal tax cuts. Consumer spending was also abetted by the reversal of a prolonged trend of job losses. In the period from November 2001 (the end of the recession) to August 2003, the U.S. economy shed jobs in 16 of 22 months. During the last nine months of fiscal year 2003-04, however, the economy added 1.4 million new jobs – roughly the number it had lost in the previous 22 months.

...by early 2004, rising oil prices had begun to cast a shadow over the markets and the economic recovery.

These positive trends gave rise to hopes that the U.S. economy could sustain a prolonged period of robust real GDP growth in excess of 4% after 18 months of relatively subdued expansion. The stock market reacted favorably to renewed economic vigor as the Russell 3000 posted a gain of 15.4% in the last six months of 2003.

However, by early 2004, rising oil prices had begun to cast a shadow over the markets and the economic recovery. In the first half of 2004, oil prices averaged roughly $40 per barrel and peaked near $50 per barrel. Gasoline prices hovered near $2 per gallon, forcing consumers to cut back on other purchases. The oil price surge bloated the U.S. trade deficit, and in the second quarter of 2004 real GDP growth fell to 3.3%. A number of factors drove oil prices up, including the Yukos crisis in Russia, the uncertainty surrounding the Venezuelan presidential election, and frequent supply disruptions in Iraq. Reflecting investor concerns, the Russell 3000 struggled to advance just 2.8% over the last six months of the fiscal year.

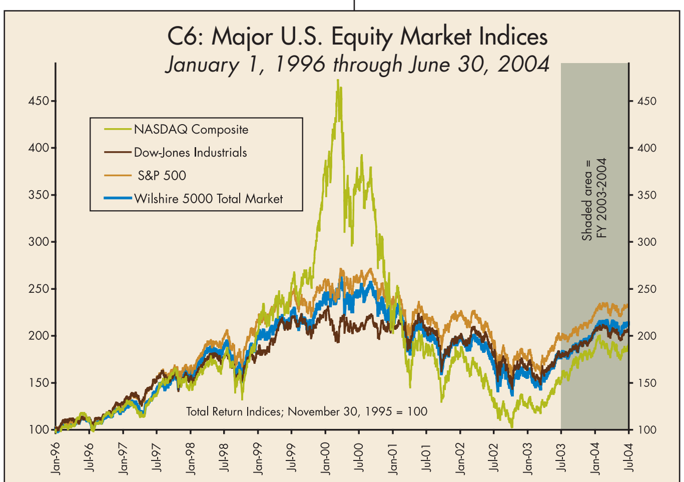
As the fiscal year came to a close, the Fed predicted that this "soft patch" in the recovery would be short-lived. By mid-2004, the Fed felt that the situation justified raising the fed funds rate at a measured pace. At its June 2004 meeting, it hiked the fed funds rate by 25 basis points and indicated that this would be the norm at future meetings barring unforeseen circumstances.

The world economy improved somewhat during the fiscal year, but its recovery wasn't as vigorous as in the U.S. Japan showed signs of staging a lasting recovery aided by exports to China, but Chinese policymakers were looking to cool down their red-hot economy. Europe continued to lag as long-standing structural problems with its labor markets and income policies impeded a robust recovery. Nonetheless, international equity markets took heart at the emergence of better times and surged ahead in the first half of the fiscal year. The MSCI All-Country World Index ex-US rose 27.2% in the last six months of 2003. But international markets also got bogged down in oil in 2004. The index gained just 3.82% in the second half of the fiscal year. It should be noted that a portion of the gains in international markets was due to a weaker dollar.

At the end of the fiscal year, the outlook was favorable - assuming that energy prices remained near their extant range. In the U.S., business investment appeared to be holding up well, and the softening of consumer spending due to higher gas prices looked to be minimal. Moreover, housing purchases remained robust. Government spending was expected to remain elevated due to the Iraq involvement. Prospects for solid aggregate demand led to expectations of real GDP growth in 2004 and 2005 near 4%. The global economy faced the same energy caveat as did the U.S. but looked to maintain a higher growth pace than the 2.8% growth it posted in 2003. Global growth in 2004 and 2005 should also be in the range of 4%.

Domestic Equities Market Conditions

Buoyed by accelerating U.S. economic growth, rising corporate earnings and renewed investor confidence, domestic equity markets posted healthy gains. The lion's share of the gains occurred in the first half of the fiscal year, before climbing oil prices and concerns about terrorism and instability in Iraq in 2004 reduced investors' penchant for risk-taking.



A 12-month surge in U.S. stock prices ended in early 2004 as rising oil prices and other factors dampened financial markets.

U.S. Equity Market indices rose in the 12 months ending June 30, 2004. The Russell 3000 was up 20.5%

Buoyed by accelerating U.S. economic growth, rising corporate earnings and renewed investor confidence, domestic equity markets posted healthy gains.

and the Russell 2000 gained 33.4%, reflecting the surge in small-cap stocks. The Standard & Poor's 500 Index gained 19.1%, and the Wilshire 5000 Total Market Index jumped 21.2%. The technology-oriented NASDAQ Composite Index rose 16.9%.

Markets surged in mid-2003 as easy credit conditions and an accelerating economy reignited the risk appetite and speculative activities of investors. Small-cap and technology stocks exploded on the upside. Value-oriented stocks outperformed growth stocks across the capitalization spectrum, as the best performing securities were those with no earnings, no dividends, high betas and share prices under $5. After a brief pause in September 2003 as investors sold stocks in profit-taking moves and evaluated OPEC's decision to cut oil production, the market continued its upward trajectory.

Even as volatility indices sank to multi-year lows, the materials sector led the market much higher in the fall of 2003. Demand associated with a global economic revival and the breakneck industrialization of China supported a bull market in commodities. Virtually all commodity sub-sectors from agricultural products to gold shot higher as the dollar sank. Energy stocks surged as market participants correctly anticipated rising energy prices in coming months.

The strong U.S. equity market, led by securities with questionable fundamentals, continued through mid-February of 2004. That was a turning point, however, as investors sought to minimize their risk amid concerns about high oil prices, terrorism, the turmoil in Iraq and inflation. The shift helped stocks with stronger fundamentals recover somewhat. Except for brief dips in March and May of 2004, the U.S. equity market moved within a narrow trading range and was largely flat for the remainder of the fiscal year.

The global and international equity markets registered double-digit gains for the year.

Strength in earnings and revenue growth continued in the second quarter of 2004, as large public companies reported profit gains of more than 20% for the fourth straight quarter. Overall, investments in the U.S. equity markets produced strong returns during the fiscal year.

International Equities Market Conditions

International equities advanced as the global economic recovery that investors had been hoping for finally materialized in 2003.

Reflecting the impressive broad-based rally, particularly in the final three months of 2003, the global and international equity targets registered double-digit gains for the year. The global equity target ended the year with a better than 26% advance, and the international equity target moved ahead 32%.

Stocks of companies whose profits tend to rise with cyclical upturns of the economy benefited from the rising tide of investor enthusiasm, which also lifted smaller cap and lower quality equities. The broadening rally also reflected rekindled optimism about technology companies and China, the perceived locomotive of global growth. On the downside, companies with larger capitalization, steady growth and solid cash flow – the kind of companies that are predominant in our active portfolios – were left behind in the rally as investors bid up other stocks. As a result, although it was an impressive year in absolute terms for both the global and international portfolios, it was somewhat disappointing in relative terms.

Global equity markets began the year with a tentative rally as evidence of a global economic recovery mounted but unambiguous signs of growth remained elusive. A notable exception was Japan, which raced ahead as its long moribund economy began to exhibit some clear signs of life. Investors were more cautious elsewhere, as both European and U.S. markets reacted to a mixed bag of economic news. Fears of a jobless recovery and some disappointing end-of-quarter economic data were particularly troubling to investors in the U.S., while European economies struggled forward.

> With the economy back on a growth track, the Fed began 2004 poised to announce its first rate hike in four years.

Investors cast their previous doubts aside in the fourth quarter of 2003 when markets around the world rocketed higher. Not only did the global economic recovery appear sustainable but corporate earnings improved on the back of expanded revenues lending both macro and micro support to the market. An additional element of the stock market rally was a sharp spike in commodity prices as unprecedented demand from China added a new dimension to the cyclical recovery in the materials sector.

Following the sharp recovery in the final quarter of 2003, markets posted only modest advances in the first half of 2004. Continued strong corporate earnings took a back seat to growing investor unease about increased violence in Iraq, higher energy prices, and rising interest rates. As the fiscal year ended, the stock market rally had slowed to a crawl.

Emerging markets rewarded investors with double-digit gains in the second half of 2003, followed by a nearly 10% advance in the first quarter of 2004 and profit-taking stock sell-offs in the second quarter of 2004. Overall, in the 12 months ending June 30, 2004, emerging markets closed the fiscal year more than 33% ahead, just slightly behind the U.S. small-cap Russell 2000 Index.

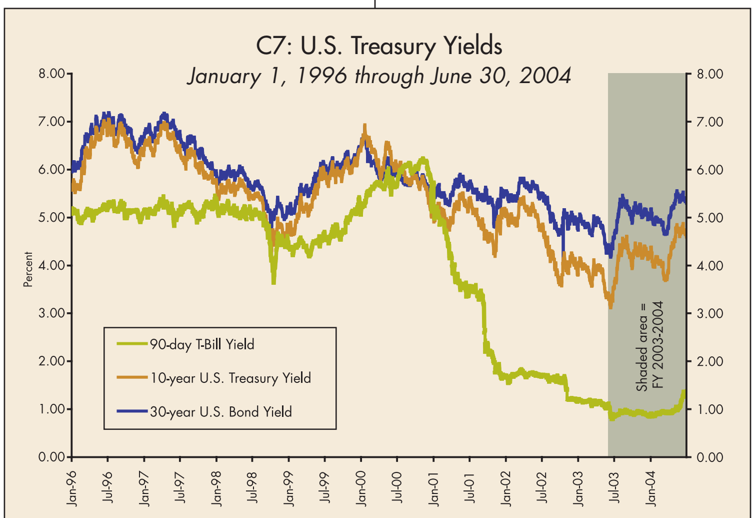
Fixed Income Market Conditions

The fixed income markets produced mixed total return performances because interest rates generally increased as the economy recovered.

In mid-2003, concerns about weak economic data and deflation were subsiding amid signs of accelerating economic growth and inflation momentum, particularly in commodity pricing.

By the end of 2003, it was evident that the economy was strengthening, with higher consumer spending stimulated by the Federal Reserve's earlier series of moves to lower the fed funds rate to 1.00% by June 2003. With the economy back on a growth track, the Fed began 2004 poised to announce its first rate hike in four years. The hike to 1.25% wouldn't occur until June 2004.

In anticipation of the Fed's eventual rate hike, short-term interest rates, as reflected by two-year Treasury note yields, increased in the second half of 2003. In 2004, short-term rates declined in the first quarter amid disappointing job data, only to rise again in the next three months as job gains surged.



Bond yields moved sharply upward twice during the fiscal year.

Three major factors – the improving economy, productivity gains and rising corporate profit margins – combined to boost the performance of Investment Grade Corporate bonds relative to Treasuries.

In the fiscal year ended June 2004, the two-year Treasury note yield doubled to 2.68% from 1.30%. Longer-dated yields, as represented by 10-year Treasuries, ended the fiscal year at 4.58%, compared with 3.52% at the end of June 2003. The yield spread between two-year and 10-year Treasuries ended at 190 basis points.

Three major factors – the improving economy, productivity gains and rising corporate profit margins – combined to boost the performance of Investment Grade Corporate bonds relative to Treasuries. The resulting increased cash flows and improving balance sheets generated widespread improvement in credit quality and led to reduced spreads of corporate bond yields relative to Treasuries. The Lehman U.S. Credit Index produced a 12-month total return of 0.08% that outperformed the decline in the Lehman U.S. Treasury Index, which had a negative return (-1.65%).

During the fiscal year, the high-yield sector of fixed income securities benefited from dramatically declining default rates for lower-grade companies. The Lehman High Yield Index had the highest return of all fixed income class segments during the fiscal year, producing a total return of 10.32%. Mortgage-backed securities experienced a refinancing wave throughout most of the fiscal year and produced a total return (-0.69%) that was below that of many fixed income segments, but this performance was still better than the Lehman U.S. Treasuries Index.

Overall, real estate fundamentals did not improve substantially over the previous year, despite positive trends in the U.S. economy.

Real Estate Market Conditions

The real estate market strengthened moderately as investors sought alternatives to financial assets. The added liquidity in the market from buyers with cash, as well as their access to low-interest rate debt, tended to encourage asset sellers to use competitive bidding to increase sale proceeds. Amid improved demand for properties, sellers were also able to shorten time to closing and properties often sold to buyers offering the highest bid and the quickest closing date.

The shortened time demanded by sellers to a transaction's closing increased transaction and acquisition oversight risks to buyers. Investors with hot money were overwhelming the market and forcing the selective, risk cognizant and patient money investor to miss opportunities, albeit expensive opportunities.

Overall, real estate fundamentals did not improve substantially over the previous year, despite positive trends in the U.S. economy. After a period of low mortgage interest rates, risk moved to the upside as the Fed began to raise the federal funds rate.

Retail properties performed well, fueled by sustained strength in consumer spending. Apartment occupancies improved but concessions were still widespread. Returns in the industrial sector were attractive but vacancies edged up during the year. Office properties continued to suffer from high vacancy rates. The outlook for the 2004-05 fiscal year is continued improvements in market fundamentals as the economy improves. Job growth will be a key ingredient in achieving improved occupancies and rent growth.

Alternative Investments Market Conditions

The availability of debt sparked a continued resurgence in the private markets as deal flow and purchase multiples increased. Debt multiples increased to over four times cash flow with a corresponding increase to over seven times cash flow for purchase price multiples. This compared with an historical purchase price multiple of 6.2 times cash flow. Accordingly, many buyout sponsors aggressively pursued exit opportunities throughout the year.

Acquisitions continued as well, particularly at the larger end of the market. This appeared to be at least partially a result of less competition, on a relative basis. With fewer competitors for large companies (over $200 million in equity), transactions that start as auctions may only result in one or two final bidders.

At the same time, there was aggressive refinancing of transactions as the debt markets improved. In the first quarter of 2004, the SBA received two dividend checks from companies of multi-billion dollar funds that were recapitalized after less than one year under new ownership. The venture capital markets improved in 2004 but not nearly as quickly as leveraged buyouts. This was consistent with the venture community's decreased dependence on debt markets and increased reliance on the IPO market, which remained intermittent at best. Venture capital funds raised $5.8 billion in the first half of 2004, compared to $3.8 billion in the first half of 2003. Total fundraising for 2004 is expected to surpass last year's total of $11.2 billion. Access to the best venture capital funds will continue to be competitive.

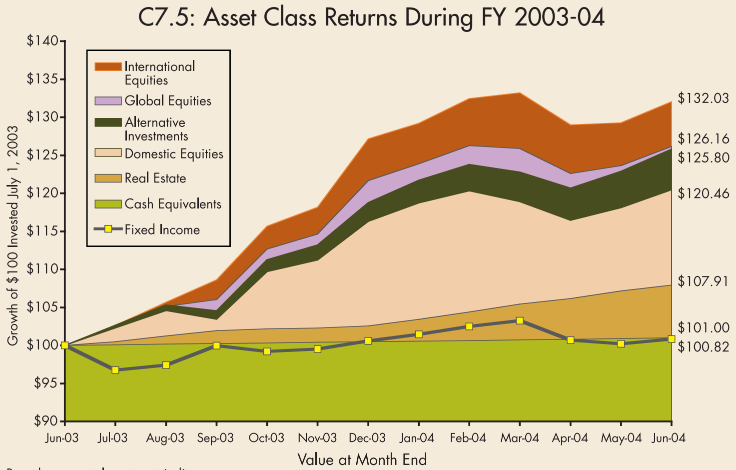
The venture capital markets improved in 2004 but not nearly as quickly as leveraged buyouts.

The distressed debt markets cooled considerably as interest rate spreads over Treasuries narrowed throughout the year. If history is predictive, the current high yield issuances will provide buying opportunities when the next economic downturn occurs.

This asset class continues to be challenged by the flow of capital into the sector. Institutional investors have increased their allocations from 6.2% to 8.2% over the previous 10 years. Value and arbitrage opportunities are increasingly difficult to find. Deal flow and specific industry knowledge have increased in importance.

Although foreign markets have typically not been receptive to U.S. investors, some capital flowed into American-led buyouts for banks in Japan and Korea. We expect more financial sponsors to be assertive in searching for the best opportunities with less specific restriction to geography.

C7.5: Asset Class Returns During FY 2003-04



Based on asset class target indices

Among the various asset classes, International Equities had the highest overall target index return for the fiscal year.

Florida Retirement System Pension Plan

Florida's public employees and retirees are at the heart of the SBA's mission. With their future and their financial needs in mind, the SBA manages, invests and safeguards the assets of the Florida Retirement System (FRS) Trust Fund.

The FRS Trust Fund holds all assets of the defined benefit (DB) plan of the Florida Retirement System, commonly known as the FRS Pension Plan. The FRS Trust Fund is the largest single investment mandate assigned to the SBA, accounting for 76% of total SBA assets under management in the past fiscal year.

In fiscal year 2003-04, the investment return for the FRS Pension Plan was 16.65%, a solid performance well above our long-term performance objective. This return was a significant improvement from 2.83% earned the prior year. In fact, the FRS portfolio has earned a return at or above this year's level in only eight of the past 30 years.

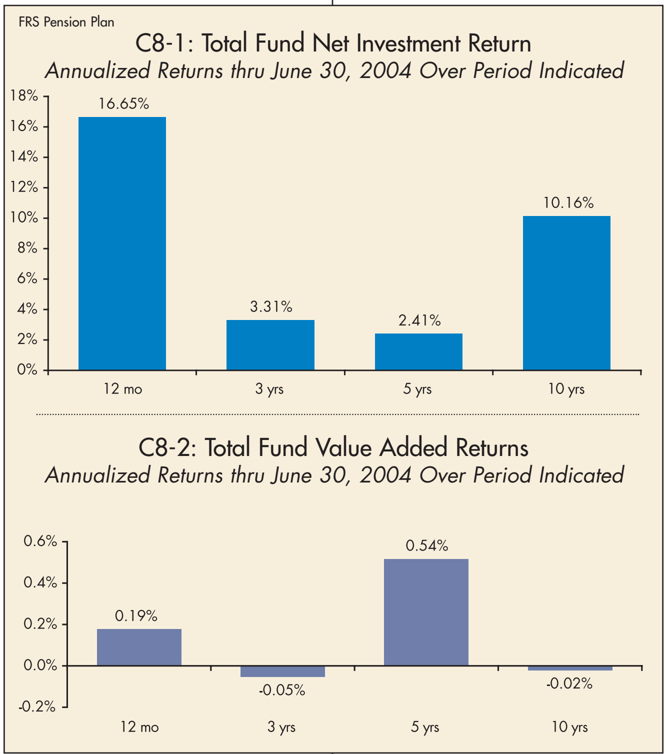
In fiscal year 2003-04, the investment return for the FRS Pension Plan was 16.65%, a solid performance well above our long-term performance objective.

