INVESTING FOR FLORIDA'S FUTURE

SUPPLEMENT

Overview of SBA Investment Portfolios

As of June 30, 2006, the SBA managed 29 different portfolios, some established as a direct requirement of Florida law (mandates) and some allowed under law and established pursuant to a trust agreement with a client (trusts).

Table 1 lists the net asset value of each portfolio at fiscal year-end. Note that a number of the portfolios, particularly the smaller ones, are collectively managed within commingled pools. Pooling smaller portfolios into larger investment funds affords economy of scale and other investment management advantages, enhancing returns for participants.

Of the total assets under SBA management, $127.7 billion, or about 85%, was managed in separate accounts. The remaining $23.4 billion was managed in four commingled pools.

During the year, assets under SBA management increased to $151.1 billion from $139.5 billion, a gain of $11.6 billion. This increase represents the net effect of $13.0 billion in investment gains less $1.4 billion in net withdrawals. 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 3 indicates exposure to each asset type.

Performance data for the SBA's separately managed accounts and investment pools over various periods ending June 30, 2006 are shown in Tables 4 and 5. Net managed returns (i.e., actual earnings) are shown in Table 4. Value-added returns, meaning the SBA's managed return minus the portfolio's benchmark (typically, a broad market return), are shown in Table 5.

Table 1: SBA Assets Under Management by Investment Vehicle as of June 30, 2006

	Total Assets Under Management	SBA Investment Pools				SBA Separately Managed Assets
		LGIP	CAMP-MM	CAMP-FI	CAMP-DE	
1. FRS Pension Plan	$118,354,931,178	-	-	-	-	$118,354,931,178
2. Local Government Investment Pool	22,134,944,704	22,134,944,704	-	-	-	-
3. Debt Service	2,578,931,747	-	-	-	-	2,578,931,747
4. FRS Investment Plan	2,305,766,357	-	-	-	-	2,305,766,357
5. Lawton Chiles Endowment Fund	2,024,521,334	-	27,603,890	246,304,799	210,777,344	1,539,835,301
6. Department of the Lottery	1,437,289,247	-	912	-	-	1,437,288,335
7. Florida Hurricane Catastrophe Fund	658,201,804	-	-	-	-	658,201,804
8. Local Government Non-Pool	545,802,337	-	-	-	-	545,802,337
9. Insurance Capital Build-Up Program	251,065,728	-	251,065,728	-	-	-
10. Scripps Florida Funding Corporation	205,963,799	-	50,163,396	-	-	155,800,403
11. Retiree Health Insurance Subsidy	168,435,595	-	68,035,154	-	-	100,400,441
12. Police and Firefighters' Premium Tax Trust Fund	158,195,193	-	158,195,193	-	-	-
13. Fla. Prepaid College Trust Fund	73,285,481	-	73,285,481	-	-	-
14. FSU Research Foundation	71,386,032	-	-	35,777,194	35,608,838	-
15. SBA Administrative Fund	34,543,516	-	7,984,668	26,492,745	-	66,103
16. PEORP Administrative Trust Fund	24,636,122	-	24,633,339	-	-	2,783
17. Institute of Food & Agricultural Sciences	16,112,117	-	6,072,312	-	-	10,039,805
18. Fla. Prepaid College Foundation	7,502,055	-	7,502,055	-	-	-
19. McKnight Education Fund	3,130,631	-	2,281,560	-	-	849,071
20. Fla. Endowment for Vocational Rehabilitation	2,273,332	-	2,273,332	-	-	-
21. Blind Services	2,196,927	-	39,707	846,940	1,310,280	-
22. Arbitrage Compliance Trust Fund	1,779,168	-	1,778,602	-	-	566
23. Bond Fee Trust Fund	1,450,278	-	1,293,384	-	-	156,894
24. Fla. Prepaid College Administrative Expense	549,946	-	545,336	-	-	4,610
25. Fla. Prepaid College Savings Admin. Expense	522,340	-	521,961	-	-	379
26. Investment Fraud Restoration Financing Corp.	27,906	-	27,906	-	-	-
27. Inland Protection Financing Corporation	1,346	-	1,346	-	-	-
28. Bond Proceeds *	-	-	-	-	-	-
29. Gas Tax *	-	-	-	-	-	-
Total Assets Under Management	$151,063,446,220	$22,134,944,704	$683,305,262	$309,421,678	$247,696,462	$127,688,078,114

* The fund balance is periodically zero due to cash flows.

Table 2: Change in Assets Under Management – Fiscal Year 2005-06

	Net Asset Value as of June 30, 2005	Investment Gain (Loss)	Contributions & (Distributions)	Net Asset Value as of June 30, 2006
FRS Pension Plan	$109,875,206,410	$11,488,194,946	$(3,008,470,178)	$118,354,931,178
Local Government Investment Pool	17,697,921,209	877,223,848	3,559,799,647	22,134,944,704
Debt Service	2,346,423,074	115,622,693	116,885,980	2,578,931,747
FRS Investment Plan	1,426,242,797	154,671,040	724,852,520	2,305,766,357
Lawton Chiles Endowment Fund	1,874,023,016	189,723,785	(39,225,467)	2,024,521,334
Department of the Lottery	1,669,744,681	(14,794,422)	(217,661,012)	1,437,289,247
Florida Hurricane Catastrophe Fund	3,314,731,095	103,324,577	(2,759,853,868)	658,201,804
Local Government Non-Pool	584,339,010	26,483,494	(65,020,167)	545,802,337
Insurance Capital Build-Up Program	-	1,065,728	250,000,000	251,065,728
Scripps Florida Funding Corporation	267,810,669	4,654,781	(66,501,651)	205,963,799
Retiree Health Insurance Subsidy	127,638,068	6,949,243	33,848,284	168,435,595
Police and Firefighters' Premium Tax Trust Fund	171,127,628	4,567,565	(17,500,000)	158,195,193
Fla. Prepaid College Trust Fund	58,031,018	4,979,913	10,274,550	73,285,481
FSU Research Foundation	-	(613,968)	72,000,000	71,386,032
SBA Administrative Fund	35,480,987	(209,842)	(727,629)	34,543,516
PEORP Administrative Trust Fund	23,693,633	1,049,801	(107,312)	24,636,122
Institute of Food & Agricultural Sciences	14,226,293	660,766	1,225,058	16,112,117
Fla. Prepaid College Foundation	11,993,190	388,865	(4,880,000)	7,502,055
McKnight Education Fund	4,310,254	120,377	(1,300,000)	3,130,631
Fla. Endowment for Vocational Rehabilitation	1,756,363	73,672	443,297	2,273,332
Blind Services	2,586,843	120,084	(510,000)	2,196,927
Arbitrage Compliance Trust Fund	1,575,624	74,527	129,017	1,779,168
Bond Fee Trust Fund	1,590,465	76,807	(216,994)	1,450,278
Fla. Prepaid College Administrative Expense	467,424	30,199	52,323	549,946
Fla. Prepaid College Savings Admin. Expense	128,386	22,110	371,844	522,340
Investment Fraud Restoration Financing Corp.	1,007,607	24,760	(1,004,461)	27,906
Inland Protection Financing Corporation	10,621,123	148,769	(10,768,546)	1,346
Bond Proceeds*	12,843,353	76,315	(12,919,668)	-
Enterprise Florida	264,990	3,891	(268,881)	-
Gas Tax*	-	269,691	(269,691)	-
Total Assets Under Management	$139,535,785,210	$12,964,984,015	$(1,437,323,005)	$151,063,446,220

* The fund balance is periodically zero due to cash flows.

Table 3: Asset Classes Represented in SBA Investment Portfolios as of June 30, 2006*

	U.S. Equities	International Equities	Fixed Income	Treasury Inflation-Protected Securities	Real Estate	Alternative Investments	Cash Equivalents
Portfolios With Separately Managed Assets							
FRS Pension Plan	x	x	x		x	x	x
Local Government Investment Pool							x
Florida Hurricane Catastrophe Fund			x				x
Debt Service			x				x
Lawton Chiles Endowment Fund	x	x	x	x	x		x
FRS Investment Plan	x	x	x	x			x
Department of the Lottery			x				x
Local Government Non-Pool							x
Scripps Florida Funding Corporation			x				x
Retiree Health Insurance Subsidy			x				x
SBA Administrative Fund			x				x
Institute of Food & Agricultural Sciences			x				x
Inland Protection Financing Corporation			x				x
McKnight Education Fund			x				x
Gas Tax			x				x
Bond Proceeds			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.

Table 4: SBA Net Investment Returns for Periods Ending June 30, 2006

	Twelve Months	Three Years	Five Years	Ten Years
Portfolios With Separately Managed Assets				
FRS Pension Plan	10.56%	12.42%	6.08%	8.74%
FRS Investment Plan	10.18%	10.98%	N/A	N/A
Lawton Chiles Endowment Fund	10.11%	12.37%	6.28%	N/A
Florida Hurricane Catastrophe Fund	4.19%	2.64%	2.57%	N/A
Retiree Health Insurance Subsidy	4.17%	2.54%	N/A	N/A
Institute of Food & Agricultural Sciences	4.29%	2.60%	2.38%	N/A
SBA Pooled Investment Products				
Local Government Investment Pool	4.28%	2.59%	2.40%	4.02%
CAMP - Money Market	4.39%	2.58%	2.33%	N/A
CAMP - Fixed Income	-0.62%	2.18%	5.24%	N/A
CAMP - Domestic Equities	9.51%	12.51%	3.47%	N/A

Table 5: SBA Value-Added Investment Returns for Periods Ending June 30, 2006
(Value-Added = Net Return Over Benchmark)

	Twelve Months	Three Years	Five Years	Ten Years
Portfolios With Separately Managed Assets				
FRS Pension Plan	0.53%	0.55%	0.24%	0.32%
FRS Investment Plan	0.83%	0.08%	N/A	N/A
Lawton Chiles Endowment Fund	1.04%	0.54%	0.38%	N/A
Florida Hurricane Catastrophe Fund	-0.16%	0.06%	0.18%	N/A
Retiree Health Insurance Subsidy	-0.72%	-0.66%	N/A	N/A
Institute of Food & Agricultural Sciences*	N/A	N/A	N/A	N/A
SBA Pooled Investment Products				
Local Government Investment Pool	0.24%	0.32%	0.30%	0.25%
CAMP - Money Market#	0.04%	0.00%	-0.06%	N/A
CAMP - Fixed Income	0.19%	0.13%	0.27%	N/A
CAMP - Domestic Equities	0.09%	0.11%	0.08%	N/A

* The IFAS portfolio is not managed against a benchmark.

The benchmark return for CAMP-MM has been retroactively revised since last year's report. Value-added is now measured relative to the iMoneyNet First Tier Institutional Money Market Funds Gross Index. Value-added returns had previously been measured against the net-of-fee version of this index. Against the old benchmark, value-added returns would be 0.49%, 0.43% and 0.37% for twelve months, three years and five years, respectively.

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. Tables 6.1 and 6.2 indicate the specific circumstances for each affected portfolio.

