STATE BOARD OF ADMINISTRATION

Investment Report 2006-07

investing globally for FLORIDA'S future

C O N T E N T S

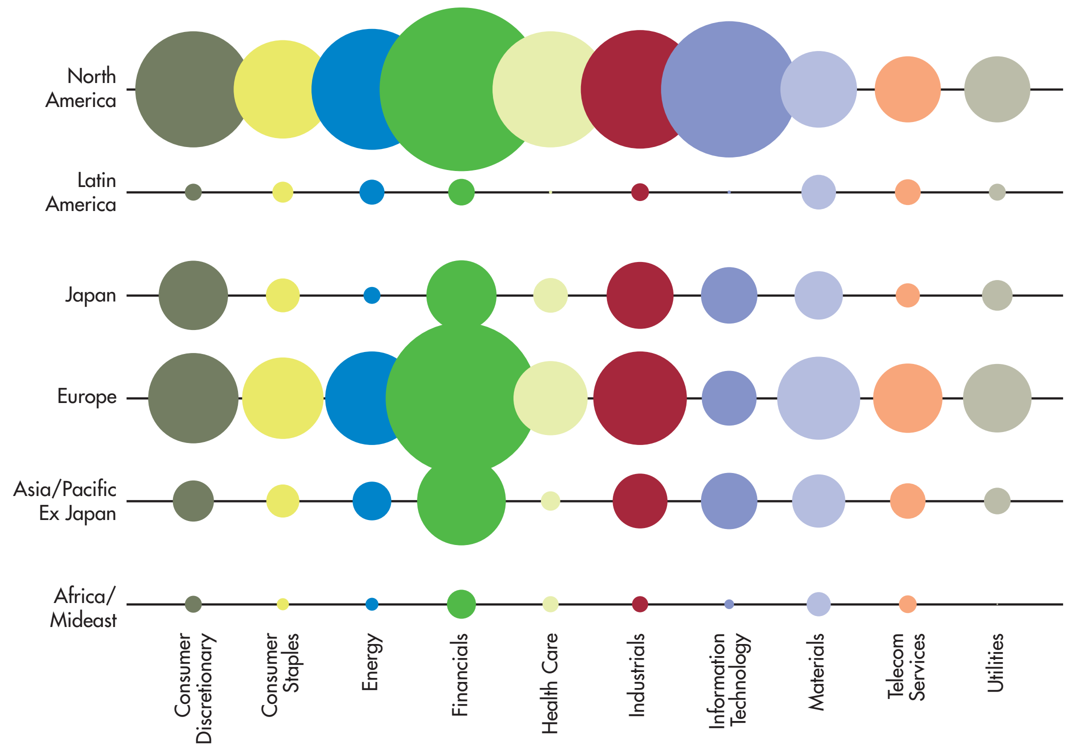
With a focus on global investing and strategies to reduce risk and enhance long-term growth, the State Board of Administration (SBA) is managing and investing assets on behalf of its largest client base, the 1.1 million members and beneficiaries of the Florida Retirement System (FRS), as well as for 34 other mandates and trusts.

Our goal for the FRS is to help all its members fulfill their dream of a financially secure retirement. As the investment manager of the nation's top-ranked state pension fund, one of the few state pension funds with a surplus, we are creating a world of opportunity for Florida by investing globally in stocks, bonds, private equity and real estate.

With record assets of $184 billion under SBA management during the fiscal year, we delivered top-quartile investment results through our diversified and balanced approach to investing in the United States and around the world.

World Equity Markets Opportunity Set

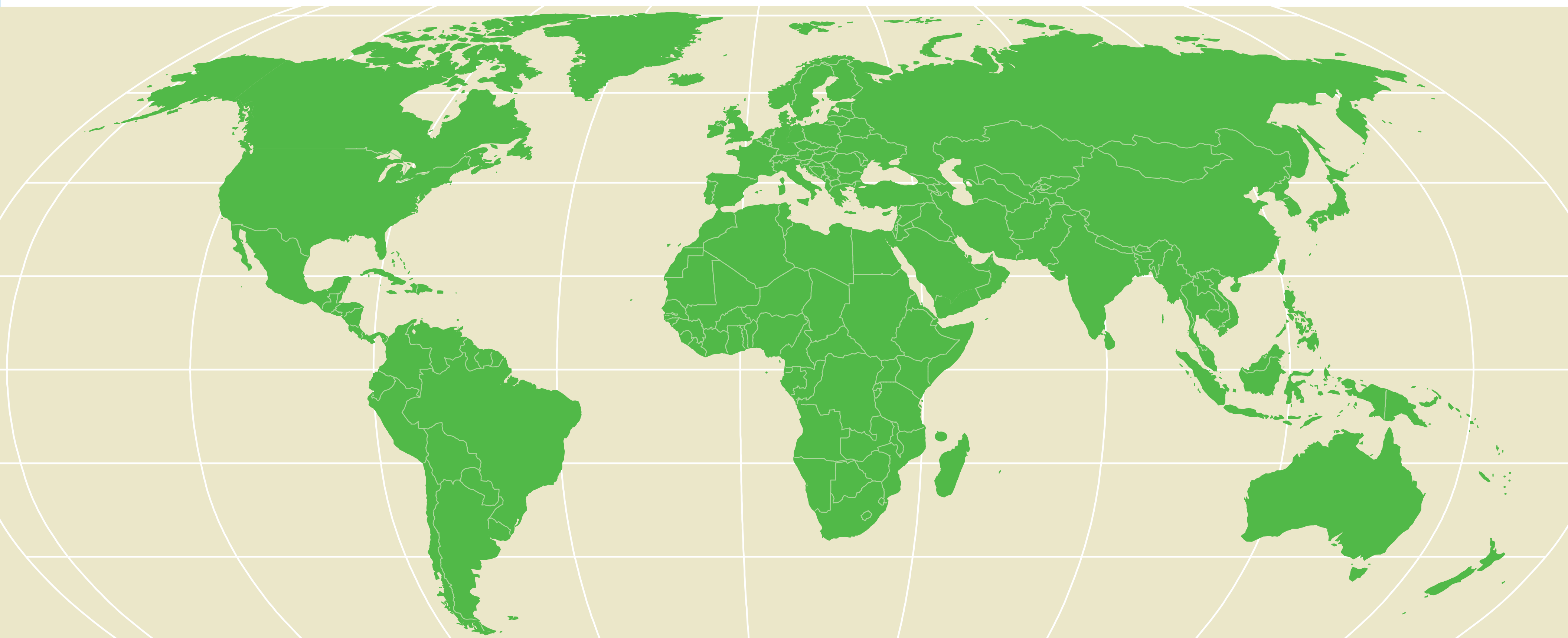
Size of circle indicates relative share of worldwide market capitalization



Based on MSCI All-Country World Index

Countries of Domicile for SBA Investments

Argentina
Australia
Austria
Bahamas
Belgium
Bermuda
Botswana
Brazil
British Virgin Islands
Canada
Cayman Islands
Chile
China
Colombia
Cote d'Ivoire
Czech Republic
Denmark
Egypt
Estonia
Finland
France
Germany
Ghana
Gibraltar
Greece
Guernsey, C I
Hong Kong
Hungary
India
Indonesia
Ireland
Israel
Italy
Japan
Jersey, C I
Kazakhstan
Kenya
Lebanon
Liberia
Luxembourg
Malaysia
Marshall Islands
Mexico
Morocco
Netherlands
Netherlands Antilles
New Zealand
Nigeria
Norway
Pakistan
Panama
Peru
Philippines
Poland
Portugal
Puerto Rico
Romania
Russia
Singapore
South Africa
South Korea
Spain
Sri Lanka
Sweden
Switzerland
Taiwan
Thailand
Turkey
Ukraine
United Kingdom
United States
Zimbabwe



investing globally = a world of opportunity for Florida

MISSION STATEMENT

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

FRS Pension Plan Net Investment Returns
Annualized Returns as of June 30, 2007

8.46%
10 YEARS

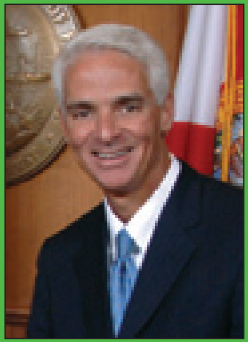
11.52%
5 YEARS

12.88%
3 YEARS

18.07%
12 MONTHS

LETTER FROM THE TRUSTEES

ALEX SINK



CHARLIE CRIST

BILL McCOLLUM

November 30, 2007

TO THE HONORABLE MEMBERS OF THE
FLORIDA SENATE AND HOUSE OF REPRESENTATIVES:

It is our privilege to submit the State Board of Administration of Florida annual Investment Report for the fiscal year ended June 30, 2007, pursuant to the requirements of Florida Statutes, Section 215.44(5).

The SBA's statutory mandate is to invest, manage and safeguard assets of the Florida Retirement System Trust Fund and various other trust funds for our state and local governments.

We are pleased to report that for fiscal year 2006-07, the net asset value of total funds under management grew to $184.0 billion from $151.1 billion over the past year. As the Trustees of the SBA, we are dedicated to ensuring that the SBA invests and discharges its duties in accordance with Florida law, policies and a code of ethics that ensures high integrity, solid investment performance, low costs and prudent risk management. This report provides information on the performance of each of the 35 mandates and trusts managed by the SBA during the year.

An unusually strong 18.07% net investment return for the year helped the FRS Pension Plan reach an all-time record high of $136.3 billion, after paying out $5.9 billion in pension benefits during the year. The FRS Pension Plan is fully funded with a $9.1 billion surplus, which is up from $7.6 billion in the previous year. The preliminary funded ratio estimate also shows an increase from 107.0% to 107.8%. A surplus of this size is a major achievement in an era when most public pension plans are underfunded.

The current long-term investment objective for the FRS Pension Plan is to provide investment returns that are 5% above the annual cost of living (2.7% this fiscal year). Exceeding the investment objective this year by 10.4% has provided extra assurance that the FRS will have sufficient assets to fund future pension liabilities, thereby providing a reliable source of retirement income for FRS participants and beneficiaries. At year-end, FRS membership totaled just over one million persons.

The long-term investment performance of the FRS Pension Plan, the fourth-largest public pension fund in the nation, is the result of our commitment to being good investment fiduciaries. As such, we act solely in the best interest of the FRS members.

We encourage you to review this annual Investment Report and visit www.sbafla.com for more information.

Respectfully submitted,

Chief Financial Officer,
as Treasurer

ALEX SINK

Governor,
as Chairman

CHARLIE CRIST

Attorney General,
as Secretary

BILL MCCOLLUM

FRS Pension Plan Value Added Over Benchmark
Annualized Returns as of June 30, 2007

0.48%
10 YEARS

0.22%
5 YEARS

0.56%
3 YEARS

0.22%
12 MONTHS

EXECUTIVE DIRECTOR'S REPORT

The SBA produced excellent investment results this year. It beat the Florida Retirement System's Pension Plan policy investment objective, exceeded the total fund investment benchmark for all time periods and ranked in the top quartile among its peers. A very strong 18.07% net investment return, after management fees and other costs, was a major contributing factor in the growth of Pension Plan surplus this year.

The Pension Plan is fully funded with a $9.1 billion surplus, which is up from $7.6 billion last year. This is good news for the members of the FRS, the State of Florida and local governments, as well as Florida taxpayers. The Trustees' solid leadership, a good economy, strong investment performance, prudent risk management, ethical investment practices and low costs of doing business all contributed to this year's success. The SBA is proud to be recognized as one of the best public investment management organizations in the United States.

FRS PENSION PLAN

The largest fund managed by the SBA is the FRS Pension Plan. It is approximately 75% of the total value of assets under management across 35 different investment funds. The Pension Plan was fully funded for the year, unlike the vast majority of public pension funds in the United States, with net assets of $136.3 billion and a surplus of $9.1 billion after paying out $5.9 billion in benefits to FRS members.

The Pension Plan's net investment return of 18.07% exceeded the investment policy benchmark by 22 basis points and the policy investment objective (cost of living plus 5%) by 10.4%. This year's above-benchmark investment performance added $291 million in value to the pension fund, over and above a total of $20.9 billion in investment returns for the year. Over the past 10 years, the SBA's investment returns have accounted for almost 72% of retirement benefits paid through the Florida Retirement System; public sector employer contributions, or tax dollars, have accounted for just 28%. In other words, the SBA's investment gains are the primary source of capital for providing FRS benefits, and thus are essential to the financial security of FRS members and important to Florida taxpayers as well.

In February 2007, the Standard & Poor's Ratings Service ranked the Florida Retirement System's Pension Fund as the leading state pension fund in the nation. This ranking was based on Florida having the highest funded ratio of any U.S. public pension fund at the time: 107.3% versus an average funded ratio of 81.8% for all state pension funds. A ratio above 100% means a pension plan is fully funded, with more assets than liabilities; a ratio below 100% means there is a shortfall, with liabilities exceeding assets. Overall, 45 state pension funds had a deficit at the time of the Standard & Poor's report, while Florida was one of only five states with a surplus.

The people of Florida are well-served with a fully funded FRS Pension Plan. The FRS members can trust that the SBA's team of investment fiduciaries is acting solely in their best interest.

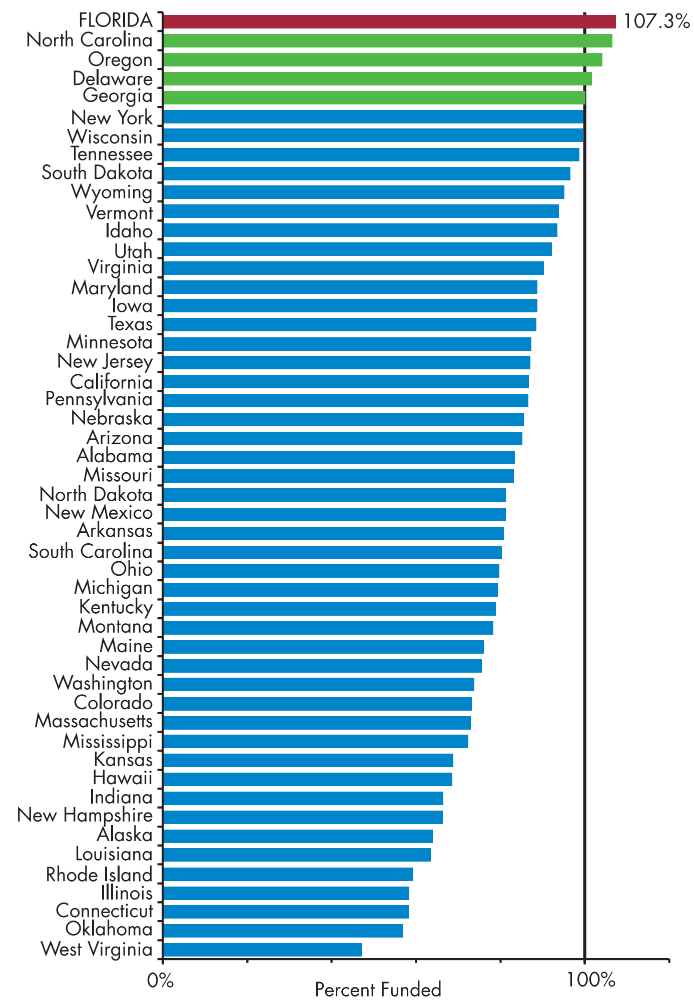
FRS INVESTMENT PLAN

The SBA's leadership in managing pension assets for the benefit of Florida now includes the oversight of the FRS Investment Plan, a voluntary alternative to the FRS Pension Plan, modeled after 401(k) plans. This innovative plan gives eligible members the chance to choose from diverse investment options that are managed by the SBA. It also offers participants the advantage of portable retirement benefits.

Total FRS Investment Plan assets increased to $3.7 billion from $2.3 billion a year earlier due to financial market gains, higher enrollments, payroll contributions and benefit transfers. Enrollment increased to more than 81,000 active members, or 12% of all FRS-covered employees, up 28% from a year earlier.

The SBA's commitment to serving all members of the Florida Retirement System includes offering a groundbreaking retirement education program that provides professional, unbiased financial guidance to FRS Pension Plan and FRS Investment Plan members at no cost to them. The MyFRS Financial Guidance Program is helping members prepare financially for their future retirement. This multimedia program includes an award-winning website – www.myfrs.com – and print materials that contain a wealth of information about plan choice and financial, estate and retirement planning.

State Retirement Systems Funded Ratios



Source: Standard & Poor's February 27, 2007 Report (2005 GASB Data)

Sources of Funding for FRS Pension Plan Benefit Payments
10 Years Ending June 30, 2007

28.3%
FROM EMPLOYER CONTRIBUTIONS (TAX DOLLARS)

71.7%
FROM INVESTMENT GAINS

SBA Assets Under Management (in Billions)

$184.0
JUNE 30, 2007

$116.7
JUNE 30, 2002

$85.1
JUNE 30, 1997

$41.3
JUNE 30, 1992

$20.5
JUNE 30, 1987

NON-FRS INVESTMENT FUNDS

The SBA managed 33 other investment portfolios with combined assets of $44.0 billion during the fiscal year, including:

- The Local Government Surplus Funds Trust Fund, the largest local government investment pool in the country, with a market value of $30.9 billion at year's end.
- The Florida Hurricane Catastrophe Fund (CAT Fund), a vital source of emergency funding for residential property insurers that helps keep hurricane insurance available to Florida homeowners. The CAT Fund reimbursed insurers a total of $1.33 billion during the year and finished with a market value of $4.9 billion, inclusive of Catastrophe Finance Corporation assets.
- The Lawton Chiles Endowment Fund, whose earnings support government-sponsored health maintenance and research programs that aim to mitigate tobacco-related illness. Its market value increased to $2.3 billion.
- Florida debt service accounts for state bonds.
- Other smaller but important portfolios, such as the Florida Lottery Fund, the Police and Firefighters' Fund, and the Florida Prepaid College Plan, to name just a few.

During the year, the SBA assumed responsibility for managing and investing the assets of two state economic development funds, one supporting the Burnham Institute for Medical Research's expansion to Orlando and another involving the Torrey Pines Institute for Molecular Studies, which is constructing facilities in Port St. Lucie. The Burnham Institute Fund had a market value of $113 million as of June 30, 2007, ranking as the 12th-largest fund managed by the SBA, and the Torrey Pines Institute Fund had a market value of $24 million, ranking 14th. I am pleased to say that the SBA managed these two new funds efficiently and professionally, without adding additional staff.

Separately, the SBA established two new asset classes during the year: a High Yield asset class to pursue distressed debt investment opportunities, and a Strategic Investments asset class. The latter is noteworthy because it enables the SBA to pursue innovative and specialized investment strategies. The creation of the Strategic Investments asset class, which includes investments from our former Global Equities asset class, is part of our focus on generating attractive long-term returns by adding additional diversity to our investment portfolio.

CORPORATE GOVERNANCE

Our fiduciary responsibility includes playing an important role in strengthening the governance of companies in which we invest. It includes active support of corporate governance reforms, prudent voting of more than 3,500 company proxies annually and adoption of investment protection principles that have helped protect and grow funds under SBA management.

During the year, one of the SBA's major achievements in corporate governance was an analysis of executive compensation, an issue that has generated widespread concern among investors and increased scrutiny by the Securities and Exchange Commission. Our research concluded that there is a very weak relationship between pay levels and company performance in the United States. Poorly structured executive pay packages may harm shareowner value by wasting money, diluting ownership and creating inappropriate incentives that may damage a company's long-run performance. The SBA also found that executive compensation has become a significant portion of aggregate earnings at public companies, resulting in a substantial diminution in company and portfolio values.

There have been numerous examples of compensation abuses, highlighting the need for additional disclosure requirements, oversight by independent compensation committees and increased shareowner monitoring to ensure transparency and integrity. The SBA is continually examining the performance of public companies in this critical area.

The SBA considers the quality of executive compensation plans at individual companies to be an excellent indicator of the quality of the board and the governance of the company. It is a direct indication of whether a board is fulfilling its fiduciary obligation to shareowners. We are encouraging companies in which we invest to adopt compensation practices that take into account the firm's cost of capital and reward performance based on value-creating metrics and criteria. We believe that all executive compensation arrangements should be aligned with the best interests of the company's long-term shareowners.

During the year, the SBA participated in the International Roundtable on Executive Remuneration, served on the board of the Council of Institutional Investors and maintained membership in the Conference Board Governance Center and the International Corporate Governance Network. The SBA also joined CERES, a network of investors, environmental organizations and other public interest groups working with companies to address sustainability challenges such as global climate change.