During fiscal year 2003-04, the net asset value of FRS Pension Plan assets rose 13% to $102.4 billion from $90.4 billion at the end of the prior year, reversing three years of weakness that mirrored the downturn in stock markets. The increase occurred despite a net cash outflow of $2.8 billion, as total pension benefit payments of $4.6 billion for the year exceeded total employer contributions of $1.8 billion. Table T12 in the Appendix provides details on total fund asset growth over the year.

Net investment returns (actual earnings) and value added returns (net returns relative to a

Above: Kevin Ceurvorst and Debbie McCoy review trading options for SBA's Fixed Income portfolio.

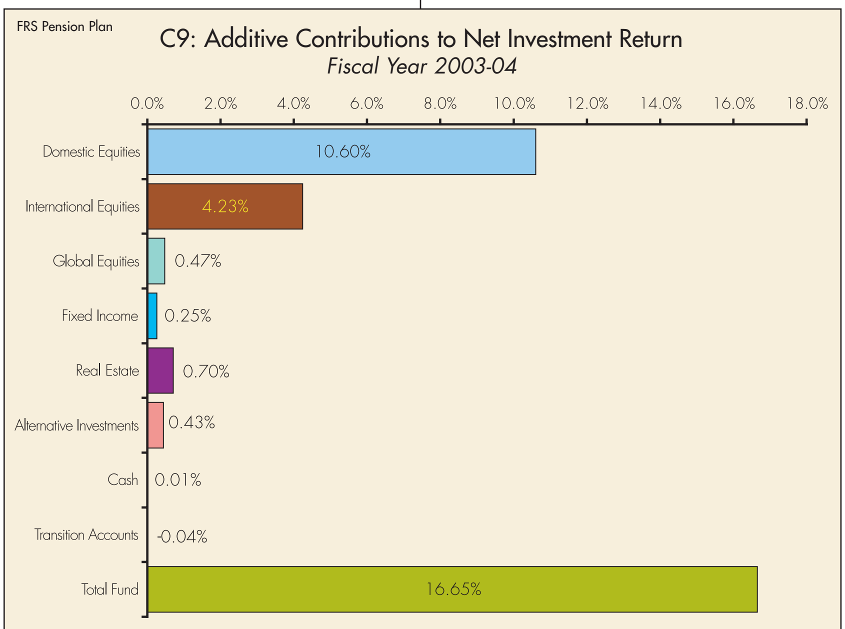
market-based benchmark) are shown for the total FRS portfolio in Chart C8. The performance of each asset class is measured relative to a broad market index as specified in the FRS Pension Plan Investment Policy Statement. Value added returns reflect the SBA's ability to outperform these market indices. Charts C9 and C10 (page 24) show how the various components of the investment program contributed to overall performance for the fiscal year.



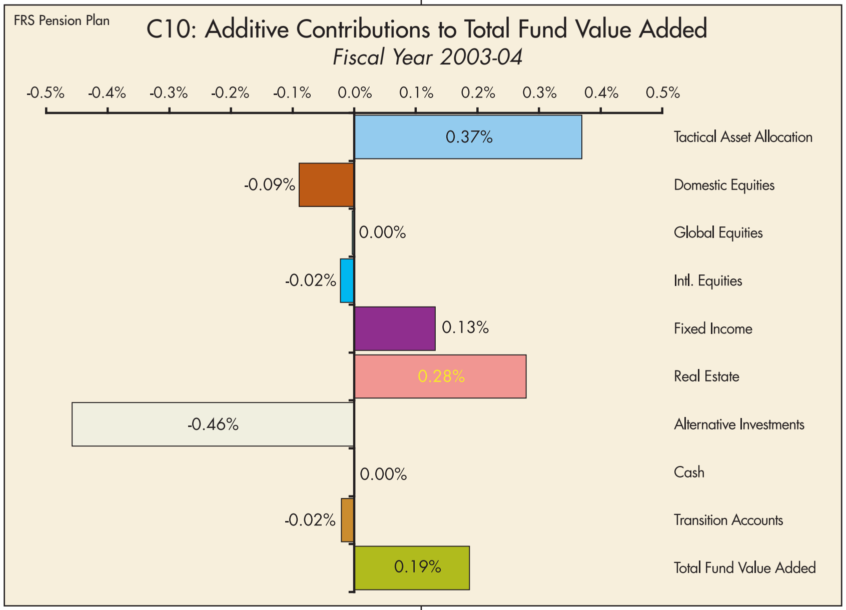
The one-year net investment return of 16.65% reflected more favorable economic and market conditions.

SBA's investment policy objective for the FRS portfolio is to provide investment returns sufficient for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keeps the plan cost at a reasonable level. As a secondary consideration, the SBA seeks to reasonably control the volatility of annual returns in order to avoid excessive volatility in short-term plan costs. To achieve these objectives, the Board has determined that a long-term real return of 4.0% per annum (compounded and net of investment expenses) should be attained, based on a substantially diversified asset allocation that minimizes expected risk. There have been no changes to the FRS investment policy since last year's report.

To achieve the absolute real target rate of return, market risk must be borne. Table T3 (page 24) illustrates the potential range of real returns that could result over various investment horizons. Over a 30-year investment horizon there is a 10-percent probability that the Target Portfolio will experience a compound annual real return of 1.02 percent or less. Downside risk is considerably greater over shorter horizons, but the natural investment horizon for the FRS Pension Plan is the very long term.



A strong return in Domestic Equities, coupled with its large relative size, fueled the Total Fund return in FY 2003-04.



SBA outperformed the FRS Pension Plan benchmark by 19 basis points for the year. Tactical asset allocation and Real Estate were major contributors.

The investment strategy for the FRS portfolio is to implement the policy allocation within relatively narrow bands in the pursuit of modest risk-controlled gains net of transaction costs. In addition, the strategy seeks to add value through the pursuit of active investment strategies aimed at providing attractive long-term risk-adjusted returns. The SBA manages this strategy through asset allocation and risk budgeting policies. The SBA complied with its investment strategy for the FRS portfolio throughout the year.

T3: FRS Pension Plan Risk

Time Horizon	10th Percentile Real Return	90th Percentile Real Return
1 Year	-11.09%	21.50%
5 Years	-3.07%	11.46%
10 Years	-1.07%	9.20%
20 Years	0.37%	7.63%
30 Years	1.02%	6.95%

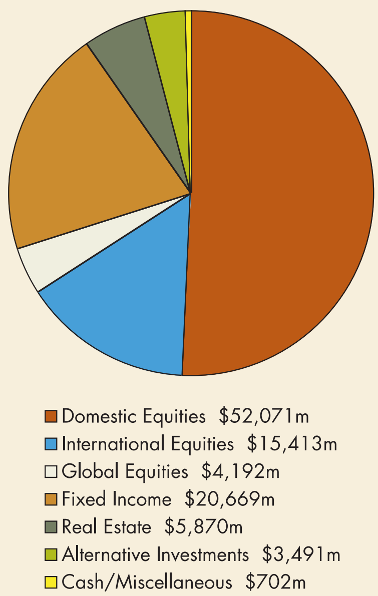
FRS Pension Plan Asset Allocation Performance

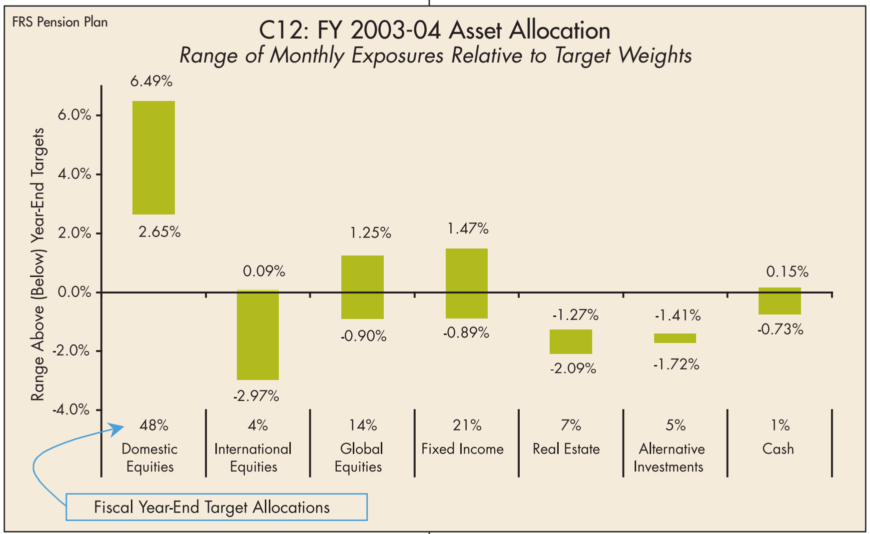
Chart C12 (page 25) illustrates the target allocations established for each asset class within the FRS portfolio, as well as the range of actual exposures that occurred during the fiscal year. Consistent with policy adopted by the SBA Trustees, the Executive Director is allowed to vary the actual asset mix from the target asset allocation in order to pursue incremental investment returns.

Since 1997, the SBA continued to follow a disciplined approach to managing its asset allocation so that deviations from the policy targets were relatively small. The performance implications of FRS asset allocation policy are shown in Chart C13 (page 25). Total investment returns for asset allocation represent the returns that would have been earned if the actual allocations to each asset class were kept at exactly the target allocations, and the returns for each asset class equaled its respective broad market average. Asset allocation value added returns represent the gain or loss that resulted from variations in the actual asset

C11: FRS Pension Plan Net Asset Values

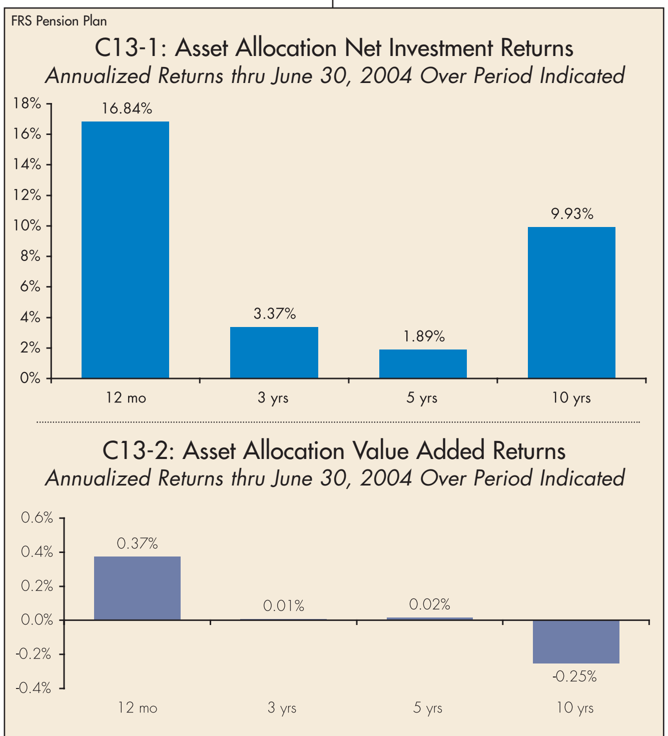
Assets as of June 30, 2004





SBA's U.S. equity exposure exceeded its year-end target allocation throughout the year.

mix compared to the target asset allocation. These incremental or value-added returns are also referred to as the return from tactical asset allocation.



FRS Pension Plan Domestic Equities Investment Performance

The Domestic Equities asset class was valued at $52.1 billion as of June 30, 2004. This asset class accounted for 50.8% of the total FRS Pension Plan portfolio. Table T13 in the Appendix provides details on Domestic Equities asset growth over the year. The asset class was broadly diversified across 14 active strategies and eight passive portfolios, with passive comprising 73.6% of the asset class. Overall, the portfolio combines a target neutral mix of growth and value strategies.

The asset class had a strong managed return of 20.30%, trailing the return of 20.46% for the asset class target, the Russell 3000 Index. The performance was a dramatic contrast to the managed return of 0.54% in the prior year. On a relative basis, asset class performance trailed target returns by 16 basis points net of fees and costs over the 12-month period, largely as a result of underperformance by active management during the first seven months of the fiscal year. A reversal in the relative return trend over the second half mitigated, but did not erase, earlier shortfalls.

Active equity management as an industry struggled during this period, with the majority of active strategies trailing performance benchmarks. A study by Prudential Equity Group indicated that less than 25% of managers benchmarked to the Russell 1000 outperformed their index return. This phenomenon was due in part to the fact that securities with questionable

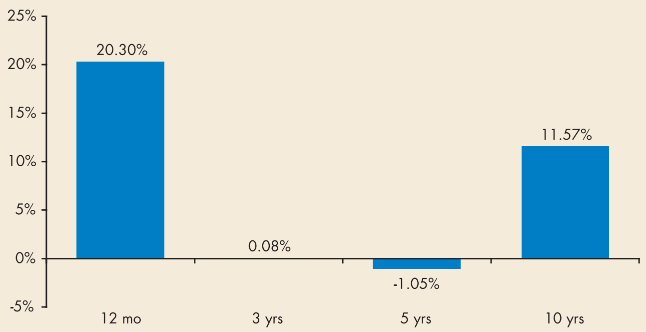
The Domestic Equities asset class had a strong managed return of 20.30%...

Karen Matthews (standing) and Jamia Holloman monitor intraday stock market activity. Karen is responsible for SBA's internally managed U.S. stock portfolios.

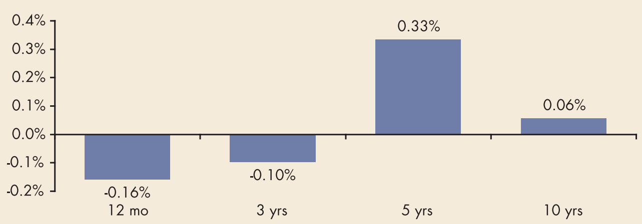
fundamentals led the market rally. Active managers tend to underperform during extreme market upturns as residual cash produces a drag on performance and investment disciplines often preclude participation in market favorites.

FRS Pension Plan

C14-1: Domestic Equity Net Investment Returns
Annualized Returns thru June 30, 2004 Over Period Indicated



C14-2: Domestic Equity Value Added Returns
Annualized Returns thru June 30, 2004 Over Period Indicated



Our large passive allocation performed very well. Internally managed passive accounts were particularly successful with a collective investment performance of 16 basis points over benchmark. In dollar terms, this translated to a value-added increment of approximately $57 million. The outperformance can be attributed to the careful reinvestment of cash balances during a period of very strong positive equity returns and the successful implementation of trades associated with index changes.

Several changes were made to the active management roster during the fiscal year. Active manager David L. Babson was terminated in the winter of 2004 for performance-related reasons. The internally managed Special Situations Fund was liquidated. Manager searches for actively managed strategies were concluded with the selection of two small-cap managers, Earnest Partners and Turner Investment Partners, and one all-cap manager, Jacobs Levy Associates.

Domestic Equities investment management fees remained stable at $37 million despite the increase in assets under management due to the market upturn. Fee renegotiation with active managers and increased use of passive asset management helped to control costs. Integration of portfolio management optimization software and electronic trading systems greatly enhanced trading efficiency and reduced commission costs.

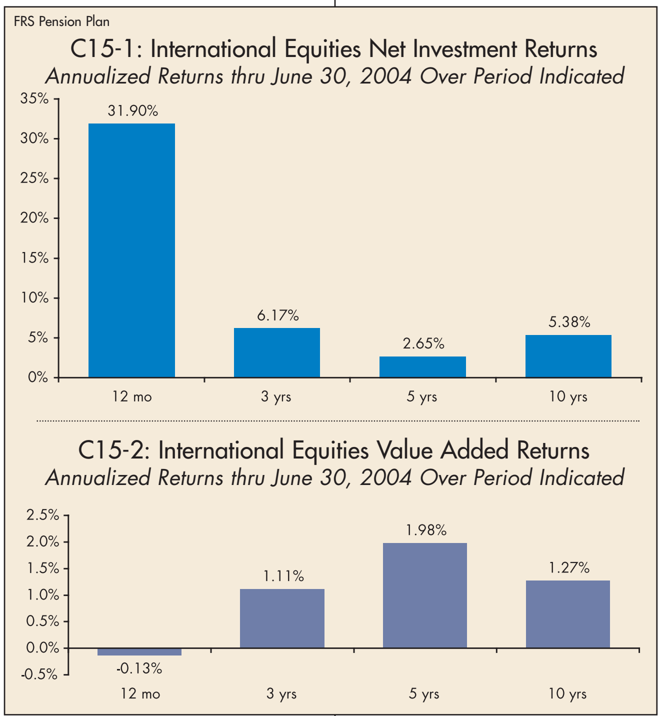
Substantial cash flows were directed out of the asset class: A total of $3.4 billion was earmarked to fund a new global equity program; $2.5 billion was provided to fund newly formed asset allocation accounts; $1.1 billion went to meet liquidity assessments; and $500 million resulted from asset allocation rebalances.

In summary, FRS Pension Plan Domestic Equities asset class investments returned

20.30%, but modestly underperformed the performance target by 16 basis points net of fees and transaction costs, due to underperformance by some active managers.

FRS Pension Plan International Equities Investment Performance

The International Equities portfolio was valued at approximately $15.4 billion as of June 30, 2004. This asset class accounted for 15.1% of the total FRS Pension Plan portfolio at year-end. Its policy allocation increased during the fiscal year to 14.0%. For the year, the aggregate international equities portfolio had a positive return of 31.9%, but trailed the target return by 0.13%. Table T14 in the Appendix provides details on International Equities asset growth over the year.



C15-1: International Equities Net Investment Returns
Annualized Returns thru June 30, 2004 Over Period Indicated

C15-2: International Equities Value Added Returns
Annualized Returns thru June 30, 2004 Over Period Indicated

The International Equities asset class was diversified across 18 portfolio strategies invested in more than 50 global markets. At fiscal year-end, passive investments accounted for 39.3% of the portfolio, with the remaining 60.7% invested in 15 active strategies in both developed and emerging markets. Mirroring target exposures, more than 92% of the portfolio was allocated to developed market managers with the remaining 8% invested with emerging market managers.

At fiscal year-end, the portfolio was slightly underweight to the United Kingdom, Japan and Continental Europe. Opportunistic investments by several developed market managers pushed the portfolio to an approximate 2% active weight in emerging markets. Along with the portfolio's underexposure to the developed markets of the Pacific Rim, emerging markets represented the portfolio's most significant geographic bet. Sector bets included underweights to financials, information technology, and energy, and overweights to telecom, consumer discretionary, consumer staples, and industrials.