Table 6.1: SBA Portfolios Utilizing Pooled Investment Products as of June 30, 2006

Invested Entirely in Pooled Products	Invested Partially in Pooled Products
Police and Firefighters' Premium Tax Trust Fund	Lawton Chiles Endowment Fund
Fla. Prepaid College Trust Fund	Department of the Lottery
PEORP Administrative Trust Fund	Scripps Florida Funding Corporation
Fla. Prepaid College Foundation	Retiree Health Insurance Subsidy
Fla. Endowment for Vocational Rehabilitation	Institute of Food & Agricultural Sciences
Bond Fee Trust Fund	McKnight Education Fund
Arbitrage Compliance Trust Fund	
Investment Fraud Restoration Financing Corp.	
SBA Administrative Fund	
Fla. Prepaid College Administrative Expense	
Fla. Prepaid College Savings Admin. Expense	
Blind Services	
Inland Protection Financing Corporation	
Insurance Capital Build-Up Program	
FSU Research Foundation	

Note: Accounts in the Local Government Investment Pool are not listed individually.

Table 6.2: SBA Separate Account Portfolios Without Performance Data by Reason

Portfolios with Dedicated Bond Strategies	Episodically Funded Portfolios	Client Directed Assets
Debt Service	Gas Tax	McKnight Education Fund
Department of the Lottery	Bond Proceeds	Local Government Non-Pool
Scripps Florida Funding Corporation		

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 long-term shortfall risk, 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 stressed, 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 a secondary consideration, the SBA seeks to reasonably control the volatility of annual returns in order to avoid excessive fluctuations in plan cost.

To achieve these objectives, the Board has determined that a long-term real return of 4.0% per year (compounded and net of investment expenses) should be attained, based on a substantially diversified asset allocation that 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 – we judge this to be superior to a flat rate actuarial target. Within this goal, 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 objective, yet 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 1.02% 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 Risk

Time Horizon	10th Percentile Real Return	90th Percentile Real Return
1 Year	-11.09%	21.50%
5 Years	-3.07%	11.46%
10 Years	-1.07%	9.20%
15 Years	-0.16%	8.22%
20 Years	0.37%	7.63%
25 Years	0.75%	7.24%
30 Years	1.02%	6.95%

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.

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

Asset Class – Domestic Stocks

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% per year over the real growth rate of the U.S. economy and 6% over inflation. 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 – International Stocks

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

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 – 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 is generally less attractive than either foreign or domestic equities for two reasons: the difficulty of creating a large exposure and uncertainty over whether real estate returns will keep pace with economic expansion and liability growth.

Asset Class – Alternative Investments

The Alternative Investments 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 – Cash

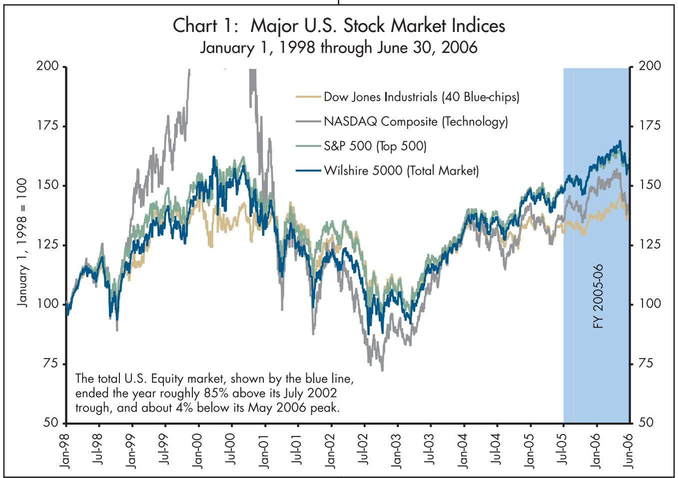
From the perspective of a long-term investor, the Cash asset class (consisting of very short-term interest bearing securities) poses the highest level of risk in that it is the least likely asset type to provide vigorous returns. The long-term historical return on cash has been lower than the other asset 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 2005-06 Investment Environment

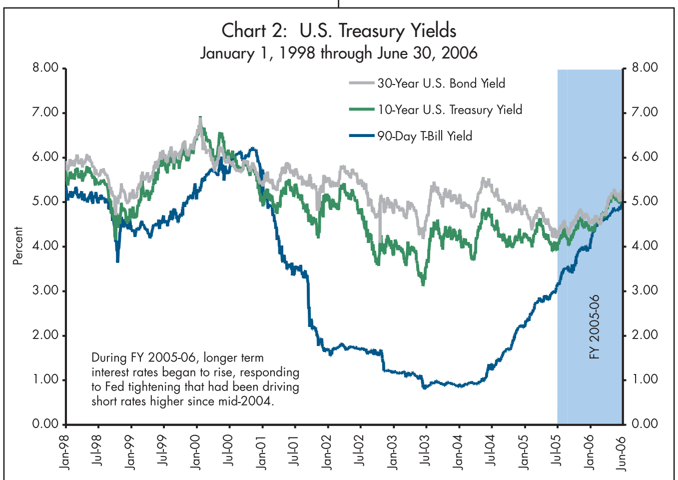
U.S. Economic Conditions

The U.S. economy continued to expand in fiscal year 2005-06, despite the twin burdens of higher fuel costs and rising interest rates. Only weeks into the fiscal year, it appeared the ongoing economic expansion might be in jeopardy as the Gulf Coast was battered by a pair of devastating hurricanes. The economic impact of these storms quickly spread worldwide due to damage inflicted on crude oil extraction and refining infrastructure. When the fiscal year began, the price of crude was roughly $55 per barrel. By mid-September 2005, it had skyrocketed to over $70 per barrel. With crude oil prices up and much refinery capacity shut down, refined product prices spiked upward. In early August 2005, the average

U.S. pump price of gasoline was $2.34 per gallon, but a month later it had risen 34% to $3.12 per gallon. Fortunately, emergency measures to make more gasoline available kept a lid on pump prices. But, with the Gulf Coast economy at a standstill and consumers nationwide spending more to fill their tanks, growth in real GDP – the inflation-adjusted value of final goods and services produced in the U.S. – slumped to just 1.8% (annualized) in the final quarter of 2005, the U.S. economy's weakest three-month period since the start of 2003. As the Gulf Coast energy industry recovered after the hurricanes, fuel costs steadily receded and motor gasoline prices returned to pre-storm levels by January 2006. The economy also got a boost from feverish rebuilding in storm-ravaged areas. Prospects brightened after real GDP recovered to 5.6% growth in the first three months of 2006, a rate last surpassed in the third quarter of 2003.



Despite its resurgence, many observers continued to believe the economy was susceptible to a sharp downturn, principally because the Federal Reserve (Fed) showed no inclination to end its series of interest rate hikes. During the year, the Fed raised rates repeatedly in an effort to curb inflation while stimulating healthy economic growth. Bond markets reflected skepticism that the Fed would succeed in balancing these competing considerations under new Chairman Ben Bernanke, who succeeded the venerable Alan Greenspan. By the time Mr. Bernanke became Fed chairman, the Fed funds rate had been raised 350 basis points to 4.5% over a 1-year period. However, long-term interest rates had barely budged, leading to a flat (sometimes slightly inverted) yield curve, evidence that bond markets were looking for a recessionary "hard landing."



Indeed, after its strong start in 2006, the economy showed some signs of faltering. As 2006 progressed, real estate market and construction activity slowed as higher interest rates dampened housing demand. Fuel prices shot up amid supply concerns arising from Israel's incursion into Lebanon and Iran's determination to develop nuclear capabilities. In the spring of 2006, oil prices once again climbed to the $70 per barrel range and gas prices rose above $3.00 per gallon. The slowing housing sector and higher fuel prices triggered fears that the economy would weaken substantially if consumer spending was sharply curtailed.

From March through June 2006, core inflation rose as businesses passed along higher fuel costs. Unfazed by critics, the Fed stayed the course by raising rates another 75 basis points to 5.25% in the last three months of the fiscal year, and the initial report on 2006 GDP for the same period showed growth falling to a respectable 2.5%.

Domestic Equities Market Conditions

U.S equity markets, as measured by our broad-based Russell 3000 target, closed almost 10% higher for the fiscal year, reflecting a strong economy and double-digit growth in corporate earnings. The markets, however, lost momentum in the final quarter.

Overall, it was a year of solid gains in U.S. equity markets despite the fact that investors grappled with the uncertain effects of higher energy prices, the economic impact of destructive hurricanes, aggressive monetary policies at the Federal Reserve Bank and a weaker housing market. For the fiscal year, the Russell 1000 Index of large capitalization companies rose 9.1% and the Russell 2000 small capitalization index gained 14.6%.

The fiscal year started with a strong advance in equity markets in July 2005, fueled by positive economic data and good earnings reports, but growth slowed over the next several months as concerns about the economic impact of Hurricane Katrina, which struck the Gulf Coast in August 2005, and two Fed interest rate hikes weighed on investor sentiment.

In the final three months of 2005, inflation concerns contributed to a modest sell-off before better economic news, improved consumer confidence and falling energy prices helped spark a rally.

A buoyant U.S. economy and positive fundamentals, including strong earnings and attractive valuations, continued to lift stock prices into 2006. Matching its moves in the prior two quarters, the Fed maintained its steady march to higher rates with two additional 25 basis point increases in the Fed funds rate in the first quarter of 2006. Unlike the reaction to the prior Fed moves, bond yields moved higher as inflation worries fueled concern about more aggressive future Fed action.

In the second quarter of 2006, concerns about rising inflation and higher interest rates outweighed strong fundamentals, resulting in a modest sell-off.

For the fiscal year, all major benchmark segments of the Russell 3000 target – large capitalization, small capitalization, growth, and value – closed higher, with value and small cap remaining the strongest.

Global & International Equities Market Conditions

Non-U.S. equity markets achieved a robust gain of 27.9% for the fiscal year as markets rallied against a backdrop of benign inflation, above-trend economic growth and favorable monetary conditions. This confluence of positive factors produced a period of exceptionally strong absolute returns for international equities, particularly stocks with high beta, high cyclicality and smaller market capitalization. This trend was most evident in emerging markets, which returned more than 30% for the third consecutive year, fueled by the energy and resource rich economies of Russia, Latin America and South Africa.

Currency had a positive impact on returns for U.S. investors holding a basket of international stocks, adding about 3%. The U.S. dollar fell against the euro, British pound, Swiss franc and Canadian dollar but posted a modest gain against the Japanese yen and Australian dollar. The U.S. dollar held up relatively well as investors focused on growth potential and rising interest rates in the U.S.

Investor appetite for riskier investments fell off sharply in May 2006, leading to a sell-off in the most popular risk trades such as emerging markets and commodities. This coincided with the U.S. Federal Reserve, the Bank of Japan and the European Central Bank all tightening monetary policy. After reaching a record high in early May, emerging markets tumbled 24% before rallying to finish the quarter down only 4%.

Fixed Income Market Conditions

Returns in U.S. fixed income markets (bond markets) for the fiscal year reflected the impact of the Federal Reserve Bank's strategy to raise interest rates repeatedly.