OTHER HIGHLIGHTS

- The SBA performed its mission and managed more mandates and assets with a staff that remained steady at 158 full-time equivalent employees after reducing staff in the previous three years. Reflecting its expanded mission and responsibilities, the SBA budget increased slightly to \$24.45 million from \$23.09 million. This was the first budget increase since fiscal year 2003-04.

- The SBA completed preparations to manage and invest the assets of the Citizens Property Insurance Fund effective July 1, 2007. Created by the Florida Legislature in 2002, this state-run property insurance pool is the insurer of last resort for Floridians without private insurance options. It will become the third-largest fund under SBA management, ranking behind only the FRS Pension Plan and the Local Government Surplus Funds Trust Fund.

- Work began on Phase 2 of the SBA's Disaster Recovery Plan, which will include installing a computer system at an off-site location that will enable the SBA to carry on critical cash management functions and investment management if a disaster impairs operations in Tallahassee.

- Internally, the SBA created a Senior Operating Group and a Senior Investment Group that report to the Executive Director, with the goal of enhancing communication, decision-making, efficiency and accountability.

- The SBA received a Davis Productivity Award for exemplary sustained performance in managing Florida Retirement System assets.

In closing, I want to express tremendous gratitude to the Trustees for their leadership and support. I also want to thank the Florida Legislature for being fiscally responsible in funding the FRS Pension Plan in accordance with actuarially sound practices. Last, but not least, I want to thank and acknowledge the best team of people that I've ever had the pleasure and privilege to work with during 26 years in the investment business. The entire SBA staff is devoted to achieving the SBA mission and serving the people of Florida.

The SBA's success story is based on great leadership and a highly professional and spirited team effort that is focused on doing the right thing each and every day.

Sincerely,

Coleman Stipanovich,
Executive Director

Peace of mind for Florida retirees ...

Each year, thousands of hard-working Floridians retire from careers in public service. As members of the FRS Pension Plan, they receive stable retirement income and something priceless – the peace of mind that comes with knowing that their pension is financially secure.

Here's why: Florida is one of the few states with public pension plans that are fully funded with a surplus, making it a rare exception to the troubling national trend of underfunded state pension plans.

In fact, the FRS Pension Plan has maintained a surplus for 10 consecutive years. This notable achievement was not an accident. To the contrary, it reflects three major factors: the SBA's historical focus on maximizing long-term returns without incurring excessive risk or volatility; sound policy governance by the SBA's Trustees; and responsible benefit funding by the Florida Legislature.

To help reduce risk, the SBA professionally manages a highly diversified global portfolio that includes a mix of U.S. and international stocks, as well as real estate, fixed income instruments including bonds, and private market investments. The FRS Pension Plan invests in nearly 12,000 different securities representing every publicly traded market on the planet.

Reflecting the success of the SBA's investment management strategies, the FRS Pension Plan produced an 18.07% return in the fiscal year ended June 30, 2007 as its net asset value grew to a record $136.3 billion from $118.4 billion a year earlier. The fully-funded Plan maintained a healthy surplus of $9.1 billion after a net cash outflow of $3.2 billion for pension benefit payments to retirees and other payment obligations.

Overall, the FRS Pension Plan is making retirement a smoother transition for thousands of Floridians because retirees know they can count on the Plan to deliver benefits they earned on the job. The Plan's financial stability helped Florida earn the highest credit rating of "AAA" from Standard & Poor's Rating Service during the fiscal year and the Number One ranking as the top-performing state pension fund.

But the most important achievement is the Plan's consistent long-term performance. Investment returns can vary dramatically from year to year, depending on market conditions, the economy, monetary policy and other factors. Therefore, financial strength is best revealed by the long-term record. Over the past 15 years, the Plan achieved an average annual investment return of 10.32%.

That is the kind of record that gives Florida's retirees peace of mind and greater financial security, just when they need both.


so there's
more time
to
enjoy life.

Two plans for Florida's public sector employees ...

Freedom to choose from two professionally managed retirement plans is one of the major benefits of being a public sector employee in the Florida Retirement System.

From teachers and state government employees to police officers and firefighters, eligible FRS members can participate in either:

- The FRS Pension Plan, a traditional defined benefit plan that provides guaranteed monthly retirement income based on a formula that includes service and salary; or

- The FRS Investment Plan, a voluntary 401(k) style plan that provides participants with a choice of diversified investment options, portable benefits they retain, even if they leave the FRS, and investment control over their retirement plan assets.

The SBA professionally manages both of these plans to foster long-term investment growth and to reduce potential risk and volatility as much as possible.

The FRS Pension Plan is one of the few fully-funded state pension plans in the U.S., with assets under SBA management that have doubled to $136.3 billion from $67 billion 10 years ago. The Plan remains a national model for defined benefit pension plans, ranking as the top-performing state pension plan due to its financial stability.

The sustained success of the FRS Pension Plan over decades reflects more than solid investment returns – it demonstrates the SBA's financial stewardship as an ethical investment management organization that acts with integrity and in the best interest of FRS members.

Managed with the same commitment to integrity and performance, the FRS Investment Plan is becoming an increasingly popular retirement planning choice, especially for potentially mobile workers who hold a series of jobs during their career. In 2007, this Plan offered 20 investment options to members, supported by an impressive array of retirement planning and investment education services through the MyFRS Financial Guidance Program.

The benefits paid to FRS Investment Plan members are based on how much money is contributed to their account and the rate of growth when that money is invested. The SBA serves as the plan administrator and fiduciary for the Investment Plan, selecting and monitoring the investment options, recordkeeping, custody and education services. Its members qualify for benefits after one year of service, versus six years for members of the FRS Pension Plan.

The common bond between the FRS Pension Plan and FRS Investment Plan is that the SBA is managing a record amount of assets in both plans, with diversified global investment strategies and stringent policies in place to safeguard assets for future retirement.

so there
is
freedom
to choose.

Helping Florida rebuild after hurricanes strike …

When hurricanes wreak havoc and destruction, the SBA helps protect Florida homeowners and private insurers from a tide of potential insurance disasters. As manager of the Florida Hurricane Catastrophe Fund (CAT Fund) and its associated programs, the SBA is providing an insurance lifeline for a state that is all too often in the path of devastating storms.

The SBA focuses on maintaining the stability and solvency of the CAT Fund, which helps keep insurance costs down by reimbursing private insurers for a significant portion of their storm-related losses. This stable and ongoing source of reimbursement for catastrophic losses enables private insurers to continue offering hurricane insurance to Florida homeowners.

The Florida Hurricane Catastrophe Fund is not financed by Florida taxes; it is a tax-exempt trust fund financed by reimbursement premiums charged to participating insurers, emergency assessments on property and casualty insurers, and earnings on investments by the SBA.

When eight hurricanes ravaged Florida in 2004 and 2005, the CAT Fund was literally in the eye of the storm, paying out more than $6.3 billion in loss reimbursements to participating insurers over two years. To ensure the solvency of the Fund and replenish cash in the wake of those hurricanes, the SBA and the Florida Division of Bond Finance partnered in managing two successful bond issues in 2006 that raised $4.15 billion.

Through the Florida Hurricane Catastrophe Finance Corporation, the SBA reinvests bond proceeds in highly liquid, relatively short-term investments to minimize the interest cost of the bond issue.

In the fiscal year ending June 30, 2007, the CAT Fund reimbursed Florida residential property insurers a total of $1.3 billion, leaving the Fund with total assets of $4.9 billion at the end of the year. This includes funds under management in the Florida Hurricane Catastrophe Finance Corporation.

Through its focus on prudent management of risk, assets and cash flow, the SBA is working to ensure that the Florida Hurricane Catastrophe Fund has sufficient liquidity and is well-positioned to fulfill its obligations under state law.

As Floridians know all too well from experience, hurricanes can destroy homes and communities and alter lives. That is why the SBA is dedicated to ensuring that the Florida Hurricane Catastrophe Fund will be there, with vital financial support, to help rebuild communities when disaster strikes.


so families
can have
a garden
to grow in.

Investing for a healthier Florida ...

At universities and medical centers throughout Florida, researchers and health professionals are on a mission to develop potentially life-saving treatments for tobacco-related illnesses such as lung cancer and heart disease. They are also studying ways to combat the powerfully addictive grip of nicotine and curb cigarette smoking by children and adults because more than 1 in 5 adults in Florida still smoke and thousands of boys and girls start lighting up each year, according to health officials.

Their vital mission, to help prevent thousands of smoking-related deaths each year, is getting a financial boost from the SBA, which is investing for a healthier Florida. Since 1999, the SBA has been responsible for managing the Lawton Chiles Endowment Fund, which was created by the Florida Legislature to invest a portion of the $11 billion the state received under tobacco lawsuit settlements.

The purpose of the Fund, named after the late Florida governor and health-care advocate, is to provide a perpetual source of enhanced funding for health research and programs, including those addressing health problems caused by tobacco. The SBA is making that possible by protecting and enhancing the value of the Fund's assets with an investment objective that aims to preserve the inflation-adjusted value of contributed capital and provide a specified cash outflow to support vital state health programs and biomedical research on tobacco use.

In the fiscal year ended June 30, 2007, the net asset value of the Lawton Chiles Endowment Fund increased to $2.3 billion, from $2.02 billion a year earlier, reflecting the SBA's effective investment management strategy and performance.

The importance of the SBA's role, however, is best measured by the fact that the financial health of the Lawton Chiles Endowment Fund is playing a major role in making vital biomedical research on tobacco-related illnesses a reality in Florida.

Consider the James and Esther King Biomedical Research Program which supports biomedical and behavioral research in Florida for the prevention, diagnosis, treatment, and cure of tobacco-related diseases. Funding for this program comes from interest earned on a $150 million reserve within the Lawton Chiles Endowment Fund.

With this secure source of funding, the James and Esther King Biomedical Research Program is providing grants for a wide range of research projects to improve the health of Floridians and expand biomedical knowledge. In 2006, for example, 49 Florida researchers led studies and projects sponsored by the program, some of which hold promise for boosting the biotechnology sector of the Florida economy.

As the SBA is proving, its professional investment management of the Lawton Chiles Endowment Fund is a smart prescription for supporting programs that improve the health of Florida's most valuable resource – its people.

so research can lead to cures.

Cost-effective results for Florida taxpayers ...

In managing and investing the assets of the Florida Retirement System and other funds for long-term growth, the SBA also focuses on delivering cost-effective results that benefit Florida taxpayers.

Maintaining a fully-funded FRS Pension Plan with a surplus for 10 years in a row means that Florida taxpayers are not bearing an undue burden in financing the state's retirement system. That is important news for taxpayers from Pensacola to Key West because many state pension funds are underfunded and face a crisis due to rising deferred pension costs.

As a result, some states – but not Florida – are asking taxpayers to make up their shortfall through tax increases and other measures including bond issues and higher employee payroll contributions to their pension plans. It is a far different story in Florida, where the SBA's focus on prudent risk management and maximizing long-term returns with a global portfolio has produced positive investment results.

In the last fiscal year, for example, the FRS Pension Plan achieved a funding ratio of 107.8%, meaning that assets exceeded liabilities, resulting in a healthy surplus. The stellar performance earned the FRS Pension Plan a Number One ranking among U.S. state pension plans.

Over the past 10 years, SBA investment returns have covered about 72% of retirement benefits paid through the Florida Retirement System while public sector employer contributions (tax dollars) have funded the balance, just 28% of the benefit obligations.

The SBA also acts in the best interest of Florida taxpayers by providing professional investment and trust services as efficiently as possible, guided by our enduring commitment to responsible fiscal and budgetary management.

For instance, the SBA managed more mandates and more assets with a staff that remained steady at 158 full-time equivalent employees after streamlining staff in the previous three years. Despite an expanding mission and responsibilities, the SBA budget increased modestly to just $24.45 million from $23.09 million after holding the line on the budget for several years.

Florida taxpayers are also benefiting from the SBA's focus on continuous improvement at our operations in Tallahassee, including risk management training, initiatives to improve efficiency and technology updates to enhance performance.

In short, the SBA's track record of investment success is enabling Florida taxpayers to keep more money in their wallets, which helps families and the overall state economy.

so you can have more.

Table A: Net Investment Returns by Fund and Asset Class For Periods Ending June 30, 2007

Multi-Asset Class Major Mandates

	Twelve Months	Three Years	Five Years	Ten Years
FRS Pension Plan	18.07%	12.88%	11.52%	8.46%
Domestic Equities [1]	19.61%	12.27%	11.34%	7.62%
Foreign Equities	29.82%	24.26%	19.36%	9.24%
Fixed Income [1]	6.32%	4.41%	5.15%	6.29%
Real Estate	16.11%	20.48%	16.04%	13.33%
Private Equity [2]	--	12.39%	8.87%	8.69%
Cash Equivalents	5.43%	4.01%	2.95%	4.12%
Asset Allocation	18.31%	12.60%	11.48%	8.06%
FRS Investment Plan	16.01%	11.50%	N/A	N/A
Domestic Equities	18.84%	13.17%	N/A	N/A
Foreign/Global Equities [3]	26.67%	21.37%	N/A	N/A
Fixed Income	6.41%	4.36%	N/A	N/A
Treasury Inflation-Protected Securities	3.94%	3.78%	N/A	N/A
Cash Equivalents	5.49%	4.10%	N/A	N/A
Balanced Funds	16.68%	11.80%	N/A	N/A
Lawton Chiles Endowment Fund	17.37%	12.48%	11.52%	N/A
Domestic Equities	19.41%	11.81%	11.16%	N/A
Foreign Equities	30.12%	26.01%	19.88%	N/A
Fixed Income	6.11%	4.11%	4.65%	N/A
Treasury Inflation-Protected Securities	4.08%	4.11%	6.24%	N/A
Real Estate	11.00%	22.14%	19.27%	N/A
Cash Equivalents	5.44%	4.01%	2.92%	N/A
Asset Allocation	17.57%	12.47%	11.54%	N/A

1 The impact of certain trades that occurred during the policy transition month of June 2007 are excluded from the numbers shown above for the FRS Pension Plan Domestic Equities and Fixed Income asset classes. However, they are included in the numbers shown for the total fund (FRS Pension Plan). Had they been included for the asset classes, Domestic Equities' net return would have been 1 basis point lower over 12 months and unchanged for longer periods; that of Fixed Income would have been 7, 2, 1 and 1 basis points higher over 12 months, 3 years, 5 years and 10 years, respectively.

2 Per industry standards, Private Equity returns reflect an internal rate of return methodology. Since inception, the net return is 9.04%.

3 Consists of both domestic and foreign stocks.

N/A = not applicable

Table B: Value-Added Returns By Fund and Asset Class For Periods Ending June 30, 2007

Multi-Asset Class Major Mandates

	Twelve Months	Three Years	Five Years	Ten Years
FRS Pension Plan	0.22%	0.56%	0.22%	0.48%
Domestic Equities [1]	-0.46%	-0.17%	-0.18%	0.07%
Foreign Equities	0.20%	-0.26%	-0.10%	1.09%
Fixed Income [1]	-0.21%	0.11%	0.30%	0.13%
Real Estate	9.70%	12.98%	8.37%	5.48%
Private Equity [2]	--	-4.61%	-7.48%	-2.16%
Cash Equivalents	0.13%	0.01%	0.09%	0.33%
Asset Allocation	0.46%	0.28%	0.18%	0.07%
FRS Investment Plan	-0.28%	0.12%	N/A	N/A
Domestic Equities	-0.73%	0.02%	N/A	N/A
Foreign/Global Equities	0.51%	0.42%	N/A	N/A
Fixed Income	-0.20%	0.07%	N/A	N/A
Treasury Inflation-Protected Securities	-0.05%	-0.02%	N/A	N/A
Cash Equivalents	0.01%	0.08%	N/A	N/A
Balanced Funds	-0.16%	-0.16%	N/A	N/A
Lawton Chiles Endowment Fund	0.87%	0.72%	0.45%	N/A
Domestic Equities	-0.51%	-0.43%	-0.23%	N/A
Foreign Equities	0.62%	1.56%	0.50%	N/A
Fixed Income	-0.01%	0.13%	0.17%	N/A
Treasury Inflation-Protected Securities	0.09%	0.31%	0.20%	N/A
Real Estate	-0.72%	-0.26%	-0.25%	N/A
Cash Equivalents	0.18%	0.03%	0.07%	N/A
Asset Allocation	1.07%	0.71%	0.47%	N/A

Value added = net return over benchmark

[1] The impact of certain trades that occurred during the policy transition month of June 2007 are excluded from the numbers shown above for the FRS Pension Plan Domestic Equities and Fixed Income asset classes. However, they are included in the numbers shown for the total fund (FRS Pension Plan). Had they been included for the asset classes, Domestic Equities' value added would have been 1 basis point lower over 12 months and unchanged for longer periods; that of Fixed Income would have been 7, 2, 1 and 1 basis points higher over 12 months, 3 years, 5 years and 10 years, respectively.

[2] Per industry standards, Private Equity returns reflect an internal rate of return methodology. Since inception, the value-added return is -3.88%.

N/A = not applicable

Table C: Asset Allocation at June 30 Fiscal Year-End

Multi-Asset Class Major Mandates

	2007 This Year	2004 3 Years Ago	2002 5 Years Ago	1997 10 Years Ago
FRS Pension Plan	100.0%	100.0%	100.0%	100.0%
Domestic Equities	42.9%	50.9%	51.5%	59.9%
Global Equities	0.0%	4.1%	0.0%	0.0%
Foreign Equities	16.4%	15.1%	13.0%	8.9%
Fixed Income	22.9%	20.2%	26.7%	22.6%
High Yield	1.3%	0.0%	0.0%	0.0%
Real Estate	6.0%	5.7%	4.3%	3.2%
Private Equity	3.2%	3.4%	3.4%	1.1%
Strategic Investments	4.4%	0.0%	0.0%	0.0%
Cash Equivalents	2.9%	0.5%	1.1%	4.3%
FRS Investment Plan	100.0%	100.0%	N/A	N/A
Domestic Equities	31.9%	32.5%	N/A	N/A
Foreign/Global Equities	12.1%	6.5%	N/A	N/A
Fixed Income	8.1%	7.5%	N/A	N/A
Treasury Inflation-Protected Securities	2.1%	4.7%	N/A	N/A
Cash Equivalents	8.8%	9.9%	N/A	N/A
Balanced Funds	37.0%	38.9%	N/A	N/A
Lawton Chiles Endowment Fund	100.0%	100.0%	100.0%	N/A
Domestic Equities	58.5%	58.7%	53.8%	N/A
Foreign Equities	14.9%	13.1%	12.4%	N/A
Fixed Income	13.6%	13.3%	16.7%	N/A
Treasury Inflation-Protected Securities	8.1%	9.6%	11.7%	N/A
Real Estate	4.1%	4.4%	4.2%	N/A
Cash Equivalents	0.7%	0.8%	1.0%	N/A

N/A = not applicable

STATE BOARD OF ADMINISTRATION

Investment Review 2006-07

Overview of SBA Investment Portfolios

As of June 30, 2007, the SBA managed 22 different portfolios housing the assets of 35 mandates and trusts. A mandate is an investment responsibility established as a direct requirement of Florida law. Trusts are investment responsibilities allowed under law and established pursuant to a trust agreement with a client. Four of the SBA's 22 portfolios are commingled investment pools that contain the assets of a variety of clients. Eighteen clients have at least some of their assets in separately managed vehicles while another 16 are invested solely in one or more of the SBA's three CAMP (Commingled Asset Management Program) pools. Nearly 1,000 clients participate in the SBA's Local Government Investment Pool