Our investment in the State Street Global Advisors (SSgA) Emerging Market Index Fund was liquidated in March. Prior to its termination, the account was trailing its benchmark by 126 basis points for the fiscal year. As demonstrated by the consistently negative tracking of this investment, indexing in emerging markets remains a difficult proposition. The increased risk budget for international equity provided the opportunity to eliminate the passive investment in emerging markets and to pursue additional active strategies in this theoretically inefficient segment of the market.

The aggregate developed market active portfolio gained 31.3% for the fiscal year, but trailed the benchmark by 0.6%. BGI Alpha Tilts and Templeton, two of the seven incumbent external developed market active managers, outperformed the benchmark for the fiscal year. BGI's quantitative stock selection process, in conjunction with its currency overlay strategy, added steady value for the fiscal year. Templeton's bottom-up, stock selection process demonstrated consistent strength. The performances of Artisan, Capital Guardian, Fidelity, Morgan Stanley, and Sprucegrove lagged the benchmark.

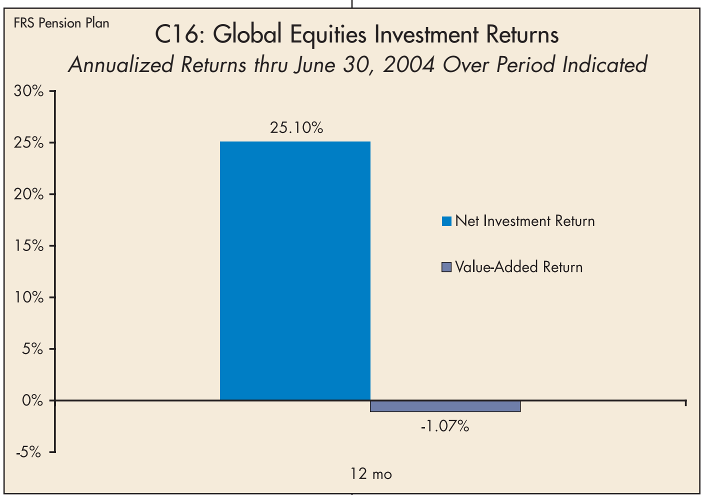
The emerging market active portfolio beat its benchmark by 176 basis points for the fiscal year. Two of the three incumbent active emerging market managers, Genesis and J.P. Morgan, performed well. The bottom-up, value approach of Genesis exhibited strength across a number of important sectors and countries, while J.P. Morgan's core, blend process added value through both country and stock selection. SSgA trailed the benchmark.

Investment management fees increased somewhat from fiscal year 2002-03. Fees were higher due to an increased commitment to higher cost active management in emerging markets and rose despite the economies of scale associated with increased account balances and some negotiated fee concessions.

Changes were made to both the developed and emerging market active portfolios. Within the developed market active portfolio, Putnam was terminated in February 2004 due to organizational issues and staff departures, and New Star was hired as its replacement. Another significant asset class initiative was the restructuring of the emerging market portfolio. As discussed above, we eliminated the passive investment in emerging markets in March 2003 and redeployed the funds with two active managers, Acadian and Delaware.

FRS Pension Plan Global Equities Investment Performance

The Global Equities asset class was created in June 2003. The asset class was diversified across six portfolio strategies invested in more than 25 global markets. It is a completely active asset class, consistent with its premise to allow investment managers to invest opportunistically without regard to geography. About two-thirds of the portfolio is invested with "core" managers who operate within a more risk-controlled framework, while the remaining one-third is with "core-plus" managers who are more absolute return oriented and assume a greater level of active risk.



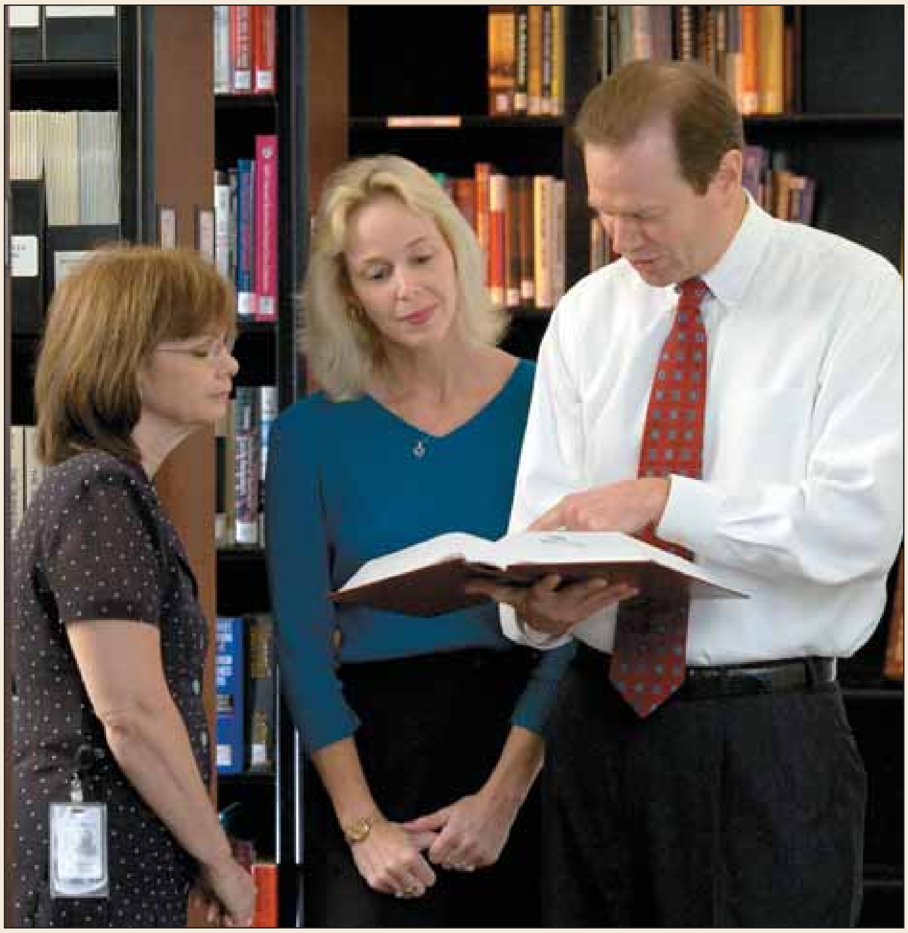
The global equities portfolio was valued at approximately $4.2 billion as of June 30, 2004. This asset class accounted for 4.1% of the total FRS Pension Plan portfolio. Table T15 in the Appendix provides details on Global Equities asset growth over the year. For the year, the aggregate global equities portfolio had a positive return of 25.1% but underperformed the target return of 26.2% by 107 basis points. Generally speaking, underexposure to small-cap stocks both domestically and internationally hurt performance, as did an underweight and poor stock selection in emerging markets.

As of June 30, 2004, relative to target exposures, the portfolio had an approximate 7% underweight to the U.S., a 6% overweight to international developed markets and a 1% underweight to emerging markets. Within these broad geographic areas, the portfolio had an approximate 4% overweight to the large-cap segment of the U.S. market (as measured by the Russell 1000) and a corresponding 4% underweight to the small-cap portion of the U.S. market (as measured by the Russell 2000).

The overweight to developed international markets was a product of positive active positions in Continental Europe, most notably the Netherlands and Switzerland, the United Kingdom and Japan. The underweight to emerging markets reflected bets against Asia, including India and Taiwan, and underexposure to the combined Europe, Middle East and Africa regions, most importantly Russia and South Africa. These positions were partially offset by positive active exposure to Latin America, particularly Brazil and Mexico. On a sector basis, the portfolio was significantly underweight to financials and technology and had smaller tilts against energy, materials and utilities. Overweight sectors included consumer discretionary, consumer staples, healthcare, telecom, and industrials.

Three of the global equity managers – McLean Budden, Templeton and Walter Scott – beat the benchmark. At a regional level, McLean Budden was fairly neutral relative to the benchmark but added considerable value through good stock

The Global Equities asset class was created in June 2003. The asset class was diversified across six portfolio strategies invested in more than 25 global markets.



SBA's Information Center, pictured above, is a special purpose library serving the research needs of SBA's investment and legal personnel. (l to r): Sue McCauley, Ann Mytych and Bill Beck.

selection in the U.S. Templeton's regional allocations and stock selection boosted performance. The stock selection decisions of Walter Scott resulted in large regional allocations away from the benchmark, which in sum added considerable value. Within the international developed market segment of their benchmark, a large overweight to Japan was richly rewarded. In addition, stock selection across the broad benchmark regions was positive. The performances of Fisher and UBS lagged the benchmark.

At fiscal year-end, we lowered investment management fees from 37 basis points to 29 basis points as a result of positive market performance and significant funding initiatives that allowed us to take advantage of the fee breaks associated with higher account values.

Following the initial funding on June 1, 2003, the global equity portfolio was funded in three additional increments during the fiscal year. Additional global equity funding occurred on October 1, 2003, February 1, 2004, and April 1, 2004. With the fourth and final funding on April 1, the global equity portfolio reached its targeted weight of 4%.

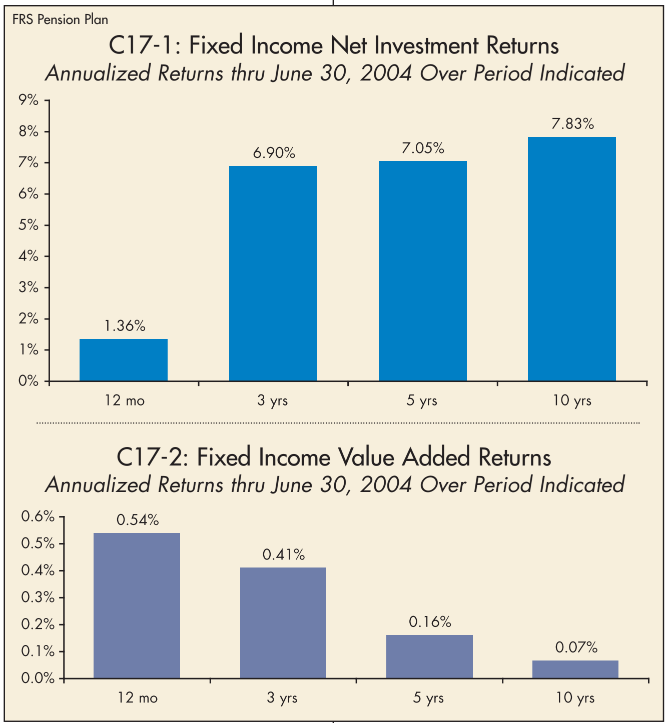
Due to organizational issues and staff departures, Putnam was terminated in February 2004. Following Putnam's termination and the completion of a manager search, the Bank of Ireland was hired as its replacement.

FRS Pension Plan Fixed Income Investment Performance

The Fixed Income asset class had a return of 1.36% for the fiscal year, down from 11.43% in fiscal year 2002-03. Table T16 in the Appendix provides details on Fixed Income asset growth over the year. The reduction was primarily a result of anticipated and realized rate hikes by the Fed.

Relative performance of the asset class is measured by the Fixed Income Management Aggregate target, which is a market-weighted blend of the Lehman Aggregate Bond Index and the Merrill Lynch B and BB Rated Index. Against this benchmark, the asset class delivered a significant value-added return of 54 basis points for the year.

All actively managed fixed income portfolios posted a return of 1.74% for the fiscal year, exceeding their performance benchmark by 77 basis points. The combination of all active and passive portfolio returns, plus the return difference due to sector allocation (misfit) against the Fixed Income Management Aggregate target resulted in a 54 basis point performance advantage for the year.



The Aggregate less mortgage portfolios had a total return of 0.42%, outperforming its target by 111 basis points. The annualized three-year return of 7.46% exceeded the benchmark return by 69 basis points.

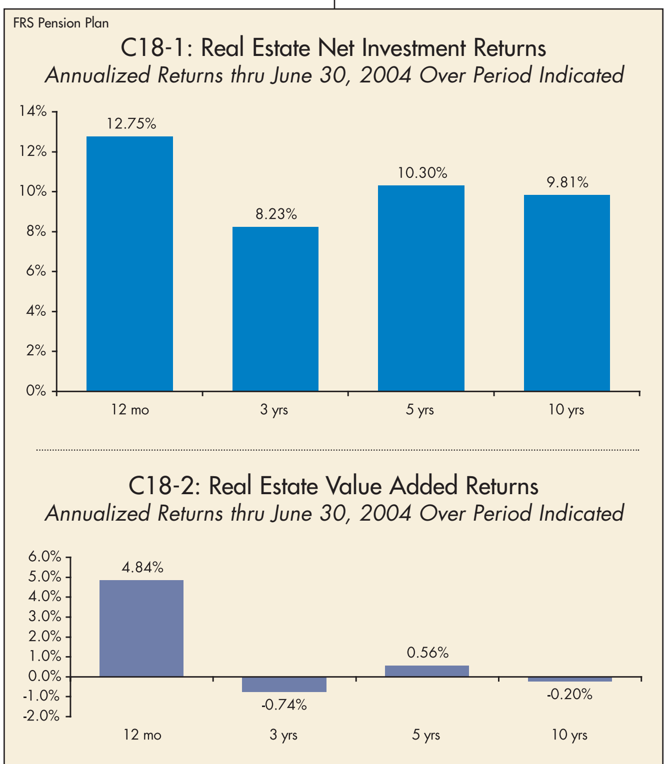
The $5.5 billion mortgage portfolios exceeded their target by 2 basis points, returning 2.25%. The annualized three-year return of 5.85% exceeded the benchmark return by 24 basis points.

The one aggregate portfolio had excess returns of 20 basis points and 29 basis points, respectively, on both a one-year and an annualized three-year basis.

The externally managed high-yield portfolios had a total return of 8.34%. However, they underperformed the target by 36 basis points. Two new managers lagged their target as they held cash while attempting to build their portfolios. During the fiscal year, one high-yield manager was terminated from the active portfolio due to organizational changes.

FRS Pension Plan Real Estate Investment Performance

The Real Estate asset class ended the fiscal year with investments valued at $5.9 billion, a significant increase from $4.1 billion a year earlier. Table T17 in the Appendix provides details on Real Estate asset growth over the year. The asset class delivered a net investment return of 12.75% for the year and outdistanced its relative return target (4.5% over the contemporaneous rate of inflation) by 4.84%.



Real Estate represented 5.7% of the value of the total FRS Pension Plan assets. The ending market value was below the new 7% real estate target allocation that we established at the start of the year but was within the operating range of 3% to 10%.

During the year, five open-end pooled funds were added to the investment mix. A total of $539.2 million was distributed relatively evenly among the five pooled funds. These funds provide exposure to institutional quality income producing real estate assets. These pooled funds provide ready access to the market, good diversification and reasonable liquidity. During this period we also invested funds in four externally managed Real Estate Investment Trust separate accounts. These investments totaled $950 million and were also relatively evenly distributed among the investment managers.

We continue to focus on acquiring properties, which we prefer to own directly or through joint ventures. During the year, we acquired a 302-unit apartment community in Atlanta, Georgia for $20.5 million and a 270-unit apartment community in Jacksonville, Florida for $9.8 million. These apartment communities will be refurbished and sold. We also acquired a 143,000 square-foot community shopping center in Memphis, Tennessee at a cost of $48 million. Separately, we formed a joint venture to invest in self-storage public warehouse facilities. We expect to invest approximately $87.5 million in the venture properties.

For the year… high valuations persisted in spite of weak real estate fundamentals.

We sold a 292-unit apartment community in Denver, Colorado for $36 million in November 2003, for a net return on investment of 11%. We also sold a 334,190 square-foot shopping center in Northbrook, Illinois for $79 million in August 2003, for a net return on investment of 10.49%.

For the year, the market reflected high values due mainly to the availability of low interest rates and an influx of buyers seeking real estate as an attractive alternative to financial investments. High valuations persisted in spite of weak real estate fundamentals. Vacancies remained high and rental growth was anemic. We are forecasting improved market conditions over the next 24 months. In the next fiscal year, we will continue to work on providing a reasonable balance to the portfolio in terms of asset type, economic locales and lease exposures.

FRS Pension Plan Alternative Investments Performance

On June 30, 2004, the Alternative Investments asset class had a market value of $3.5 billion, accounting for 3.4% of total FRS Pension Plan assets. Table T18 in the Appendix provides details on Alternative Investments asset growth over the year.

In this actively managed portfolio, the SBA generally makes fixed commitments of capital to limited partnerships that are externally managed by general partners. Alternative Investments has commitments to 42 investment vehicles managed by 26 separate private equity firms. During the year, the asset class emerged from an extended moratorium on new relationships and remained well below its target weight of 5% of FRS assets.

Alternative Investments committed $895 million in fiscal year 2003-04 to new partnership investments. These commitments were consistent with the following portfolio goals:

- A long-term focus on investing with a core of successful general partnerships, with places reserved in follow-on funds, if desired, with those same partners;
- A captive and innovative co-investment effort, with Alternative Investments staff acting as a value-added partner, heavily involved in generating quality deal flow;
- An exclusive, high-quality private equity partnership that forms a manageable portion of the overall portfolio; and
- The addition of new relationships on a selective basis, consistent with the strategies of the asset class and annual work plan.

It was a watershed year for exits. After years of waiting, exits were attainable for financial sponsors who had built stable and profitable companies. Distinguishing features of those ready for exit included a recurring revenue model and a flexible capital structure. These exits dampened the effect of $895 million in commitments to new and existing relationships. Net cash outflow from the portfolio was $34.6 million and the Alternative Investment portfolio remained the same percentage of total FRS assets (3.4%) as the previous year.

The larger buyout sponsors were particularly active during the year. Carlyle, a $3.9 billion fund, called $27 million from the SBA to fund the second tranche of its Dex yellow pages business. Later in the year, the fund recapitalized its

Alternative Investments formed new relationships with six buyout groups and added distressed debt and venture capital exposure.

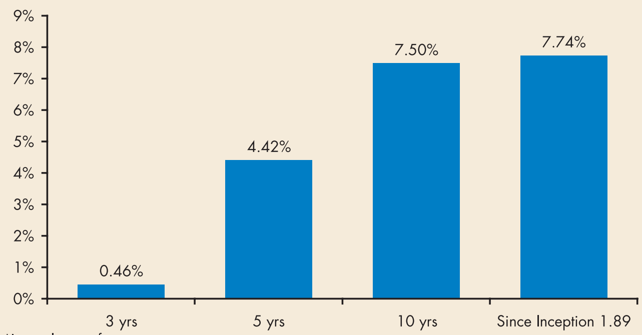
balance sheet and distributed a dividend to return over half of its total cost basis while retaining its full equity ownership. Carlyle returned an additional $25 million of proceeds from its ongoing sale of United Defense shares; in total, Carlyle has returned to investors 7.5 times its original equity investment of $133 million in United Defense.