Amid robust economic growth that exceeded expectations, the Fed funds rate was raised eight times during the year for a cumulative increase of 200 basis points. The Fed funds rate ended the fiscal year at 5.25%. Risk premia embedded in bond pricing remained low throughout the fiscal year, as investors remained confident that the Fed had already taken sufficient action to keep future inflation at low levels, even with strong economic growth. The cumulative impact of interest rate moves in the 12-month period was to flatten and then eventually invert the Treasury yield curve, with shorter dated bond yields rising to levels above longer dated bond yields. Tracking the Fed funds rate increases, the two-year yield rose 149 basis points to 5.15% by the end of the fiscal year and the 10-year Treasury yield climbed 120 basis points to 5.14%.

Given generally rising interest rates, most measures of total return were negative for the year. The Lehman U.S. Aggregate Index posted a total return of -0.81%. The

Lehman U.S. Investment Grade Credit Index produced a 12-month return of -2.07%. The Lehman U.S. Treasury Yield return fell 1.68%, and the Lehman U.S. Corporate High Yield Index increased 4.8%.

Real Estate Market Conditions

Institutional real estate investors enjoyed another year of attractive returns on their portfolios. The market provided ample liquidity as aggressive demand for real estate investments led to attractive pricing for sellers.

Institutional investment quality real estate in the private market performed very well. The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index returned a total of 18.7% for the 5,055 institutional grade properties in its database, with a total market value of more than $220 billion. Hotels provided the best returns, followed by office properties, retail, apartments and industrial properties. In the U.S., properties in the West produced the strongest returns, followed closely by the East.

Our public sector portfolio comprised mostly of Real Estate Investment Trusts publicly traded securities (REITs) also performed well. Total return for the reporting year for the Wilshire Real Estate Securities Index was 21.87%.

Alternative Investments Market Conditions

During the fiscal year, alternative investments, particularly private equity transactions, continued their growth trend relative to the public markets. Private equity transactions, primarily leveraged buyouts, accounted for 17% of global merger and acquisition volume in 2005, an increase from the prior year and up from just 2% ten years earlier.

Strong returns and favorable debt markets, coupled with the dip in performance of public markets following 2000, have driven this growth in private equity transactions. For example, senior debt levels reached 4.3 times cash flow in 2005, the highest since 1997. To be sure, debt played a significant role in raising Total Enterprise Values (TEVs) to more than seven times cash flow in 2005, a level not seen since the end of the previous decade. TEVs rose to more than eight times cash flow for the first half of 2006.

A climate of low interest rates, strong earnings and consumer confidence masked the growth in debt and there was concern that the growth in debt and asset levels might not be sustainable. But during the fiscal year, there was no catalyst to reverse the positive trend.

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 78% of total assets under SBA management in the fiscal year ending June 30, 2006.

For the fiscal year, the investment return for the FRS Pension Plan was 10.56%, which exceeded the investment benchmark by 53 basis points, adding $579 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

Table 8: FRS Pension Plan Change in Net Asset Value
Fiscal Year 2005-06

	Net Asset Value 6/30/05	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value[2] 6/30/06
Domestic Equities	$55,996,374,220	$(1,344,226,781)	$5,005,624,334	$59,657,771,773
Global Equities	4,477,595,029	(158,400,000)	745,882,261	5,065,077,290
International Equities	16,343,534,768	(2,548,174,505)	4,141,311,631	17,936,671,894
Fixed Income	23,849,932,808	1,351,395,532	4,072,205	25,205,400,545
Real Estate	5,365,051,900	(646,000,000)	1,131,937,521	5,850,989,421
Alternative Investments	3,530,655,513	(325,000,000)	438,156,436	3,643,811,949
Cash/Short-Term Securities[1]	312,062,169	661,935,580	21,210,558	995,208,307
Policy Transition	3	(3)	0	0
Total FRS Pension Fund	$109,875,206,410	$(3,008,470,178)	$11,488,194,946	$118,354,931,178

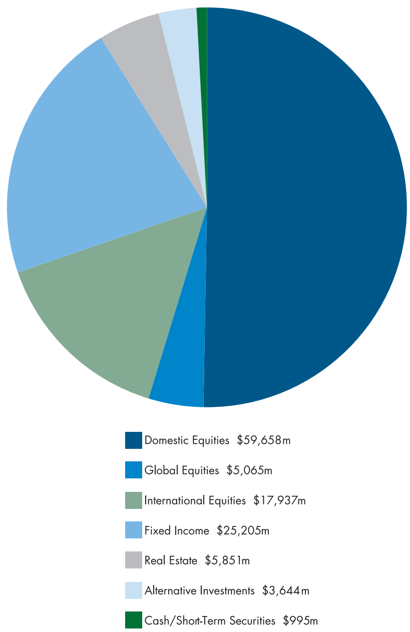
[1] The investment gain (loss) reported for the Cash/Short-Term Securities includes $14,334,826 in SBA investment service charges and $4,214,092 in bank and consulting fees paid out of the Total Central Cash/Short-Term portfolio on behalf of the entire FRS Pension Plan. Excluding these expenses, the investment gain (loss) reported would have been $39,759,476, which reflects actual investment returns.

[2] Total may not foot due to rounding.

4.0% 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 7.7% to $118.4 billion from $109.9 billion at the end of the prior year, despite net cash outflow of $3.01 billion in pension benefit payments. The gross outflow for benefit payments was $5.2 billion for the year, which was offset by employer contributions of $2.2 billion. Chart 3 shows the breakdown of Pension Plan assets across the various asset classes as of June 30, 2006. Table 8 lists the change in net asset value over the year, by asset class.

Chart 3: FRS Pension Plan Assets by Type
$118.4 billion as of June 30, 2006



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 4 and 5, respectively. A breakdown of returns by asset class is shown in Tables A and B in the main body of the Investment 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: Asset Class Net Investment Gains
Growth of $100 Invested During FY 2005-06

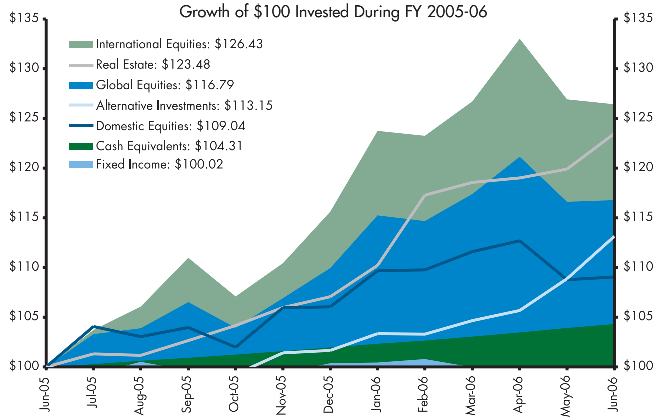


Chart 4 illustrates the relative strength of each asset class over the past year. The strongest performing asset classes were International Equities, Real Estate and Global Equities, in that order. Due to rising interest rates, returns to Fixed Income were the weakest for the year, though they remained positive. The middle positions were filled by Alternative Investments, Domestic Equities and Cash Equivalents, in that order.

The investment strategy for the FRS portfolio is to implement the policy allocation within relatively narrow bands in the pursuit of modest risk-controlled gains net of transaction costs. In addition, the strategy seeks to add value through the pursuit of active investment strategies aimed at providing attractive long-term risk-adjusted returns. The SBA manages this strategy through asset allocation and risk-budgeting policies. The SBA complied with its investment strategy for the FRS portfolio throughout the year. There have been no changes to the FRS investment policy since last year's report.

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 35 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 main body of the Investment 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. As illustrated in Chart 6, this task has become more challenging in recent years as employer contribution levels have fallen and new programs such as DROP and the 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

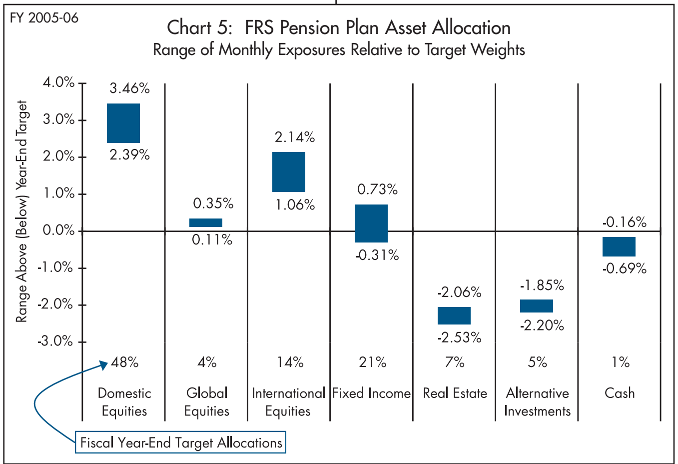


Chart 5: FRS Pension Plan Asset Allocation
Range of Monthly Exposures Relative to Target Weights

The Domestic Equities asset class, comprised of U.S. stocks, was valued at approximately $59.6 billion on June 30, 2006, accounting for 50% of the total FRS Pension Plan portfolio. The asset class was broadly diversified across 17 active strategies and three passive investments, with the passive portion comprising 72.6% of the total. Overall, the Domestic Equities portfolio reflected a target neutral mix of growth, value and small- and large-capitalization strategies.

The asset class produced a solid 9.04% fiscal year return, although the return trailed the benchmark Russell 3000 Index by 51 basis points. Disappointing results from the active portfolio held down the return.

The fiscal year was a period of transition for the active portfolio as our small-cap manager roster doubled to ten from five to broaden and diversify the portfolio. The decision to expand the small-cap manager roster was based upon consultant research indicating that historically the average small-cap manager outperformed their benchmark. In the large-cap growth portfolio, we terminated both incumbent managers – one for performance and the other for organizational issues – and replaced them with Loomis Sayles & Company, Delaware Investments and Smith Asset Management Group.

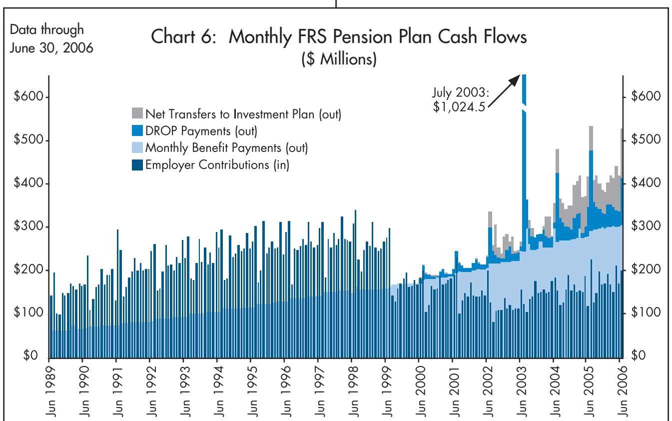


Chart 6: Monthly FRS Pension Plan Cash Flows
($ Millions)

Active investments struggled throughout the fiscal year, weighed down by underperformance in the final quarter. Most of the poor performance was attributable to two areas, all-cap core and large-cap growth. Within the all-cap portfolio, one longstanding, absolute-return oriented manager significantly trailed the benchmark. At the same time, the newly hired large-cap growth managers trailed their benchmark by a wide margin. The limited time these managers have been on board provides little context to evaluate their performance, but historically they have demonstrated strength in a variety of market environments.