Table 1: SBA Assets Under Management by Investment Vehicle as of June 30, 2007

		(1)	(2)	(3)	(4)	(5)	(6)
		SBA Investment Pools				Separately	Total Assets
		LGIP	CAMP-MM	CAMP-FI	CAMP-DE	Managed Assets	Under Management
	Accounts With Separately Managed Assets						
1.	FRS Pension Plan	$ -	$ -	$ -	$ -	$136,280,544,510	$136,280,544,510
2.	Florida Hurricane Catastrophe Finance Corporation	-	5	-	-	3,971,634,585	3,971,634,590
3.	FRS Investment Plan	-	-	-	-	3,687,530,964	3,687,530,964
4.	Debt Service	-	-	-	-	2,629,390,901	2,629,390,901
5.	Lawton Chiles Endowment Fund	-	24,166,481	318,177,319	239,918,026	1,750,779,807	2,333,041,633
6.	Department of the Lottery Fund	-	1,130	-	-	1,287,953,934	1,287,955,064
7.	Florida Hurricane Catastrophe Fund	-	-	-	-	898,154,157	898,154,157
8.	Florida Prepaid College Plan	-	309,564,072	-	-	194,360,978	503,925,050
9.	Local Government Non-Pool Funds	-	-	-	-	457,157,338	457,157,338
10.	Retiree Health Insurance Subsidy Trust Fund	-	72,782,641	-	-	136,226,215	209,008,856
11.	Scripps Florida Funding Corporation	-	37,585,287	-	-	157,185,478	194,770,765
12.	Burnham Institute for Medical Research Fund	-	3,248,567	-	-	109,672,595	112,921,162
13.	Florida College Investment Plan	-	-	-	-	26,035,183	26,035,183
14.	Torrey Pines Institute for Molecular Studies Fund	-	750,245	-	-	23,433,082	24,183,327
15.	Institute of Food & Agricultural Sciences	-	12,092,054	-	-	5,013,167	17,105,221
16.	Bond Proceeds Trust Fund [1]	-	-	-	-	5,377,339	5,377,339
17.	McKnight Doctoral Fellowship Program	-	1,056,993	-	1,050,910	738,483	2,846,386
18.	Gas Tax Clearing Fund [1]	-	-	-	-	-	-
	Accounts Invested Solely in SBA Investment Pools						
19.	Local Government Investment Pool [2]	30,941,610,689	-	-	-	-	30,941,610,689
20.	Police and Firefighters' Premium Tax Trust Fund	-	203,568,084	-	-	-	203,568,084
21.	FSU Research Foundation	-	-	37,947,950	42,728,786	-	80,676,736
22.	SBA Administrative Fund [3]	-	13,015,864	28,101,053	-	-	41,116,917
23.	PEORP Administrative Fund [3]	-	27,788,883	-	-	-	27,788,883
24.	Insurance Capital Build-up Program	-	16,303,287	-	-	-	16,303,287
25.	SRI International Fund	-	13,788,647	-	-	-	13,788,647
26.	Florida Prepaid College Foundation	-	9,670,716	-	-	-	9,670,716
27.	Pinellas Suncoast Transit Authority	-	-	5,924,392	-	-	5,924,392
28.	Florida Division of Blind Services	-	41,283	898,334	1,572,268	-	2,511,885
29.	Florida Endowment for Vocational Rehabilitation	-	2,162,806	-	-	-	2,162,806
30.	Arbitrage Compliance Trust Fund	-	1,993,227	-	-	-	1,993,227
31.	Bond Fee Trust Fund [3]	-	1,566,247	-	-	-	1,566,247
32.	Florida College Investment Plan Administrative Expense	-	357,863	-	-	-	357,863
33.	Florida Prepaid College Plan Administrative Expense [3]	-	156,977	-	-	-	156,977
34.	Investment Fraud Restoration Financing Corporation	-	27,285	-	-	-	27,285
35.	Inland Protection Financing Corporation	-	1,420	-	-	-	1,420
	Total Assets Under Management	**$30,941,610,689**	**$751,690,064**	**$391,049,048**	**$285,269,990**	**$151,621,188,716**	**$183,990,808,507**

[1] The fund balance is periodically zero due to cash flows.
[2] Individual accounts are not shown. As of June 30, 2007, there were 2,331 individual accounts in the LGIP.
[3] CAMP-MM balances include adjustments to the fund's cash balance for P-card expenses incurred prior to June 30, 2007, but allocated to the fund after June 30th.

Table 2: Change in Assets Under Management – Fiscal Year 2006-07

	Net Asset Value as of June 30, 2006	Investment Gain (Loss)	Contributions & (Distributions)	Net Asset Value as of June 30, 2007
FRS Pension Plan	$118,354,931,178	$21,122,621,488	$(3,197,008,156)	$136,280,544,510
Local Government Investment Pool	22,134,944,704	1,467,350,106	7,339,315,879	30,941,610,689
Florida Hurricane Catastrophe Finance Corporation	-	197,832,841	3,773,801,749	3,971,634,590
FRS Investment Plan	2,305,766,357	421,735,355	960,029,252	3,687,530,964
Debt Service	2,578,931,747	123,627,768	(73,168,614)	2,629,390,901
Lawton Chiles Endowment Fund	2,024,521,334	349,452,785	(40,932,486)	2,333,041,633
Department of the Lottery Fund	1,437,289,247	79,576,273	(228,910,456)	1,287,955,064
Florida Hurricane Catastrophe Fund	658,201,804	36,072,156	203,880,197	898,154,157
Florida Prepaid College Plan	73,285,481	2,387,205	428,252,364	503,925,050
Local Government Non-Pool Funds	545,802,337	32,838,993	(121,483,992)	457,157,338
Retiree Health Insurance Subsidy Trust Fund	168,435,595	10,559,323	30,013,938	209,008,856
Police and Firefighters' Premium Tax Trust Fund	158,195,193	6,130,641	39,242,250	203,568,084
Scripps Florida Funding Corporation	205,963,799	11,747,091	(22,940,125)	194,770,765
Burnham Institute for Medical Research Fund	-	2,999,162	109,922,000	112,921,162
FSU Research Foundation	71,386,032	9,290,704	-	80,676,736
SBA Administrative Fund	34,543,516	2,207,842	4,365,559	41,116,917
PEORP Administrative Fund	24,636,122	1,375,029	1,777,732	27,788,883
Florida College Investment Plan	-	(578,913)	26,614,096	26,035,183
Torrey Pines Institute for Molecular Studies Fund	-	455,327	23,728,000	24,183,327
Institute of Food & Agricultural Sciences	16,112,117	870,804	122,300	17,105,221
Insurance Capital Build-up Program	251,065,728	12,752,756	(247,515,197)	16,303,287
SRI International Fund	-	388,647	13,400,000	13,788,647
Florida Prepaid College Foundation	7,502,055	518,661	1,650,000	9,670,716
Pinellas Suncoast Transit Authority	-	10,128	5,914,264	5,924,392
Bond Proceeds Trust Fund [1]	-	93,742	5,283,597	5,377,339
McKnight Doctoral Fellowship Program	3,130,631	215,755	(500,000)	2,846,386
Florida Division of Blind Services	2,196,927	314,958	-	2,511,885
Florida Endowment for Vocational Rehabilitation	2,273,332	93,341	(203,867)	2,162,806
Arbitrage Compliance Trust Fund	1,779,168	101,886	112,173	1,993,227
Bond Fee Trust Fund	1,450,278	93,144	22,825	1,566,247
Florida College Investment Plan Administrative Expense	522,340	33,751	(198,228)	357,863
Florida Prepaid College Plan Administrative Expense	549,946	47,693	(440,662)	156,977
Investment Fraud Restoration Financing Corporation	27,906	1,507	(2,128)	27,285
Inland Protection Financing Corporation	1,346	74	-	1,420
Gas Tax Clearing Fund [1]	-	459,764	(459,764)	-
Total Assets Under Management	**$151,063,446,220**	**$23,893,677,788**	**$9,033,684,499**	**$183,990,808,507**

[1] The fund balance is periodically zero due to cash flows.

through more than 2,300 individual accounts. Pooling smaller portfolios into larger investment funds affords economies of scale and other investment management advantages, enhancing returns for participants.

Table 1 lists the net asset value of each mandate and trust at fiscal year-end. Of the total assets under SBA management, $151.6 billion, or about 82%, was managed in separate accounts. During the year, assets under SBA management increased to $184.0 billion from $151.1 billion, a gain of $32.9 billion. This increase represents the net effect of $23.9 billion in investment gains plus $9.0 billion in net contributions. Table 2 shows these details for each SBA portfolio.

The chief determinant of a portfolio's long-term return and risk is its asset allocation, meaning its exposure to the various asset classes. For each of the SBA's separately managed accounts and pooled investment products, Table 5 indicates exposure to each asset type.

Performance data for the SBA's separately managed accounts and investment pools over various periods ending June 30, 2007 are shown in Tables 3 and 4. Net managed returns (i.e., actual earnings) are shown in Table 3. Value-added returns, meaning the SBA's managed return minus the portfolio's

Table 3: SBA Net Investment Returns For Periods Ending June 30, 2007

Portfolios With Separately Managed Assets	Twelve Months	Three Years	Five Years	Ten Years
FRS Pension Plan	18.07%	12.88%	11.52%	8.46%
Florida Hurricane Catastrophe Fund	5.33%	3.92%	3.04%	N/A
Lawton Chiles Endowment Fund	17.37%	12.48%	11.52%	N/A
FRS Investment Plan	16.01%	11.50%	N/A	N/A
Retiree Health Insurance Subsidy Trust Fund	5.30%	3.87%	N/A	N/A
Institute of Food & Agricultural Sciences	5.23%	3.86%	2.96%	N/A
SBA Pooled Investment Products				
Local Government Investment Pool	5.52%	4.03%	3.01%	4.05%
CAMP - Money Market	5.44%	4.02%	2.93%	N/A
CAMP - Fixed Income	6.08%	4.10%	4.65%	N/A
CAMP - Domestic Equities	20.01%	12.34%	11.48%	N/A

Note: The managed return for the Local Government Investment Pool has been retroactively revised since last year's report to show the Participant Effective Yield, which reflects a 365 day basis and adjustments for realized earnings by participants, expenses and other accounting items. Managed returns had been previously reported using the LGIP 30 day Rate of Return, which is based upon amortized cost and a 360 day basis pursuant to Chapter 19-7.011, Florida Administrative Code. The old annualized 30 day Rates of Return would be 5.44%, 3.98%, 2.97% and 4.01% for twelve months, three years, five years and ten years, respectively.

Table 4: SBA Value-Added Investment Returns For Periods Ending June 30, 2007
(Value Added = Net Return over Benchmark)

Portfolios With Separately Managed Assets	Twelve Months	Three Years	Five Years	Ten Years
FRS Pension Plan	0.22%	0.56%	0.22%	0.48%
Florida Hurricane Catastrophe Fund	-0.15%	-0.10%	0.08%	N/A
Lawton Chiles Endowment Fund	0.87%	0.72%	0.45%	N/A
FRS Investment Plan	-0.28%	0.12%	N/A	N/A
Retiree Health Insurance Subsidy Trust Fund	-0.05%	-0.58%	N/A	N/A
SBA Pooled Investment Products				
Local Government Investment Pool [1]	0.04%	0.01%	0.05%	0.04%
Local Government Investment Pool [2]	0.07%	0.08%	0.11%	0.05%
CAMP - Money Market [3]	-0.05%	0.00%	-0.03%	N/A
CAMP - Money Market [4]	-0.01%	0.07%	0.04%	N/A
CAMP - Fixed Income	-0.04%	0.12%	0.17%	N/A
CAMP - Domestic Equities	0.10%	0.11%	0.09%	N/A

1 Measured relative to the iMoneyNet First Tier Institutional Money Market Gross Index for all time periods. This index became the primary benchmark for the Pool effective July 1, 2006. Value-added performance against this index for earlier periods is shown as a matter of information only.

2 Measured relative to the S&P AAA/AA Rated GIP All 30 Day Gross Index for all time periods. This index became the secondary benchmark for the Pool effective July 1, 2006. For prior periods, it was the Pool's sole benchmark, measured net of fees. Value-added returns based on the net-of-fee version of this index would be 0.30%, 0.31%, 0.35% and 0.31% for twelve months, three years, five years and ten years, respectively.

3 Measured relative to the iMoneyNet First Tier Institutional Money Market Gross Index, CAMP-MM's primary benchmark.

4 Measured relative to the S&P AAA/AA Rated GIP All 30 Day Gross Index, CAMP-MM's secondary benchmark.

Note: Prior to May 1998, a gross version of the S&P AAA/AA Rated GIP All 30 Day Index did not exist. Its value has been approximated by adding 30 basis points to the net-of-fees version of the index for the period from July 1997 through April 1998.

benchmark (typically, a broad market return), are shown in Table 4.

Return data is not calculated individually for every portfolio under management. This is either because the portfolio is managed in one or more commingled pools or because returns are not indicative of the SBA's effectiveness in managing the account. Table 6 indicates the specific circumstances for each affected portfolio.

Risks, Objectives and Expectations

Risks Inherent in Investing

Risk is an everyday fact of life for investors. Without assuming some degree of risk, an investor would serve no useful economic purpose and hence would receive no return. How an investor manages risk and how he chooses and balances the various forms of risk are key decisions that will influence long-term success. Thus, 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 motivation for investing, i.e., the investment objective. A rational investor will direct his greatest risk management effort toward those risks that put attainment of his investment objective in greatest jeopardy, and vice versa.

With this in mind, the SBA's risk-assessment and risk-management efforts are framed by formal investment objectives.

Investment Objectives

Investment objectives are established for each portfolio entrusted to the Board. To reduce the long-term risk of shortfalls, the SBA prefers stocks as the principal return generator in its long-lived investment mandates, such as the FRS Pension Plan. Although an emphasis on stocks may create short-term volatility when equity markets are under pressure, stocks have proven over the long run to provide the richest asset growth. For mandates with shorter term investment horizons, the SBA typically invests in lower returning asset types which exhibit less volatility than stocks.

The SBA's primary investment objective for the FRS Pension Plan is to provide investment returns that are sufficient to ensure the timely payment of promised benefits to current and future participants and to keep plan cost at a reasonable level. As additional considerations, the SBA seeks to avoid excessive volatility in short-term plan cost levels and excessive risk in long-term cost trends.

To achieve these objectives, the Board has determined that going forward a long-term real return of 5.0% per year (compounded and net of investment expenses) should be attained, based on a substantially diversified asset allocation that

Table 5: Asset Classes Represented in SBA Investment Portfolios as of June 30, 2007

Portfolios With Separately Managed Assets	U.S. Equities	Foreign Equities	Fixed Income	High Yield	Treasury Inflation-Protected Securities	Real Estate	Private Equity	Cash Equivalents
FRS Pension Plan [1]	x	x	x	x		x	x	x
Local Government Investment Pool								x
Florida Hurricane Catastrophe Fund [2]			x					x
FRS Investment Plan	x	x	x		x			x
Debt Service			x					x
Lawton Chiles Endowment Fund	x	x	x		x	x		x
Department of the Lottery Fund			x					x
Local Government Non-Pool Funds								x
Scripps Florida Funding Corporation			x					x
Retiree Health Insurance Subsidy Trust Fund			x					x
Florida Prepaid College Plan	x							
Burnham Institute for Medical Research Fund			x					x
Florida College Investment Plan	x							
Torrey Pines Institute for Molecular Studies Fund			x					x
Institute of Food & Agricultural Sciences			x					x
Bond Proceeds Trust Fund			x					x
McKnight Doctoral Fellowship Program			x					x
Gas Tax Clearing Fund			x					x
SBA Pooled Investment Products								
Local Government Investment Pool								x
CAMP - Money Market								x
CAMP - Fixed Income			x					
CAMP - Domestic Equities	x							

Note: This table indicates asset types which are included as a matter of ongoing investment policy. Other asset types may also be held pursuant to a tactical investment strategy or for liquidity.
[1] The FRS Pension Plan also is authorized to allocate assets to a Strategic Investments asset class, which can consist of a variety of individual asset types.
[2] Also includes the Florida Hurricane Catastrophe Financing Corp.

Table 6: Separate Account Portfolios Without Return Data by Reason

Portfolios with Dedicated Bond Strategies
Debt Service
Department of the Lottery Fund
Scripps Florida Funding Corporation
Burnham Institute
Torrey Pines Institute for Molecular Studies Fund

Episodically Funded Portfolios	Client Directed Assets
Gas Tax Clearing Fund	McKnight Doctoral Fellowship Program
Bond Proceeds Trust Fund	Local Government Non-Pool Funds

Portfolios With Less Than One Year of Performance
Florida Prepaid College Plan
Florida College Investment Plan

Returns for these portfolios either cannot be calculated or are not meaningful.

minimizes expected risk. This rate presumes the Legislature makes the actuarially required annual contributions.

Because FRS Pension Plan liabilities are driven in 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. For this reason, we judge a real return target to be superior to a flat rate actuarial target.

The SBA uses sophisticated modeling techniques to ensure that its allocation of assets among the various asset types provides a sufficiently high probability of attaining the real return objective and that it does so with a diversified portfolio that presents the lowest level of expected downside risk consistent with the target return.

To achieve the absolute real target rate of return, some market risk must be borne. Table 7 illustrates the potential range of real returns that could result over various investment horizons. Over a 30-year investment horizon, there is a 10% probability that the Target Portfolio will experience a compound annual real return of 2.46% 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.

Table 7: FRS Pension Plan Expected Risk

Time Horizon	10th Percentile Real Return	90th Percentile Real Return
12 Months	-8.30%	20.28%
5 Years	-1.16%	11.59%
10 Years	0.62%	9.63%
15 Years	1.41%	8.77%
20 Years	1.89%	8.26%
25 Years	2.21%	7.91%
30 Years	2.46%	7.66%

Asset Classes

The securities in an investment portfolio are grouped into asset classes. Asset classes typically represent groups of individual securities that have common economic and legal characteristics. More than 90% of the long-term cumulative growth of a diversified investment portfolio is determined by the asset class mix (i.e., by asset allocation), with the remainder coming from individual security selection within the asset classes.

Within each asset class, individual portfolios have disciplined investment strategies measured against specific performance benchmarks. SBA portfolios are diversified within asset classes by maturity, liquidity, industry, country, company and size, among other considerations, as appropriate. Each portfolio is designed to contribute positively to total fund returns on a long-term basis.

Foreign 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 their profits. Stocks have historically yielded a higher return than other assets, but the uncertainty of return poses some risk.

Asset Class – Domestic Equities

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

Asset Class – Foreign Equities

Foreign 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 returns for foreign equities is somewhat different from domestic stocks, adding a diversification effect to the total portfolio.

Asset Class – 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.

Asset Class – High Yield

High yield bonds are fixed income securities that are rated below investment grade (below Ba/BB) by the major rating agencies (Moody's, Standard & Poor's, and Fitch). High yield bonds have higher expected returns than traditional investment grade fixed income, and lower expected returns than equity investments, with expected volatility of approximately 11%. High yield bonds are more closely correlated to the equity markets than investment grade fixed income. Generally, high yield bonds have an expected annual real return of 4%, with a 36% probability of earning zero or less in any given year.

Asset Class – Real Estate

Historically, institutional real estate portfolio returns have been higher than bonds but lower than stocks. We expect real estate returns to exceed bond returns 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 has a notable disadvantage relative to foreign or domestic equities. Direct-owned properties, the core of the asset, are private market investment vehicles. As such, their relative illiquidity makes large exposures problematic in the context of the total fund.

Asset Class – Private Equity

The Private Equity asset class is comprised 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.

Asset Class – Strategic Investments

This is a new asset class which received its first funding in June of 2007. It is a marked departure from other SBA asset classes in that it will not consist of a singular asset type. Instead, its purpose is to contain a diverse set of asset types and investment strategies not encompassed by the SBA's other asset classes. Through diversification and pursuit of idiosyncratic returns not available elsewhere, this asset class is expected to enhance the risk-adjusted return of the total fund over multiple market cycles.

Asset Class – Cash

From the perspective of a long-term investor, the Cash asset class (consisting of very short-term interest bearing securities) poses the highest level of risk in that it is the least likely asset type to provide vigorous returns. 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. Conversely, for portfolios with a dominant need for capital preservation (typically those facing substantial short-term liquidity demands), cash assets are the lowest risk alternative.

The 2006-07 Investment Environment

U.S. Economic Conditions

The U.S. economy grew at a modest rate for the year as higher productivity and consumer spending were accompanied by an ongoing correction in the housing market. Home construction and sales slowed, home prices slipped and mortgage lenders faced an alarming trend of mounting foreclosures.

The fiscal year began with real GDP (the inflation-adjusted value of final goods and services produced in the U.S.) expanding at an annual rate of just 1.1% in the third quarter of 2006. The largest negative influence on real GDP during the quarter was a 20.4% fall in real residential fixed investment. This plunge in housing-related expenditures reduced overall growth by 1.3%.

For the entire fiscal year, GDP growth was 2.1%, a modest rate made possible by strong growth in the final quarter, when exports surged to provide an economic boost.

Overall, the economy was surprisingly resilient. Supported by income growth, consumer spending was up 3% for the year, despite the housing trends. Consumers spent at a brisker pace after gas prices, which topped $3.00 per gallon in the summer of 2006, fell throughout the fall and winter.