The asset class also added two sub-asset classes to the portfolio: distressed debt and venture capital. Both were structured through fund of fund vehicles. In total, $350 million was committed to venture capital and $300 million to distressed debt. With no existing venture relationships, a fund of funds format will give us the best access to top-tier venture partnerships. The deeper reach for diligence and speed of execution made a fund of funds optimal for distressed debt, which historically has had a more limited cycle for investments.

FRS Pension Plan

C19-1: Alternative Investments Net Returns*

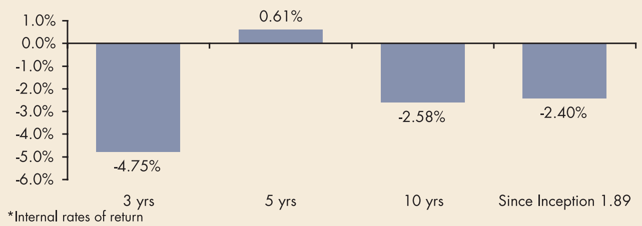
Annualized Returns thru June 30, 2004 Over Period Indicated



*Internal rates of return

C19-2: Alternative Investments Value Added Returns*

Annualized Returns thru June 30, 2004 Over Period Indicated



*Internal rates of return

Alternative Investments formed new relationships with six buyout groups. The groups included longstanding established firms as well as newer groups with compelling track records and strategies. These commitments were consistent with our annual work plan and overall strategy of the asset class.

The asset class continued to lag its benchmark since inception (1989). Performance improved, however, on both an absolute basis and relative to the benchmark. Alternative Investments' net internal rate of return since inception was 7.7%, which lagged the primary target by 240 basis points as of June 30, 2004.[6]

Mature partnerships, those older than four years, may be a more stable measure of the asset class. The performance of this group was 7.57% through December 2003, outperforming the Venture Economics benchmark by 15 basis

SBA contracts with private equity partnerships require the following disclosure:

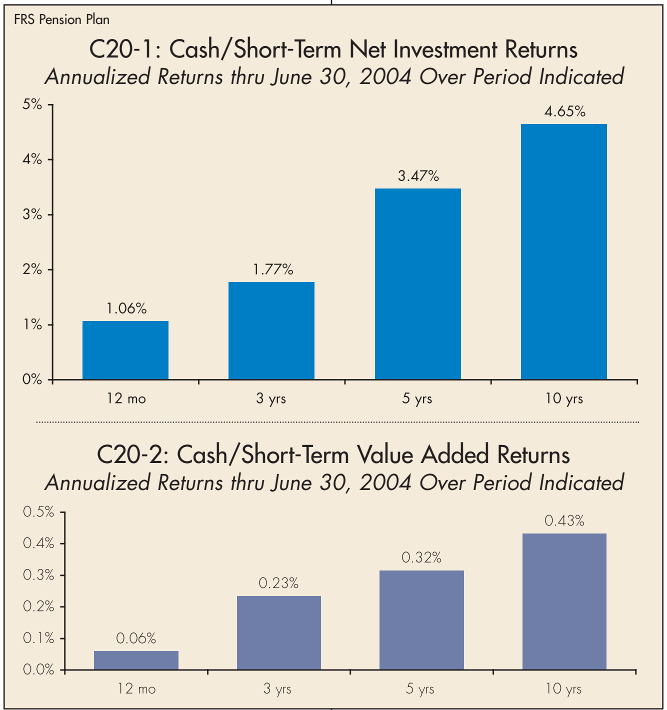
Because of the long-term nature of investing in private equities, funds can produce low or negative returns in the early years of the partnership. In the first few years of the partnership, management fees are drawn from partners' capital, and portfolio companies are held at cost, leading to an understatement of ultimate value.

Due to numerous factors, including the lack of standardized valuation and reporting methodologies, the return information for Alternative Investments in this report may not reflect the expected returns of the partnerships. The returns contained in this report are calculated by the SBA and have not been reviewed by the general partners.

Returns may not be meaningful or indicative of ultimate performance during the early stages of the investment life cycle.

6 Per AIMR performance reporting standards, returns for the Alternative Investments asset class are reported on a dollar-weighted (internal rate of return) basis, while all other returns reported in this document are time-weighted.

points. In 2004-2005, Alternative Investments plans to renew with existing relationships that have met their investment objectives and to find a select number of new top-tier relationships.



FRS Pension Plan Cash/ Short-Term Investments Performance

The performance measurement of Cash pertains only to the Cash and Central Custody Account, which was valued at $541 million on June 30, 2004. Table T19 in the Appendix provides details on Cash and miscellaneous account asset growth over the year.

Cash is also held in other asset class portfolios. This asset class is managed in a pooled fashion by internal Fixed Income staff and reported in the market value for those portfolios.

Our existing infrastructure enables the SBA to provide cash management services for FRS Pension Plan portfolios at a lower cost than those supplied by external service providers, without sacrificing return.

FRS Pension Plan Investment Management Fees

Investment management fees on externally managed FRS Pension Plan portfolios are deducted from the portfolios and are not included in budgetary allocations. Table T4 (page 34) shows investment management fees by asset class for fiscal year 2003-04.

Brokerage commissions are paid for executions of securities orders and on trades of exchange-listed equity investments. Brokerage commis-

Members of SBA's back-office staff review financial schedules for this Investment Report.
(l to r): Cynthia Henderson, Memi Turkington and Janie Knight.

T4: FRS Pension Plan External Investment Management Fees *Fiscal Year 2003-2004*		
Asset Class	Dollar Amount	Return Basis[7]
Domestic Equities	$37,307,216	0.23%
Global Equities	7,828,607	0.33%
International Equities	33,031,595	0.24%
Fixed Income	10,150,850	0.11%
Real Estate	19,500,586	0.35%
Alternative Investments	41,492,655	1.27%
Total	$149,311,509	0.30%

sions, net of commission recapture rebates, are shown in Table T5.

Commissions recaptured are credited to the accounts that generated the dollars. Therefore, the amounts reported below are net of commission recapture rebates. The SBA has one outstanding third-party vendor relationship that provides commission dollars to fund performance evaluation and research. The SBA follows Employee Retirement Income Security Act (ERISA) standards that specifically address commission dollars and deem them to be plan assets.

T5: FRS Pension Plan Net Brokerage Commissions	
Domestic Equities	$15,939,163
Global Equities	2,700,037
International Equities	12,178,175
Fixed Income	562,307
Alternative Investments	0
Real Estate	2,860,379
Transition Accounts	1,855,723
Total	$36,095,784

FRS Pension Plan Supplemental Income Program

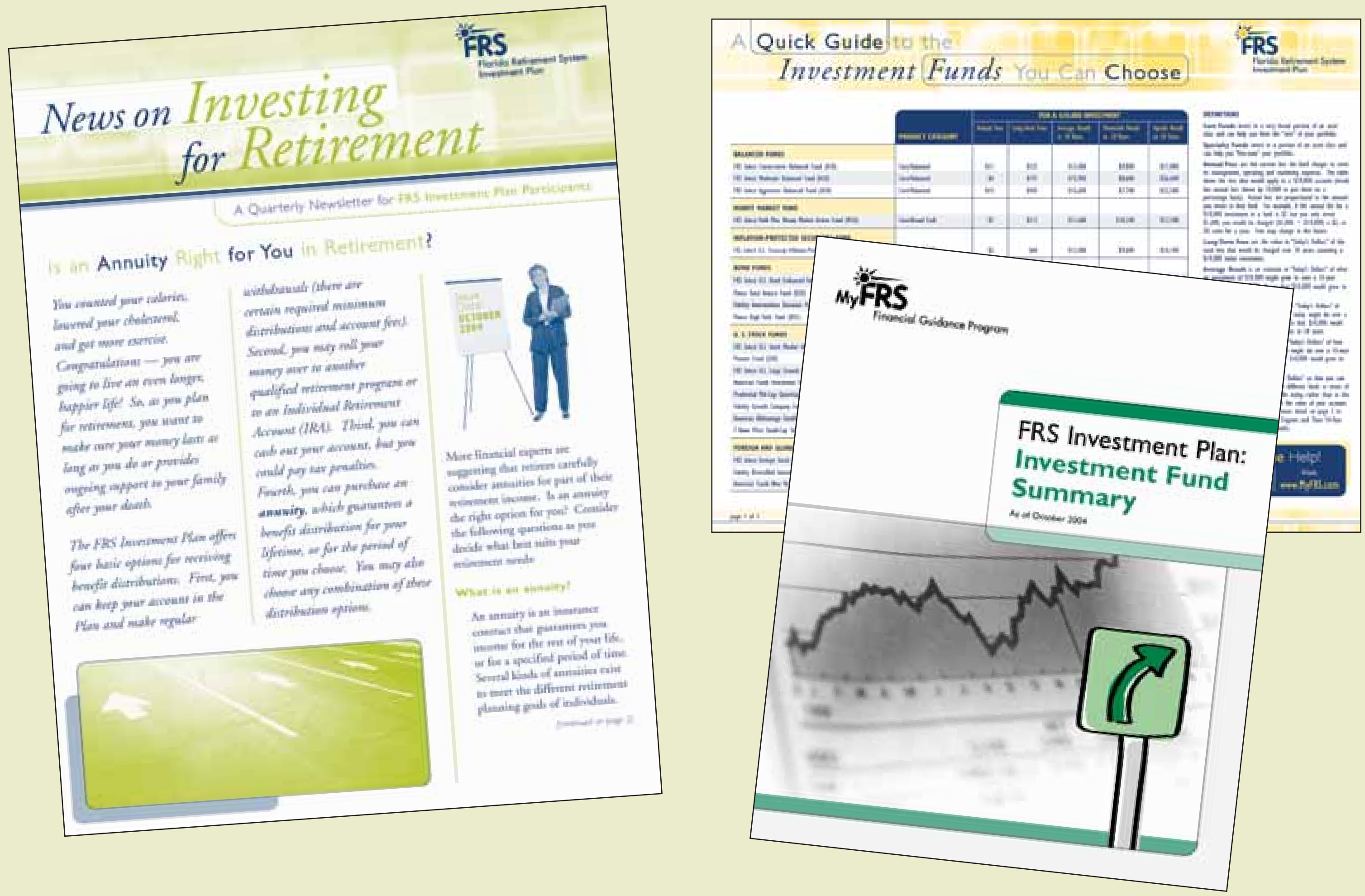
Securities lending is an incremental income program implemented through multiple providers. During the periods securities are on loan, collateral equal to or greater than 100% of the market value plus accrued interest is received in the form of United States government and agency securities or cash.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

During the fiscal year, the SBA utilized seven securities lending agents and one principal borrower for FRS assets. Income generated from these programs for the fiscal year was $34.6 million.

Net income from all FRS Pension Plan securities lending programs for the previous five years, including fiscal year 2003-04, is shown in Chart C21.

C21: FRS Pension Plan Net Securities Lending Income
Fiscal Years 1999-2004

[7] 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.



Florida Retirement System Investment Plan

The FRS Investment Plan, an optional defined contribution plan, took effect in fiscal year 2002-03. Eligible public sector employees may choose to enroll in this plan as an alternative to the traditional FRS Pension Plan, which continues to offer formula-based retirement benefits. The new plan is modeled after 401(k) plans in the private sector in order to help employers recruit and retain mobile employees. Unlike the FRS Pension Plan, the benefits employees can receive under the FRS Investment Plan will vary, depending on the performance of the investment options selected.

The FRS Investment Plan enables members to play an active role in selecting from a wide offering of investment options. Employer contribution rates are set by law and go directly into members' accounts, with rates ranging from 9% to 20% of salary, depending on membership class. Employees enrolled in the FRS Investment Plan don't make contributions, and only pay investment management fees. Vesting in the plan is one year. Distribution options include lump sums, periodic distributions and a variety of low-cost fixed, variable and deferred annuities.

On June 30, 2004, the FRS Investment Plan had 38,347 member accounts, including terminated members who had left their balance in the plan. Roughly 6% of active FRS-covered employees were enrolled in the FRS Investment Plan. The plan had assets totaling $706 million, an increase of 112% over the prior fiscal year. During the year, the plan received $427 million from payroll contributions and benefit transfers from the FRS Pension Plan. Benefit transfers were almost entirely due to the exercise of members' one-time second election opportunity. Monthly payroll contributions hit a peak of $11.9 million in the May 2004 payroll. The balance of the change in plan assets resulted from financial market gains, reduced by distributions of benefits to members. Total distributions during the fiscal year were $111 million, of which roughly 60% were in the form of rollovers to qualified retirement plans.

Above: The FRS Investment Plan offers eligible employees a wide range of investment options, as an alternative to the traditional FRS Pension Plan.

The FRS Investment Plan enables members to play an active role in selecting from a wide offering of investment options.

FRS Investment Plan Oversight and Management

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

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

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

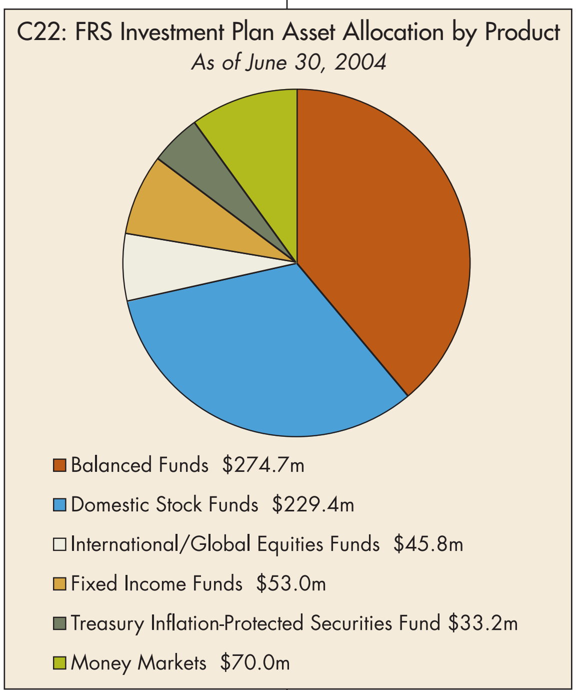
Similar to its role for the FRS Pension Plan, the SBA's Investment Advisory Council reviews the Investment Policy Statement and any proposed changes prior to its presentation to the Trustees.

The SBA selects and monitors available investment funds, subject to the ERISA fiduciary standards of care and the Investment Policy Statement.

FRS Investment Plan Asset Allocation

The FRS Investment Plan includes three balanced funds that were developed to simplify the FRS retirement plan comparisons and provide members with low-cost "one-stop shopping" alternatives that optimally balance risk, return and cost. At fiscal year-end, nearly three-quarters of the members allocated assets to at least one of the three available balanced funds. As a result, about 40% of the plan assets were in the balanced funds.

During the year, members' overall asset allocations to U.S. and foreign stocks increased significantly to 64% from 55% at the end of the prior year (allocating the assets in the balanced funds to their component funds). In large part, the increase reflected the end of the three-year bear market in stocks, resulting in higher returns on stock funds and higher overall member comfort with stock funds. Younger members tended to allocate more of their assets to stock funds, while those nearer retirement tended to have lower allocations to stock funds. Members also clearly favored low-cost funds, resulting in a weighted investment management fee of roughly 0.30% for the FRS Investment Plan.



Balanced Funds accounted for nearly 40% of total FRS Investment Plan assets in the program's second year.

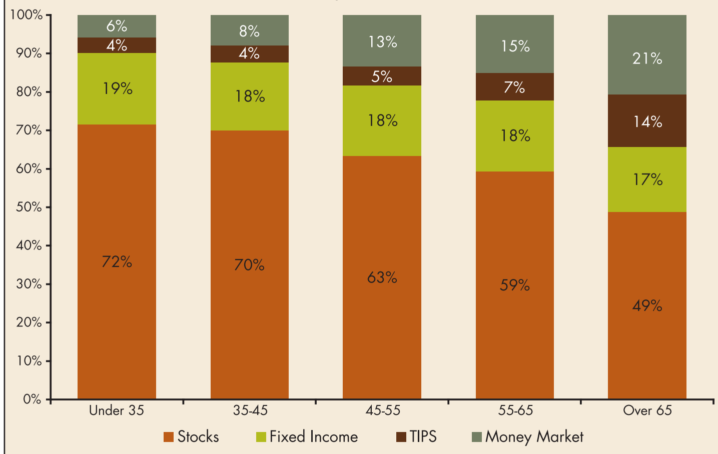
FRS Investment Plan Performance Summary

With the year-end rally in the stock market, aggregate plan performance was a strong 14.4%, net of investment management fees, for the fiscal year. The plan lagged its benchmark performance by 29 basis points for the year. The plan's balanced funds and fixed income funds beat their benchmarks. Conversely, U.S. stock funds, foreign stock funds, the U.S. Treasury Inflation-Protected Securities Fund and money market funds lagged their benchmarks. These aggregate results reflect the asset allocation and investment fund selections of individual participants.

Net of investment management fees, unbundled providers (FRS Select funds) lagged their bench-

C23: FRS Investment Plan Asset Allocation by Participant Age

As of April 30, 2004



Investment Plan asset allocations show a sensible shift to lower-risk assets as participant age increases.

marks, as a group, by 36 basis points, due to underperformance by Wellington, RCM Dresdner, Putnam and several index products.

Among the bundled providers, Prudential outperformed its benchmark by 142 basis points and Fidelity outperformed its benchmark by 1 basis point, while AIG-Valic and Nationwide lagged their benchmarks.

At the recommendation of external investment consultants and concurrence from the Investment Advisory Council and Board of Trustees, a number of investment funds were eliminated to improve cost-efficiencies and address performance issues. The following funds were eliminated: FRS Select U.S. Large Value Stock Active, ING Index Plus Large Cap, Berger INTECH Risk Managed Growth, Lord Abbett Affiliated, Prudential Mid Cap Quantitative, INVESCO Dynamics, Lord Abbett Bond Debenture, Wells Fargo Stable Return, INVESCO Stable Value, ING Stable Value, ING International Growth and Putnam International Equity. Putnam International Core Fund was removed as the active manager of the FRS Select Foreign Stock Active Fund, and the fund's mandate was revised to be a passive index fund. Further investment fund restructuring was initiated during the fiscal year, but not finalized until after June 2004.

T6: FRS Investment Plan Aggregate Product Performance

Periods Ending June 30, 2004

	1 Year	Since Inception[8]
Total Investment Plan	%	%
Managed Return	14.38	11.86
Value Added	(0.29)	(0.21)
Total Domestic Equities Funds		
Managed Return	22.02	16.57
Value Added	(0.62)	(0.63)
Total International Equities Funds		
Managed Return	28.51	19.32
Value Added	(0.17)	1.23
Total Fixed Income Funds		
Managed Return	1.00	5.43
Value Added	0.05	0.14
Total Inflation-Indexed Bond Fund		
Managed Return	3.78	8.76
Value Added	(0.08)	(0.21)
Total Money Market Funds		
Managed Return	1.14	1.37
Value Added	(0.02)	0.01

Managed returns are net of external investment manager fees.