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

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

Consistent with its newly instituted risk budget, the Lawton Chiles Endowment Fund was diversified to include active management for the first time. Despite strong historical track records, the two incumbent FRS managers selected to manage the active portion of the investment trailed the benchmark. Their underperformance,

Table 9: FRS Pension Plan Domestic Equity Assets – Change in Net Asset Value by Manager
Fiscal Year 2005-06

Account Name	Net Asset Value 6/30/05	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/06
- Alamo [1]	$ -	$324,890,227	$(2,286,382)	$322,603,845
- AQR Capital Management [1]	0	194,463,655	4,356,008	198,819,663
- Aronson & Partners	2,332,858,356	(483,614)	307,270,886	2,639,645,628
- Avatar Russell 1000 Index Fund	15,348,127,200	(302,931,423)	1,403,439,156	16,448,634,933
- Barclays Global Inv. Russell 2000 Alpha Tilts [2]	289,823,048	(324,227,324)	34,404,276	0
- Barclays Global Inv. Russell 2000 Index [2]	0	(5,642)	5,642	0
- Barclays Global Inv. Russell 1000 Alpha Tilts [1]	0	1,058,264,375	2,428,729	1,060,693,104
- Batterymarch Financial Management	257,134,007	0	40,137,289	297,271,296
- Cash & Central Custody Equity Reserve Fund	981,471,578	(1,011,504,028)	30,032,450	0
- Cortina Asset Management [1]	0	125,580,000	19,356,509	144,936,509
- Delaware Investments [1]	0	1,120,882,782	(34,406,910)	1,086,475,872
- Domestic Equities Restructuring Account	3,990	(18,211,123)	18,285,718	78,585
- Dresdner RCM Global Investors, LLC [2]	2,037	0	(2,037)	0
- Earnest Partners	359,680,520	(94,457,263)	14,766,727	279,989,984
- Enhanced Investment Technologies, Inc.	2,656,641,889	(755,332,952)	227,906,298	2,129,215,235
- Goldman, Sachs & Company [2]	1,822,366,672	(1,921,663,003)	99,296,331	0
- Growth Index Portfolio [2]	823,080,635	(847,520,408)	24,439,773	0
- Jacobs Levy Equity Management	1,112,909,906	0	96,833,557	1,209,743,463
- Loomis Sayles & Company LLP [1]	0	1,716,856,656	(154,708,831)	1,562,147,825
- PanAgora Asset Management [1]	0	321,961,901	30,289,673	352,251,574
- Phoenix Portfolio	24,317,103,029	(131,155,763)	2,352,516,850	26,538,464,116
- Private Capital Management	1,417,687,441	(200,638,493)	10,631,535	1,227,680,483
- Quantitative Management Associates	1,249,429,524	0	155,982,469	1,405,411,993
- Renaissance Investment Management [1]	0	185,049,600	11,158,113	196,207,713
- Sands Capital Management [2]	866,099,727	(951,100,297)	85,000,570	0
- Smith Asset Management Group [1]	0	899,121,061	(24,769,522)	874,351,539
- Transition Account [3]	1,117,504,523	(1,081,852,006)	100,370,330	136,022,847
- Turner Investment Partners	388,876,607	0	63,408,339	452,284,946
- Tygh Capital Management [1]	0	159,554,851	19,180,884	178,735,735
- Vaughan Nelson Investment Management [1]	0	190,231,450	823,129	191,054,579
- Wellington Management Company	655,573,531	0	69,476,775	725,050,306
Total Domestic Equities	$55,996,374,220	$(1,344,226,781)	$5,005,624,334	$59,657,771,773

[1] Account opened during the fiscal year.

[2] Account closed during the fiscal year.

[3] Name changed from American Express Asset Mgt. Group, Inc., to Transition Account, after internal Domestic Equities staff took over management of this portfolio in September 2005.

coupled with the costs related to reconfiguring the aggregate investment, accounted for the 91 basis point shortfall of the Chiles investment return for the fiscal year.

Global & International Equities Investment Performance

Absolute returns were impressive for the fiscal year as Global Equities and International Equities returned 16.8% and 26.4%, respectively. The strong returns of the two asset classes, however, did not keep pace with their benchmarks as markets trended sharply higher. The global aggregate underperformed by 171 basis points and the international aggregate trailed by 147 basis points. In many respects, the performance of the Global and International asset class remained true to form. The asset class has typically kept pace or slightly underperformed when markets experience strong rallies, and it has preserved value when markets fall.

The investment environment was characterized by low interest rates, ample global liquidity and low volatility, a mix that encouraged riskier investments. Emerging markets, smaller cap stocks, commodities and real estate outperformed as investors reached for higher returns. With few exceptions, the SBA's strategy of favoring investment processes that focus on companies with sustainable earnings, reasonable or low price-to-earnings valuations, and sound management made it difficult to keep pace with a market that rewarded risktakers.

In our International Aggregate, the best relative performance came from developed market managers Artisan, Capital Guardian and Fidelity, and emerging market managers Acadian and State Street Global Advisors. Artisan, Capital Guardian and Fidelity were overweight to Japanese financials, which outperformed all market segments except material stocks. This strategy added significant relative value. Artisan also benefited from exposure to emerging market stocks while Capital Guardian's large overweight to Japan paid off handsomely. Within emerging markets, our two quantitative managers, Acadian and State Street Global Advisors, outperformed. Typically, these strategies are model-driven and often result in allocations to markets and stocks that more fundamentally-oriented managers might exclude. In contrast, Mondrian, an emerging market manager with a fundamental approach that focuses on the sustainability of dividends and cash flows, underperformed.

Similar to our international equity managers, global equity managers found the investment environment challenging. Our best-performing global managers were core-plus managers: Walter Scott, Fisher and Templeton. Walter Scott and Fisher found opportunities in Japan, resulting in a significant overweight to the best-performing developed market. Templeton found value in Europe, where good stock selection and an overweight to the region proved beneficial. Reflecting their focus on larger cap, higher quality companies, core managers UBS and Bank of Ireland Asset Management (BIAM) struggled, leading to most of the Global Aggregate's underperformance. In April 2006, we replaced BIAM with two new managers, Acadian and Trilogy, in an effort to gain broader market exposure.

Toward the end of the fiscal year, we saw a sharp shift in sentiment triggered by the U.S. Federal Reserve's comments about inflation. Markets quickly moved from a posture of risk-taking to risk-avoidance. Equity markets had a sell-off with a shift away from risky investments. During this shift, the SBA's portfolios held up well, with the global aggregate turning in its best quarter since 2004.

By the end of the fiscal year, the International Equities asset class was valued at $17.9 billion and represented 15.2% of the FRS Pension Plan portfolio.

Global equities held by the SBA finished the year with a total asset value of $5.1 billion and represented 4.3% of the total FRS Pension Plan portfolio.

Table 10: FRS Pension Plan International Equity Assets – Change in Net Asset Value by Manager
Fiscal Year 2005-06

Account Name	Net Asset Value 6/30/05	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/06
Developed Markets:				
- Aberdeen Asset Management [1]	$ -	$119,386,277	$(9,742,512)	$109,643,765
- Artisan Partners	989,653,881	(57,100,000)	285,587,005	1,218,140,886
- Barclays Global Inv. ACWI Ex-US [2]	1,004,021,218	(1,117,462,685)	113,441,467	0
- Barclays Global Inv. Index Plus [1]	0	742,383,767	109,480,230	851,863,997
- Barclays Global Inv. World Ex-US	4,548,032,934	(1,179,485,444)	1,181,080,555	4,549,628,045
- Barclays Global Inv. World Ex-US Alpha Tilts	1,936,215,423	(100,000,000)	509,810,331	2,346,025,754
- Capital Guardian Trust Company	900,518,873	(25,000,000)	255,032,906	1,130,551,779
- Fidelity Investments	742,892,353	0	207,129,524	950,021,877
- International Equity Internal Active	106,349,292	(25,000,000)	25,682,391	107,031,683
- International Equity Market Exposure	12,638,463	(6,380,906)	2,980,807	9,238,364
- Morgan Stanley Asset Management	1,138,134,605	(200,000,000)	186,391,653	1,124,526,258
- New Star Institutional Asset Management	775,345,342	0	151,973,683	927,319,025
- Putnam Investments	8,628	(7,240)	10,521	11,909
- Sprucegrove Investment Management	1,210,604,911	(350,000,000)	231,836,935	1,092,441,846
- Templeton Investment Counsel	1,269,557,671	(285,100,000)	295,321,982	1,279,779,653
Emerging Markets:				
-Acadian Asset Mgt Inc.	336,547,014	0	137,058,566	473,605,580
- EM Market Exposure [1]	0	(21,721,915)	21,839,270	117,355
- Genesis Emerging Markets	373,855,780	(17,200,000)	118,101,189	474,756,969
- JP Morgan Asset Management	335,728,857	(25,000,000)	101,141,037	411,869,894
- Mondrian Investment Partners Ltd.	316,447,660	0	78,869,461	395,317,121
- SSGA Daily Active Emerging Markets	346,387,632	0	138,204,224	484,591,856
Other International Equities:				
- International Equities Cash	250,366	(195,543)	39,432	94,255
- International Equity Asset Allocation Portfolio	343,865	(290,816)	40,974	94,023
Total International Equities	$16,343,534,768	$(2,548,174,505)	$4,141,311,631	$17,936,671,894

[1] Account opened during the fiscal year.

[2] Account closed during the fiscal year.

Table 11: FRS Pension Plan Global Equity Assets – Change in Net Asset Value by Manager
Fiscal Year 2005-06

Account Name	Net Asset Value 6/30/05	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/06
- Acadian Asset Management [1]	$ -	$495,632,486	$(9,406,963)	$486,225,523
- Bank of Ireland Asset Management	927,897,155	(1,056,150,068)	132,146,222	3,893,309
- Fisher Investments, Inc.	422,714,457	0	91,924,329	514,638,786
- FTI Institutional	693,287,428	0	146,302,840	839,590,268
- Global Equity Cash Account [1]	0	20,381	773	21,154
- McLean Budden	933,551,293	(13,900,000)	158,476,599	1,078,127,892
- Putnam Advisory Company, LLC.	20,260	(20,381)	477	356
- Trilogy Global Advisors [1]	0	492,417,582	(23,584,979)	468,832,603
- UBS Global Asset Management	1,008,242,084	(61,000,000)	133,654,248	1,080,896,332
- Walter Scott & Partners, Ltd.	491,882,352	(15,400,000)	116,368,715	592,851,067
Total Global Equities	$4,477,595,029	$(158,400,000)	$745,882,261	$5,065,077,290

[1] Account opened during the fiscal year.

Fixed Income Investment Performance

Returns to Fixed Income investors fell sharply from the prior year, reflecting the Fed's aggressive monetary policy and the impact of rising interest rates, which depresses bond prices.

As of June 30, 2006, the asset class was valued at approximately $25.2 billion and accounted for 21.3% of the total FRS Pension Plan portfolio. The asset class is 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.