Productivity continued to expand during the year – albeit at a slower rate than in the last few years. Unemployment was low at a rate of 4.5% for most of the year and the labor market was solid. Employment growth averaged 169,000 jobs per month and wages and salaries for some workers rose as labor shortages emerged.

For households with financial wealth or stock portfolios, steady gains in equity markets provided a buffer against slipping home prices. All in all, U.S. consumers provided a base of support for sustained economic growth during the year.

The other main cog of aggregate spending – business investment – was problematic. In spite of sustained growth in corporate profits, firms seemed increasingly reluctant to undertake capital expenditures amid heightened uncertainty over the near-term course of the economy and concerns about energy costs. The upshot was that real fixed investment in equipment and software, which accounts for roughly two-thirds of business spending, dipped to its lowest pace in several years, dampening the rate of economic growth.

Business spending on non-residential fixed investment construction was a positive contributor to economic growth. With the housing sector in the doldrums, resources became available for other types of construction work and deferred business projects came on-line. The combination of a falling U.S. dollar and accelerating growth overseas propelled U.S. exports, which grew more rapidly than imports for two quarters of the year, enough to provide a substantial boost to GDP growth.

The Federal Reserve held the Fed funds rate steady at 5.25% during the year after repeated interest rate hikes the prior year. Inflation appeared to be on the upswing in early 2007 as year-over-year growth in the price deflator for core personal consumption expenditures – the Federal Reserve's preferred inflation measure – rose three straight months before peaking at 2.5% in February 2007. Concerns about the upward trend subsided as core inflation retreated to 1.9% in June 2007.

Domestic Equities Market Conditions

U.S equity markets, as measured by the broad-based Russell 3000 index, gained more than 20% for the fiscal year, reflecting economic growth, solid corporate earnings and an uptick in merger and acquisition activity.

There was some investor uncertainty throughout the year, fueled by concerns about the U.S. subprime mortgage market, high energy prices, fear of a slowing economy and a threatened crack-down on stock market speculation in China, but stocks recovered to post impressive gains.

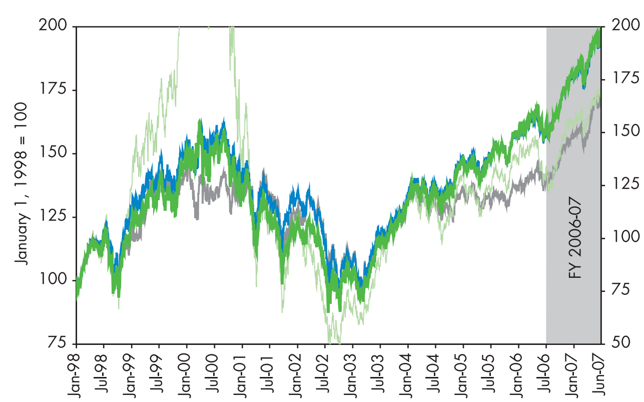
Markets successfully navigated a number of crosscurrents to move higher as investors rotated their holdings into larger capitalization companies. At the same time, the markets were generally more volatile and riskier stocks were repriced.

After earlier modest gains, stocks rallied sharply in April and May 2007 helped by continued strong earnings and the accelerated pace of merger and acquisition activity. As the fiscal year wound down, investor concerns about rising interest rates and

Chart 1: Major U.S. Stock Market Indices
January 1, 1998 through June 30, 2007

- Dow Jones Industrials (40 Blue-Chips)
- NASDAQ Composite (Technology)
- S&P 500 (Large Caps)
- Wilshire 5000 (Total Market)

The total U.S. stock market, shown by the dark green line, set a record high during the past year (shaded), besting its 2000 peak by nearly 22%.



inflation, and hedge fund losses, contributed to a sell-off in June 2007.

Still, led by large-capitalization value stocks, all major segments of the Russell 3000 target – large-capitalization, small-capitalization, core, growth, and value – closed higher for the fiscal year.

Foreign Equities Market Conditions

There was an extended surge in global equities, interrupted only briefly at the end of February. Foreign equity markets rose 29.6%, benefiting from sustained global growth, robust exports and record levels of merger and acquisition activity. Developed markets led by the Pacific region (excluding Japan) gained more than 27%. For the fourth consecutive fiscal year, emerging markets returned more than 30%, finishing 45% higher. A surge in merger and acquisition activity, low long-term interest rates, a successful string of Chinese initial public offerings and robust corporate earnings fueled the rally in emerging markets.

The U.S. dollar's depreciation against most currencies boosted returns to U.S. investors with unhedged foreign stock holdings. The dollar came under pressure for several reasons, including: the perception that the U.S. Federal Reserve was at the end of its monetary tightening cycle while many foreign central banks continued to raise rates; the fact that global growth remained strong as the U.S. economy slowed; and finally, several central banks signaling plans to diversify their foreign exchange reserves by reducing U.S. dollar exposure.

The first six months of 2007 cast a shadow over the prospects that the global equity rally would continue. A 9% drop in the Shanghai Composite Index on February 27 triggered a global stock sell-off that lasted through mid-March. The problems facing the U.S. housing and mortgage industries threatened to spill over into other markets as the U.S. economy slowed and consumer confidence waned. Nonetheless, global expansion remained resilient, with healthy economies and strong corporate earnings.

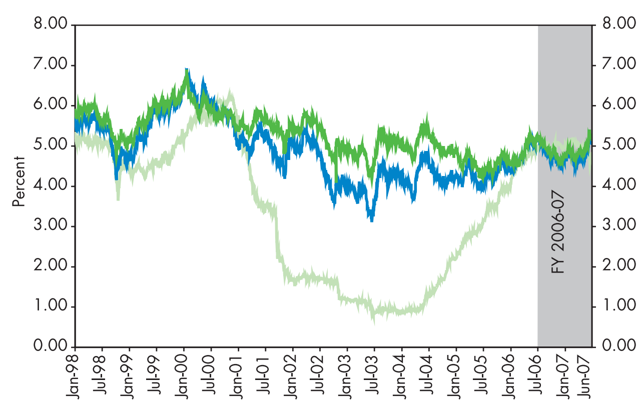
Fixed Income Market Conditions

Returns in U.S. fixed income bond markets for the fiscal year reflected softening U.S. economic growth, the Federal Reserve's standpat rate strategy and declining risk premiums demanded by market participants.

Risk premiums embedded in bond pricing were reduced throughout the fiscal year as investors remained confident that U.S. economic growth would slow only modestly, with on-track global growth and abundant liquidity.

Chart 2: U.S. Treasury Yields
January 1, 1998 through June 30, 2007

For much of FY 2006-07 (shaded), yields were inverted meaning that longer term bonds yielded less than short-term notes.



The combination of lower risk premiums, lower growth expectations and contained inflation expectations induced U.S. Treasury interest rates to decline overall and moderately steepened the Treasury yield curve. The steepening of the Treasury curve was reflected in shorter dated bond yields declining more significantly than longer dated bond yields. The two-year Treasury yield declined 29 basis points to 4.87% by the end of the fiscal year and the 10-year Treasury yield was trimmed 9 basis points to 5.03%.

Given generally declining interest rates, most measures of total return were positive for the year. The Lehman U.S. Aggregate Index posted a total return of 6.12%. The Lehman U.S. Investment Grade Credit Index produced a 12-month return of 6.72%. The total return for the Lehman U.S. Treasury Yield fell 5.48%, but the Lehman U.S. Corporate High Yield Index returned 11.55% for the fiscal year.

Real Estate Market Conditions

Real estate assets in general experienced attractive total returns. The SBA's Real Estate asset class produced a total return of 16.11% for the fiscal year. The continuation of strong real estate fundamentals stemming from a robust economy as well as the continuing availability of attractive financial terms enabled investors to enjoy another year of asset appreciation and good income returns.

For the most part, assets such as office buildings, retail properties and apartments delivered strong returns. Most markets, especially coastal areas, enjoyed high occupancies and positive revenue growth. While positive market fundamentals contributed to the attractive returns, so did investor actions. Private market institutional investors targeted portfolios of real estate assets, often using high levels of leverage to acquire high quality, lower risk assets. These transactions contributed to a rise in asset values throughout the institutional grade sector of the real estate market. This run-up in asset values resulted in higher appreciation returns in the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index, which reflects institutional quality property values through the appraisal process and from data derived from actual market transactions.

Private Equity Market Conditions

During the year, private equity funds continued to raise and invest capital at historically high rates. Fundraising rose to $149 billion in 2006 from $111 billion in 2005, and deal volume increased to $680 billion from $272 billion. Private equity accounted for 21% of mergers and acquisitions in 2006, five times the level in 2000.

Two major factors fueled this growth: Private equity outperformed public markets, and global liquidity provided an abundance of cheap debt. Total debt levels reached 7.1 times cash flow in 2006, up from 4.6 times in 2001. This drove the purchase price of companies, or total enterprise values, to 8.6 times cash flow. In contrast, large-cap public equity was trading at relatively inexpensive price-to-earnings multiples when compared to the last run-up in debt levels in 2000. Accordingly, a significant number of public companies engaged in private equity transactions in an effort to arbitrage that spread.

Florida Retirement System Pension Plan

The Florida Retirement System Trust Fund holds all assets of the FRS Pension Plan, the defined benefit option within the two-plan FRS system. The FRS Trust Fund is the single largest investment mandate assigned to the SBA, accounting for 74.1% of total assets under SBA management in the fiscal year ending June 30, 2007.

For the fiscal year, the investment return for the FRS Pension Plan was 18.07%, which exceeded the investment benchmark by 22 basis points, adding $291 million in value. This contributed strongly to the FRS Pension Plan remaining fully funded with a surplus, unlike most public pension plans in the U.S.

It was the 14th year in the past 20 that the return exceeded the SBA's long-term performance objective (currently 5.0% over the rate of inflation), which is the rate of return necessary to maintain the Plan's funded status and to reasonably control plan costs, assuming the Legislature makes the actuarially required contributions.

Reflecting these investment results, the net asset value of FRS Pension Plan assets rose 15.1% to $136.3 billion from $118.4 billion at the end of the prior year, despite net cash outflow of $3.2 billion in pension benefit payments. The gross outflow for benefit payments was $5.9 billion for the year, which was offset by employer contributions of $2.7 billion. Chart 3 shows the breakdown of Pension Plan assets across the various asset classes as of June 30, 2007. Table 8 lists the change in net asset value over the year, by asset class.

Net investment returns (actual earnings) and value-added returns (net returns relative to a market-based benchmark) are shown for the total FRS portfolio as well as other SBA investment portfolios in Tables 3 and 4, respectively. A breakdown of returns by asset class is shown in Tables A and B in the front section of this report. 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.

Chart 4.1 illustrates the relative strength of each asset class over the past year. The strongest performing asset classes were Foreign Equities, Global Equities and Domestic Equities, in that order. Due to rising interest rates, returns to Fixed Income were only slightly better than the Cash return.

Chart 3: FRS Pension Plan Assets by Type
$136.3 billion as of June 30, 2007

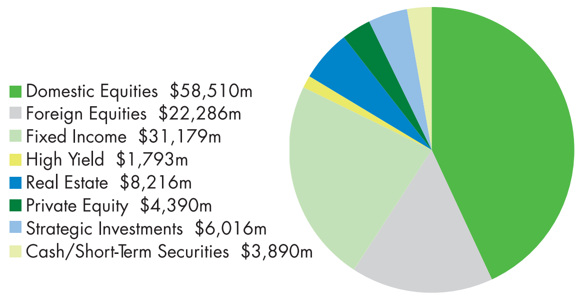
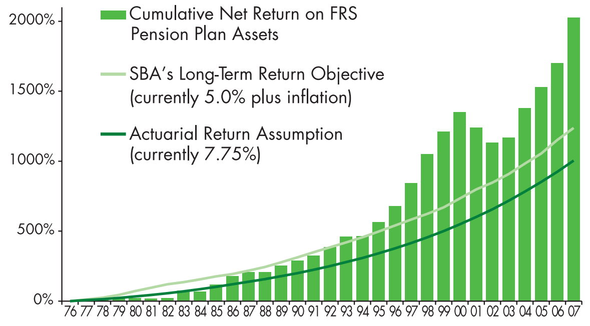
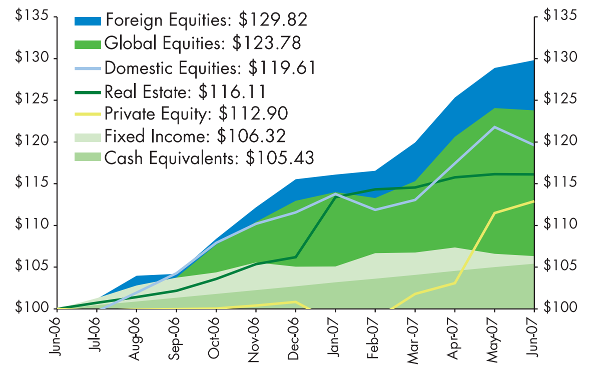


Chart 4: Cumulative Performance History
Fiscal Years 1976 through 2007



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

Chart 4.1: Asset Class Net Investment Gains
Growth of $100 Invested During FY 2006-07



The investment strategy for the FRS portfolio is to implement the policy allocation within relatively narrow bands in 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.

Significant changes were made to the FRS investment policy during the year. Following an in-depth asset-liability study, the SBA concluded that total fund risk could be reduced without compromising attainment of the long-term investment objective. This was accomplished by reductions in exposure to Domestic Equities and to Private Equity of 12 and 1 percentage points, respectively. This was offset somewhat by increases in exposure to foreign stocks and fixed income instruments of 4 and 9 percentage points, respectively. Collectively, these changes are expected to modestly reduce the Fund's compound annual return by 22 basis points while significantly lowering annual risk by 119 basis points.

Chart 5 illustrates the extent to which actual exposures deviated from target levels during the year. On balance, the net effect of these over- and underweights contributed 46 basis points to the value added of the total Pension Plan portfolio for the year. Contributions over longer periods are shown in the row titled "Asset Allocation" in Table B in the front section of this report.

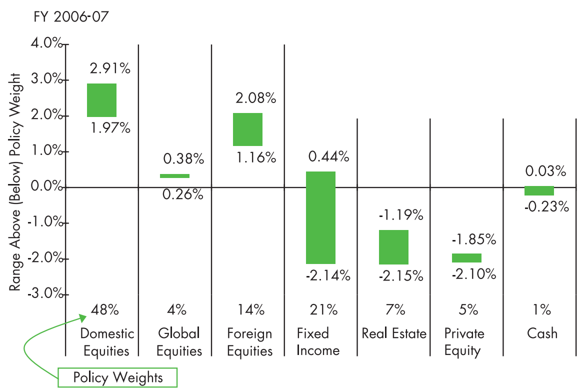
Managing external cash flows (i.e., providing sufficient and timely liquidity for payment of retirement benefits) is an important part of the SBA's asset management responsibilities. This task has become more challenging in recent years as employer contribution levels have fallen and new programs such as the Deferred Retirement Option Program and the FRS Investment Plan have added new and erratic demands for liquidity. Nonetheless, the SBA has a robust cash management system in place for monitoring and meeting these needs as they arise.

Domestic Equities Investment Performance

The Domestic Equities asset class, comprised of U.S. stocks, was valued at more than $58.5 billion

Chart 5: FRS Pension Plan Asset Allocation

Range of Monthly Exposures Relative to Policy Weights



Note: This data represents the period July 2006 through May 2007. In June 2007, a variety of changes were made to the asset allocation including revisions to the policy weights, establishment of two new asset classes (High Yield and Strategic Investments) and elimination of Global Equities as a separate asset class.

Chart 6: Annual Change in Total Fund Value by Source

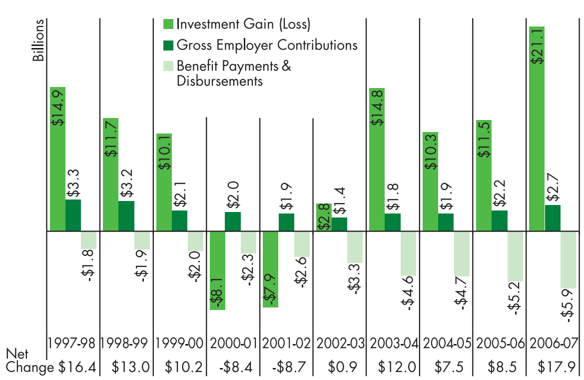


Table 8: FRS Pension Plan Change in Net Asset Value

Fiscal Year 2006-07

	Net Asset Value [4] 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value [4] 6/30/07
Domestic Equities	$59,657,771,773	$(12,701,110,839)	$11,553,608,533	$58,510,269,467
Global Equities	5,065,077,290	(6,254,260,832)	1,189,183,542	0
Foreign Equities [1]	17,936,671,894	(856,699,998)	5,206,026,848	22,285,998,744
Fixed Income	25,205,400,545	4,342,804,473	1,630,385,431	31,178,590,449
High Yield	0	1,822,105,703	(29,190,445)	1,792,915,258
Real Estate	5,850,989,421	1,339,690,589	1,025,461,088	8,216,141,098
Private Equity [2]	3,643,811,949	250,000,000	496,590,114	4,390,402,063
Strategic Investments	0	6,029,110,830	(13,075,029)	6,016,035,801
Cash/Short-Term Securities [3]	995,208,307	2,831,351,918	63,631,406	3,890,191,631
Total FRS Pension Plan	**$118,354,931,178**	**$(3,197,008,156)**	**$21,122,621,488**	**$136,280,544,510**

1 The International Equities asset class name changed to Foreign Equities, effective June 1, 2007.
2 The Alternative Investments asset class name changed to Private Equity, effective June 1, 2007.
3 The investment gain (loss) reported for the Cash/Short-Term Securities includes $18,772,890 in SBA investment service charges and $3,141,296 in bank fees paid out of the Total Central Cash/Short-Term portfolio on behalf of the entire FRS Pension Plan. Excluding these expenses, the investment gain (loss) reported would have been $85,545,592, which reflects actual investment returns.
4 Total may not foot due to rounding.

on June 30, 2007, accounting for almost 43% of the total FRS Pension Plan portfolio.

The asset class produced a solid return of 19.61% for the fiscal year but trailed the benchmark Russell 3000 Index by 46 basis points. Returns from the passive portion of the portfolio were strong, but results from the active portfolio were disappointing.

Overall, the asset class was broadly diversified across 20 active strategies and three passive portfolios, with the passive portion comprising more than 71% of the total. The asset class reflected a target neutral mix of growth, value and small- and large-capitalization strategies.

During the fiscal year, three dedicated value managers were added to the lineup of active small-cap managers. The addition completed the SBA's initiative to diversify the roster of active small-cap managers to enhance our ability to pursue potential investment opportunities in this area of the U.S. equity market.

Within the small-cap core segment of the active portfolio, the SBA completed research and funded an internally managed quantitative strategy to provide a platform for staff development and a clearer perspective on externally managed active strategies.

In the large-cap value portfolio, a manager was terminated for process and performance reasons while two others were retained.

Most of the shortfall in active investments occurred in the third quarter of 2006, when active strategies across the spectrums of large/small and growth/value performed poorly. Both fundamental and quantitative managers cited a market that failed to reward stocks with attractive valuations and solid fundamentals. For the balance of the fiscal year, the performance of active investments was more in line with the benchmark.

The aggregate passive portfolio surpassed the benchmark by 18 basis points for the fiscal year. Three factors helped to generate the strong return: the portfolios were carefully managed to closely reflect underlying index activity; litigation proceeds were reinvested; and, most significantly, trades associated with index reconstitutions were successfully implemented.

The performance of non-FRS passive investments, the commingled Russell 3000 ex-Tobacco and the LCEF Russell 1000 ex-Tobacco Fund, closely mirrored that of the FRS passive portfolios.

In August 2006, a second active small-cap manager was added to the roster of the Lawton Chiles Endowment Fund, bringing the total number of active strategies to three. The performance of the three strategies, each invested by incumbent FRS managers, trailed their respective benchmarks, closely approximating their results for the FRS.