[8] Inception date is August 1, 2002.

SBA Investment Products for Florida Agencies, Local Government Entities and Trusts

Local Government Investment Pool (LGIP)

The Local Government Investment Pool, more formally called the Local Government Surplus Funds Trust Fund, was established to provide local governments a low cost, low risk, fully transparent investment option for their surplus funds. The SBA has operated the LGIP since January 1982 and currently serves 812 local government clients.

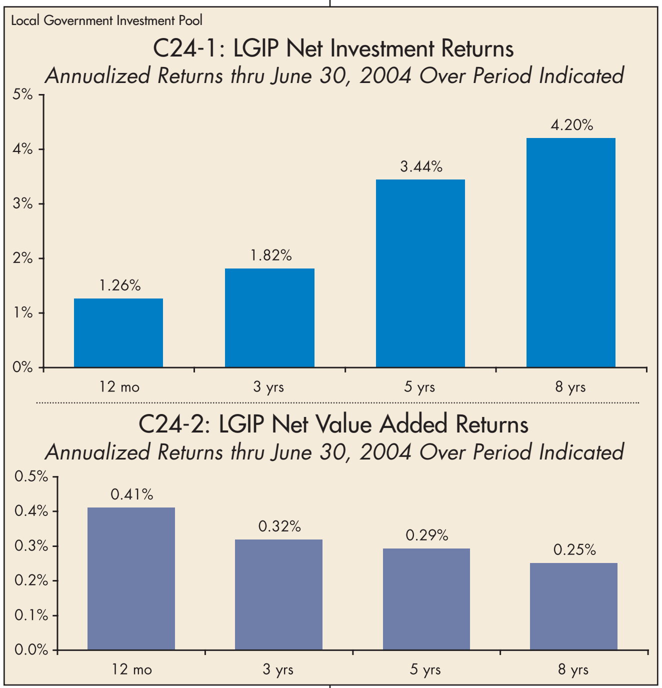
The objectives of the LGIP are as follows:

- Provide a short-term, very liquid, high quality investment vehicle to participating local governments
- Purchase securities consistent with Section 215.47, Florida Statutes
- Operate the pool as a "2a7-like" fund using the Securities and Exchange Commission investment requirements for 2a-7 Money Market Funds as guidance
- Follow all accounting and reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 31
- Provide liquidity to the participants on a daily basis; and
- Add incremental income by participating in the SBA securities lending program.

The LGIP is managed to be competitive with the S&P Rated LGIP 30-Day Yield Index. Actual net returns in excess of this index are termed "value-added" returns. Net investment returns and value added returns are shown in Chart C24 (page 39).

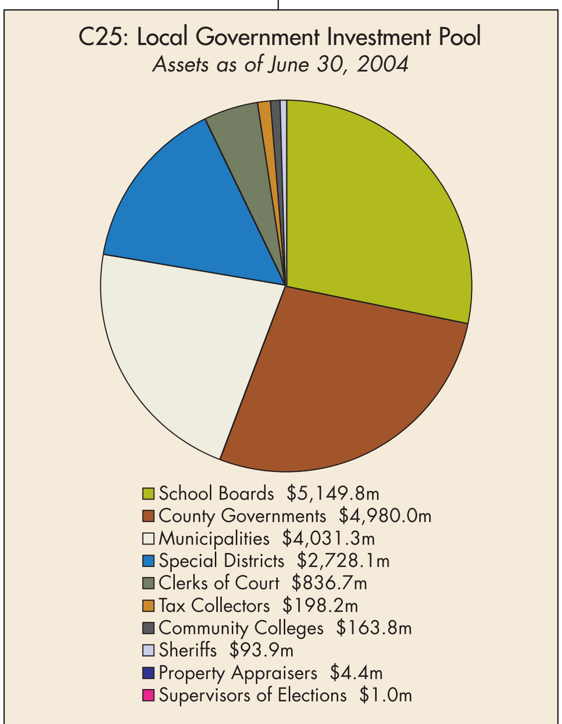
Above: The SBA offers a growing number of investment products to state agencies, local governments and other Florida entities.

As a money market fund, the LGIP invests in short-term, high quality money market instruments issued by financial institutions, non-financial corporations, the U.S. government and federal agencies. Money market instruments must be of the highest applicable rating, while other eligible securities must be rated investment grade. All nongovernmental securities must have a maturity of less than 13 months. The maturity of obligations of the U.S. Treasury and U.S. Agencies may not exceed two years. The weighted average maturity of the portfolio may not exceed 90 days. Compliance with these and other investment guidelines are observed and verified on a daily and monthly basis. During the year, the Local Government Pool met all compliance requirements.



The SBA has added significant value over the benchmark return, despite the long-term decline in yields.

The LGIP is open to units of local government defined as "any governmental entity within the state not part of state government" including counties, cities, school districts, special districts, clerks of the circuit court, sheriffs, property appraisers, tax collectors, supervisors of elections, authorities, boards, public corporations, or any other political subdivision of the state (Section 218.403(7), Florida Statutes).



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

LGIP Assets Under Management

On June 30, 2004, funds under management were valued at approximately $18.2 billion, up 0.49% from $18.1 billion a year earlier. At year-end, 812 local government participants held a total of 1,845 accounts. Assets by client type are shown in Chart C25.

The Commingled Asset Management Program (CAMP)

To better serve a variety of governmental clients, miscellaneous trust accounts and endowment funds with non-qualified (i.e., non-pension) assets to invest, the SBA created a series of investment products under the banner "Commingled Asset Management Program." Each operates in a fashion similar to mutual funds, where participants hold units whose value is based on the underlying securities in the overall portfolio.

Short-Term Option: The CAMP Money Market Fund

The first of the CAMP products, created in July 1999, is a money market product – CAMP MM – for clients seeking liquidity with a focus on preservation of capital. As of June 30, 2004, CAMP MM consisted of 21 client accounts with total assets valued at $352.9 million, compared to $407.1 million one year earlier.

The objectives of the CAMP MM are as follows:

- Provide a short-term, very liquid, high quality investment vehicle for non-pension assets of tax exempt Florida government entities, trusts and endowments

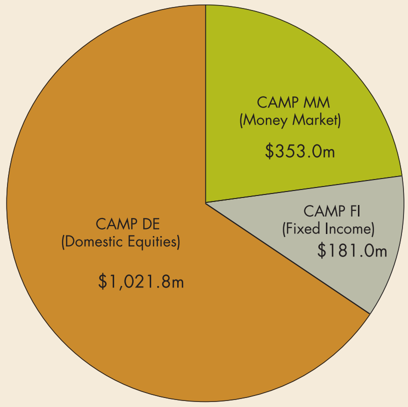
- Securities purchased are consistent with Section 215.47, Florida Statutes
- Operate the CAMP MM as a "2a7-like" fund using the SEC investment requirements for a 2a-7 Money Market Fund as guidance; and
- Provide liquidity to the participants on a daily basis.

CAMP MM is managed to be competitive with the Money Fund Report First Tier Institutional Index. Authorized investments may include bonds of the United States government and related agencies, repurchase agreements and high quality money market instruments.

CAMP MM exists to serve entities that are not eligible to participate in the local government investment pool, yet seek the same type of investment opportunity. This includes state agencies (as defined in Section 216.011, F. S.) and other governmental entities, trusts or endowments on whose behalf the SBA can make investments as provided by law or by the Florida Constitution, provided that the funds are not pension plan funds.

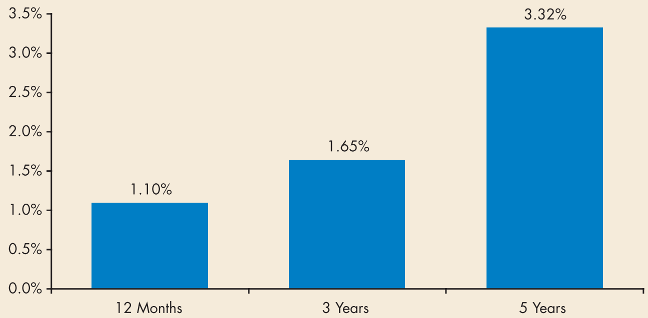
Likely investors are those with a short-term investment horizon where liquidity and the preservation of capital are of primary importance. Contribution and redemption transactions can be executed on a daily basis.

C26: Commingled Asset Management Program
Assets Under Management as of June 30, 2004

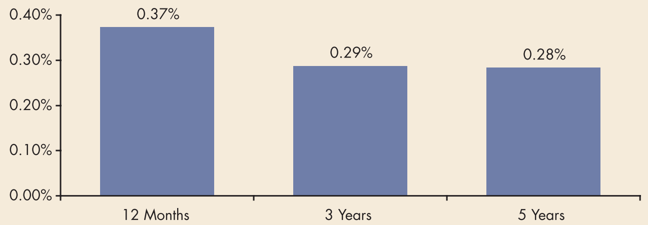


Commingled Asset Mgt. Program–Money Market

C27-1: CAMP MM Net Investment Returns
Annualized Returns thru June 30, 2004 Over Period Indicated



C27-2: CAMP MM Value Added Returns
Annualized Returns thru June 30, 2004 Over Period Indicated



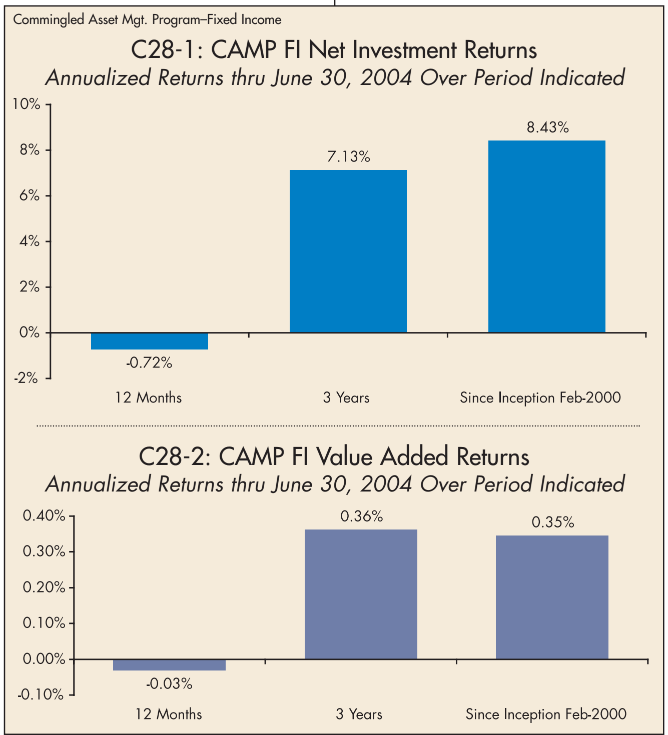
CAMP MM Assets Under Management

In addition to commingling the assets of clients with purely short-term investment objectives, CAMP MM also invests the cash allocation component or residual cash for

T7: CAMP MM (Money Market) Assets Under Management
Assets by Client as of June 30, 2004

Administrative Expense Trust Fund	$	894,012
Arbitrage Compliance Trust Fund		1,384,660
Blind Services Trust Fund		200,467
Bond Fee Trust Fund		1,625,885
College Prepaid Administrative Expense		685,211
College Prepaid Foundation		7,206,764
College Prepaid Trust Fund		43,453,369
College Savings Administrative Expense		465,646
FEF, Inc. - McKnight Education Fund		2,595,807
Fla. Endowment for Vocational Rehabilitation		1,986,324
Health Insurance Subsidy Trust Fund		30,901,477
IFAS - Supplemental Retirement		2,920,845
Inland Protection Financing Corporation		1,053
Investment Fraud Restoration Financing Corp.		985,731
Lawton Chiles Endowment Fund		59,573,422
Lottery Earnings and Expense		337
Non Qualified Domestic Equity Pool		1,941,001
Non Qualified Fixed Income Pool		4,343,327
PEORP Administrative Trust Fund		21,391,985
Police and Firefighters Premium Tax Trust Fund		153,865,156
Scripps Florida Funding Corporation		16,618,142
Total CAMP MM	$	353,040,621

longer term, multi-asset class portfolios. The Lawton Chiles Endowment Fund, the FEF, Inc. McKnight Doctoral Fellowship Program, and the Blind Services Trust Fund are examples of multi-asset class portfolios with a cash allocation component invested in the CAMP MM Fund. Assets for all CAMP MM clients are shown in Table T7 (page 40).



Intermediate-Term Option: The CAMP Fixed Income Fund

This commingled portfolio was established in February 2000 to offer clients exposure to the long-term fixed income market for non-qualified (non-pension) funds. Like CAMP MM, the money market fund, each client participating in the fixed income fund (CAMP FI) holds units, similar to investing in a mutual fund.

As an intermediate-term bond fund, CAMP FI invests in a broad array of investment grade fixed income securities – including government, corporate, and international dollar denominated bonds, as well as asset-backed securities. All are instruments with maturities greater than one year. CAMP FI is a passively managed portfolio, originally designed to track the performance of the Lehman Government/Credit Index. During fiscal year 2004-05, this mandate will be broadened to include mortgage-backed securities, thereby representing the full spectrum of the Lehman Aggregate Bond Index, a broad measure of the investment grade U.S. public and private bond market.

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

CAMP FI Assets Under Management

As of June 30, 2004, participants in the CAMP Fixed Income Fund are the SBA Administrative Expense Fund ($29.6 million), the Division of Blind Services Trust Fund ($1.2 million), and the Lawton Chiles Endowment Fund ($150.2 million). Amounts in parentheses represent June 30, 2004 net asset value.

Long-Term Option: The CAMP Domestic Equities Fund

The objective of the CAMP Domestic Equity Fund (CAMP DE) is to provide investment returns and risk exposures matching that of the Tobacco Free Russell 3000 Index for non-qualified (i.e., non-pension) client funds. It is currently managed as a passive portfolio with no intentional active risk relative to the benchmark. Like CAMP MM, the money market fund, each participant in this fund holds units of CAMP DE, similar to investing in a mutual fund.

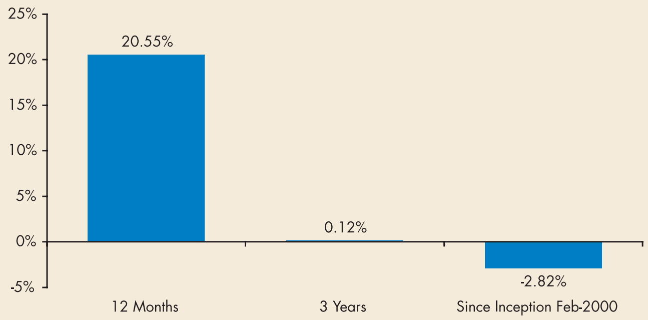
The Fund's portfolio is constructed to closely represent the benchmark index. Dividends and other internal cash flows are retained and reinvested within the Fund. Index futures contract positions or ETFs (Exchange Traded Funds) may be used to facilitate investment of cash flows and equitize cash and/or dividends receivable. It is anticipated that during fiscal year 2004-05, this Fund's holdings will be expanded to include the full spectrum of the Russell 3000 Index, a broad measure of the overall U.S. stock market.

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

Commingled Asset Mgt. Program–Domestic Equities

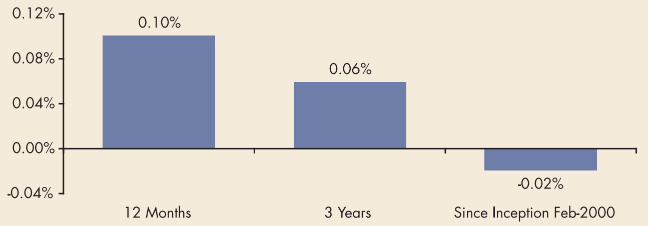
C29-1: CAMP DE Net Investment Returns

Annualized Returns thru June 30, 2004 Over Period Indicated



C29-2: CAMP DE Value Added Returns

Annualized Returns thru June 30, 2004 Over Period Indicated



CAMP DE Assets Under Management

As of June 30, 2004, the Lawton Chiles Endowment Fund ($1.02 billion) and the Division of Blind Services ($1.3 million) were participants in CAMP DE. Amounts in parentheses represent June 30, 2004 net asset value.

Specialty Options: International Equities, Treasury Inflation-Protected Securities and Real Estate Investment Trusts

The SBA is in the process of "unitizing" a non-pension portfolio of international equity assets, valued at $228 million (as of June 30, 2004). This will constitute a fourth CAMP product, which is anticipated to open at the end of fiscal year 2004-05. In addition, the SBA currently manages non-pension portfolios of Treasury Inflation-Protected Securities (TIPS) and Real Estate Investment Trusts (REITS) that could be unitized and offered as additional pool products, should there be client interest.

International stocks, TIPS and REITS are products suitable for sophisticated investors with a longer term time horizon seeking to reduce volatility in their overall portfolio by diversifying their holdings across a wide array of asset types, each with their own unique set of return and risk characteristics.

SBA's Investment Management Fees

Table T8 shows SBA's investment management fees on assets in the LGIP and CAMP products.[9] Fees are applied on a pro-rata basis.

T8: Investment Management Fees[9]

Fiscal Year	SBA Annual Fee	
Pre-1998-99	2.00 basis points	(0.0200%)
1998-99 through 2002-03*	1.75 basis points	(0.0175%)
2003-04	1.65 basis points	(0.0165%)
2004-05	1.50 basis points	(0.0150%)

*No fee for 4th quarter 2000-01; no fee for 2 months of 4th quarter FY 2001-02

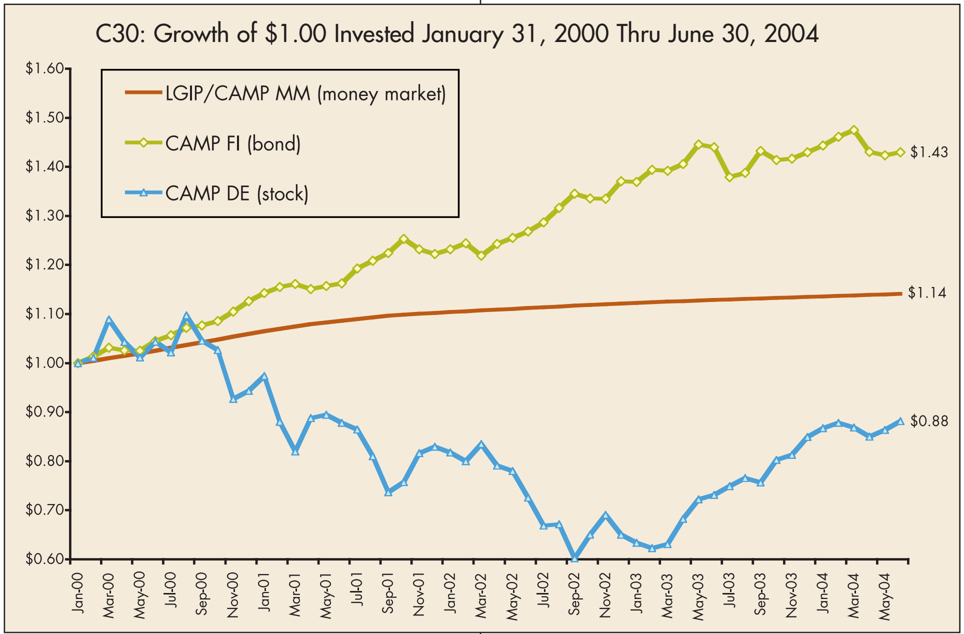
A Comparison of SBA Investment Pool Products

It is important to understand the relationship between principal risk and investment returns. Table T9 compares returns of the four currently

T9: Returns from January 31, 2000 thru June 30, 2004

	LGIP	CAMP MM	CAMP FI	CAMP DE
Annualized return for full period	3.16%	3.03%	8.43%	-2.82%
Highest 12-month return for period	6.51%	6.50%	15.44%	41.03%
Lowest 12-month return for period	1.26%	1.10%	-1.51%	-29.54%
Two-thirds of the time, 12-month returns fell in this range:				
Upper bound	3.32%	3.17%	12.07%	-1.04%
Lower bound	1.73%	1.56%	7.47%	-15.63%

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



Since the bear market that began in early 2000, stocks have underperformed bonds and money market funds.

offered pooled products from February 2000 through June 2004, using rolling 12-month periods. The first three years of this period was one of the most difficult for stock investors since the 1930s. Similarly, it was an unusually strong period for fixed income returns.