Overall, the Fixed Income asset class produced a 0.02% total return for the fiscal year, down from 7.03% a year

Table 12: FRS Pension Plan Fixed Income Assets – Change in Net Asset Value by Manager
Fiscal Year 2005-06

Account Name	Net Asset Value 6/30/05	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/06
Aggregate:				
- BlackRock	$2,542,627,087	$1,085,659,785	$(8,856,026)	$3,619,430,846
- Fixed Income AAP @ Northern Trust [2]	8	(8)	0	0
Government/Corporate:				
- Active Core Portfolio	9,264,292,191	12,347	(63,022,260)	9,201,282,278
- Fixed Income Gov't./Corp. Active Synthetic [2]	0	(12,347)	12,347	0
- Fixed Income Gov't./Corp. Passive Account	3,242,178,867	255,294,813	(38,758,179)	3,458,715,501
- Taplin, Canida & Habacht	252,283,042	0	1,059,617	253,342,659
High Yield:				
- High Yield Asset Allocation	2,249,162	(4,400,000)	2,150,838	0
- High Yield Active Synthetic [1]	0	0	1,410,666	1,410,666
- High Yield Passive Synthetic	390,352,394	(1,600,000)	32,367,475	421,119,869
- Lehman Brothers High Yield	182,275,565	87,500,000	5,277,895	275,053,460
- MacKay Shields, LLC	437,873,551	(175,000,000)	21,181,342	284,054,893
- Post Advisory Group	178,332,205	91,900,000	10,265,596	280,497,801
- Shenkman Capital Management LLC	441,993,993	0	16,424,804	458,418,797
- W.R. Huff [2]	4,455	(4,460)	5	0
Mortgage:				
- MBS Active Synthetic [3]	476,290,993	(375,000,000)	4,563,717	105,854,710
- MBS Enhanced Synthetic [4]	733,259,978	(55,000,000)	6,968,150	685,228,128
- Fixed Income Mortgage Passive (Lehman)	1,759,053,782	(2,954,598)	4,598,532	1,760,697,716
- Lehman Brothers Asset Mgt. LLC	121,124,133	0	529,709	121,653,842
- Smith Breeden Associates	984,621,575	445,000,000	7,303,247	1,436,924,822
- Trust Company of the West	1,739,520,443	0	1,673,519	1,741,193,962
- Utendahl Capital Management	665,349,040	0	(2,848,155)	662,500,885
- Wellington Management Company	436,250,344	0	1,769,366	438,019,710
Total Fixed Income	$23,849,932,808	$1,351,395,532	$4,072,205	$25,205,400,545

[1] Account opened during the fiscal year.
[2] Account closed during the fiscal year.
[3] Name changed from Fixed Income Mortgages-Active to MBS Active Synthetic.
[4] Name changed from Fixed Income Mortgages-Passive to MBS Enhanced Synthetic.

earlier. However, the SBA's investment program was able to add significant value above the broad market return. Fixed Income's net return exceeded the benchmark by 52 basis points.

The three major sectors of the fixed income benchmark produced varying returns during the fiscal year. The leading sector was high yield, which returned 3.75% for the fiscal year as corporations reported strong earnings and corporate default rates were low. The Lehman Mortgage-Backed Securities (MBS) Index had a 0.40% total return and the Lehman Aggregate less Mortgages (ex-MBS) Index had the weakest performance, with a loss of 1.43% for the fiscal year since Treasuries sold off as the Fed funds rate moved higher.

Our actively managed portfolios returned 0.03% for the fiscal year, exceeding their performance benchmark by 52 basis points. Our passively managed portfolios lost no value, thereby surpassing their benchmark return of -0.46%.

The active managers benchmarked against the Merrill Lynch High Yield Index exceeded the index by 63 basis points. Their performance reflected positive corporate bond selection and their strategy of positioning their portfolios to outperform in a rising interest rate environment. The portfolios managed against the Lehman Aggregate ex-MBS Index outperformed the index by 78 basis points. The investment strategies behind this success included purchasing corporate bond floaters, which outperformed as interest rates moved higher, and holding an underweight position in longer maturity corporate bonds, which underperformed shorter dated corporate bonds. The active mortgage managers slightly underperformed their benchmark by two basis points due to the sensitivity of these instruments to rising interest rates. The single portfolio benchmarked against the Lehman Aggregate Bond Index returned -0.19% during the fiscal year but outperformed the index, which declined 0.81%.

Real Estate Investment Performance

Real estate investments produced another year of robust returns for the SBA as the market value of our investments rose to $5.85 billion from $5.4 billion in the prior year while producing a total return of 23.48%. The return more than doubled the primary benchmark return of 9.09% (the Consumer Price Index plus 450 basis points). It also exceeded the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index total return of 18.68%.

The asset value increases reflected attractive market pricing, especially for sellers. During the year, the SBA received $300 million from selling securities in our publicly traded real estate portfolios. We also received a total of $1.06 billion from the sale of 11 direct owned properties. Overall, a total internal rate of return of 7.9% was earned on the sold properties.

At the same time, the SBA continued its strategy of purchasing real estate selectively at attractive prices. A 408-unit apartment community in the Chicago area was acquired for $39.9 million; a 335,236 square-foot retail center in Tulsa, Oklahoma was purchased for $53.4 million; and $63.1 million was invested to buy a 265,324 square-foot shopping center in Milpitas, California. Separately, investments of $375 million were made in four open-end commingled real estate funds.

The SBA's public sector portfolio, which is comprised mostly of Real Estate Investment Trust publicly traded securities (REITs), also performed quite well. The REIT portfolio returned 22.1%, exceeding the 21.87% return for the Wilshire Real Estate Securities Index, reflecting a second strong year for real estate securities.

Table 13: FRS Pension Plan Real Estate Assets – Change in Net Asset Value by Investment Type
Fiscal Year 2005-06

Account Name	Net Asset Value[1] 6/30/05	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value[1] 6/30/06
- Commingled Funds	$900,700,203	$280,330,894	$168,539,341	$1,349,570,438
- Direct Owned Investments	3,718,713,350	(629,687,981)	839,711,665	3,928,737,034
- Pending Acquisitions	10,032	(10,032)	0	0
- Real Estate Cash	10,150,768	7,956,426	1,415,035	19,522,229
- Real Estate Investment Trusts (REITs)	724,338,741	(299,642,560)	127,963,520	552,659,701
- Real Estate Stock	11,138,806	(4,946,747)	(5,692,040)	500,019
Total Real Estate	$5,365,051,900	$(646,000,000)	$1,131,937,521	$5,850,989,421

[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.

Table 14: FRS Pension Plan Alternative Investment Assets – Change in Net Asset Value by Manager[2]
Fiscal Year 2005-06

Account Name	Net Asset Value 6/30/05	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/06
- Apollo Investment Fund IV, L.P.	$209,625,580	$(49,759,233)	$4,831,431	$164,697,778
- Apollo Investment Fund V, L.P.	117,305,735	(26,298,751)	29,153,827	120,160,811
- Apollo Investment Fund VI, L.P. [1]	0	1,513,706	(959,200)	554,506
- Blackstone Capital Partners V [1]	0	11,517,664	(1,600,135)	9,917,529
- Carlyle Partners II , L.P.	63,245,446	(44,754,058)	8,355,888	26,847,276
- Carlyle Partners III , L.P.	198,021,133	(20,337,828)	81,825,331	259,508,636
- Carlyle Partners IV, L.P.	500,233	31,299,227	(978,274)	30,821,186
- Centre Capital Investments	83,653,871	(5,924,384)	(22,010,359)	55,719,128
- Chartwell Capital Investors II, L.P.	36,811,330	(8,815,795)	33,736,519	61,732,054
- Cypress Equity Fund	10,501,066	(2,289,448)	1,053,389	9,265,007
- Fairview Ventures Fund II, L.P.	3,845,501	6,814,539	(397,654)	10,262,386
- Fairview Ventures Fund III, L.P. [1]	0	750,000	(262,464)	487,536
- Freeman Spogli (FS) Partners V, L.P.	14,535,044	(1,654,905)	1,414,965	14,295,104
- Goldman Sachs Distressed Opportunities, L.P.	44,321,304	33,466,625	19,534,876	97,322,805
- Gores Capital Partners, L.P.	13,201,803	13,072,048	6,575,585	32,849,436
- Green Equity Investors III, L.P.	35,695,732	(11,013,691)	9,593,774	34,275,815
- Green Equity Investors IV, L.P.	23,356,431	26,388,489	2,102,161	51,847,081
- Grove Street (GS) Partners LLC	7,517,852	17,113,439	(717,934)	23,913,357
- Hellman & Friedman Capital Partners V, L.P.	4,984,844	36,102,906	2,819,120	43,906,870
- Hicks, Muse, Tate & Furst III, L.P.	53,039,142	(20,170,522)	68,338	32,936,958
- Hicks, Muse, Tate & Furst Fund IV, L.P.	57,320,271	(16,344,855)	8,053,169	49,028,585
- Hicks, Muse, Tate & Furst Fund V, L.P.	13,447,890	(1,846,244)	8,093,850	19,695,496
- Kelso Investment Associates VII, L.P.	14,110,810	4,346,802	3,407,029	21,864,641
- Kohlberg Investors V, L.P.	2,287,399	12,765,072	487,173	15,539,644
- Lexington Capital Partners IV, L.P.	115,765,536	(33,004,219)	29,125,579	111,886,896
- Lexington Capital Partners V, L.P.	65,367,054	(12,442,843)	17,220,086	70,144,297
- Lexington Capital Partners VI [1]	0	3,849,333	(1,081,825)	2,767,508
- Lexington Co-Investment Partners (Pools I & II)	88,766,442	(41,347,248)	10,976,932	58,396,126
- Lexington Co-Investment Partners II (Pools III & IV)	430,630,447	(49,000,485)	77,322,795	458,952,757
- Lexington Co-Investment Partners 2005 [1]	0	42,851,680	(2,115,260)	40,736,420
- Liberty Partners I	5,732,700	(3,678,646)	525,662	2,579,716
- Liberty Partners II	251,729,193	(200,121,627)	(1,186,235)	50,421,331
- Liberty Partners III	278,551,708	4,484,705	(40,090,361)	242,946,052
- Liberty Partners IV	1,825,504	(774,698)	884,582	1,935,388
- Liberty Partners V	113,393,026	(5,910,541)	37,234,714	144,717,199
- Liberty Partners VI	487,937,350	(2,288,456)	47,726,368	533,375,262
- Liberty Partners VII [1]	0	53,524,861	(2,560,941)	50,963,920
- New Mountain Partners II, L.P.	9,210,327	2,058,912	(576,935)	10,692,304
- Pantheon Venture Partners II, L.P.	2,459,723	9,500,000	(1,340,540)	10,619,183
- Paul Capital Top Tier Investments II, L.P.	37,946,948	15,730,376	1,035,201	54,712,525
- Paul Capital Top Tier Investments III, L.P.[1]	0	3,607,714	(460,580)	3,147,134
- PCG Special Situation Partners, L.P.	90,094,259	22,927,735	22,708,020	135,730,014
- Platinum Equity Capital Partners, L.P.	10,471,780	(3,961,570)	14,358,972	20,869,182
- Pomona Capital VI [1]	0	9,880,283	164,755	10,045,038
- Private Equity Cash	214,807,594	(156,911,183)	8,350,616	66,247,027
- Ripplewood Partners I, L.P.	55,663,373	(3,435,461)	536,707	52,764,619
- Ripplewood Partners II, L.P.	16,954,228	16,585,315	(2,743,169)	30,796,374
- Thoma Cressey Fund VIII L.P. [1]	0	3,026,813	(197,896)	2,828,917
- Thomas H. Lee Equity Fund IV, L.P.	58,073,015	(29,956,707)	(5,270,556)	22,845,752
- Thomas H. Lee Equity Fund V, L.P.	47,875,571	(1,567,204)	6,446,661	52,755,028
- TowerBrook Capital Partners [1]	0	9,195,146	(1,395,705)	7,799,441
- TPG Partners IV, L.P.	18,173,370	8,427,512	10,863,898	37,464,780
- TPG Partners V, L.P. [1]	0	788,928	0	788,928
- TSG Capital Fund III, L.P.	13,662,407	(1,055,984)	(5,934,648)	6,671,775
- Warburg Pincus Private Equity IX, L.P. [1]	0	21,377,933	359,951	21,737,884
- Wellspring Capital Partners III, L.P.	22,274,561	5,582,000	7,726,650	35,583,211
- Wellspring Capital Partners IV, L.P. [1]	0	5,487,245	(158,977)	5,328,268
- Willis, Stein & Partners II, L.P.	10,989,357	(3,121,479)	2,288,055	10,155,933
- Willis, Stein & Partners III, L.P.	74,971,623	(1,248,943)	13,233,455	86,956,135
Total Alternative Investments	$3,530,655,513	$(325,000,000)	$438,156,436	$3,643,811,949