Global & Foreign Equities Investment Performance

The Global Equities and Foreign Equities asset classes returned 23.8% and 29.8%, respectively.[2]

Table 9: FRS Pension Plan Domestic Equities – Change in Net Asset Value by Manager

Fiscal Year 2006-07

Account Name	Net Asset Value 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/07
- Alamo	$322,603,845	$(25,854,064)	$51,457,758	$348,207,539
- AQR Capital Management	198,819,663	0	29,382,638	228,202,301
- Aronson & Partners	2,639,645,628	(1,175,681,883)	399,061,652	1,863,025,397
- Avatar R1000 Index Fund	16,448,634,933	(4,431,796,886)	3,452,339,552	15,469,177,599
- Barclays Global Inv. Russell 2000 Alpha Tilts [2]	0	(2,648)	2,648	0
- Barclays Global Inv. R1000 Alpha Tilts	1,060,693,104	540,491,960	263,586,560	1,864,771,624
- Batterymarch Financial Management	297,271,296	(141,632,531)	39,499,759	195,138,524
- Cortina Asset Management	144,936,509	0	24,238,641	169,175,150
- Delaware Investments	1,086,475,872	0	106,611,941	1,193,087,813
- Delta [1]	0	50,000,003	643,654	50,643,657
- Domestic Equity Policy Transition [1]	0	(40,655,340)	40,697,796	42,456
- Domestic Equity Restructuring Account	78,585	57,677,986	(57,511,640)	244,931
- Earnest Partners	279,989,984	(81,253,197)	37,564,487	236,301,274
- Enhanced Investment Technologies, Inc.	2,129,215,235	0	397,693,982	2,526,909,217
- Fisher Investments [1]	0	131,896,199	36,757,114	168,653,313
- Goldman, Sachs & Company [2]	0	(21,054)	21,054	0
- Jacobs Levy Equity Management	1,209,743,463	0	221,787,909	1,431,531,372
- Loomis Sayles & Company LLP	1,562,147,825	0	237,317,199	1,799,465,024
- PanAgora Asset Management	352,251,574	(60,933,070)	48,746,234	340,064,738
- Phoenix Portfolio	26,538,464,116	(5,938,932,210)	5,327,470,887	25,927,002,793
- Private Capital Management	1,227,680,483	(335,718,206)	179,685,956	1,071,648,233
- Quantitative Management Associates	1,405,411,993	0	315,419,744	1,720,831,737
- Renaissance Investment Management	196,207,713	0	12,985,284	209,192,997
- Riversource [2, 3]	136,022,847	(128,320,579)	(7,702,268)	0
- Smith Asset Management Group	874,351,539	0	136,079,476	1,010,431,015
- Turner Investment Partners	452,284,946	(259,993,640)	48,177,668	240,468,974
- Tygh Capital Management	178,735,735	0	33,150,378	211,886,113
- Vaughan Nelson Investment Management	191,054,579	0	36,878,393	227,932,972
- Wellington Management Company	725,050,306	(860,381,679)	141,564,077	6,232,704
Total Domestic Equities	**$59,657,771,773**	**$(12,701,110,839)**	**$11,553,608,533**	**$58,510,269,467**

[1] Account opened during the fiscal year.
[2] Account closed during the fiscal year.
[3] Name changed from Transition Account to Riversource.

[2] Global equity performance is for the 12 months ending May 31, 2007, the date the Global Equities asset class was terminated. (A global equity strategy is now a component of the Strategic Investments asset class.)

Table 10: FRS Pension Plan Foreign Equities[4] – Change in Net Asset Value by Manager

Fiscal Year 2006-07

Account Name	Net Asset Value 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/07
Developed Markets:				
- Aberdeen Asset Management	$109,643,765	$41,000,000	$60,044,659	$210,688,424
- Artisan Partners	1,218,140,886	(57,100,000)	310,710,593	1,471,751,479
- Barclays Global Inv. Index Plus	851,863,997	0	238,578,930	1,090,442,927
- Barclays Global Inv. World Ex-US	4,549,628,045	(355,000,000)	1,207,356,102	5,401,984,147
- Barclays Global Inv. World Ex-US Alpha Tilts	2,346,025,754	0	665,790,411	3,011,816,165
- Capital Guardian Trust Company	1,130,551,779	(251,300,000)	251,133,341	1,130,385,120
- Foreign Equity Internal Active [4]	107,031,683	(20,000,000)	26,810,916	113,842,599
- Foreign Equity Market Exposure [4]	9,238,364	(1,965,268)	2,090,092	9,363,188
- Morgan Stanley Investment Management [3]	1,124,526,258	(85,600,000)	273,701,531	1,312,627,789
- New Star Institutional Asset Management	927,319,025	(50,800,000)	247,387,913	1,123,906,938
- Putnam Investments [2]	11,909	(24,063)	12,154	0
- Pyramis Global Advisors [3]	950,021,877	(86,200,000)	222,630,332	1,086,452,209
- Sprucegrove Investment Management	1,092,441,846	0	323,275,903	1,415,717,749
- Templeton Investment Counsel	1,279,779,653	(91,100,000)	425,759,034	1,614,438,687
Emerging Markets:				
-Acadian Asset Mgt Inc.	473,605,580	0	193,053,153	666,658,733
- EM Market Exposure	117,355	58,740,982	19,340,682	78,199,019
- Genesis Emerging Markets	474,756,969	113,000,000	208,130,046	795,887,015
- JP Morgan Asset Management	411,869,894	(490,635,710)	78,837,593	71,777
- Mondrian Investment Partners Ltd.	395,317,121	0	172,004,595	567,321,716
- SSGA Daily Active Emerging Markets	484,591,856	0	221,803,915	706,395,771
- Trilogy [1]	0	420,294,728	57,393,896	477,688,624
Other Foreign Equities:				
- Foreign Equity Cash [4]	94,255	29,425	216,911	340,591
- Foreign Equity Asset Allocation Portfolio [4]	94,023	(40,092)	(35,854)	18,077
Total Foreign Equities	**$17,936,671,894**	**$(856,699,998)**	**$5,206,026,848**	**$22,285,998,744**

1 Account opened during the fiscal year.
2 Account closed during the fiscal year.
3 The name Morgan Stanley Asset Management was changed to Morgan Stanley Investment Management. Also, Fidelity Investments changed their name to Pyramis Global Advisors.
4 The asset class name changed from International Equities to Foreign Equities effective June 1, 2007. Relevant internally managed portfolio names were also updated to reflect this change.

Table 11: FRS Pension Plan Global Equities – Change in Net Asset Value by Manager

Fiscal Year 2006-07

Account Name	Net Asset Value 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/07
- Acadian Asset Management [2]	$486,225,523	$(621,729,696)	$135,504,173	$0
- Bank of Ireland Asset Management [2]	3,893,309	(3,905,043)	11,734	0
- Fisher Investments, Inc. [2]	514,638,786	(630,629,413)	115,990,627	0
- FTI Institutional [2]	839,590,268	(1,103,062,187)	263,471,919	0
- Global Equity Cash Account [2]	21,154	(45,446)	24,292	0
- McLean Budden [2]	1,078,127,892	(1,316,533,524)	238,405,632	0
- Putnam Advisory Company, LLC [1]	356	(358)	2	0
- Trilogy Global Advisors [2]	468,832,603	(578,590,692)	109,758,089	0
- UBS Global Asset Management [2]	1,080,896,332	(1,318,348,489)	237,452,157	0
- Walter Scott & Partners, Ltd. [2]	592,851,067	(681,415,984)	88,564,917	0
Total Global Equities	**$5,065,077,290**	**$(6,254,260,832)**	**$1,189,183,542**	**$0**

1 Account closed during the fiscal year.
2 Account was managed under the Global Equities asset class through May 31, 2007. On June 1, 2007, it was transferred to the Strategic Investments asset class.

Despite strong absolute returns, Global Equities struggled to keep pace with its benchmark while Foreign Equities modestly outperformed its benchmark.

Global equity managers found the investment environment challenging, but two of the SBA's global equity managers, Templeton and Acadian, bucked the trend. Templeton, the best-performing manager, benefited from superior stock selection in almost every sector and a heavy overweight to telecommunications, one of the top-performing sectors. Acadian, a quantitatively-driven manager, benefited from stock selection in the U.S. and a combination of market positioning and stock selection in Germany, Japan and Turkey. Overall, being underweight the United States and Japan, coupled with good stock selection, added value.

Unfortunately, two other global equity managers underperformed. Walter Scott lagged the benchmark due to a large overweight to Japan and stock selection. UBS had an underweight position in material stocks, one of the better performing sectors, and its stock selections in consumer staples, financials, industrials and telecommunications lowered value.

Within Foreign Equities, the developed active component added value, driving the aggregate's modest outperformance. Representing about 60% of public market foreign equity investments, developed active managers surpassed the benchmark by 89 basis points.

The best relative performance came from investment managers Templeton and Sprucegrove. Consistent with its performance in the global equity aggregate, Templeton demonstrated superior stock selection to add considerable value. Its stock selection in industrials, telecommunications, consumer discretionary, and energy, coupled with an underweight position in energy, benefited the portfolio. Geographically, a large underweight to Japan, the worst-performing developed market country, helped performance. Sprucegrove benefited from an overweight to emerging markets and from an underweight to Japan. Its stock selection in telecommunications, financials and materials added value.

The emerging market component of Foreign Equities produced a strong absolute return of 42.4% but lagged the benchmark by 263 basis points. One bright spot among the SBA's emerging market managers was Aberdeen, which was hired just over a year ago. Aberdeen benefited from large overweights to India and Latin America, markets that were up over 60%, and a large underweight to Russia, which trailed most other emerging markets.

Fixed Income Investment Performance

Returns in the Fixed Income asset class increased sharply from the prior year, reflecting the end of Fed rate increases and the impact of modestly lower interest rates which improved bond prices.

As of June 30, 2007, the asset class was valued at approximately $31.2 billion, accounting for 22.9% of the total FRS Pension Plan portfolio. Overall, the Fixed Income asset class produced a 6.32% total return for the year, up from 0.02% a year earlier. However, Fixed Income's return underperformed the benchmark by 21 basis points. Actively managed portfolios returned 6.34% for the year, underperforming their performance benchmark by 25 basis points. Passively managed portfolios returned 6.21%, surpassing their benchmark return of 6.12%.

For all but the last month of the fiscal year, the asset class was benchmarked to the Fixed Income Management Aggregate target, a market-weighted blend of the Lehman Aggregate Bond Index and the Merrill Lynch High Yield, B/BB Cash Pay Rated Index. As of June 1, 2007, High Yield was removed from Fixed Income and placed into its own asset class and, subsequently, the benchmark for Fixed Income was changed to the Lehman Aggregate Bond Index.

The three major sectors of the fixed income benchmark produced varying returns during the fiscal year. The leading sector was high yield, which returned 10.31% for the year as corporations reported strong earnings and corporate default rates were low. The Lehman Mortgage-Backed Securities (MBS) Index had a 6.39% total return, and the Lehman Aggregate less Mortgages (ex-MBS) Index had the weakest performance, with a return of 5.97% for the year.

Table 12: FRS Pension Plan Fixed Income – Change in Net Asset Value by Manager
Fiscal Year 2006-07

Account Name	Net Asset Value 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/07
Aggregate:				
- BlackRock	$3,619,430,846	$0	$210,991,444	$3,830,422,290
- Fixed Income Transition Account [1]	0	7,058,310,176	53,782,561	7,112,092,737
Government/Corporate:				
- Active Core Portfolio	9,201,282,278	(424,000,000)	532,818,826	9,310,101,104
- Fixed Income Gov't./Corp. Passive Account	3,458,715,501	(717,700,000)	202,864,882	2,943,880,383
- Taplin, Canida & Habacht	253,342,659	(10,000,000)	16,300,806	259,643,465
High Yield:				
- High Yield Asset Allocation [2,4]	1,410,666	(1,953,397)	542,731	0
- High Yield Active Synthetic [3,4]	421,119,869	(457,248,955)	36,129,086	0
- Lehman Brothers High Yield [4]	275,053,460	(310,680,629)	35,627,169	0
- MacKay Shields, LLC [4]	284,054,893	(317,937,465)	33,882,572	0
- Post Advisory Group [4]	280,497,801	(314,163,829)	33,666,028	0
- Shenkman Capital Management LLC [4]	458,418,797	(505,121,428)	46,702,631	0
Mortgage:				
- MBS Active Synthetic	105,854,710	389,000,000	2,663,534	497,518,244
- MBS Enhanced Synthetic	685,228,128	(138,400,000)	39,123,858	585,951,986
- Fixed Income Mortgage Passive (Lehman)	1,760,697,716	49,700,000	108,621,836	1,919,019,552
- Lehman Brothers Asset Mgt. LLC	121,653,842	113,000,000	6,829,175	241,483,017
- Smith Breeden Associates	1,436,924,822	230,000,000	90,271,660	1,757,196,482
- Trust Company of the West	1,741,193,962	(400,000,000)	107,303,410	1,448,497,372
- Utendahl Capital Management	662,500,885	0	44,605,626	707,106,511
- Wellington Management Company	438,019,710	100,000,000	27,657,596	565,677,306
Total Fixed Income	**$25,205,400,545**	**$4,342,804,473**	**$1,630,385,431**	**$31,178,590,449**

[1] Account opened during the fiscal year.
[2] Name changed from High Yield Active Synthetic to High Yield Asset Allocation.
[3] Name changed from High Yield Passive Synthetic to High Yield Active Synthetic.
[4] Account was managed under the Fixed Income asset class through May 31, 2007. On June 1, 2007, it was transferred to the High Yield asset class.

Table 13: FRS Pension Plan High Yield – Change in Net Asset Value by Manager
Fiscal Year 2006-07

Account Name	Net Asset Value 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/07
- High Yield Asset Allocation [1]	$0	$953,397	$206,785	$1,160,182
- High Yield Active Synthetic [1]	0	397,248,955	(6,268,479)	390,980,476
- Lehman Brothers High Yield [1]	0	342,680,629	(6,809,098)	335,871,531
- MacKay Shields, LLC [1]	0	328,937,465	(3,892,168)	325,045,297
- Post Advisory Group [1]	0	347,163,829	(5,252,525)	341,911,304
- Shenkman Capital Management LLC [1]	0	405,121,428	(7,174,960)	397,946,468
Total High Yield	**$0**	**$1,822,105,703**	**$(29,190,445)**	**$1,792,915,258**

[1] Account was managed under the Fixed Income asset class through May 31, 2007. On June 1, 2007, it was transferred to the High Yield asset class.

As of June 30, 2007, the High Yield managers underperformed their benchmark by 63 basis points.[3] Their performance reflected a more defensive position relative to the index, underweighting high yield bonds in general and longer maturity bonds specifically.

As of June 30, 2007, the portfolios actively managed against the Lehman Aggregate ex-MBS Index underperformed the index by 21 basis points. The primary reason for the underperformance was an underweight to corporate bonds overall, with an underweight to lower rated bonds within the corporate universe. The strategy reflected the view that investors were not being duly compensated for owning corporate bonds relative to the risk inherent in such investments. The active mortgage managers underperformed their benchmark by 13 basis points due to the sensitivity of these instruments to changes in interest rates. The only portfolio benchmarked against the Lehman Aggregate Bond Index returned 5.83% for the year but fell short of the index return of 6.12%.

Real Estate Investment Performance

The SBA's Real Estate asset class generated a strong total return of 16.11% for the fiscal year as the market value of its investments rose to $8.22 billion from $5.85 billion a year earlier. $1.03 billion of the rise was due to investment gains, and the balance of $1.34 billion represents increased exposure.

The asset class is made up of directly owned assets (including office buildings, apartment communities, shopping centers and warehouse/distribution facilities), commingled funds, and publicly traded securities (mostly Real Estate Investment Trusts).

The direct-owned portfolio's total return was 17.16% for the year. Commingled fund investments produced a total return of 15.24% and public securities returned a total of 11.82% for the year. Real estate assets generally rose in value aided by strong market fundamentals, resulting in high occupancies and rent growth.

During the year, the SBA acquired five apartment communities. They consist of 2,329 rental apartment units located in five states. The SBA's equity investment was $135.4 million. The SBA also acquired 21 retail shopping centers containing a total of 3,577,000 square feet located in nine states at an equity cost of $322.8 million. This reporting period, the SBA joint ventured with a nationally respected congregate care investor and, through an equity investment of $78.3 million, acquired a majority interest in 15 congregate care facilities containing a total of 1,904 beds.

Three land parcels located in Atlanta were acquired for $22.4 million in a joint venture. Two of the parcels are currently being developed for rental apartments. The Board obtained financing on three of its apartment property investments, returning $135.0 million. Although primarily in an acquisition mode for the year, one direct-owned property was sold: a 302-unit rental apartment community in Atlanta, for $25.0 million. Also during the year, $150 million of our public real estate investments (i.e., REITs) was reallocated to a new internally managed account.

Overall, significant progress was made in diversifying the portfolio as the SBA continued to implement a three-pronged strategy for real estate, supplementing our core stable value portfolio with value-added assets and high return assets.

Table 14: FRS Pension Plan Real Estate – Change in Net Asset Value by Investment Type
Fiscal Year 2006-07

Account Name	Net Asset Value[1] 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value[1] 6/30/07
- Commingled Funds	$1,349,570,438	$927,341,316	$271,446,272	$2,548,358,026
- Direct-Owned Investments	3,928,737,034	278,974,505	704,372,730	4,912,084,269
- Real Estate Cash	19,522,229	(16,025,143)	1,180,316	4,677,402
- Real Estate Investment Trusts (REITs)	552,659,701	150,000,000	48,311,686	750,971,387
- Real Estate Stock	500,019	(600,089)	150,084	50,014
Total Real Estate	**$5,850,989,421**	**$1,339,690,589**	**$1,025,461,088**	**$8,216,141,098**

[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 arm's-length sales transaction.

Private Equity Investment Performance

The Private Equity asset class had a market value of $4.4 billion at the end of the fiscal year, representing 3.2% of total FRS assets. The asset class had holdings in 65 investment vehicles managed by 39 different external managers. During the year, this asset class committed $1.1 billion to 10 new partnerships and added $242 million to existing investments.

For the year, Private Equity generated a time-weighted return of 12.9% versus the benchmark of 24.6%. Ample market liquidity continued, driven by leveraged buyout partnerships, especially large ones that benefited from cheaper debt; less competition; and the increased issuance of dividends to existing shareholders after adding more debt to the balance sheet. The asset class had a net cash outflow of $54.2 million to general partners for the year. The largest capital call was for Freescale Semiconductor, Inc. Four general partners plus our Co-Investment Program called an aggregate of $65 million from the SBA to acquire the former semiconductor unit of Motorola. Significant distributions included $60 million from Apollo and the Co-Investment Program following the sale of GNC, a nutritional products retailer, and $48 million

[3] This reflects 11 months of performance as a component of the Fixed Income asset class plus one month performance as a new High Yield asset class.