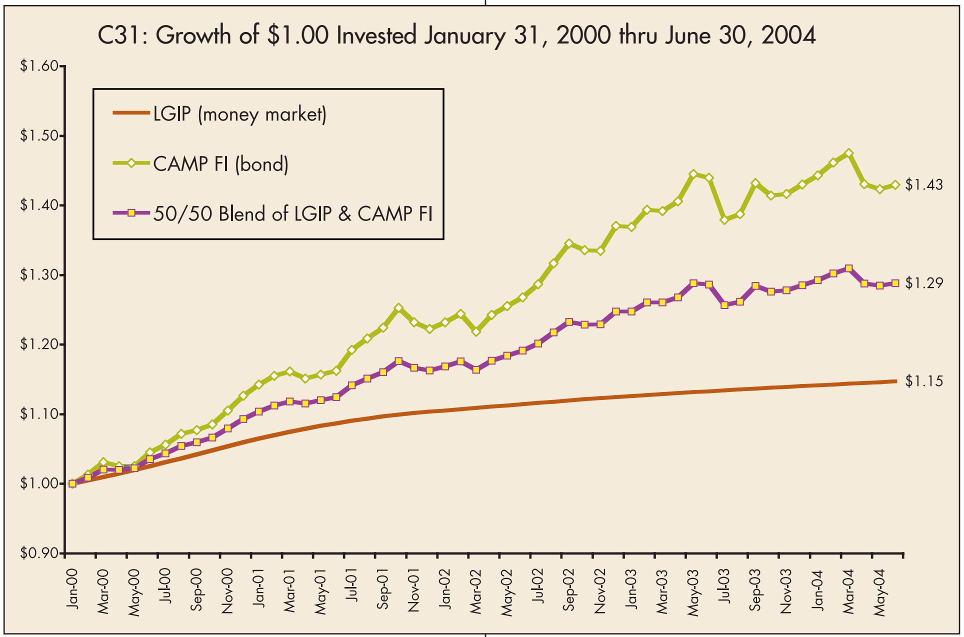
Obviously, CAMP FI experienced greater variation in returns, but typically provided higher returns than the LGIP. This is a direct result of the longer average maturity of the assets held in CAMP FI. The longer the maturity, the more uncertainty there is for period-to-period returns. This uncertainty or risk – which is experienced as a greater range of returns – causes investors to demand (and receive) greater longer-term returns for taking on this uncertainty.

As displayed in Chart C30, while the CAMP FI outperformed the LGIP over time, it experienced a number of monthly negative returns. In even sharper contrast, during the post-bubble period represented by this data, a major reversal in stock prices through early 2003 resulted in a negative return over the full period. The LGIP and CAMP MM, reported on a yield basis, exhibited no negative months, due to their short average maturity and extremely high credit quality. While past results are no guarantee of future performance, the LGIP and CAMP MM products are designed to generate steady positive returns. CAMP FI and CAMP DE exhibit greater volatility and entail the risk of negative returns, but over long periods are expected to considerably outperform money market funds. See Chart C5 (page 13) for perspective on long-term historic returns for the major asset types.

Multiple-Portfolio Alternatives for SBA Clients

For investors with limited liquidity needs, a diversified portfolio consisting of different asset types offers the potential advantage of higher long-term returns than money market instruments with less volatility than stock or bond portfolios alone. The centerline in Chart C31 (page 44) represents the total return an investor would have experienced if he invested half his assets in the LGIP and half in CAMP FI. By blending the two funds, the impact of negative monthly returns is reduced compared to a CAMP FI-only portfolio, yet the return over time notably exceeded that of the LGIP.

Investors should note that there is no guarantee that historic returns are indicative of future returns. If the Federal Reserve were to engage in an extended period of contractionary monetary policy (i.e., hiking interest rates), portfolios that include longer-term fixed income



A diversified (blended) investment portfolio can provide greater returns than money markets alone, but less volatility than a higher-risk asset type alone.

investment products like CAMP FI would not necessarily have the competitive advantage over money-market products that is illustrated in the chart.

The SBA encourages all current and potential clients to secure the advice of an unconflicted professional investment advisor or consultant before making any investment decision.

T10: Additional Details on SBA Investment Pool Products

	LGIP	CAMP MM	CAMP FI	CAMP DE
Type	Money Market Fund (2a-7 like)	Money Market Fund (2a-7 like)	Government & Corporate Bond Fund	US Equity Fund
Benchmark Index	S&P LGIP	iMoneyNet - first tier Institutional Money Market Funds	Lehman US Aggregate Bond Index excl. Mortgage-Backed Securities	Russell 3000 — ex-tobacco
Return Calculation	30-day yield (net)	30-day yield (net)	Total Return	Total Return
Unit Pricing	Stable share price objective of $1, per money market convention	Stable share price objective of $1, per money market convention	Marked to market monthly	Marked to market monthly
Admin. Fee	1.50 bp (0.0150%)	1.50 bp (0.0150%)	1.65 bp (0.0165%)	1.50 bp (0.0150%)
Contributions	Daily	Daily	Monthly	Monthly
Redemptions	Daily	Daily	Monthly	Monthly
Initial Funding	Jan-82	Jul-99	Feb-00	Feb-00
Allowable Investments				CAMP DE Allowable Investments: U.S. equities, U.S. stock index futures, stock options (exchange traded or over the counter), exchange traded funds, and cash & cash equivalents denominated in U.S. dollars. Implicit tobacco exposure in derivatives is acceptable subject to certain limits.
Minimum Credit Rating	A1/P1 (A3/A-)	A1/P1 (A3/A-)	Baa3/BBB-	
Average Maturity (Last 5 years)	< 90 days	< 90 days	~ 7.8 years (will fluctuate with Index)	
Average Maturity Range (Last 5 years)	~ 50 to 89 days	~ 50 to 89 days	~6.5 to 9 years	
US Gov't/Agency (Max Maturity)	762 days	762 days	No Maturity Limit	
Non-US Gov't/ Agency (Max Maturity)	397 days	397 days	No Maturity Limit	
144A Eligible	No	No	No	
Single Issuer Exposure	5%	5%	5%	
Non-Dollar Denominated	No	No	No	
Security Lending	Yes	Yes	Yes	Yes

Other Investment Funds Under SBA Management

Mandates Utilizing Multiple Asset Types

In addition to the investment mandates discussed previously, SBA's investment responsibility extends to a wide range of non-pension trust and endowment funds, including major portfolios for health maintenance and research, hurricane catastrophe relief, lottery payouts and a variety of special purposes. The portfolio structures vary in each fund, depending on the investment objectives, time horizon and size.

Lawton Chiles Endowment Fund

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

The SBA has the statutory authority and responsibility for the investment of LCEF assets, subject to certain investment limitations and consistent with an investment policy statement approved by the Board.

In fiscal year 2003-04, the market value of the LCEF increased to $1.74 billion from $1.52 billion, due to an investment gain of $258.6 million and net withdrawals of $41 million.

Investment Objectives

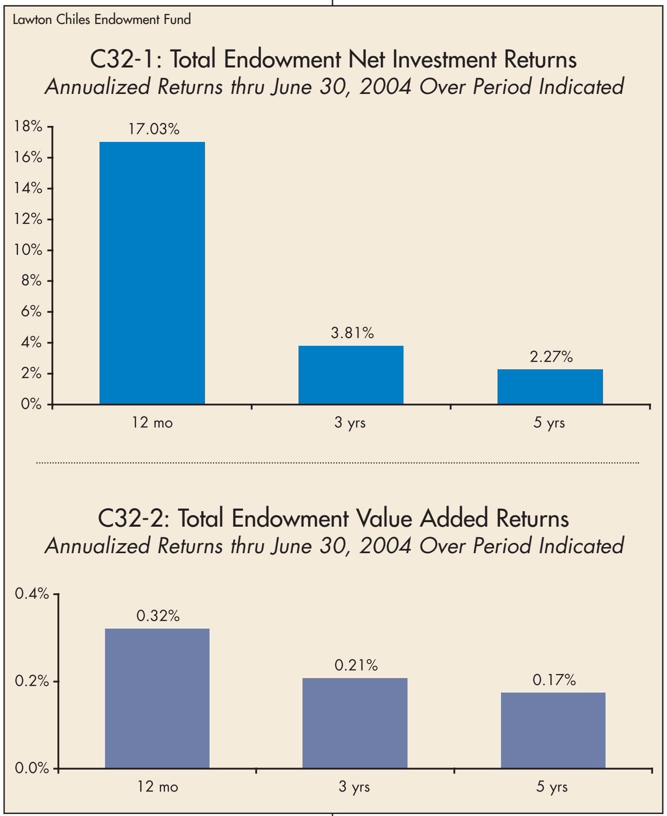
Florida law specifies that the LCEF shall be managed as an annuity, with an investment objective

Above: Patti Elsbernd, Jack Nicholson, and Marcie Vernon monitor storms during the 2004 hurricane season. Jack is responsible for SBA's Hurricane Catastrophe Fund, which provides economical reinsurance coverage for residential property insurers.

of long-term preservation of the real value of the principal. The law further requires a specified regular annual cash outflow for appropriation, as nonrecurring revenue.

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

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

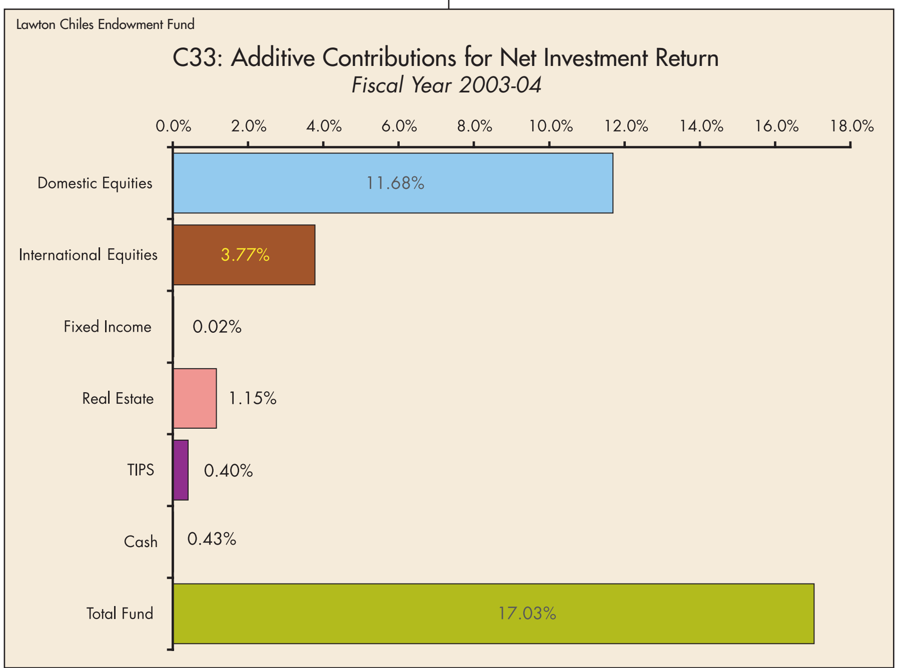


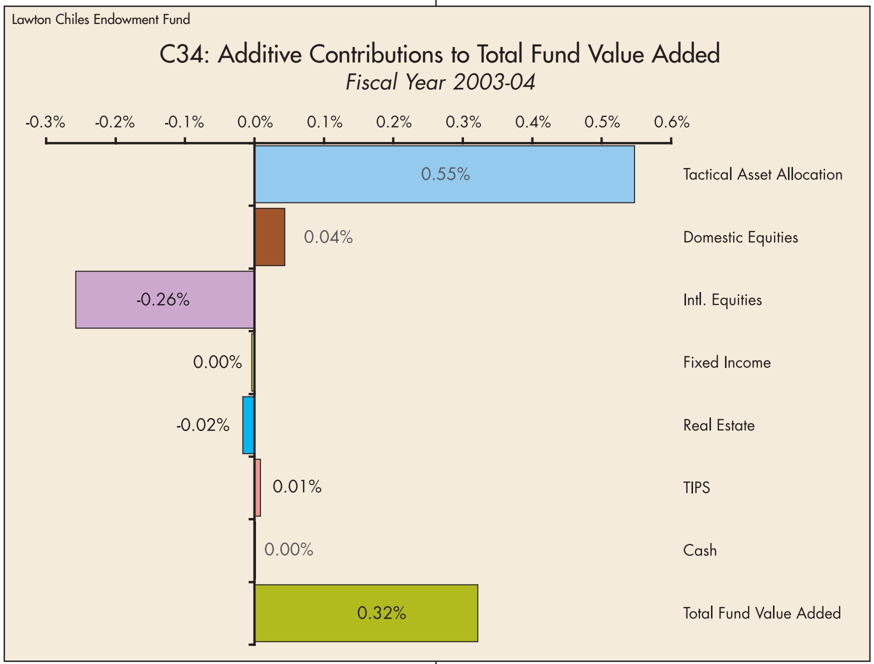
Fund Performance

The performance of the LCEF is measured against a relative target, and each asset class is measured relative to a broad market index. The Fund's relative target return is an average of those indices' returns, weighted according to the target allocations. Net investment returns and value added returns for the Endowment as a whole are shown in Chart C32. Returns by asset class are shown in Table T20 in the Appendix.

With a total return of 17.03%, the LCEF outperformed its target for the fiscal year. The additive contributions to net investment return and to value added return by source for the fiscal year are shown in Charts C33 and C34 (page 47).

Chart C36 (page 48) shows the target asset allocation for the Endowment and the range of actual month-end allocations during the fiscal year. Exposures remained relatively close to the target allocations throughout the year. Net asset values





C34: Additive Contributions to Total Fund Value Added
Fiscal Year 2003-04

at fiscal year-end are shown in Chart C35. Table T21 in the Appendix provides details on asset growth over the year.

As of June 30, 2004, the inflation-adjusted value of total contributions to the LCEF was $1.61 billion (in 1999 dollars). The comparable net asset value was $1.38 billion, or 14.7% below total contributions.

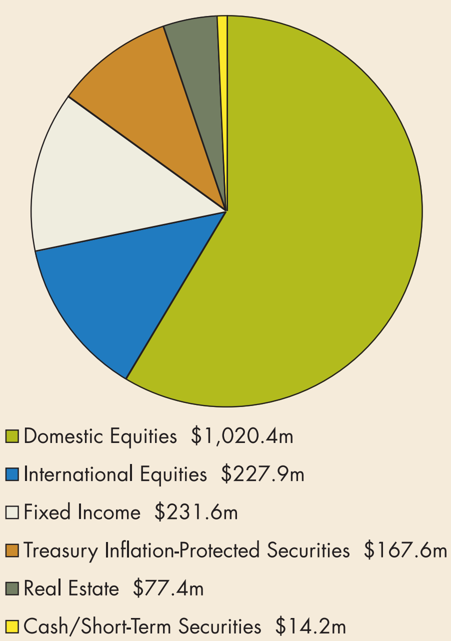
Florida Hurricane Catastrophe Fund

The Florida Hurricane Catastrophe Fund (CAT Fund) provides reimbursements to insurers for a portion of catastrophic hurricane losses. The CAT Fund was created in 1993 in response to Florida's property insurance crisis resulting from Hurricane Andrew.

In keeping with our commitment to enhancing and protecting Florida's future, the SBA recognizes the Fund as critical to promoting the confidence of residential property insurers in the Florida market. Our objective for this program is to provide highly economical reinsurance coverage for insurers of residential property in Florida.

The Florida Hurricane Catastrophe Fund is financed by three sources:

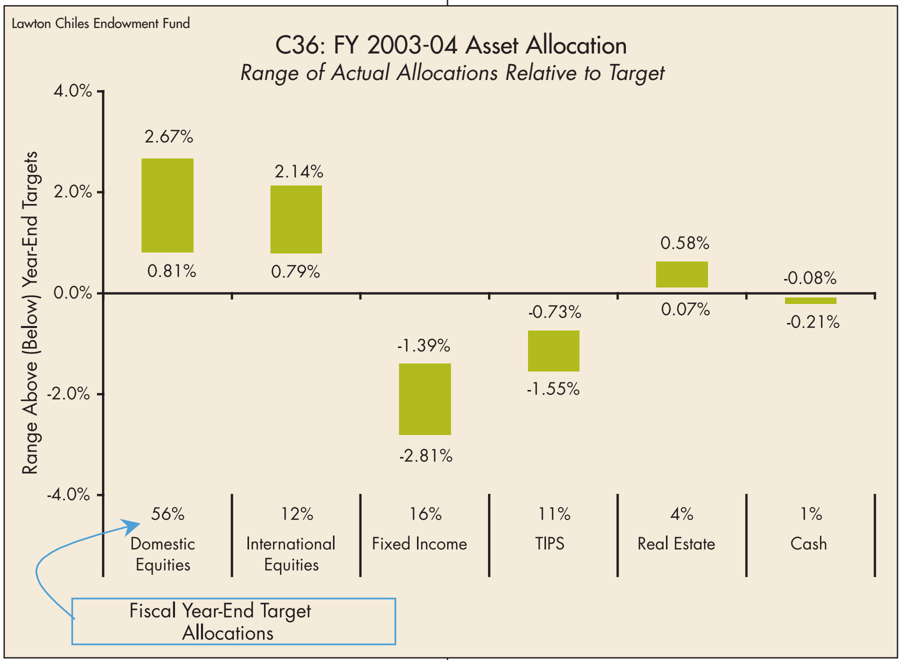
C35: Lawton Chiles Endowment Fund
Assets as of June 30, 2004



- Reimbursement premiums charged to participating insurers;
- Investment earnings; and
- Emergency assessments on property and casualty insurers.