[1] Account opened during the fiscal year.

[2] Alternative Investment net asset values are an estimate of value which may or may not represent the 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 15: FRS Pension Plan Miscellaneous Portfolio Assets – Change in Net Asset Value by Manager
Fiscal Year 2005-06

Account Name	Net Asset Value 6/30/05	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6/30/06
Total Central Cash/Short-Term [1]	$312,062,169	$661,935,580	$21,210,558	$995,208,307
Domestic Equity Policy Transition [2]	3	(3)	0	0

[1] The investment gain (loss) reported for the Total Central Cash/Short-Term portfolio includes $14,334,826 in SBA investment service charges and $4,214,092 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 $39,759,476, which reflects actual investment returns.

[2] Account closed during the fiscal year.

Alternative Investments Investment Performance

The Alternative Investments asset class had a market value of $3.6 billion at the end of the fiscal year, representing 3.1% of total FRS assets. The asset class had holdings in 59 investment vehicles managed by 35 different external managers. During the year, this asset class committed $1.1 billion to ten new partnerships and added $225 million to existing investments.

Since its inception, the dollar-weighted return for all investments has been 8.46%. This lags its primary benchmark by 337 basis points. Investments were made within Domestic Equities prior to November 1999, when it was made a stand-alone asset class. Since that time, the asset class has had a dollar-weighted return of 21.64% and has surpassed its benchmark by 841 basis points.

For the year, Alternative Investments generated a time-weighted return of 13.15% versus the benchmark of 14.06%. 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. Eight of the ten largest buyouts ever made were completed in 2005.

The asset class had a net cash inflow of $89.1 million from general partners for the year.

Apollo Management's sale of Hexion and Wyndham produced a $33 million return for the SBA. Separately, Carlyle, Blackstone and Hellman & Friedman called $21 million for their shared investment in VNU, a Netherlands-based media company with operations in the U.S.

Venture capital companies continue to have a longer hold period and typically wait for an Initial Public Offering until they can demonstrate a reasonable period of profitable results. Distressed debt opportunities have been slower to develop, but we expect that to change given the significant issue of lower quality credits.

Cash/Short-Term Investments Performance

The performance measurement of Cash pertains only to the Cash and Central Custody Account, which was valued at $995.2 million on June 30, 2006. The annualized three-year return of 2.55% approximated the 2.56% return of the Merrill Lynch 90-Day Treasury Bill Index. Cash is also held in other asset class portfolios and is reported in the market value for those portfolios.

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

SBA contracts with private equity partnerships require the following disclosure:

- Because of the long-term nature of investing in private equities, funds can produce low or negative returns in the early years of the partnership. In the first few years of the partnership, management fees are drawn from partners' capital, and portfolio companies are held at cost, leading to a potential understatement of ultimate value.
- Due to numerous factors, including the lack of standardized valuation and reporting standards, the return information for Alternative Investments in this report may not reflect the expected returns of the partnerships. The returns contained in this report are calculated by the SBA and have not been reviewed by the general partners.
- Interim returns may not be meaningful or indicative of ultimate performance during the early stages of the investment life cycle.

FRS Pension Plan Supplemental Income Program

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

During the fiscal year, the SBA utilized seven securities lending agents and one principal borrower for FRS assets. Income generated from these programs for the fiscal year was $50.5 million.

Net income from all FRS Pension Plan securities lending programs for the previous five years, including fiscal year 2005-06, is shown in Table 16.

Table 16: 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

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 17 shows investment management fees by asset class for fiscal year 2005-06.

Brokerage commissions are paid for executions of securities orders and on trades of exchange-listed equity investments. Brokerage commissions for the fiscal year, net of commission recapture rebates, are shown in Table 18 by asset class.

Commissions recaptured are credited to the accounts that generated the dollars. Therefore, the amounts in Table 18 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 18: FRS Pension Plan Net Brokerage Commissions

Asset Class	Dollar Amount
Domestic Equities	$17,218,364
Global Equities	4,821,698
International Equities	16,718,601
Fixed Income	159,418
Real Estate	921,518
Alternative Investments	2,180
Total	$39,841,779

Florida Retirement System Investment Plan

Created in fiscal year 2002-03 as an alternative to the FRS Pension Plan, the FRS Investment Plan, a defined contribution plan, continued to experience accelerated growth, with total assets rising by $879 million to $2.31 billion by the end of the fiscal year.

The FRS Investment Plan is modeled after private sector 401(k) plans. Eligible public sector employees may enroll in this plan or the traditional FRS Pension Plan, which continues to offer formula-based retirement benefits. Unlike the FRS Pension Plan, benefits received under the FRS Investment Plan may vary, depending on the performance of the investment options selected. Vesting in the Investment Plan is one year. Distribution options include lump sums, periodic distributions and a variety of low-cost fixed, variable and deferred annuities.

The FRS Investment Plan enables members to play an active role in selecting from a diverse set of investment options. The Plan offers members 20 investment products, including three balanced funds. Employer

Table 17: FRS Pension Plan External Investment Management Fees
Fiscal Year 2005-06

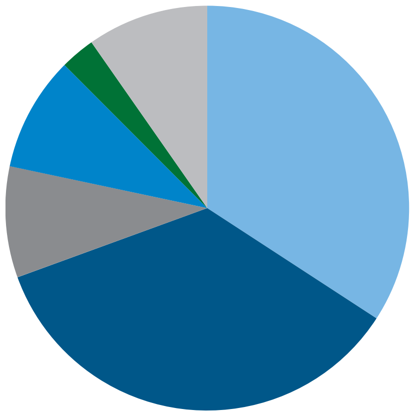
Asset Class	Dollar Amount	Return Basis[1]
Domestic Equities	$41,009,615	0.27%
Global Equities	13,903,772	0.28%
International Equities	42,294,240	0.24%
Fixed Income	10,907,850	0.10%
Real Estate	27,189,041	0.50%
Alternative Investments	47,713,750	1.42%
Total	$183,018,268	0.32%

[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.

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. Active employees enrolled in the FRS Investment Plan cannot make contributions and only pay investment management fees.

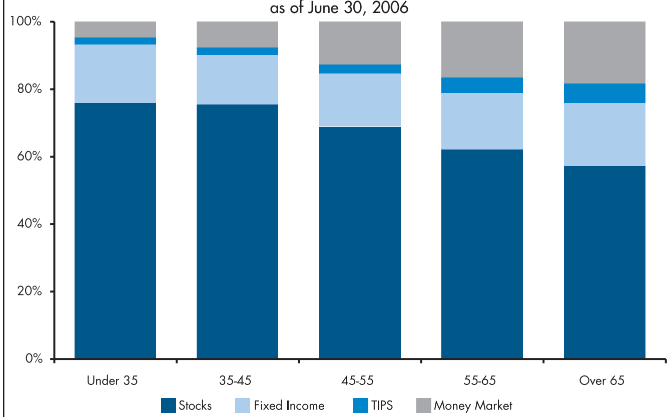
In the fiscal year ended June 30, 2006, the FRS Investment Plan had 75,377 member accounts, an increase of 26% from the previous year. This growth reflected a surge in enrollments, particularly among eligible new hires, and an increasing number of employees using their one-time second election to move from the FRS Pension Plan to the FRS Investment Plan. The total includes terminated members who left their balance in the plan. Overall, approximately 9.5% of all active FRS-covered employees were enrolled in the FRS Investment Plan at year-end, up from 7.8% a year earlier.

Chart 7: FRS Investment Plan Asset Allocation by Product Type
$2,305.8 million as of June 30, 2006



During the year, the FRS Investment Plan received $1.054 billion from employer payroll contributions and benefit transfers from the FRS Pension Plan. Incoming benefit transfers were almost entirely due to members exercising the use of their one-time second election opportunity. The balance of the change in plan assets resulted from financial market gains and losses, and distributions of benefits paid to members. Total distributions during the fiscal year were $329 million. 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, 721 participants did so, transferring more than $22.4 million.

Chart 8: FRS Investment Plan Asset Allocation by Participant Age
as of June 30, 2006



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 75% of the members allocated at least some of their assets to one or more of the three available balanced funds. Over 34% of total plan assets were in the balanced funds.

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 0.29% for the FRS Investment Plan.

FRS Investment Plan Performance Summary

With a solid performance from all sectors, the composite total return for all plan assets was 10.18%, net of investment management fees, for the fiscal year. The Plan outperformed its performance benchmark by 83 basis points for the year. While some individual funds underperformed their individual benchmarks, each asset class outperformed its benchmark. These aggregate results reflect the asset allocation and investment fund selections of individual participants.

FRS Investment Plan Oversight and Management

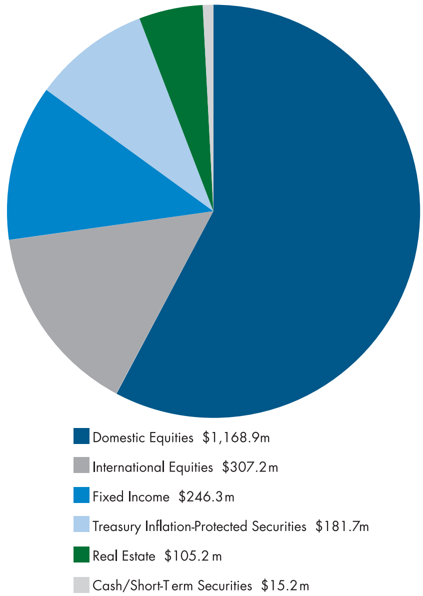
Through the Investment Policy Statement, the Board of Trustees delegates responsibility for the day-to-day management of the FRS Investment Plan, including recordkeeping, asset custody and investments, to the SBA's Executive Director.