Table 15: FRS Pension Plan Private Equity[2] – Change in Net Asset Value by Manager[3]

Fiscal Year 2006-07

Account Name	Net Asset Value 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/07
- 3i Eurofund V, L.P. [1]	$0	$8,653,581	$(954,042)	$7,699,539
- Apollo Investment Fund IV, L.P.	164,697,778	(62,990,722)	(6,462,156)	95,244,900
- Apollo Investment Fund V, L.P.	120,160,811	(68,886,688)	61,197,807	112,471,930
- Apollo Investment Fund VI, L.P.	554,506	70,675,892	5,270,098	76,500,496
- Blackstone Capital Partners V, L.P.	9,917,529	27,093,066	(464,946)	36,545,649
- Carlyle Partners Europe III, L.P. [1]	0	1,002	1	1,003
- Carlyle Partners II	26,847,276	(5,266,561)	6,072,356	27,653,071
- Carlyle Partners III , L.P.	259,508,636	(167,769,943)	5,454,959	97,193,652
- Carlyle Partners IV, L.P.	30,821,186	18,381,622	9,276,482	58,479,290
- Centre Capital Investments II	55,719,128	(15,617,375)	9,747,419	49,849,172
- Chartwell Capital Investors II, L.P.	61,732,054	(35,034,526)	(664,280)	26,033,248
- Cypress Equity Fund	9,265,007	(1,726,760)	925,569	8,463,816
- Fairview Ventures Fund II, L.P.	10,262,386	9,403,325	438,276	20,103,987
- Fairview Ventures Fund III, L.P.	487,536	1,666,133	(864,713)	1,288,956
- First Reserve Fund XI, L.P. [1]	0	8,385,348	(568,914)	7,816,434
- Freeman Spogli (FS) Partners V, L.P.	14,295,104	9,026,380	9,491,832	32,813,316
- Goldman Sachs Distressed Opportunities, L.P.	97,322,805	20,846,271	9,048,994	127,218,070
- Gores Capital Partners, L.P.	32,849,436	(4,586,741)	9,598,904	37,861,599
- Green Equity Investors III, L.P.	34,275,815	(26,481,807)	7,389,044	15,183,052
- Green Equity Investors IV, L.P.	51,847,081	35,592,733	2,844,248	90,284,062
- Green Equity Investors V, L.P. [1]	0	14,009	0	14,009
- Grove Street Partners LLC	23,913,357	27,700,460	(1,367,401)	50,246,416
- Grove Street Partners Buyouts LLC [1]	0	15,300,545	(1,904,653)	13,395,892
- Hellman & Friedman Capital Partners V, L.P.	43,906,870	12,860,993	33,023,852	89,791,715
- Hellman & Friedman Capital Partners VI, L.P. [1]	0	17,390,350	(1,282,843)	16,107,507
- Hicks, Muse, Tate & Furst III, L.P.	32,936,958	(361,388)	14,563,848	47,139,418
- Hicks, Muse, Tate & Furst Fund IV, L.P.	49,028,585	(26,881,988)	3,565,699	25,712,296
- Hicks, Muse, Tate & Furst Fund V, L.P.	19,695,496	(13,091,186)	4,863,536	11,467,846
- Kelso Investment Associates VII, L.P.	21,864,641	7,045,355	24,759,661	53,669,657
- Kohlberg Investors V, L.P.	15,539,644	18,164,001	(48,218)	33,655,427
- Lexington Capital Partners IV, L.P.	111,886,896	(65,588,804)	35,937,023	82,235,115
- Lexington Capital Partners V, L.P.	70,144,297	(22,636,890)	11,075,782	58,583,189
- Lexington Capital Partners VI-B, L.P.	2,767,508	17,836,827	2,344,136	22,948,471
- Lexington Co-Investment Partners (Pools I & II), L.P.	58,396,126	(35,766,436)	26,355,638	48,985,328
- Lexington Co-Investment Partners II (Pools III & IV), L.P.	458,952,757	(240,999,354)	218,262,746	436,216,149
- Lexington Co-Investment Partners 2005, L.P.	40,736,420	148,664,427	3,979,980	193,380,827
- Liberty Partners I	2,579,716	0	0	2,579,716
- Liberty Partners II	50,421,331	(26,052,601)	5,136,461	29,505,191
- Liberty Partners III	242,946,052	3,729,062	(41,546,306)	205,128,808
- Liberty Partners IV	1,935,388	(1,277,904)	209,051	866,535
- Liberty Partners V	144,717,199	803,754	(8,413,107)	137,107,846
- Liberty Partners VI	533,375,262	33,655,228	(47,351,896)	519,678,594
- Liberty Partners VII	50,963,920	140,505,899	(2,809,300)	188,660,519
- Lindsay Goldberg & Bessemer II, L.P. [1]	0	25,653,659	(1,076,369)	24,577,290
- New Mountain Partners II, L.P.	10,692,304	18,462,053	8,413,984	37,568,341
- Pantheon Venture Partners II, L.P.	10,619,183	12,500,000	18,413	23,137,596
- Paul Capital Top Tier Investments II, L.P.	54,712,525	13,720,712	2,206,058	70,639,295
- Paul Capital Top Tier Investments III, L.P.	3,147,134	15,459,863	(158,410)	18,448,587
- PCG Special Situation Partners, L.P.	135,730,014	(5,261,709)	17,903,763	148,372,068
- Permira IV, L.P. [1]	0	17,232,185	(342,795)	16,889,390
- Platinum Equity Capital Partners, L.P.	20,869,182	(16,017,136)	25,171,398	30,023,444
- Pomona Capital VI, L.P.	10,045,038	12,987,705	605,621	23,638,364
- Private Equity Cash	66,247,027	192,031,985	5,237,290	263,516,302
- Providence Equity Partners VI, L.P. [1]	0	6,794,045	(289,455)	6,504,590
- RCP Advisors Fund IV, L.P. [1]	0	7,540,540	(945,417)	6,595,123
- Ripplewood Partners I, L.P.	52,764,619	(42,368,134)	13,540,009	23,936,494
- Ripplewood Partners II, L.P.	30,796,374	30,036,937	(1,188,539)	59,644,772

(continued on pg. 38)

(continued from pg. 37)

Table 15: FRS Pension Plan Private Equity[2] – Change in Net Asset Value by Manager[3]
Fiscal Year 2006-07

Account Name	Net Asset Value 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/07
- Special Situation Partners II, L.P. [1]	0	46,693,264	0	46,693,264
- Thoma Cressey Fund VIII L.P.	2,828,917	17,250,000	(683,836)	19,395,081
- Thomas H. Lee Equity Fund IV, L.P.	22,845,752	(6,553,595)	(1,455,464)	14,836,693
- Thomas H. Lee Equity Fund V, L.P.	52,755,028	(12,385,030)	(858,206)	39,511,792
- Thomas H. Lee Equity Fund VI, L.P. [1]	0	22,085,511	(3,070,169)	19,015,342
- TowerBrook Capital Partners, L.P.	7,799,441	27,719,267	(827,585)	34,691,123
- TPG Partners IV, L.P.	37,464,780	2,848,192	13,050,550	53,363,522
- TPG Partners V, L.P.	788,928	27,068,641	238,861	28,096,430
- TSG Capital Fund III, L.P.	6,671,775	0	(1,895,162)	4,776,613
- Warburg Pincus Private Equity IX, L.P.	21,737,884	25,034,906	3,540,631	50,313,421
- Wellspring Capital Partners III, L.P.	35,583,211	(12,142,914)	12,968,200	36,408,497
- Wellspring Capital Partners IV, L.P.	5,328,268	10,837,500	(1,834,217)	14,331,551
- Willis, Stein & Partners II, L.P.	10,155,933	(5,529,490)	721,022	5,347,465
- Willis, Stein & Partners III, L.P.	86,956,135	(14,077,546)	1,469,311	74,347,900
Total Private Equity	**$3,643,811,949**	**$250,000,000**	**$496,590,114**	**$4,390,402,063**

[1] Account opened during the fiscal year.
[2] The asset class name changed from Alternative Investments to Private Equity effective June 1, 2007.
[3] Private Equity net asset values are an estimate of value which may or may not represent the values which would be reflected by an actual arm's-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.

Table 16: FRS Pension Plan Strategic Investments – Change in Net Asset Value by Manager
Fiscal Year 2006-07

Account Name	Net Asset Value 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/07
- Acadian Asset Management [2]	$0	$621,729,696	$(1,695,143)	$620,034,553
- Bank of Ireland Asset Management [2]	0	10,291	563	10,854
- Blackstone [1]	0	4,650,000	(259,500)	4,390,500
- Fisher Investments, Inc. [2]	0	616,429,413	2,503,664	618,933,077
- FTI Institutional [2]	0	1,046,562,186	(3,832,014)	1,042,730,172
- McLean Budden [2]	0	1,276,213,465	(4,768,186)	1,271,445,279
- Strategic Investments Cash Account [2,3]	0	260,614	935	261,549
- Trilogy Global Advisors [2]	0	578,590,692	(2,908,501)	575,682,191
- UBS Global Asset Management [2]	0	1,238,248,489	(9,561,811)	1,228,686,678
- Walter Scott & Partners, Ltd. [2]	0	646,415,984	7,444,964	653,860,948
Total Strategic Investments	**$0**	**$6,029,110,830**	**$(13,075,029)**	**$6,016,035,801**

[1] Account opened during the fiscal year.
[2] Account was managed under the Global Equities asset class through May 31, 2007. On June 1, 2007, it was transferred to the Strategic Investments asset class.
[3] Name was changed from Global Equities Cash Account to Strategic Investments Cash Account.

Table 17: FRS Pension Plan Miscellaneous Portfolio Assets – Change in Net Asset Value
Fiscal Year 2006-07

Account Name	Net Asset Value 6/30/06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/07
Total Central Cash/Short-Term [1]	**$995,208,307**	**$2,831,351,918**	**$63,631,406**	**$3,890,191,631**

[1] The investment gain (loss) reported for the Total Central Cash/Short-Term portfolio includes $18,772,890 in SBA investment service charges and $3,141,296 in bank fees that were paid out of this portfolio on behalf of the entire Florida Retirement System Trust Fund. Excluding these expenses, the investment gain (loss) reported would have been $85,545,592, which reflects actual investment returns.

from our Co-Investment Program following the sale of Ameripath, a leading provider of anatomic pathology and molecular diagnostics.

Since the SBA's first private equity investment was made in 1989, the overall dollar-weighted return has been 9%. This lags the asset class's benchmark by 388 basis points. Private equity investments were made within the Domestic Equities asset class prior to November 1999. Subsequently, a stand-alone

SBA contracts with private equity partnerships require the following disclosure:

- Because of the long-term nature of investing in private equity, 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 a potential understatement of ultimate value.
- Due to numerous factors, including the lack of standardized valuation and reporting standards, the return information for Private Equity 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.
- Interim returns may not be meaningful or indicative of ultimate performance during the early stages of the investment life cycle.

Private Equity asset class was created and provided with a dedicated staff. Investments committed to since that time have had a dollar-weighted return of 22.2% and have surpassed the benchmark by 598 basis points.

Strategic Investments Investment Performance

The Strategic Investments asset class was authorized for funding effective June 1, 2007. On that date, the SBA's set of global equity portfolios was transferred to this asset class. The portfolio composition of Strategic Investments as of June 30, 2007 is shown in the last column of Table 16. As the asset class matures, it is anticipated that it will contain a diversified set of investment types and strategies.

Cash/Short-Term Investment Performance

The performance measurement of Cash pertains only to the Cash and Central Custody Account, which was valued at $3.89 billion on June 30, 2007. Cash and Central Custody produced a 5.43% total return for the fiscal year, beating its benchmark by 13 basis points. Cash is also held in other asset class portfolios and is reported in the market values and returns for those portfolios.

The SBA's existing infrastructure enables us 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 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 six securities lending agents for FRS assets. Income generated from these programs for the fiscal year was $54 million.

Net income from all FRS Pension Plan securities lending programs for the previous seven years, including fiscal year 2006-07, is shown in Table 18.

Table 18: FRS Pension Plan
Net Security Lending Revenue
by Fiscal Year

2000-01	$45,645,138
2001-02	$49,744,143
2002-03	$34,568,715
2003-04	$34,558,808
2004-05	$38,447,917
2005-06	$50,490,779
2006-07	$54,097,509

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 19 shows investment management fees by asset class for fiscal year 2006-07.

Brokerage commissions are paid for executions of securities orders and on trades of exchange-listed equity investments. Net brokerage commissions for the fiscal year are shown in Table 20 by asset class.

Commissions recaptured are credited to the accounts that generated the dollars. Therefore, the amounts in Table 20 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.

Table 19: FRS Pension Plan
External Investment Management Fees
Fiscal Year 2006-07

Asset Class	Dollar Amount [2]	Return Basis [1,2]
Domestic Equities	$48,702,082	0.29%
Strategic Investments [3]	16,148,758	0.29%
Foreign Equities [4]	47,108,334	0.24%
Fixed Income	6,436,837	0.06%
High Yield [5]	5,284,164	0.39%
Real Estate	31,273,443	0.46%
Private Equity [6]	51,102,163	1.36%
Total	**$206,055,781**	**0.32%**

[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.
[2] In order to calculate an annualized return basis for each asset class, portfolio manager fees for the entire fiscal year are reported within the appropriate year-end asset class.
[3] The Global Equities asset class was eliminated and all portfolios were moved to the new Strategic Investments asset class effective June 1, 2007.
[4] The International Equities asset class name was changed to Foreign Equities effective June 1, 2007.
[5] The High Yield asset class was created June 1, 2007. High Yield portfolios were previously included in the Fixed Income asset class.
[6] The Alternative Investments asset class name was changed to Private Equity effective June 1, 2007.

Table 20: FRS Pension Plan
Net Brokerage Commissions

Asset Class [1]	Dollar Amount [1]
Domestic Equities	$19,606,668
Strategic Investments [2]	4,920,482
Foreign Equities [3]	16,056,817
Fixed Income	402,994
High Yield [4]	1,081
Real Estate	501,704
Total	**$41,489,746**

[1] Brokerage commission amounts for the entire fiscal year are presented in the appropriate year-end asset class.
[2] The Global Equities asset class was eliminated and all portfolios moved to the Strategic Investments asset class effective June 1, 2007.
[3] The International Equities asset class name was changed to Foreign Equities effective June 1, 2007.
[4] The High Yield asset class was created June 1, 2007. High Yield portfolios were previously included in the Fixed Income asset class.

Chart 7: FRS Investment Plan
Asset Allocation by Product Type
$3.69 billion as of June 30, 2007

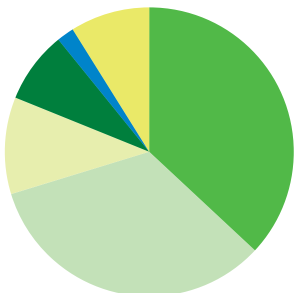
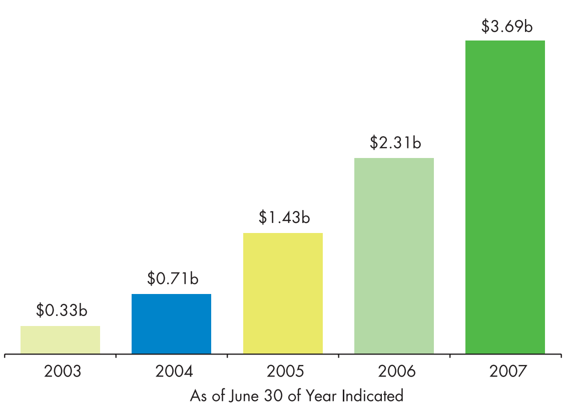


Chart 8: FRS Investment Plan Net Asset Value



Florida Retirement System Investment Plan

Created by the Legislature as a voluntary alternative to the FRS Pension Plan, the FRS Investment Plan, a defined contribution plan, continued its growth trend, with total assets increasing to $3.69 billion by the end of the fiscal year, reflecting higher enrollment and investment performance. Assets rose by $1.38 billion from the prior year.

First offered in fiscal year 2002-03, the FRS Investment Plan is modeled after private sector 401(k) plans. Eligible public sector employees may enroll in the traditional FRS Pension Plan, which offers stable, formula-based retirement benefits, or the alternative FRS Investment Plan. Unlike the FRS Pension Plan, member benefits received from the FRS Investment Plan vary, depending on the individual member's Investment Plan account performance which is based on the investment options selected by the member. The FRS Investment Plan enables members to play an active role in selecting from a diverse set of 20 investment options, including three balanced funds. Vesting in the Investment Plan is one year compared to the Pension Plan's six-year vesting schedule. Distribution options include rollovers, lump sums, periodic distributions and a variety of low-cost fixed, variable and deferred annuities.

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. The FRS Investment Plan is an employer-only funded plan. Active members enrolled in the Plan cannot make personal contributions. Investment Plan members only pay investment management fees.

In the fiscal year ended June 30, 2007, the FRS Investment Plan had 98,070 member accounts, a 30% increase from the previous year. This growth reflected an increase in enrollments, particularly among eligible new hires, and an increasing number of members using their one-time second election to move from the FRS Pension Plan to the FRS Investment Plan. The total includes terminated members who left their balance in the Plan. Overall, approximately 12% of all active FRS-covered members were enrolled in the Investment Plan at fiscal year-end, up 2.2% from a year earlier.

During the year, the FRS Investment Plan received $1.48 billion from employer payroll contributions and benefit transfers from the FRS Pension Plan. Incoming benefit transfers were almost entirely attributable to members using their one-time second election. The balance of the change in Plan assets resulted from financial market gains and losses, and distributions of $492 million in benefits paid to terminated members. Effective July 1, 2005, current and former DROP (Deferred Retirement Option Program) participants of the FRS Pension Plan became eligible to roll over their DROP accumulations into the FRS Investment Plan. For the fiscal year, 390 participants did so, transferring more than $46.0 million into the Plan. Since 2005, the Plan has gained 630 DROP member accounts totaling $69.6 million.

The composite total return for all FRS Investment Plan assets was 16.01%, net of investment management fees, for the fiscal year. The Plan underperformed its performance benchmark by 28 basis points. While some individual funds outperformed their individual benchmarks, only the Foreign/Global Equities asset class as a whole outperformed its aggregate benchmark. These aggregate results reflect the asset allocation and investment fund selections of individual participants.

FRS Investment Plan Asset Allocation

The FRS Investment Plan includes three balanced funds that provide members with low-cost investment options that optimally balance risk, return and cost. At fiscal year-end, more than 77% of the members allocated at least some of their assets to one or more of the three available balanced funds. More than 37% of total plan assets were in the balanced funds, up from 34% the previous year.

Members generally favored asset allocations to U.S. and international stocks, and fixed income funds. They also clearly favored low-cost funds, resulting in a weighted investment management fee of roughly .29% for the FRS Investment Plan.

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, including recordkeeping, asset custody and investments, to the SBA's Executive Director.

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; and
- 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.

For the 2006-07 fiscal year, there were 20 diversified investment funds offered in the Investment Plan, including eleven stock funds (eight domestic and three foreign), four bond funds, a money market fund, a U.S. Treasury Inflation-Protected Securities Fund, and three balanced funds.

Lawton Chiles Endowment Fund

In the fiscal year ending June 30, 2007, the market value of the Lawton Chiles Endowment Fund (LCEF) increased to $2.33 billion from $2.02 billion, reflecting a net investment gain of $349.5 million and withdrawals of $40.9 million. With a total return of 17.37%, the LCEF outperformed its target by 87 basis points for the fiscal year, an exceptionally strong result. Created by the Florida Legislature in 1999, the purpose of the Fund is to invest a portion of the state'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 SBA Trustees.

Florida law specifies that the Lawton Chiles Endowment Fund shall be managed as an annuity, with an investment objective 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.

Chart 9: Lawton Chiles Endowment Assets by Type
$2.33 billion as of June 30, 2007

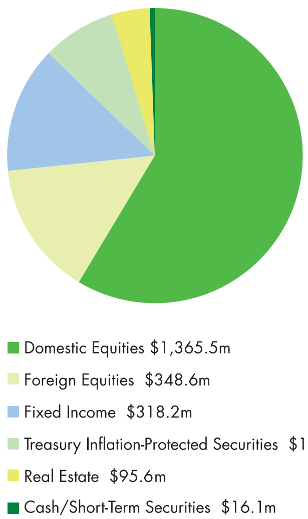
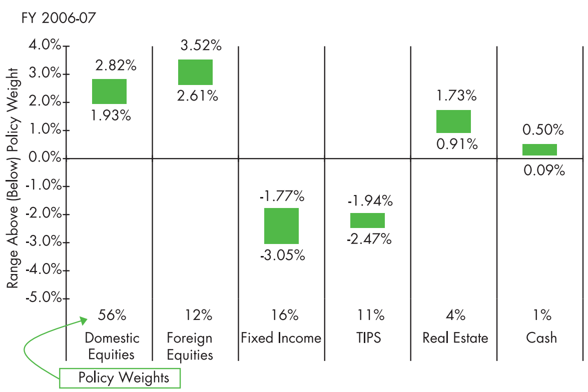


Chart 10: LCEF Capital Preservation Objective
Value of Post-Payout Fund Assets
as a % of Inflation-Adjusted Contributions

Chart 11: Lawton Chiles Endowment Asset Allocation

Range of Monthly Exposures Relative to Policy Weights



Shortly after the LCEF was initially funded, the stock market experienced a severe downturn that eroded the balance of the Endowment and placed attainment of the statutory objective at risk. 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 is based on the prior year inflation-adjusted payout; the remaining 25% is based on a factor designed to increase the probability of preserving the inflation-adjusted value of contributed capital over a 30-year horizon. This past year saw a continuation of an important reversal that occurred the prior year. LCEF asset growth, net of cash outflows, was sufficient to maintain the Fund's net asset value above the value of contributed capital in both nominal and real (inflation-adjusted) terms.

Fund Performance

The short-term 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 Tables 3 and 4, respectively. A breakdown of performance by asset class is shown in Tables A and B in the front portion of this Investment Report.

Chart 11 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 by portfolio are shown in Table 21, together with details on asset growth over the year.