Since claims may be filed at any time following a covered event and the magnitude of the claims is dependent upon hurricane frequency and intensity, investment strategy for the CAT Fund emphasizes highly liquid, relatively short-term investment strategies. Money market instruments must be of the highest applicable rating, while other eligible securities must be investment grade. Most securities will have a maturity of less than 3 years, although 2% may mature within 3 to 5 years. The weighted average maturity of the portfolio shall not exceed 365 days. Compliance with these and other investment guidelines are observed and verified on a monthly basis. As of June 30, 2004, the Florida Hurricane Catastrophe Fund met all compliance requirements.

On June 30, 2004, the market value of the Florida Hurricane Catastrophe Fund was $5.5 billion, up from



$4.9 billion a year earlier. A securities-lending program is in place for Fund investments and utilized as market conditions warrant. For fiscal year 2003-2004, net lending income totaled about $2.1 million. Given the unusually high occurrence of devastating hurricanes in Florida during the summer of 2004, the SBA anticipates increased claims in fiscal year 2004-2005.

Debt Service Funds

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

During the fiscal year, four existing bond issues were either partially or completely defeased through the issuance of new debt; three of the four were defeased through current refundings and called for redemption.

Department of the Lottery Fund

The SBA provides investment services for various Florida Department of Lottery games. Upon written instructions, the SBA will invest prize winnings in equal face amounts of U.S. Government debt or U.S. Government guaranteed debt. U.S. Government zero-coupon bonds (STRIPS) are currently the only securities held in the Lottery Fund. Due to these restrictions, the Lottery Fund is considered a nondiscretionary account. Monthly investment reports are provided to the Department of Lottery. Compliance with these terms is determined at the time of purchase.

As of June 30, 2004, the market value of Lottery Fund investments under SBA management totaled $1.8 billion. A securities-lending pro-

The Florida Hurricane Catastrophe Fund (CAT Fund) provides reimbursements to insurers for a portion of catastrophic hurricane losses.

gram remains in place for the Lottery securities. For the fiscal year, net lending income totaled $5.8 million.

Institute of Food and Agricultural Sciences (IFAS) Supplemental Retirement Fund

The SBA invests assets of the Institute of Food and Agricultural Sciences (IFAS) Supplemental Retirement Fund. The Florida Legislature created the Fund in 1984 to supplement the retirement benefits of certain IFAS employees. The intent was to provide them with a retirement benefit equal to what they would have received under the Florida Retirement System, plus Social Security (for which Federal employees are not eligible).

Based on the most recent actuarial valuation, the IFAS funded ratio is 73.8%. The primary investment objective is to provide liquidity for the fund. Authorized investments include U.S. Government and agency securities, and high quality money market instruments. Approximately one-fifth of the fund is invested in the CAMP MM Fund with the remainder in short-dated U.S. agencies. This conservative investment strategy reflects a desire not to worsen the financial circumstances of the fund. Compliance with these terms is determined at the time of purchase.

As of June 30, 2004, the market value of the IFAS Supplemental Retirement Fund was $14.7 million, compared with $14.4 million a year earlier.

Retiree Health Insurance Subsidy (HIS) Trust Fund

The Retiree Health Insurance Subsidy Trust Fund supports the monthly health insurance subsidy payments to retired members of state-administered retirement systems. Cash flow projections by the Division of Retirement guide the level of liquidity required to meet monthly obligations. Monies are invested in money market instruments of the highest applicable rating. Other eligible securities must be rated investment grade. Most securities will have a maturity of less than 3 years, although 2% may mature within 3 to 5 years. The weighted average maturity of the portfolio cannot exceed 1.5 years. The Retiree Health Insurance Subsidy Trust Fund is also a participant in CAMP MM. Compliance with these and other investment guidelines are observed and verified on a monthly basis. During the year, the Fund met all compliance requirements.

As of June 30, 2004, the market value of the Fund was $128.1 million, compared with $107.8 million a year earlier.

Inland Protection Financing Corporation

The Inland Protection Financing Corporation was created by Florida Statute for the purpose of financing the rehabilitation of petroleum contamination sites. The Corporation, which is administratively housed within and staffed by the SBA, can issue bonds to pay claimants and is authorized to use funds from the Inland Protection Trust Fund to pay debt service.

In 1998, the Corporation issued $253.3 million in bonds. Once all bonds are repaid, the Corporation's statutory responsibilities will cease and the SBA will have no further responsibility to the program. Under state law, the Corporation will terminate on July 1, 2011.

The funds are held and invested pursuant to a trust agreement between the Inland Protection Financing Corporation and the SBA. The Bank of New York is the custodian of the assets. Liquidity and preservation of capital are important considerations of the Fund. The SBA manages the Fund internally with investments in short-term, high quality money market securities. As of June 30, 2004, the fund value was $10.4 million, which included $1,053 in operating monies that were invested in the CAMP MM Fund.

Investment Fraud Restoration Financing Corporation

Created by state law in 1998, this non-profit public benefits corporation financed the compensation of approximately 1,200 Florida citizens who suffered security losses as a result of actions by Guaranteed Investment Contract Government Securities, Inc. The SBA managed the funds for the Investment Fraud Restoration Financing Corporation with short-term, high quality money market instruments.

During the 2003-04 fiscal year, $0 in claims were paid from the GIC claims account. The market value of this fund on June 30, 2004 was $985,731, all of which was invested in the CAMP MM Fund.

Florida Education Fund, Inc. – McKnight Doctoral Fellowship Program

The SBA manages endowment monies for the McKnight Doctoral Fellowship Program under a trust agreement with the Florida Education

Fund, Inc., a not-for-profit statutory corporation. The program assists candidates with educational endeavors and enhances opportunities for program graduates to be hired for faculty positions in Florida. The initial transfer of $9 million in securities is, at the present time, client-directed, meaning that the SBA is responsible for custody of the securities, but not for managing them. Income from these assets that is not withdrawn by the client is invested in the CAMP MM Fund, whose investments the SBA does manage. On June 30, 2004, the market value of the Fellowship Program fund totaled $4.2 million, compared with $7.14 million a year earlier, after withdrawals during the year of $3.1 million and an investment gain of $116,538.

Division of Blind Services

Under a trust agreement, the Division of Blind Services of the Florida Department of Education may invest in three SBA-managed commingled pools: CAMP MM (Money Market), CAMP FI (Fixed Income), and CAMP DE (Domestic Equity). Since the client directs the asset allocation of the Blind Services Trust Fund, this is a nondiscretionary account. Compliance at the client level is determined at the time of purchase. The market value of the Blind Services Trust Fund on June 30, 2004 was $2.71 million, compared with $2.49 million a year earlier. No funds were returned to the Division during fiscal year 2003-04.

Other SBA Portfolios Utilizing Multiple Asset Types
Net Asset Value as of June 30, 2004

Florida Hurricane Catastrophe Fund	$5,475.9m
Debt Service	$2,259.2
Department of the Lottery	$1,796.7
Lawton Chiles Endowment Fund	$1,739.2
Retiree Health Insurance Subsidy	$128.1
SBA Administrative Fund	$30.6
Institute of Food & Agricultural Sciences	$14.7
Inland Protection Financing Corporation	$10.4
McKnight Education Fund	$4.2
Blind Services	$2.7
Investment Fraud Restoration Fin. Corp.	$1.0

Mandates Utilizing Single Asset Types

Bond Proceeds Trust Fund

The Bond Proceeds Trust Fund is a fiduciary fund established to temporarily hold good faith deposits from brokers and underwriters of Florida government bonds received by the Division of Bond Finance. Monies are invested in U.S. Treasury securities or repurchase agreements backed by U.S. Treasuries until the bonds are issued. The proceeds are then transferred to the indebted unit of government. Because the monies reside with the SBA only briefly, the objective of the Fund is safety and liquidity. Due to these restrictions, the Bond Proceeds Trust Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. On June 30, 2004, the market value of the Fund was $0 million.

Gas Tax Trust Fund

The Gas Tax Trust Fund is a conduit for the distribution of debt service payments generated from County Gas Tax collections and remitted to the Department of Revenue and to the Department of Highway Safety and Motor Vehicles. Funds held in anticipation of scheduled debt repayment are invested in U.S. Treasury securities or short-term repurchase agreements collateralized by U.S. Treasuries. Investment maturities are dictated by the schedule of principal and interest payments on the various debt issues. Due to these restrictions, the Gas Tax Trust Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. The market value of the Gas Tax Trust Fund on June 30, 2004 was $0. Since the Gas Tax Fund operates simply as a conduit fund to distribute local gas tax collections, after debt service requirements are met, the fund rarely holds assets at month-end.

Local Government Non-Pool Funds

The SBA also invests funds on an individual basis for local governments with specific needs that cannot be met by the Local Government Pool or the CAMP products. Investment maturities and types are dictated by the local government and executed by the SBA. Due to these restrictions, the funds are considered nondiscretionary accounts. Compliance with these terms is determined at the time of purchase. As of June 30, 2004, the market value of the funds totaled $952.9 million.

Scripps Florida Funding Corporation

In late 2003, the Florida Legislature approved a $310 million incentive package for the Scripps Research Institute to build a biotechnology center in Palm Beach County. The SBA administers the short-term investments for the Scripps Florida Funding Corporation. The primary investment objective is to provide liquidity and meet the scheduled Scripps disbursement plan through 2010. Authorized investments include U.S. government and agency securities, investment grade corporate debt and high quality money market instruments. The majority of the fund is invested in U.S. agencies with the remainder in the CAMP MM (Money Market) fund. Due to these restrictions, the Scripps Florida Funding Corporation Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase.

Funds Invested in CAMP MM

The following seven mandates are invested solely in the Commingled Asset Management Program Money Market Fund or CAMP MM. This is SBA's commingled money market pooled product. Mandates invested in CAMP MM as well as other vehicles are described in separate narratives:

1. Arbitrage Compliance Trust Fund
One of the responsibilities of the Division of Bond Finance is to ensure compliance with the provisions of federal arbitrage laws. The objective of the Arbitrage Compliance Trust Fund is to maintain liquidity to fund these activities. Due to liquidity demands, the Arbitrage Compliance Trust Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase.

Other SBA Portfolios Utilizing Single Asset Types
Net Asset Value as of June 30, 2004

Local Government Non-Pool	$952.9m
Scripps Florida Funding Corporation	$296.4
Police and Firefighters	$153.9
Florida Prepaid College Program	$44.6
PEORP Administrative Fund	$21.4
Florida Prepaid College Foundation	$7.2
Fla. Endowment for Vocational Rehabilitation	$2.0

2. Bond Fee Trust Fund
Division of Bond Finance activities related to bond issuance, the Private Activity Bond Allocation Program, and the Local Government Bond Disclosure Information Program are funded out of the Bond Fee Trust Fund. Due to liquidity demands, the Bond Fee Trust Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase.

3. Florida Endowment for Vocational Rehabilitation Trust Fund
The Florida Endowment for Vocational Rehabilitation Trust Fund was enacted to enhance the opportunities for disabled citizens of Florida to become self-supporting, productive members of society. The SBA invests the monies deposited into the Trust Fund in the CAMP MM Fund. Funds in excess of the principal requirement are available to the Florida Endowment Foundation for Vocational Rehabilitation. Due to liquidity demands, the Florida Endowment for Vocational Rehabilitation Trust Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase.

4. Florida Prepaid College Foundation
The Florida Prepaid College Foundation was established to accumulate tax-deductible contributions from businesses, community groups and individuals to fund Florida Prepaid College scholarships. The SBA administers the short-term investments for the Foundation. Due to liquidity demands, the Florida Prepaid College Foundation is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase.

5. Florida Prepaid College Program
The Florida Prepaid College Program enables parents and others to fix the future cost of Florida public colleges at current tuition rates. Three separate funds have been established to meet the immediate obligations and administrative expenses of the Florida Prepaid College Program's fiscal operations. Due to liquidity demands, the Florida Prepaid College Program funds are considered nondiscretionary accounts. Compliance with these terms is determined at the time of purchase.

6. Public Employee Optional Retirement Program (PEORP) Administrative Fund
The SBA administers the short-term investments for the Public Employee Optional Retirement Program (PEORP) Administrative Fund. The PEORP Administrative Fund was established to support the administrative (i.e., non-investment management) costs of the FRS Investment Plan and the MyFRS Financial Guidance Program. Due to liquidity demands, the PEORP Administrative Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase.

7. Police and Firefighters' Premium Tax Trust Fund
The SBA invests the monies deposited into the Police and Firefighters' Premium Tax Trust Fund in the CAMP MM Fund. The Division of Retirement issues annual distributions to eligible municipalities. Due to liquidity demands, the Police and Firefighters' Premium Tax Trust Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase.

Appendix

T11: Total SBA Assets Under Management

Net Asset Value Changes by Fund During Fiscal Year 2003-04

Fund Name	Net Asset Value 6-30-03	Net Contributions and Transfers	Investment Gain(Loss)	Net Asset Value 6-30-04
FRS Pension Plan [1]	$90,416,381,762	$(2,816,279,838)	$14,809,268,640	$102,409,370,564
Lawton Chiles Endowment Fund	1,521,659,255	(41,000,000)	258,583,187	1,739,242,442
Local Government Investment Pool	18,090,182,005	(115,564,208)	204,134,999	18,178,752,796
Local Government Non-Pool	395,321,232	547,731,905	9,878,964	952,932,101
Debt Service	2,678,621,630	(499,765,667)	80,311,217	2,259,167,180
Department of the Lottery	2,024,204,715	(202,607,592)	(24,937,728)	1,796,659,395
Retiree Health Insurance Subsidy	107,827,214	19,038,960	1,237,112	128,103,286
Gas Tax	0	(33,705)	33,705	0
Revenue Bond Fee	1,876,969	(274,303)	23,219	1,625,885
Bond Proceeds	9,416,413	(9,434,127)	17,714	0
Florida Hurricane Catastrophe Fund	4,943,165,688	474,621,882	58,109,654	5,475,897,224
Inland Protection Financing Corporation	11,471,325	(1,198,150)	114,517	10,387,692
Investment Fraud Restoration Fin. Corp.	981,060	(5,594)	10,265	985,731
McKnight Education Fund	7,143,606	(3,100,000)	116,538	4,160,144
Blind Services	2,497,492	0	215,041	2,712,533
SBA Administrative	33,524,288	(2,570,308)	(396,023)	30,557,957
FRS Investment Plan Administrative (PEORP)	14,779,324	6,409,202	203,459	21,391,985
FRS Investment Plan (PEORP)	333,200,316	317,972,518	55,427,462	706,600,296
Institute of Food & Agricultural Sciences	14,399,720	189,500	150,562	14,739,782
Fla. Endowment for Vocational Rehabilitation	1,897,777	71,638	16,909	1,986,324
Arbitrage Compliance	1,268,645	100,582	15,433	1,384,660
Police and Firefighters	129,984,637	23,043,000	837,519	153,865,156
Florida Prepaid College Program [2]	119,006,169	(75,737,050)	1,338,541	44,607,660
Florida Prepaid College Foundation	3,825,018	3,325,000	56,746	7,206,764
Scripps Florida Funding Corporation	0	299,268,466	(2,820,858)	296,447,608
Total SBA Assets Under Management	$120,862,636,260	($2,075,797,889)	$15,451,946,794	$134,238,785,165

Net Asset Value includes cash, investments, accrued income, and pending investment trades for all funds.

[1] The net contributions & transfers reported for the Florida Retirement System fund include $16,024,546 in SBA investment service charges and $5,773,221 in bank fees that were paid out of the Total Central Cash/Short-Term portfolio on behalf of the entire Florida Retirement System Trust Fund.

[2] The State Board of Administration took over the management of certain equity investments administered by the Florida Prepaid College Program on March 28, 2002. This account was previously invested by Alliance Capital Management.

T12: FRS Pension Plan Assets Net Asset Value

Fiscal Year 2003-04

Account Name	Net Asset Value 6/30/03	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/04
Domestic Equities	$48,331,468,386	($5,682,112,274)	$9,422,073,696	$52,071,429,808
International Equities	11,500,614,689	162,848,700	3,749,901,792	15,413,365,181
Global Equities	904,956,523	2,866,018,180	421,396,734	4,192,371,437
Fixed Income	20,823,206,377	(398,441,664)	244,714,420	20,669,479,133
Real Estate	4,136,226,013	1,114,000,000	619,746,540	5,869,972,553
Alternative Investments	3,047,200,079	50,000,000	393,494,508	3,490,694,587
Cash/Miscellaneous Accts. [1]	1,672,709,695	(928,592,780)	(42,059,050)	702,057,865
Total FRS Pension Plan	$90,416,381,762	($2,816,279,838)	$14,809,268,640	$102,409,370,564

[1] The net contributions & transfers reported for the Cash/Short-Term Securities asset class include $16,024,546 in SBA investment service charges and $5,773,221 in bank fees that were paid out of the Total Central Cash/Short-Term portfolio on behalf of the entire Florida Retirement System Trust Fund.

T13: FRS Pension Plan Domestic Equity Assets Net Asset Value

Fiscal Year 2003-04

Account Name	Net Asset Value 6/30/03	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/04
Active Core Portfolio	$1,705,051,501	$(305,657,338)	$296,039,267	$1,695,433,430
American Express Asset Mgt. Group, Inc.	1,055,289,933	0	190,763,870	1,246,053,803
Aronson & Partners	2,083,987,505	(562,132,210)	475,340,598	1,997,195,893
Barclays Global Inv. Russell 2000 Alpha[2]	608,097,809	(798,128,434)	190,030,625	0
Barclays Global Inv. Russell 2000 Alpha Tilts[1]	0	264,788,182	332,882	265,121,064
Barclays Global Inv. Russell 2000 Index[1]	0	443,340,252	4,447,815	447,788,067
Batterymarch Financial Management	179,025,655	0	51,147,733	230,173,388
Brown Capital Management	145,624,345	0	30,691,237	176,315,582
COMBAL [2]	2,630	(2,658)	28	0
David L. Babson	498,232,416	(637,497,316)	139,264,907	7
Domestic Equities Asset Allocation	162,077,250	4,411,947	28,071,213	194,560,410
Domestic Equity AAP @ Northern [1]	0	1,840,429,043	342,907,438	2,183,336,481
Domestic Equities Restructuring Account	83,071,766	81,499,823	39,543,289	204,114,878
Dresdner RCM Global Investors, LLC	1,197,142,276	(750,622,106)	140,297,365	586,817,535
Enhanced Investment Technologies, Inc.	2,529,092,579	(655,317,577)	492,200,521	2,365,975,523
Goldman, Sachs & Company	2,466,169,422	(805,538,194)	328,152,010	1,988,783,238
Growth Index Portfolio	3,878,469,902	235,390,713	724,433,089	4,838,293,704
Jacobs Levy Equity Mgt.[1]	0	330,645,281	5,969,396	336,614,677
PIVOT Portfolio	20,837,400,472	(2,859,613,465)	3,917,916,873	21,895,703,880
Private Capital Management	1,333,685,727	(408,695,211)	357,988,994	1,282,979,510
Prudential Asset Management Company	995,801,279	(125,000,000)	210,299,448	1,081,100,727
Russell 2000 Index	4,342,410,153	(824,498,403)	656,455,385	4,174,367,135
Sands Capital Management	362,889,707	0	106,394,100	469,283,807
Special Situations	459,457,587	(481,969,633)	22,512,167	121
Turner Investment Partners[1]	0	352,534,450	(2,756,300)	349,778,150
Value Index	2,461,839,867	148,048,589	500,253,313	3,110,141,769
Wellington Management Company	946,648,605	(168,528,009)	173,376,433	951,497,029
Total Domestic Equities	$48,331,468,386	($5,682,112,274)	$9,422,073,696	$52,071,429,808

[1] Account opened during the fiscal year.
[2] Account closed during the fiscal year.