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.

Chart 9: Lawton Chiles Endowment Assets by Type
$2,024.5 million as of June 30, 2006



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

Lawton Chiles Endowment Fund

In the fiscal year ending June 30, 2006, the market value of the Lawton Chiles Endowment Fund (LCEF) increased to $2.02 billion from $1.87 billion, reflecting a net investment gain of $189.7 million and withdrawals of $39.2 million.

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.

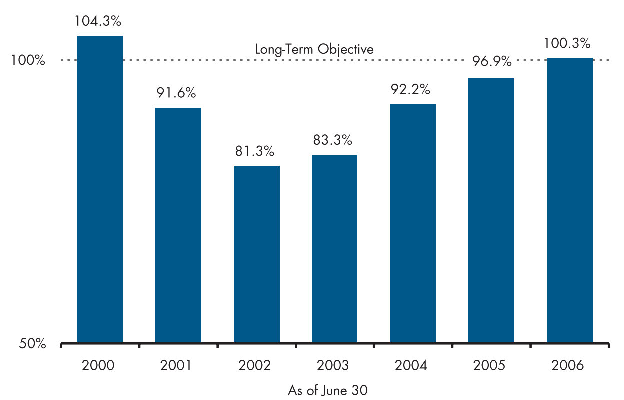
The SBA has the statutory authority and responsibility for the investment of LCEF assets, subject to certain investment limitations and consistent with an Investment Policy Statement approved by the SBA Trustees.

LCEF Investment Objectives

Florida law specifies that the LCEF 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.

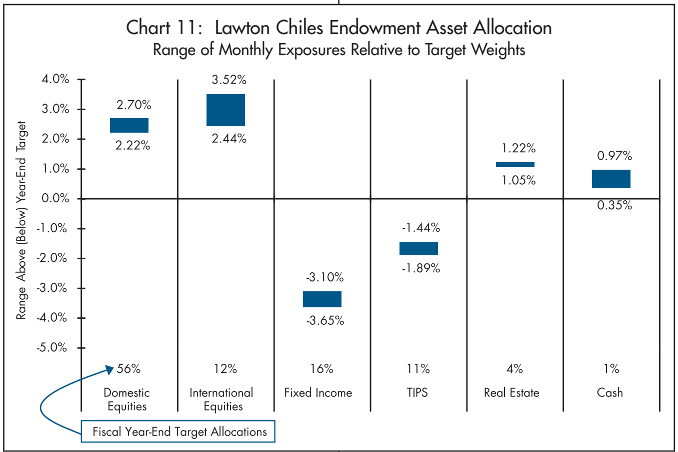
Shortly after the LCEF was initially funded, the stock market experienced a severe downturn that eroded the balance of the Endowment and placed attainment of the statutory objective at risk. In February 2003, the Trustees approved changes to the Investment Policy Statement with the goal of improving 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.

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



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 marked an important milestone for the

Fund in that asset growth, net of cash outflows, caused the Fund's net asset value to exceed the value of contributed capital in both nominal and real (inflation-adjusted) terms. Chart 10 illustrates the progress that has been made in reaching the statutory investment objective.



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 4 and 5, respectively. A breakdown of performance by asset class is shown in Tables A and B in the main body of this Investment Report.

With a total return of 10.11%, the LCEF outperformed its target by 104 basis points for the fiscal year, an exceptionally strong result.

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 20, together with details on asset growth over the year.

Table 19: Lawton Chiles Endowment Fund External Management Fees
Fiscal Year 2005-06

Asset Class	Dollar Amount	Return Basis[1]
Domestic Equities	$674,559	0.25%
International Equities	659,735	0.23%
Fixed Income	35,180	0.04%
Real Estate	263,699	0.26%
Total	$1,633,173	0.22%

[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.

Table 20: Lawton Chiles Endowment Fund Assets Under Management
Market Value Change by Manager

Account Name	Net Asset Value 6-30-05	Net Contributions and Transfers	Investment Gain (Loss)	Net Asset Value 6-30-06
DOMESTIC EQUITIES MANAGERS - INTERNAL				
Chiles Domestic Equities Portfolio	$1,089,277,076	$(922,293,784)	$43,794,052	$210,777,344
Enhanced Investment Technologies, LLC [1]	0	242,673,556	14,595,431	257,268,987
Earnest Partners Inc. [1]	0	80,980,476	99,287	81,079,763
Chiles Large Cap Index Fund [1]	0	585,479,752	34,295,882	619,775,634
FIXED INCOME MANAGERS - INTERNAL				
Chiles Government/Corporate Portfolio [2]	160,888,389	(159,113,408)	(1,774,981)	0
Chiles Lehman Aggregate [1]	0	246,401,258	(96,459)	246,304,799
FIXED INCOME MANAGERS - EXTERNAL				
Chiles Lehman Brothers Asset Mgt LLC	86,983,178	(87,287,732)	305,836	1,282
INTERNATIONAL EQUITIES MANAGERS - EXTERNAL				
Barclays Global Investors-MSCI ACWI	46,469	(35,505)	18,940	29,904
Capital Guardian	69,157	(81,443)	22,941	10,655
Chiles International Equities Portfolio (Acadian)	245,811,674	(18,083,052)	79,444,901	307,173,523
INFLATION-INDEXED BONDS - INTERNAL				
Inflation Linked Treasury	184,174,494	(118)	(2,457,063)	181,717,313
REAL ESTATE MANAGERS - EXTERNAL				
Chiles Endowment Real Estate	92,256,020	(105,081,743)	12,825,970	247
AEW Capital Management [1]	0	48,653,684	3,837,271	52,490,955
Invesco Institutional [1]	0	48,528,059	4,158,933	52,686,992
CASH/SHORT-TERM MANAGERS - INTERNAL				
CAMP Money Market Fund	14,516,559	34,533	652,844	15,203,936
TOTAL LAWTON CHILES ENDOWMENT	$1,874,023,016	$(39,225,467)	$189,723,785	$2,024,521,334

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

As of June 30, 2006, the inflation-adjusted value of total contributions to the LCEF was approximately $1.653 billion (in 1999 dollars). The comparable net asset value was $1.658 billion, or $5.0 million above total contributions. In nominal terms, the Fund's net asset value of $2.025 billion exceeded cumulative gross contributions into the Fund by $323.4 million.

Other Investment Programs

POOLED INVESTMENT FUNDS

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. As of June 30, 2006, the SBA managed approximately $22.1 billion in funds for the pool, up 25.1% from $17.7 billion a year earlier, with approximately 930 local government participants holding 2,015 accounts. The SBA has operated the LGIP since January 1982.

The objectives of the LGIP are as follows:

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

The SBA manages the LGIP to be competitive with 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 4 and 5, 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 government 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.

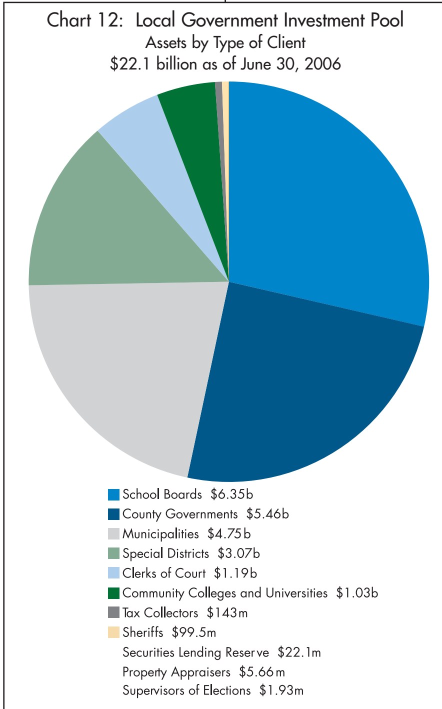
Table 21: Local Government Surplus Funds Trust Fund
Assets by Type as of June 30, 2006

	Net Asset Value[1] 6/30/06	% of Total [2]
POOLED ACCOUNTS (LGIP)		
Cash	$11,404,655	0.1%
Certificates of Deposit	1,450,848,370	6.4%
Commercial Paper	6,935,417,098	30.6%
Extendable Notes	2,084,961,229	9.2%
Federal Agency Obligations	2,486,740,835	11.0%
Floating/Adjustable Rate Notes	845,669,015	3.7%
Liquidity Notes	7,665,705,434	33.8%
Treasury Bills, Notes & Bonds	654,198,068	2.9%
Total Local Government Investment Pool	$22,134,944,704	97.6%
NON-POOLED ACCOUNTS		
Cash	$672	0.0%
Commercial Paper	78,087,787	0.3%
Liquidity Notes	50,717,530	0.2%
Repurchase Agreements	416,996,348	1.8%
Total Non-Pooled Investments	$545,802,337	2.4%
Grand Total Local Government Surplus Funds	$22,680,747,041	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 21 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, 2006, CAMP-MM consisted of 20 client accounts with total assets valued at $683 million, up from $385 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 government entities, trusts and endowments;
- Securities purchased are consistent with Section 215.47, Florida Statutes;
- Operate the CAMP-MM as a "2a7-like" fund using the SEC investment requirements for a 2a-7 Money Market Fund as guidance; and
- Provide liquidity to the participants on a daily basis.

CAMP-MM is managed to be competitive with the 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 Florida Education Fund, Inc. - McKnight Doctoral Fellowship Program, and the Blind Services Endowment 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, 2006: the SBA Administrative Expense Fund ($26.5 million); the Division of Blind Services Trust Fund ($847,000); the Lawton Chiles Endowment Fund ($246.3 million); and the Florida State University Research Foundation ($35.8 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, 2006: the Lawton Chiles Endowment Fund ($210.8 million); the Florida State University Research Foundation ($35.6 million); and the Division of Blind Services ($1.3 million).

SBA's Investment Management Fees

Table 22 shows a brief history of the SBA's investment management fees on assets in the LGIP and CAMP products.[1] Fees are applied on a pro-rata basis. Note that, in the future, the fee structure could change.

Table 22: 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%)
2003-2004	1.65 basis points	(0.0165%)
2004-2005	1.50 basis points	(0.0150%)
2005-2006	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. Clients pay other fees as pass-through costs related to custody, performance measurement and external MBS asset management.

MANDATES INVESTED SOLELY IN 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 investment products. Mandates that are partially or wholly managed using separate investment accounts are described in the following section which is titled "Separately Managed Portfolios." Table 1 lays out the full array of the SBA's investment portfolios by client and investment vehicle.

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. Due to liquidity demands, the Arbitrage Compliance Trust Fund is considered a nondiscretionary account. Compliance with applicable provisions of the mandate is determined at the time of purchase.

Bond Fee Trust Fund

Division of Bond Finance activities related to bond issuance, the Private Activity Bond Allocation Program

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

and the Local Government Bond Disclosure Information Program are funded out of the Bond Fee Trust Fund. Investments are limited to the CAMP-MM Fund. Due to liquidity demands, the Bond Fee Trust Fund is considered a nondiscretionary account. Compliance with applicable provisions of the mandate is determined at the time of purchase.