Table 21: Lawton Chiles Endowment Fund Assets Under Management

Market Value Change by Manager

Account Name	Net Asset Value 6-30-06	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6-30-07
Domestic Equities Managers - Internal				
Chiles Domestic Equities Portfolio	$210,777,344	$(12,215,812)	$41,356,494	$239,918,026
Chiles Domestic Equities Trading [1]	0	(25,886)	25,886	0
Chiles Large Cap Index Fund	619,775,634	(9,023,971)	125,062,229	735,813,892
Enhanced Investment Technologies, LLC	257,268,987	(7,003,316)	46,882,964	297,148,635
Earnest Partners Inc.	81,079,763	(38,696,389)	2,722,174	45,105,548
PanAngora Asset Management Inc. [1]	0	38,860,229	8,605,421	47,465,650
Foreign Equities Managers - External [3]				
Barclays Global Investors-MSCI ACWI [2]	29,904	(30,346)	442	0
Capital Guardian	10,655	(10,048)	2,780	3,387
Chiles International Equities Portfolio (Acadian)	307,173,523	(45,959,606)	87,402,574	348,616,491
Fixed Income Managers - Internal				
Chiles Government/Corporate Portfolio [2]	0	132	(132)	0
Chiles Lehman Aggregate	246,304,799	56,610,938	15,272,444	318,188,181
Fixed Income Managers - External				
Chiles Lehman Brothers Asset Mgt LLC [2]	1,282	(597)	(685)	0
Inflation-Indexed Bonds - Internal				
Inflation Linked Treasury	181,717,313	0	7,379,301	189,096,614
Real Estate Managers - External				
Chiles Endowment Real Estate	247	(481)	234	0
AEW Capital Management	52,490,955	(11,749,832)	6,759,521	47,500,644
Invesco Institutional	52,686,992	(11,749,687)	7,116,098	48,053,403
Cash/Short-Term Managers - Internal				
CAMP Money Market Fund	15,203,936	62,186	865,040	16,131,162
Total Lawton Chiles Endowment	**$2,024,521,334**	**$(40,932,486)**	**$349,452,785**	**$2,333,041,633**

[1] Account opened during the fiscal year.
[2] Account closed during the fiscal year.
[3] International Equities asset class name changed to Foreign Equities.

Table 22: Lawton Chiles Endowment Fund External Investment Management Fees

Fiscal Year 2006-07

Asset Class	Dollar Amount	Return Basis[1]
Domestic Equities	$872,697	0.24%
Foreign Equities [2]	742,297	0.23%
Fixed Income	23,259	0.02%
Real Estate	453,045	0.40%
Total	**$2,091,298**	**0.23%**

[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.
[2] International Equities asset class name changed to Foreign Equities.

As of June 30, 2007, the inflation-adjusted value of total contributions to the LCEF was approximately $1.653 billion (in 1999 dollars). The comparable net asset value was $1.862 billion, or $208 million above total contributions. In nominal terms, the Fund's net asset value of $2.333 billion exceeded cumulative gross contributions into the Fund by $632 million.

SBA Investment Pools

The SBA currently operates four open-pool investment funds, including the Local Government Investment Pool (LGIP), the largest local government investment pool in the nation. The other three funds constitute the CAMP, or Commingled Asset Management Program, and are open to non-pension assets of all Florida governmental entities. All four funds operate in essentially the same fashion as mutual funds.

Short-Term Option 1: Local Government Investment Pool (LGIP)

The Local Government Investment Pool is open to all units of local government in Florida. It was established to help local governments maximize earnings on invested surplus funds, thereby reducing the need to impose additional taxes. The SBA has operated the LGIP since January 1982.

As of June 30, 2007, the SBA managed approximately $30.9 billion in the Pool, up 39.8% from $22.1 billion a year earlier. This change consisted of $7.34 billion in net contributions and $1.47 billion in investment gains. The latter includes $2.9 million in securities lending income. At year-end, the Pool served a larger number of local government participants: 993 versus 930 a year earlier. The number of accounts also increased by 321 to a total of 2,336 at year-end.

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 "2a-7 like" fund using the Securities and Exchange Commission investment requirements for 2a-7 Money Market Funds as guidance;
- Provide liquidity to the participants on a daily basis; and
- Add incremental income by participating in the securities lending program.

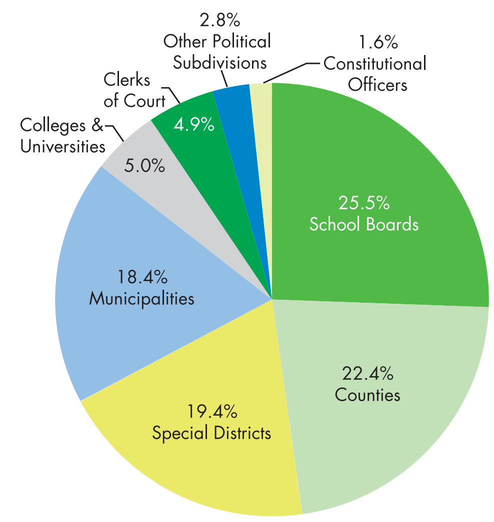
The SBA manages the LGIP to be competitive with the iMoneyNet First Tier Institutional Money Market Index and the S&P Rated LGIP 30-Day Yield Index. The SBA's actual net returns in excess of this index are termed "value-added" returns. Net investment returns and value-added returns are shown in Tables 3 and 4, respectively.

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 LGIP met all compliance requirements.

The LGIP is open to units of local government that are not state governmental entities, 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.

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.

Chart 12: Local Government Investment Pool Client Composition by Share of Assets



Total Net Asset Value as of June 30, 2007: $30.9b

Table 23: Local Government Surplus Funds Trust Fund
Assets by Type as of June 30, 2007

	Net Asset Value[1] 6/30/07	% of Total [2]
Pooled Accounts (LGIP)		
Cash	$4,111,278	0.0%
Certificates of Deposit	2,925,520,419	9.3%
Commercial Paper	9,485,738,121	30.2%
Extendable Notes	6,035,884,916	19.2%
Federal Agency Obligations	100,263,333	0.3%
Floating/Adjustable Rate Notes	571,062,533	1.8%
Liquidity Notes	11,819,030,089	37.6%
Subtotal Local Government Investment Pool	$30,941,610,688	98.5%
Non-Pooled Accounts		
Cash	$3,409	0.0%
Commercial Paper	19,933,694	0.1%
Liquidity Notes	37,026,247	0.1%
Repurchase Agreements	400,193,988	1.3%
Subtotal Non-Pooled Investments	$457,157,338	1.5%
Total Local Government Surplus Funds	**$31,398,768,026**	**100.0%**

1 Net Asset Value includes accrued interest. In addition, the Pooled Investment Account includes the Local Government Pool Securities Lending Account.
2 Totals may not foot due to rounding.

Assets by client type are shown in Chart 12. Table 23 presents the composition of the Pool, as well as other accounts within the Local Government Surplus Funds Trust Fund, by type of security.

Short-Term Option 2: Commingled Asset Management Program – Money Market (CAMP-MM)

To better serve a variety of governmental clients, miscellaneous trust accounts and endowment funds with non-pension assets to invest, the SBA created a series of investment products under the 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.

The first of these products, created in July 1999, is CAMP-MM, a money market product for clients seeking liquidity with a focus on preservation of capital. As of June 30, 2007, CAMP-MM consisted of 24 client accounts with total assets valued at $751.7 million, up from $683.3 million a 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 governmental entities, trusts and endowments;
- Securities purchased are consistent with Section 215.47, Florida Statutes;
- Operate the CAMP-MM as a “2a-7 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 iMoneyNet First Tier Institutional Money Market Index. Authorized investments may include obligations 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 pool, yet seek the same type of investment opportunity. This includes state agencies 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 assets.

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.

In addition to commingling the assets of clients with purely short-term investment objectives, the CAMP-MM Pool also invests the cash allocation component or residual cash for longer term, multi-asset class portfolios. The Lawton Chiles Endowment Fund, the McKnight Doctoral Fellowship Program, and the Division of Blind Services are examples of multi-asset class portfolios with a cash allocation component invested in the CAMP-MM Fund.

Intermediate-Term Option: Commingled Asset Management Program – Fixed Income (CAMP-FI)

This commingled portfolio was established in 2000 to offer clients exposure to the long-term fixed income market for non-pension funds. Like CAMP-MM, the Money Market Pool, each client participating in the Pool holds units of CAMP-FI, 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, mortgage and asset-backed securities. All are instruments with maturities greater than one year. CAMP-FI is a passively managed portfolio, currently designed to track the performance of the Lehman Aggregate.

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.

The following were participants in the Fixed Income Pool during the fiscal year, with their net asset values as of June 30, 2007: the Lawton Chiles Endowment Fund ($318.2 million); the Florida State University Research Foundation ($37.9 million); the SBA Administrative Expense Fund ($28.1 million); the Pinellas Suncoast Transit Authority ($5.9 million); and the Division of Blind Services ($0.9 million).

Long-Term Option: Commingled Asset Management Program – Domestic Equities (CAMP-DE)

The objective of the Domestic Equity Pool is to provide investment returns and risk exposures matching that of the Tobacco Free Russell 3000 Index, for non-pension client funds. It is currently managed as a purely passive portfolio with no intentional active risk relative to the benchmark. Like CAMP-MM, the Money Market Pool, each fund that participates in this pool holds units of CAMP-DE, similar to investing in a mutual fund.

The Pool'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 Exchange Traded Funds may be used to facilitate investment of cash flows and equitize cash and/or dividends receivable.

Likely investors are those seeking relatively high returns over a long investment horizon, who are willing to tolerate significant return fluctuations over time and 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, but it may be appropriate for investors who have a longer term time horizon. Contribution and redemption transactions are allowed on a monthly basis.

The following were participants in the Domestic Equity Pool during the fiscal year, with their net asset values as of June 30, 2007: the Lawton Chiles Endowment Fund ($239.9 million); the Florida State University Research Foundation ($42.7 million); the Division of Blind Services ($1.6 million); and the McKnight Doctoral Fellowship Program ($1.1 million).

SBA's Investment Management Fees

Table 24 shows a brief history of the SBA's investment management fees on assets in the LGIP and CAMP products.[4] Fees are applied on a pro-rata basis. Note that in the future the fee structure could change.

Table 24: SBA Commingled Investment Pool Fees

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%)
2005-06	1.50 basis points	(0.0150%)
2006-07	1.50 basis points	(0.0150%)

Note: No fee for 4th quarter of FY 2000-01; no fee for 2 months of 4th quarter of FY 2001-02; no fee for July & August 2005; no fee for May & June 2007.

Other Investment Portfolios

In addition to the large investment mandates discussed earlier, the SBA's investment responsibility extends to a wide range of smaller trust and mandate portfolios. Assets are invested to support programs that provide supplemental retirement benefits, foster economic development, make lottery payouts and for a variety of other special purposes. The portfolio structures vary in each fund, depending on the investment objectives, time horizon and size.

PORTFOLIOS WITH SEPARATELY MANAGED ASSETS

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. As of June 30, 2007, the market value of the Fund was $5.4 million, compared with no proceeds in the Fund that day one year earlier.

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

Burnham Institute for Medical Research Fund

In 2006, the Florida Legislature approved a $155.3 million incentive package for the Burnham Institute for Medical Research to establish and operate a state-of-the-art biomedical research institution and campus in Florida and to recruit world-class scientists, as well as launch an additional research program in the area of diabetes and obesity. In the fiscal year ended June 30, 2007, the SBA began administering the short-term investments for Burnham. The primary investment objective is to provide liquidity and meet the scheduled Burnham disbursement plan through 2015. 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 Fund. Due to these restrictions, the Burnham account is considered nondiscretionary. Compliance with these terms is determined at the time of purchase. As of June 30, 2007, the market value of the Fund was $112.9 million.

A securities lending program is in place for Burnham investments and utilized as market conditions warrant. For fiscal year 2006-07, net Burnham lending income totaled $77,618.

Debt Service

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, seven existing bond issues were either partially or completely defeased through the issuance of new debt, and two of the seven were called for redemption. In addition, the University of South Florida deposited with the SBA, as the escrow agent, sufficient funds to provide for the defeasance of the State of Florida, University of South Florida Housing Facility Revenue Bonds, Series 1996A. The New College of Florida also deposited with the SBA, as escrow agent, sufficient funds to provide for the defeasance of the New College Housing Facility Revenue Bonds, Series 1996B and Series 1998. As of June 30, 2007, the market value of the Fund was $2.63 billion.

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 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 Funds are considered nondiscretionary accounts. Compliance with these terms is determined at the time of purchase.

As of June 30, 2007, the market value of the Fund was $1.29 billion. A securities lending program is in place for Lottery Fund investments and utilized as market conditions warrant. For fiscal year 2006-07, net Lottery Fund lending income totaled $3,166,336.

Florida Hurricane Catastrophe Fund

The Florida Hurricane Catastrophe Fund (CAT Fund) provides a stable, ongoing and timely source of reimbursement to insurers for a portion of their 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 is to create and maintain additional insurance capacity for residential property insurance in Florida.

Table 25: CAT Fund Net Asset Value by Fiscal Year[1]

($ Thousands)	2002-03	2003-04	2004-05	2005-06	2006-07[2]
Beginning Net Asset Value	$4,363,178	$4,943,166	$5,475,890	$3,314,731	$658,202
Premium Revenue	498,151	488,459	617,043	734,720	1,202,707
Investment Gain/(Loss)	104,906	58,102	108,658	103,325	233,905
Operating Expenses	(4,066)	(3,837)	(3,960)	(4,813)	(4,935)
Hurricane Loss	72	0	(2,821,625)	(3,486,390)	(1,330,397)
Emergency Assessment Revenue	0	0	0	0	94,574
Bond Proceeds	0	0	0	0	4,195,199
Bond Interest Paid	0	0	0	0	(169,461)
Bond Trustee Fees	0	0	0	0	(5)
Transfer from/(to) other funds	(19,075)	(10,000)	(61,275)	(3,371)	(10,000)
Ending Net Asset Value	**$4,943,166**	**$5,475,890**	**$3,314,731**	**$658,202**	**$4,869,789**

[1] These amounts are reported on a cash basis. Beginning and ending asset values include cash, net market value of securities and accrued income.
[2] Beginning in FY 2006-07, this schedule includes the Florida Hurricane Catastrophe Fund and the Florida Hurricane Catastrophe Fund Finance Corporation.

The Florida Hurricane Catastrophe Fund is financed by three sources:

- 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 three years, although 2% may mature within three to five 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, 2007, the Florida Hurricane Catastrophe Fund investment portfolio met all compliance requirements.

On June 30, 2007, the net asset value of the Florida Hurricane Catastrophe Fund was $4.87 billion, up from $658 million a year earlier. Details are shown in Table 25.

A securities lending program is in place for CAT Fund investments and utilized as market conditions warrant. For fiscal year 2006-07, net CAT Fund lending income totaled $32,262.

Florida Hurricane Catastrophe Finance Corporation

In 2006, the Florida Hurricane Catastrophe Finance Corporation issued tax-exempt bonds to fund past claims and taxable notes to pre-fund claims for future storms. The funds from the tax-exempt bonds are invested in U.S. Treasury State and Local Government Series (SLGS) securities in order to satisfy compliance with yield restriction or arbitrage rebate provisions of the Internal Revenue Code. The Demand Deposit SLGS are redeemed upon notification of claims from the Florida Hurricane Catastrophe Fund. The funds from the taxable notes are managed in a separate account, and the investment earnings will be used to offset all, or a portion of, the interest cost on the taxable notes. All securities purchased will be consistent with the requirements of Section 215.47, Florida Statutes. The SBA manages the funds to track the 1-month London Interbank Offered Rate (LIBOR).

Florida Prepaid College Plan et al.

The Florida Prepaid College Plan enables parents and others to fix the future cost of Florida public colleges at current tuition rates. The Florida College Investment Plan provides a tax-free way to save for college through a variety of investment options. Four separate funds have been established to meet the immediate obligations and administrative expenses of these plans. Two are for operations, and two are for administrative expense. These are listed as items 8, 13, 32 and 33 in Table 1. At year-end, total assets were $530.5 million. The administrative expense account assets are invested in CAMP-MM, while the operating funds include separately managed assets. Due to liquidity demands, Florida Prepaid College Plan funds are considered nondiscretionary accounts. Compliance with applicable provisions of the mandate is determined at the time of purchase.

Gas Tax Clearing Fund

The Gas Tax Clearing 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 Clearing Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. The Gas Tax Clearing Fund held no assets on June 30, 2007. 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.

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).

The Department of Management Services administers the IFAS supplemental retirement benefits plan for certain IFAS employees. 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. A large portion of the assets are invested in the CAMP-MM Fund. Due to liquidity demands, the IFAS Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase.

As of June 30, 2007, the market value of the IFAS Supplemental Retirement Fund was $17.1 million, compared with $16.1 million a year earlier.

Effective July 1, 2007, the IFAS Plan was merged into the FRS and its assets were transferred into the FRS Trust Fund.

Local Government Non-Pool Funds

The SBA 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 the restrictions, these are considered nondiscretionary accounts. Compliance with these terms is determined at the time of purchase. As of June 30, 2007, the net asset value of the Fund was $457.2 million.

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, 2007, the market value of the Fellowship Program Fund totaled $2.8 million, compared with $3.1 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 three years, although 2% may mature within three to five 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 the SBA's CAMP-MM Fund. 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, 2007, the market value of the Fund was $209.0 million, compared with $168.4 million a year earlier.

Scripps Florida Funding Corporation

In 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 2013. 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 Fund. Due to these restrictions, the Scripps Florida Funding Corporation account is considered nondiscretionary. Compliance with these terms is determined at the time of purchase. As of June 30, 2007, the market value of the Fund was $194.8 million, compared with $206 million a year earlier.

A securities lending program is in place for Scripps investments and utilized as market conditions warrant. For fiscal year 2006-07, net Scripps lending income totaled $173,938.

Torrey Pines Institute for Molecular Studies Fund

In 2006, the Florida Legislature approved a $32 million incentive package for the Torrey Pines Institute to establish a state-of-the-art biomedical research institution in Florida. In the fiscal year ended June 30, 2007, the SBA began administering the short-term investments for Torrey Pines. The primary investment objective is to provide liquidity and meet the scheduled Torrey Pines disbursement plan through 2015. 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 Fund. Due to these restrictions, the Torrey Pines Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. As of June 30, 2007, the market value of the Fund was $24.2 million.

A securities lending program is in place for Torrey Pines investments and utilized as market conditions warrant. For fiscal year 2006-07, net Torrey Pines lending income totaled $12,876.

CLIENTS INVESTED SOLELY IN CAMP POOLED FUNDS

The SBA's investment pools include assets of discretionary clients as well as those of mandated investment funds. The following portfolios are invested wholly within the SBA's pooled Commingled Asset Management Program. The SBA monitors and enforces compliance with all investment guidelines for the CAMP pools on a monthly basis. There were no compliance exceptions during the fiscal year.

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. Investments are limited to the CAMP-MM Fund. As of June 30, 2007, the value of the account was $2.0 million.

Bond Fee Trust Fund

The Bond Fee Trust Fund financially supports the administrative functions of the Division of Bond Finance related to bond issuance, the Private Activity Bond Allocation Program and the Local Government Bond Disclosure Information Program. Investments are limited to the CAMP-MM Fund. As of June 30, 2007, the value of the account was $1.6 million.

Florida Division of Blind Services

The Florida Division of Blind Services was originally created by an act of the Florida Legislature in 1941 to serve as a state board to provide services for blind persons in the state. Currently, Blind Services is under the Department of Education. Its mission is to ensure that blind and visually impaired persons living in Florida have the tools, support, and opportunity to achieve success. Blind Services provides services to persons who are blind or have severe visual impairments, and to persons who have disabling conditions that make it difficult to read regular print. Services are provided through 12 district offices, the Division's Orientation and Adjustment Center for the Blind, local community rehabilitation programs serving the blind, or through a local Center for Independent Living. In addition, the Florida Rehabilitation Council for the Blind assists Blind Services in the planning and development of statewide rehabilitation programs and services, and consists of 19 members appointed by the Governor. The Council also recommends improvements to programs and services on behalf of Floridians with visual impairments. Assets are invested in all three CAMP pools. As of June 30, 2007, the total value of the account was $2.5 million.