T14: FRS Pension Plan International Equity Assets Net Asset Value

Fiscal Year 2003-04

Account Name	Net Asset Value 06/30/03	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 06/30/04
Developed Markets:				
-Acadian Asset Mgt Inc.[1]	$0	$160,040,942	($8,564,949)	$151,475,993
-Artisan Partners	526,125,156	202,838,360	173,203,475	902,166,991
- Barclays Global Inv. World Ex-US	3,348,866,787	210,827,740	1,118,097,656	4,677,792,183
- Barclays Global Inv.World Ex-US Alpha Tilts	1,244,094,852	0	415,140,513	1,659,235,365
- Blairlogie Capital Management	149,854	(177,339)	27,540	55
- Capital Guardian Trust Company	915,584,981	(103,000,000)	374,913,941	1,187,498,922
- Delaware International Advisors Ltd [1]	0	163,867,591	(7,281,400)	156,586,191
- Fidelity Investments	485,303,093	0	154,455,367	639,758,460
- International Equity Internal Active [1]	0	101,622,515	16,966,003	118,588,518
- International Equity Market Exposure	95,865,228	(105,717,058)	31,023,796	21,171,966
- Morgan Stanley Asset Management	1,054,215,464	(356,595,546)	309,308,525	1,006,928,443
- New Star Institutional Asset Mgt. [1]	0	465,938,242	599,322	466,537,564
- Putnam Investments	930,368,370	(1,110,185,740)	179,879,080	61,710
- Sprucegrove Investment Management	911,446,046	(169,000,000)	280,902,661	1,023,348,707
- Templeton Investment Counsel	955,868,742	(186,000,000)	330,693,048	1,100,561,790
- T. Rowe Price International, Inc.	434,675	(417,678)	9,801	26,798
Emerging Markets:				
- Capital Int'l Emg. Mkts. Growth Fund	144,659,343	0	(63,992,947)	80,666,396
- Genesis Emerging Markets	216,835,080	0	85,403,098	302,238,178
- JP Morgan Asset Management	213,374,279	(24,379,187)	80,308,884	269,303,976
- SSGA Daily Active Emerging Markets	225,703,514	0	72,460,960	298,164,474
- SSGA Emerging Markets [2]	229,599,318	(324,155,849)	94,556,531	0
Other International Equities:				
- International Equities Cash	2,119,907	(1,858,884)	26,634	287,657
- International Equity AAP @ Northern [1]	0	1,239,200,591	111,764,253	1,350,964,844
Total International Equities	$11,500,614,689	$162,848,700	$3,749,901,792	$15,413,365,181

1 Account opened during the fiscal year.
2 Account closed during the fiscal year.

T15: FRS Pension Plan Global Equity Assets Net Asset Value

Fiscal Year 2003-04

Account Name	Net Asset Value 06/30/03	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 06/30/04
Bank of Ireland Asset Mgt.[1]	$0	$933,797,694	($3,584,272)	$930,213,422
Fisher Investments, Inc.	90,637,012	289,161,266	31,821,019	411,619,297
FTI Institutional	137,198,994	408,436,059	76,903,723	622,538,776
McLean Budden	185,165,102	568,559,065	99,493,421	853,217,588
Putnam Advisory Co., LLC.	198,635,048	(278,635,585)	80,061,430	60,893
UBS Global Asset Management	204,326,017	652,512,281	87,119,429	943,957,727
Walter Scott & Partners, Ltd.	88,994,350	292,187,400	49,581,984	430,763,734
Total Global Equities	$904,956,523	$2,866,018,180	$421,396,734	$4,192,371,437

1 Account opened during the fiscal year.

T16: FRS Pension Plan Fixed Income Assets Net Asset Value

Fiscal Year 2003-04

Account Name	Net Asset Value 06/30/03	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 06/30/04
Aggregate:				
- BlackRock	$1,664,627,587	($225,000,000)	$5,516,953	$1,445,144,540
- Fixed Income AAP @ Northern Trust [2]	0	2,190,664,547	32,593,728	2,223,258,275
Government/Corporate:				
- Active Core Portfolio	7,757,800,675	5,000,000	52,659,235	7,815,459,910
- Florida Govt./Corp. Index Fund	3,900,969,154	(1,803,129,143)	(58,928,075)	2,038,911,936
- Taplin, Canida & Habacht	231,680,392	0	4,072,790	235,753,182
High Yield:				
- High Yield Asset Allocation	4,985,241	(3,147,702)	(1,661,638)	175,901
- High Yield Passive Synthetic [2]	0	306,000,000	(1,422,251)	304,577,749
- MacKay Shields, LLC	346,842,988	16,147,702	36,341,712	399,332,402
- Pacific Investment Management	213,649,144	(229,000,000)	18,583,590	3,232,734
- Shenkman Capital Management LLC	250,319,929	94,000,000	12,847,653	357,167,582
- W.R. Huff	301,773,442	34,000,000	23,157,536	358,930,978
Mortgage:				
- Fixed Income Mortgages-Active	706,813,995	(69,200,000)	31,943,523	669,557,518
- Fixed Income Mortgages-Passive	777,741,113	(32,000,000)	14,258,906	760,000,019
Mortgage Group Trust:[1]				
- Glenmede Asset Management [3]	449,401,022	(448,475,010)	(926,012)	0
- Lincoln Capital Management	464,578,236	(76,183,256)	4,047,270	392,442,250
- Lincoln Capital Active Mortgage [2]	0	111,753,849	2,343,095	114,096,944
- Smith Breeden Associates	353,614,985	240,669,606	11,538,958	605,823,549
- Trust Company of the West	1,949,702,408	(70,000,000)	29,768,236	1,909,470,644
- Utendahl Capital Management	734,321,785	(125,542,257)	15,201,071	623,980,599
- Wellington Management Company	714,384,281	(315,000,000)	12,778,140	412,162,421
Total Fixed Income	$20,823,206,377	($398,441,664)	$244,714,420	$20,669,479,133

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

T17: FRS Pension Plan Real Estate Assets Net Asset Value

Fiscal Year 2003-04

Account Name	Net Asset Value[1] 06/30/03	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value[1] 06/30/04
Commingled Funds	$45,005,384	$540,565,815	$36,933,514	$622,504,713
Directly Owned Investments	3,332,662,005	(205,885,010)	202,268,044	3,329,045,039
Non-Capitalized Expenses	0	196,303	(196,303)	0
Pending Acquisitions	466,171	678,790	(966,435)	178,526
Real Estate Cash	152,803,675	(142,890,967)	965,479	10,878,187
Real Estate Investment Trusts (REITS)	200,407,305	950,000,000	260,795,001	1,411,202,306
Real Estate Short-term Interest	0	(796)	796	0
Real Estate Stock	404,881,473	(28,664,135)	119,946,444	496,163,782
Total Real Estate	$4,136,226,013	$1,114,000,000	$619,746,540	$5,869,972,553

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

T18: FRS Pension Plan Alternative Investments Assets Net Asset Value

Fiscal Year 2003-04

Account Name	Net Asset Value[2] 06/30/03	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value[2] 06/30/04
Apollo Advisors V, L.P.	$54,261,659	($9,138,260)	$16,245,337	$61,368,736
Apollo Investment Fund IV, L.P.	236,058,347	(54,176,405)	43,767,634	225,649,576
Carlyle Investment Management	197,596,451	(93,234,439)	15,236,053	119,598,065
Carlyle Partners III	121,246,494	(117,295)	62,559,704	183,688,903
Centre Capital Investments	90,078,301	3,162,486	(12,031,382)	81,209,405
Chartwell Capital Investors	38,227,169	2,166,614	(2,742,749)	37,651,034
Cypress Equity Fund	12,253,311	(1,451,933)	1,249,092	12,050,470
Freeman Spogli Partners V, L.P. [1]	0	3,224,672	(1,426,580)	1,798,092
Gores Capital Partners, L.P. [1]	0	10,326,444	(1,933,703)	8,392,741
Green Equity Investors III, L.P.	60,904,269	(27,189,347)	26,688,474	60,403,396
Green Equity Investors IV, L.P. [1]	0	13,152,419	(377,912)	12,774,507
GS (Grove Street) Partners LLC [1]	0	253,125	(253,125)	0
Hicks, Muse, Tate & Furst	133,638,766	(9,670,263)	(699,730)	123,268,773
Hicks, Muse, Tate & Furst Fund IV	163,785,936	(13,312,658)	(14,076,950)	136,396,328
Hicks, Muse, Tate & Furst Fund V	13,105,033	(11,169,777)	2,393,430	4,328,686
Lexington Coinvestment Partners	317,150,319	(40,514,583)	54,522,675	331,158,411
Lexington Coinvestment Partners II	89,763,015	44,881,865	81,986,011	216,630,891
Lexington Partners, IV, L.P.	87,732,219	12,375,605	30,734,305	130,842,129
Lexington Capital V	17,610,109	10,569,816	8,854,736	37,034,661
Liberty Partners I	50,055,295	(11,863,388)	8,991,253	47,183,160
Liberty Partners II	159,962,917	4,087,863	45,509,185	209,559,965
Liberty Partners III	497,026,031	(25,508,732)	1,023,328	472,540,627
Liberty Partners IV	7,135,257	(1,029,593)	(2,976,229)	3,129,435
Liberty Partners V	220,349,975	(40,200,210)	(273,762)	179,876,003
Liberty Partners VI	184,969,889	183,523,581	7,195,785	375,689,255
Pantheon Venture Partners II, L.P. [1]	0	1,485,000	(479,930)	1,005,070
Paul Capital Top Tier Inv. II, L.P. [1]	0	27,911,164	(5,584,382)	22,326,782
PCG Special Situation Partners [1]	0	73,244,263	6,649,598	79,893,861
Platinum Equity Capital Partners, L.P. [1]	0	2,892,137	(1,301,008)	1,591,129
Private Equity Cash	30,329,853	11,530,911	656,053	42,516,817
Ripplewood Partners, L.P.	63,754,131	(18,574,677)	14,581,702	59,761,156
Ripplewood Partners II, L.P.	10,457,267	(11,078,348)	7,218,654	6,597,573
THL Equity Fund IV, L.P.	65,273,506	(13,312,225)	2,188,045	54,149,326
THL Equity Fund V, L.P.	13,313,084	7,400,106	2,870,701	23,583,891
TGP Partners IV (Cayman), L.P. [1]	0	6,916,779	(861,095)	6,055,684
TSG Capital Fund III, L.P.	53,193,881	903,877	(15,090,257)	39,007,501
Wellspring Capital Partners III	8,586,853	5,000,005	(515,455)	13,071,403
Willis, Stein & Partners, L.P.	14,584,788	(3,600,867)	940,526	11,924,447
Willis, Stein & Partners III, L.P.	34,795,954	10,134,268	12,056,476	56,986,698
Total Alternative Investments	$3,047,200,079	$50,000,000	$393,494,508	$3,490,694,587

[1] Account opened during the fiscal year.
[2] Alternative Investment net asset 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 net asset values are self-reported by the external managers of these accounts and incorporate their estimate of the value of illiquid publicly-traded securities and private market holdings.

T19: FRS Pension Plan Miscellaneous Assets Net Asset Value

Fiscal Year 2003-04

Account Name	Net Asset Value 06/30/03	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 06/30/04
Total Central Cash/Short-Term [1]	$1,288,368,529	($754,506,307)	$7,544,349	$541,406,571
Policy Transition				
- Domestic Equity Policy Transition	$2,114,841	$51,474,663	($52,653,131)	$936,373
- Fixed Income Policy Transition	382,224,415	(225,558,336)	3,048,842	159,714,921
Total Policy Transition	$384,339,256	($174,083,673)	($49,604,289)	$160,651,294
International Equity DC Transition [2]	$1,910	($2,800)	$890	$0

[1] The net contributions & transfers reported for the Total Central Cash/Short-Term portfolio include $16,024,546 in SBA investment service charges and $5,773,221 in bank fees that were paid out of this portfolio on behalf of the entire Florida Retirement System Trust Fund.
[2] Account closed during the fiscal year.

T20: Lawton Chiles Endowment Fund Aggregate Investment Performance

Annualized Returns for Selected Periods Ending June 30, 2004

	1 Year	3 Years	5 Years	Since Inception
	%	%	%	%
Total Endowment				
Managed Return	17.03%	3.81%	2.27%	2.27%
Value Added	0.32%	0.21%	0.17%	0.17%
Domestic Equities				
Managed Return	20.52%	0.15%	-1.62%	-1.62%
Value Added	0.08%	0.09%	-0.17%	-0.17%
Fixed Income				
Managed Return	0.30%	6.67%	7.17%	7.17%
Value Added	-0.02%	0.31%	0.22%	0.22%
International Equities				
Managed Return	29.93%	3.91%	N/A	-3.53%
Value Added	-2.11%	-0.73%	N/A	0.08%
Inflation-Indexed Bonds				
Managed Return	3.94%	9.49%	N/A	10.98%
Value Added	0.08%	0.24%	N/A	0.38%
Real Estate				
Managed Return	28.76%	14.46%	N/A	17.72%
Value Added	-0.42%	-0.34%	N/A	-1.62%
Cash/Short-Term				
Managed Return	1.10%	1.67%	3.08%	3.08%
Value Added	0.10%	0.13%	-0.07%	-0.07%

Managed returns are net of external investment manager fees.

T21: Lawton Chiles Endowment Fund Assets Under Management

Net Asset Value Change by Fund

	Account Name	Net Asset Value 6-30-03	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6-30-04
DOMESTIC EQUITIES MANAGERS - INTERNAL					
P	Chiles Domestic Equities Portfolio	$864,357,749	$(21,139,147)	$177,220,023	$1,020,438,625
FIXED INCOME MANAGERS - INTERNAL					
P	Chiles Government/Corporate Portfolio	151,612,551	(272,793)	(1,129,840)	150,209,918
FIXED INCOME MANAGERS - EXTERNAL					
P	Lincoln Capital Management	78,702,033	900,000	1,813,131	81,415,164
INTERNATIONAL EQUITIES MANAGERS - EXTERNAL					
P	Barclays Global Investors-MSCI ACWI	95,327,988	(19,400,000)	30,025,059	105,953,047
A	Capital Guardian	95,107,991	0	26,871,684	121,979,675
INFLATION-INDEXED BONDS - INTERNAL					
P	Inflation Linked Treasury	161,276,616	0	6,359,735	167,636,351
REAL ESTATE MANAGERS - EXTERNAL					
P	Chiles Endowment Real Estate	60,530,622	(500,000)	17,352,876	77,383,498
CASH/SHORT-TERM MANAGERS - INTERNAL					
A	CAMP Money Market Fund	14,113,076	39,147	73,941	14,226,164
BIOMEDICAL RESERVE - INTERNAL [1]					
P	Biomedical Reserve Government/Corporate	630,629	(627,207)	(3,422)	0
TOTAL LAWTON CHILES ENDOWMENT		$1,521,659,255	$(41,000,000)	$258,583,187	$1,739,242,442

A - Active P - Passive

[1] Account closed during the fiscal year.

T22: Lawton Chiles Endowment Fund
External Investment Management Fees
Fiscal Year 2003-04

Asset Class	Dollar Amount	Return Basis [1]
International Equities	$ 568,812	0.25%
Fixed Income	61,310	0.08%
Real Estate	149,228	0.21%
Total	$ 779,350	0.21%

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

T23: Local Government Investment Pool (L.G. Surplus Funds Trust Fund)
Assets by Type as of June 30, 2004

	Net Asset Value 06/30/04	% of Total
POOLED ACCOUNTS		
Cash	$12,154,130	0.1%
Certificates of Deposit	2,528,468,788	13.2%
Commercial Paper	8,440,277,895	44.1%
Federal Agency Obligations	3,583,574,923	18.7%
Floating/Adjustable Rate Notes	1,726,673,569	9.0%
Repurchase Agreements	500,021,528	2.6%
Treasury Bills, Notes & Bonds	1,387,581,963	7.3%
Total Pooled Investments	$18,178,752,796	95.0%
NON-POOLED ACCOUNTS		
Cash	$1,847	0.0%
Commercial Paper	99,960,747	0.5%
Federal Agency Obligations	74,985,000	0.4%
Repurchase Agreements	777,984,507	4.1%
Total Non-Pooled Investments	$952,932,101	5.0%
Grand Total Local Government Surplus Funds	$19,131,684,897	100.0%

Net Asset value includes accrued interest. In addition, the Pooled Investment Account includes the Local Government Pool Securities Lending Account.

SBA's reception desk is the gateway for visitors to our Tallahassee offices.
(l to r): Doirieanna Harris-Cronin, Dorothy Westwood and Milena Tzigantcheva.

The people of the SBA personify our commitment to the principles of trust, integrity and performance.

About the SBA

Founded in 1943, the SBA is a leader in investment management of public pension funds, including the Florida Retirement System Trust Fund, which ranks as the fourth-largest public pension fund in the United States and eighth-largest in the world. The SBA has a strong history of delivering positive long-term returns on investment, with a focus on prudent and ethical investment and risk management. The SBA is governed by the Board of Trustees, which has fiduciary responsibility for the management and oversight of the SBA.

Investment Advisory Council

Above (l to r): David Villa, Linda Lettera, Kevin SigRist, Gwenn Thomas, Coleman Stipanovich, James Francis, Jack Nicholson, Flerida Rivera-Alsing and Michael McCauley.

trust • performance • integrity

SBA FLORIDA

STATE BOARD OF ADMINISTRATION

1801 HERMITAGE BOULEVARD, SUITE 100
TALLAHASSEE, FLORIDA 32308
850-488-4406 • WWW.SBAFLA.COM