Florida Endowment for Vocational Rehabilitation

The Florida Endowment for Vocational Rehabilitation was enacted to enhance the opportunities for disabled citizens of Florida to become self-supporting, productive members of society. Assets are invested in the CAMP-MM Fund. Florida law specifies that the principal (contributed capital) of this fund shall be $1,000,000 in fiscal year 2000-01, and increased 5% each year thereafter. Funds in excess of the principal requirement are available to the Florida Endowment for Vocational Rehabilitation for expenditure. As of June 30, 2007, the value of the account was $2.2 million.

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. Assets are invested in the CAMP-MM. As of June 30, 2007, the value of the account was $9.7 million.

Florida State University Research Foundation

The Florida State University Research Foundation (FSURF) is a not-for-profit corporation and a direct-support organization of Florida State University as provided for in Section 1004.28, Florida Statutes. FSURF is the assignee of the University's Intellectual Property (IP) and, therefore, is the fiscal agent for all activities with respect to the commercialization of the IP. The SBA invests certain assets of FSURF, under a trust agreement, in CAMP-FI and CAMP-DE. As of June 30, 2007, the value of the account was $80.7 million.

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. Liquidity and preservation of capital are important considerations of the Fund. Currently, all assets of the corporation are invested in CAMP-MM. As of June 30, 2007, the portfolio's net asset value was $1,420.

Insurance Capital Build-Up Incentive Program

The Insurance Capital Build-up Incentive Program (Program) was created in 2006 and amended during the 2007 Legislative Session. The Legislature appropriated $250 million from State General Revenues. The Florida Hurricane Catastrophe Fund, within the SBA, has day-to-day responsibility for the administration of the Program which provides funding in the form of "surplus notes" to new or existing residential insurers. By law, the amount of the surplus note is not to exceed $25 million, except that the note for an insurer writing only manufactured housing policies may not exceed $7 million. The qualifying insurer must contribute new capital to support writing Florida residential insurance. The CAT Fund successfully "loaned" all of the funds available to insurers by June 30, 2007, which was the statutorily determined deadline for expending these funds. The proceeds were entirely invested in CAMP-MM. As of June 30, 2007, the value of the account was $16.3 million.

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 market value of this fund on June 30, 2007 was $27,285, all of which was invested in the CAMP-MM Fund.

Pinellas Suncoast Transit Authority

The Pinellas Suncoast Transit Authority, formerly known as Central Pinellas Transit Authority (CPTA), was created by state legislation in 1970 and service began in 1973 with 21 buses and 9 bus routes in northern and central Pinellas County. In 1982, the Central Pinellas Transit Authority was renamed Pinellas Suncoast Transit Authority (PSTA) to more clearly describe the area served. Following the passage of two referendums, in 1984 PSTA expanded the service area by merging with the St. Petersburg Municipal Transit System. Today, PSTA serves most of the unincorporated area and 21 of the county's 24 municipalities, which account for most of the county's population and its land area. PSTA is governed by a 15-member Board of Directors appointed by local governments. The management staff consists of an Executive Director and seven Department Directors. In addition to passenger fares, funding for PSTA is obtained through ad valorem taxes, as well as state and federal grants. Assets are invested in CAMP-FI. As of June 30, 2007, the value of the account was $5.9 million.

Police and Firefighters' Premium Tax Trust Fund

The SBA invests assets of the Police and Firefighters' Premium Tax Trust Fund into the CAMP-MM Fund. The Division of Retirement issues annual distributions to eligible municipalities. As of June 30, 2007, the value of the account was $203.6 million.

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. Assets are invested in the CAMP-MM. As of June 30, 2007, the value of the account was $27.8 million.

SBA Administrative Fund

The SBA's operating budget is funded through investment and administrative service fees charged to client trust funds under management. Additional revenues are derived from administering escrowed bonds, earnings on balances in the Administrative Trust Fund, and other miscellaneous sources. For fiscal year 2007-08, the 1.5 basis point investment management fee will be continued and the service charge for principal debt under administration will also remain unchanged at 1.0 basis point.

The SBA maintains a minimum amount in the Administrative Trust Fund sufficient to fund approximately one year of operating costs. This budget reserve ensures business continuity while allowing the SBA time to adjust to adverse cash flows, such as bear markets. Revenue cash flows to the SBA are dependent upon the market value and amount of assets under management, which is simultaneously dependent upon client resource availability for investment and market conditions.

Administrative fund balances are invested in two of the SBA's commingled funds, the CAMP-MM and CAMP-FI products. As of June 30, 2007, approximately one-third of the Fund was invested in the former. The ending balance was $41.1 million.

SRI International Fund

In 2006, the Florida Legislature approved a $20 million incentive package for SRI International to establish a state-of-the-art research institution and campus in Florida focusing primarily on marine science and related fields. The SBA administers the short-term investments for SRI International. The primary investment objective is to provide liquidity and meet the scheduled SRI disbursement plan through 2011. Investments are limited to the CAMP-MM Fund. As of June 30, 2007, the market value of the account was $13.8 million.

Other SBA Responsibilities

In addition to its core mission as the state's long-term investment board, the SBA is responsible for additional investment-related functions that do not directly involve asset management.

MyFRS Financial Guidance Program

The MyFRS Financial Guidance Program is a landmark program that gives FRS members free and convenient access to personalized multimedia retirement planning services. Its goal is to provide objective information to help members make informed retirement planning choices that meet their individual preferences and needs.

Members receive support through four channels:

- Print and Video – Employees have access to personalized statements, a 10-minute New Hire video and customized, award-winning, material on FRS plan choice, retirement planning and investing for retirement.
- Toll-free MyFRS Financial Guidance Line – Employees can confidentially discuss their FRS options and retirement planning issues with experienced and objective financial planners from Ernst & Young and counselors from the Florida Division of Retirement.
- MyFRS.com – This award-winning web portal is the official FRS education website. It provides FRS plan choice information and personalized retirement planning applications, including Financial Engines' Choice Services and their 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 90-minute FRS retirement plan choice, retirement planning, financial planning and estate planning workshops throughout Florida. During 2006-07, four new 60-minute workshops on debt management, education funding, estate planning, and insurance planning were added.

Fiscal year 2006-07 was the third year that Personal Retirement Forecast Statements were prepared for each active member of the FRS. These statements provide a retirement income projection that includes Social Security and FRS benefits. They also indicate how much retirement income could be needed from personal savings and how much could be saved in tax-deferred accounts to attain reasonable income replacement goals.

Table 26 illustrates the growing demand for services offered by the MyFRS Financial Guidance Program.

During the fiscal year, over 89,000 newly-hired employees had the opportunity to choose from the two FRS retirement plans: the FRS Pension Plan, a traditional defined benefit plan with six-year vesting; or the FRS Investment Plan, a self-directed defined contribution plan with one-year vesting. Each newly-hired employee received an FRS New Employee Enrollment Kit that consisted of a Benefit Comparison Statement projecting benefits under both plans, plan information on both retirement plans, a 10-minute new hire video CD on the benefits offered in both plans, an investment fund summary showing the available investment funds in the Investment Plan and their fees and projected returns, and an EZ Enrollment Form. New employees were encouraged to call the toll-free MyFRS Financial Guidance Line to speak with one of the unbiased financial planners and to log on to the program website MyFRS.com to run additional benefit projections using the online Choice Service.

The Florida Retirement System offers employees an opportunity to choose a retirement plan that is compatible with their preferences and financial planning goals. The FRS Investment Plan was designed to provide a portable retirement benefit to help attract and retain today's mobile workforce because about one-half of new FRS hires will leave their jobs before meeting the six-year requirement to qualify for FRS Pension Plan benefits. The FRS Pension Plan offers employees formula-based pension benefits that are guaranteed for life, based on salary and years of service.

Table 27 illustrates that active enrollments in the FRS Investment Plan have continued to rise during the past three fiscal years. Enrollments in the

Table 26: MyFRS Financial Guidance Program Employee Usage

	FY 2006-07	Change From Prior Year
Toll-Free MyFRS Guidance Line Counseling Calls	182,789	31%
MyFRS.com Sessions	1,724,006	20%
Retirement Income Forecasts	677,853	30%
New Hire Choice Service	18,286	7%
2nd Election Choice Service	106,473	16%
Personal Online Advisor Service	132,743	15%
Workshop Attendance	10,478	23%
Personalized Printed Statements		
New Hire Benefit Comparison Statements	89,238	.05%
Personal Retirement Forecast Statements	605,002	12%

Figures include data from the MyFRS supporting organizations of Ernst & Young, Financial Engines and Enterpulse, but not from the Division of Retirement.

Table 27: FRS Enrollments by Newly-Hired Employees

	Defaults into Pension Plan	Active Enrollments into Pension Plan	Active Enrollments into Investment Plan*	Total Enrollments
Sept. 2002 – June 2003	87%	5%	8%	100%
FY 2003-04	73%	11%	16%	100%
FY 2004-05	62%	17%	21%	100%
FY 2005-06	59%	19%	22%	100%
FY 2006-07	59%	18%	23%	100%

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

Pension Plan decreased slightly during the last year. Active enrollments reflect the impact of the redesigned and enhanced new hire education and enrollment process.

Employees who do not make an active plan choice are automatically enrolled in the FRS Pension Plan (default), but they are given one more opportunity during their active FRS career to switch plans. The number of members who defaulted to the FRS Pension Plan has dropped 28% in the past three fiscal years. Survey data indicates that as many as 41% of defaulting members used the default option as their active retirement plan choice, believing that if they knowingly defaulted there could be no mistakes made in their plan choice.

NON-FRS PLAN ASSISTANCE

The SBA provides prudent and cost-effective investment consulting to assist the Plan Administrators of the State of Florida Deferred Compensation Program (FDCP), the State University System Optional Retirement Program (SUSORP) and the Senior Management Service Optional Annuity Program (SMSOAP) in fulfilling their fiduciary responsibilities to select investment products. During fiscal year 2006-07, the SBA reviewed 14 separate proposals from Investment Providers to FDCP and SUSORP requesting new manager hiring or termination of existing managers. The SBA also participated in the semi-annual Investment Provider reviews conducted by FDCP.

CORPORATE OFFICER/TRUSTEE SERVICES

By statute, the Executive Director of the SBA serves as the Chief Executive Officer of the Inland Protection Financing Corporation and the Florida Water Pollution Control Financing Corporation. The CEO directs and supervises the administrative affairs and the operations of the two corporations. These two public purpose corporations work with the Department of Environmental Protection to finance underground petroleum tank cleanup projects and water pollution control project construction loans to local governments in Florida, through the issuance of bonds. Employees of the SBA also serve as corporate officers and provide administrative support for the day-to-day operation of the corporations.

The SBA also serves as agent and trustee for the Division of Bond Finance for the administration of all debt service funds for bonds issued by the Division of Bond Finance. The SBA invests the reserve funds for bonds issued by the Division of Bond Finance and serves as trustee for any sinking funds or any other funds of the bond issue, provided no bank or trust company is designated to serve in that capacity in the proceedings which authorized the issuance of the bonds. For the issuance of refunding bonds, the SBA serves as escrow agent for the proceeds of the refunding bonds which are used to defease the refunded bonds and, at the direction of the Division of Bond Finance, the SBA will redeem bonds prior to their maturity date. In case of the default of any bond issued on behalf of a state agency, the SBA succeeds to the power of the state agency and shall act on its behalf to collect the funds pledged for the payment of the debt service on the bonds, including the levying and collection of taxes pledged to the payment of the bonds.

ADMINISTRATIVE SERVICES

For an annual fee, the SBA provides administrative support to the Division of Bond Finance and the Florida Prepaid College Board Programs, including accounting, financial reporting, accounts receivable, accounts payable, cash management, facilities management, human resource management, purchasing, receiving, courier, mailroom, copy center and technology infrastructure support services. The SBA works very closely with each program, interacting on a daily basis to ensure timely, accurate performance. The SBA analyzes all services and costs on a biannual basis to determine their cost effectiveness and modifies the fees charged as appropriate. In both daily interactions and biannual reviews, the Division of Bond Finance and Florida Prepaid College Programs have expressed high levels of satisfaction with support services received.

CORPORATE GOVERNANCE

The SBA's fiduciary responsibility extends beyond direct investment decisions to corporate governance. Corporate governance shapes the interactions between a company's shareowners, board of directors, and management in an environment defined by the corporation's charter, bylaws, formal policy, and rule of law. Corporate governance focuses on the procedures and structures that investors, the suppliers of capital, rely on to assure a reasonable return on their investment. Through active support of corporate governance reforms and prudent voting of company proxies, the SBA works to enhance shareowner value and support its long-term investment objectives.

The SBA strongly believes in accurate and honest financial reporting practices by public companies and supports the adoption of internationally recognized governance practices for well-managed public companies including independent boards, transparent board procedures, performance-based executive compensation, accurate accounting and audit practices, and policies covering issues such as succession planning and meaningful shareowner participation. The SBA also expects companies to adopt rigorous stock ownership and retention guidelines, and annually seek shareowner ratification of the external auditors.

Proxy Voting

The proxy vote is a fundamental right tied to owning stock. The SBA has a fiduciary responsibility to ensure proxies are voted in the best interest of fund participants and beneficiaries. The SBA routinely votes proxies on all publicly traded equity securities held within domestic and internally managed international stock portfolios, managed within either the defined benefit or defined contribution plans of the Florida Retirement System. For omnibus accounts including open-end mutual funds utilized within the FRS Investment Plan, the SBA votes proxies on all shares for funds that conduct annual shareowner meetings.

To ensure that proxies are voted consistently and reliably, the SBA has developed a comprehensive set of proxy-voting guidelines and procedures. These policies are updated each fiscal year as needed and cover a wide range of financial issues, such as director and auditor independence, board and capital structures, and the types and level of executive compensation.

During the 2006-07 fiscal year, the SBA voted on 3,563 public company proxies covering approximately 27,160 individual voting items. On all proxy issues, the SBA voted for, against, or abstain on 76.4%, 21.9% and 1.72% of all items, respectively. Of all votes cast, 25.2% were against the management recommended vote, reflecting an increase of 2.3 percentage points above the prior year.

Support levels across voting topics were largely stable year over year. Notably, far fewer stock option and restricted stock compensation plans were supported by the SBA due to rigorous policies on executive compensation. The 2006-07 fiscal year period marks the highest level of SBA opposition to broadly structured compensation plans within the last 10 years. After a thorough evaluation of company proposals and analysis of pay-for-performance practices, only 29.3% of all omnibus stock plans (consisting of stock options and/or restricted stock grants) were supported across all portfolio holdings.

Shareowner Activism

The SBA actively monitors the governance structures of individual companies, and we may take specific action intended to prompt changes at those companies. For example, the SBA frequently discusses proxy voting issues and general corporate governance topics directly with public companies in which we hold shares. The SBA routinely interacts with other shareowners and groups of institutional investors to discuss significant governance topics, helping us stay abreast of issues involving specific companies and important legal and regulatory changes.

As new governance-related rules and regulatory proposals are released publicly, the SBA periodically submits formal comment to regulatory oversight bodies such as the Securities and Exchange Commission, the New York Stock Exchange, the Financial Accounting Standards Board and the Public Company Accounting Oversight Board. During fiscal year 2006-07, the SBA submitted nine formal regulatory comments on proposed reforms, including efforts to eliminate uninstructed broker votes, enhance disclosure related to the backdating of stock options, improve mutual fund governance structures, and improve record date and ballot item disclosures designed for more efficient proxy voting.

Environmental Issues

In June 2007, the SBA became the newest member of CERES, a network of investors, environmental organizations and other public interest groups working with companies to address sustainability challenges such as global climate change. CERES promotes meaningful standards for corporate environmental reporting and created the Global Reporting Initiative (GRI), an international standard used by companies to disclose environmental, social and economic performance. As well, the SBA joined the Investor Network on Climate Risk (INCR), coordinated by CERES, whose purpose is to promote better understanding of the financial risks and investment opportunities posed by climate change. The INCR has worked with numerous companies to improve their climate policies, practices and disclosure, including many of the leading oil, auto and insurance companies.

Transparency & Reporting

In the interest of ensuring full transparency, the SBA publicly discloses its proxy votes subsequent to shareowner meetings and also publishes a comprehensive corporate governance report each year. The SBA's annual governance report describes the year's corporate governance activities, including highlighted votes and significant capital-market events. The most recent annual report highlights SBA voting on mutual fund investments within the FRS Investment Plan, new forms of shareowner activism taken by hedge funds, the impact of securities lending on the effectiveness of shareowner voting, as well as ongoing reforms to the director election process in U.S. capital markets.

Executive Compensation

As a major institutional investor with a long-term investment horizon, the SBA has a vested interest in improving executive compensation practices and seeks to improve the overall quality of compensation disclosures and positively impact the practice of executive compensation in U.S. public companies.

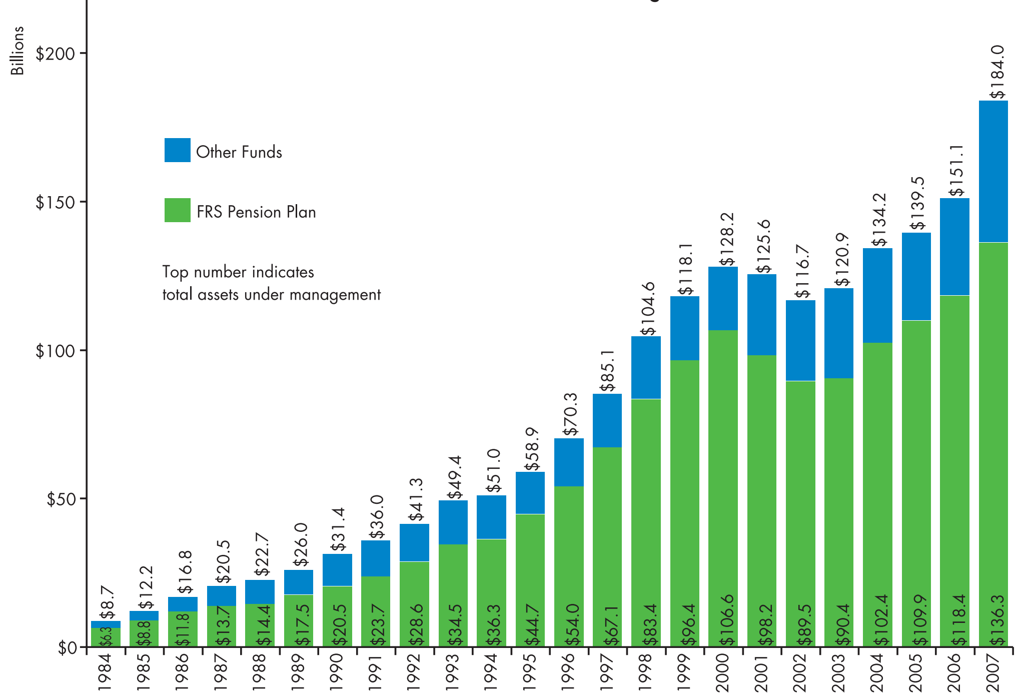
As a companion document to the SBA's Corporate Governance Annual Report, in January 2007, the SBA also published a separate report focused exclusively on executive compensation.

"Perspectives on Executive Compensation" provides detailed coverage of our policies related to compensation disclosure, pay-for-performance analysis and other compensation policies and metrics. Our report concluded that far too many U.S. companies lack a pay-for-performance compensation framework, with large sums paid to attract and then terminate individual CEOs, which distorts any notion of pay-for-performance.

As part of this report, the SBA analyzed five years' worth of compensation and performance data and evaluated 16 distinct "Compensation Efficiency Ratios" for over 2,100 U.S. companies. Based on the data analysis, we concluded that there is very little, if any, overall relationship between executive pay and company performance. Total executive compensation does not appear to be appropriately linked to total stock returns or return on total capital. However, total compensation was found to be significantly related to a company size and industry classification. Information gleaned from this study is used to make proxy voting decisions as well as for individual company engagement.

To learn more about the SBA's proxy voting and corporate governance activities, please visit www.sbafla.com.

Chart 13: Assets Under SBA Management



ABOUT THE SBA

The SBA manages, invests and safeguards assets of the Florida Retirement System Trust Fund and other funds for the State of Florida and local governments. The SBA is a non-political organization with a professional investment management staff and a strong record of delivering positive long-term returns on investment.

Founded in 1943, the SBA is required to invest assets and discharge its duties in accordance with Florida law and in compliance with fiduciary standards of care. Under state law, the SBA and its staff are obliged to:

- 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.

To ensure accountability, the SBA is subject to oversight by the Board of Trustees and a variety of bodies and organizations, and follows an array of formal policies and guidelines.

To learn more about the SBA, visit our website at www.sbafla.com.

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