Florida Endowment for Vocational Rehabilitation Trust Fund

The Florida Endowment for Vocational Rehabilitation Trust Fund was enacted to enhance the opportunities for disabled citizens of Florida to become self-supporting, productive members of society. 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 Foundation for Vocational Rehabilitation for expenditure. Due to liquidity demands, the Florida Endowment for Vocational Rehabilitation Trust Fund is considered a nondiscretionary account. Compliance with applicable provisions of the mandate is determined at the time of purchase.

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. Due to liquidity demands, the Florida Prepaid College Foundation is considered a nondiscretionary account. Compliance with applicable provisions of the mandate is determined at the time of purchase.

Florida Prepaid College Program

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

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. Due to liquidity demands, the PEORP Administrative Fund is considered a nondiscretionary account. Compliance with applicable provisions of the mandate is determined at the time of purchase.

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. Due to liquidity demands, the Police and Firefighters' Premium Tax Trust Fund is considered a nondiscretionary account. Compliance with applicable provisions of the mandate is determined at the time of purchase.

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. During the 2005-06 fiscal year, $1,000,000 was returned to the Department of Financial Services from the GIC claims account. The market value of this fund on June 30, 2006 was $27,906, all of which was invested in the CAMP-MM Fund.

Inland Protection Financing Corporation

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

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

The funds are held and invested pursuant to a trust agreement between the Inland Protection Financing Corporation and the SBA. The Bank of New York is the custodian of the assets. Liquidity and preservation of capital are important considerations of the Fund. Currently, all assets of the corporation are invested in CAMP-MM. As of June 30, 2006, the portfolio's net asset value was $1,346.

Insurance Capital Build-Up Incentive Program

The Insurance Capital Build-Up Incentive Program (Program) was approved under Senate Bill 1980, during the 2006 Legislative Session. 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 and the qualifying insurer must contribute new capital to support writing Florida residential insurance. The Program was appropriated $250 million from State General Revenues and the proceeds were entirely invested in CAMP-MM. The Program is considered a nondiscretionary account. Compliance with applicable provisions of the mandate is determined at the time of purchase.

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. The FSURF is considered a nondiscretionary account. Compliance with applicable provisions of the mandate is determined at the time of purchase.

Separately Managed 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.

Debt Service Funds

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

During the fiscal year, 20 existing bond issues were either partially or completely defeased through the issuance of new debt, and six of the 20 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.

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. Monthly investment reports are provided to the Department of Lottery. Compliance with these terms is determined at the time of purchase.

As of June 30, 2006, the market value of Lottery Fund investments under SBA management totaled $1.44 billion.

Florida Hurricane Catastrophe Fund

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

In keeping with our commitment to enhancing and protecting Florida's future, the SBA recognizes the Fund as critical to promoting the confidence of residential property insurers in the Florida market. Our objective is to create and maintain additional insurance capacity for residential property insurance in Florida.

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, 2006, the Florida Hurricane Catastrophe Fund investment portfolio met all compliance requirements.

On June 30, 2006, the market value of the Florida Hurricane Catastrophe Fund was $658 million, down from $3.315 billion a year earlier, due largely to hurricane loss reimbursements totaling nearly $3.5 billion. Details are shown in Table 23.

A securities lending program is in place for CAT Fund investments and utilized as market conditions warrant. For fiscal year 2005-06, net CAT Fund lending income totaled $625,679.

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, 2006, the market value of the IFAS Supplemental Retirement Fund was $16.1 million, compared with $14.2 million a year earlier.

Table 23: CAT Fund Net Asset Value by Fiscal Year

($ Thousands)	2001-02	2002-03	2003-04	2004-05	2005-06
Beginning Net Asset Value	$3,798,479	$4,363,178	$4,943,166	$5,475,890	$3,314,731
Premium Revenue	476,079	498,151	488,459	617,043	734,720
Investment Gain/(Loss)	122,523	104,906	58,102	108,658	103,325
Operating Expenses	(3,903)	(4,066)	(3,837)	(3,960)	(4,813)
Hurricane Loss	0	72	0	(2,821,625)	(3,486,390)
Transfer from/(to) other funds	(30,000)	(19,075)	(10,000)	(61,275)	(3,371)
Ending Net Asset Value	$4,363,178	$4,943,166	$5,475,890	$3,314,731	$658,202

These amounts are reported on a cash basis. Beginning and ending asset values include cash, net market value of securities and accrued income.

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, 2006, the market value of the Fund was $168.4 million, compared with $127.6 million a year earlier.

Florida Education Fund, Inc. – McKnight Doctoral Fellowship Program

The SBA manages endowment monies for the McKnight Doctoral Fellowship Program under a trust agreement with the Florida Education Fund, Inc., a not-for-profit statutory corporation. The program assists candidates with educational endeavors and enhances opportunities for program graduates to be hired for faculty positions in Florida. The initial transfer of $9 million in securities is, at the present time, client-directed, meaning that the SBA is responsible for custody of the securities, but not for managing them. Income from these assets that is not withdrawn by the client is invested in the CAMP-MM Fund, whose investments the SBA does manage. On June 30, 2006, the market value of the Fellowship Program fund totaled $3.1 million, compared with $4.3 million a year earlier.

Bond Proceeds Trust Fund

The Bond Proceeds Trust Fund is a fiduciary fund established to temporarily hold good faith deposits from brokers and underwriters of Florida government bonds received by the Division of Bond Finance. Monies are invested in U.S. Treasury securities or repurchase agreements backed by U.S. Treasuries until the bonds are issued. The proceeds are then transferred to the indebted unit of government. Because the monies reside with the SBA only briefly, the objective of the Fund is safety and liquidity. Due to these restrictions, the Bond Proceeds Trust Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. On June 30, 2006, there were no proceeds in the Fund.

Gas Tax Trust Fund

The Gas Tax Trust Fund is a conduit for the distribution of debt service payments generated from County Gas Tax collections and remitted to the Department of Revenue and to the Department of Highway Safety and Motor Vehicles. Funds held in anticipation of scheduled debt repayment are invested in U.S. Treasury securities or short-term repurchase agreements collateralized by U.S. Treasuries. Investment maturities are dictated by the schedule of principal and interest payments on the various debt issues. Due to these restrictions, the Gas Tax Trust Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. The Gas Tax Trust Fund held no assets on June 30, 2006. Since the Gas Tax Fund operates simply as a conduit fund to distribute local gas tax collections, after debt service requirements are met, the Fund rarely holds assets at month-end.

Local Government Non-Pool Funds

The SBA also invests funds on an individual basis for local governments with specific needs that cannot be met by the Local Government Pool or the CAMP products. Investment maturities and types are dictated by the local government and executed by the SBA. Due to these restrictions, the Funds are considered nondiscretionary accounts. Compliance with these terms is determined at the time of purchase. As of June 30, 2006, the net asset value of the Fund was $545.8 million.

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 2010. Authorized investments include U.S. government and agency securities, investment grade corporate debt and high-quality money market instruments. The majority of the Fund is invested in U.S. agencies with the remainder in the

CAMP-MM Fund. Due to these restrictions, the Scripps Florida Funding Corporation Fund is considered a nondiscretionary account. Compliance with these terms is determined at the time of purchase. As of June 30, 2006, the market value of the Fund was $206 million.

Other SBA Responsibilities

MyFRS Financial Guidance Program

The MyFRS Financial Guidance Program is a landmark program that gives FRS members free and convenient access to personalized multi-media retirement planning services. Its goal is to provide objective information that can 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 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. Florida Division of Retirement counselors are also available.

- 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 the Personal Online Advisor Service. Members can enroll and manage their FRS Pension Plan or FRS Investment Plan benefits within the portal's secure single-sign-on architecture.

- Workshops – Ernst & Young conducts FRS retirement plan choice, retirement planning, financial planning and estate planning workshops throughout Florida. Additional workshops on debt management, education funding, and insurance planning will be presented beginning in FY 2006-07.

Fiscal year 2005-06 was the second year that Personal Retirement Forecast Statements were prepared for each active FRS participant. 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 24 illustrates the growing demand for services offered by the MyFRS Financial Guidance Program.

Table 24: MyFRS Financial Guidance Program
Employee Usage

	FY 2005-06	Change From Prior Year
Toll-Free MyFRS Guidance Line Counseling Calls	139,349	22%
MyFRS.com Sessions	1,435,354	16%
Retirement Income Forecasts	521,870	47%
New Hire Choice Service	17,142	1%
2nd Election Choice Service	91,833	20%
Personal Online Advisor Service	115,068	16%
Workshop Attendance	8,509	0%
Personalized Printed Statements		
New Hire Benefit Comparison Statements	79,174	-1%
Personal Retirement Forecast Statements	620,368	10%

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

During the fiscal year, over 85,000 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.

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 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 25 illustrates that active enrollments in the FRS Pension Plan and FRS Investment Plan have continued to rise during the past three fiscal years, reflecting the impact of the enhanced and simplified new hire education and enrollment process, which began in 2003.

Employees who do not make an active choice are automatically enrolled in the FRS Pension Plan (default), but they are given one more opportunity during their active

Table 25: FRS Enrollments by Newly-Hired Employees

	Defaults into Pension Plan	Active Enrollments into Pension Plan	Active Enrollments into Investment Plan*	Total Enrollments
Sep. 2002 – Jun. 2003	87%	5%	8%	100%
FY 2003-04	74%	11%	16%	100%
FY 2004-05	62%	17%	21%	100%
FY 2005-06	59%	19%	22%	100%

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

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.

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 for 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.

Corporate Governance

The SBA's fiduciary responsibility extends beyond direct investment decisions to corporate governance. Fostering better corporate governance enhances shareholder value and supports our long-term investment objectives.

Through active support of corporate governance reforms, prudent voting of company proxies and the adoption and application of Investment Protection Principles, the SBA works to hold companies to high ethical standards and practices.

The SBA strongly believes in accurate and honest financial reporting practices by public companies. We support 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 auditing practices, and policies covering issues such as succession planning and meaningful shareholder participation. The SBA also expects companies to adopt rigorous stock ownership and retention guidelines, and annually seek shareowner ratification of the companies' external auditors.

To ensure that proxies are voted consistently and reliably, the SBA has developed a comprehensive set of proxy-voting guidelines. These guidelines 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.

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 (FRS). 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 shareholder meetings. During the fiscal year, the SBA cast votes on 3,478 public company proxies covering 26,515 individual voting items. On these proxy issues, the SBA voted *for*, *against*, or *abstain* on 78.6%, 20.4% and 0.9% of all items, respectively. Of all votes cast, 22.9% were against the management recommended vote.

In the interest of ensuring full transparency, the SBA discloses its proxy votes immediately after shareholder meetings occur. The SBA also publishes a comprehensive corporate governance report each year that discloses its corporate governance activities, including highlighted votes and significant capital markets events.

In addition, 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 shareholders and groups of institutional investors to discuss significant governance topics. This practice helps the SBA stay abreast of issues involving specific companies and general corporate governance issues, including 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 & Exchange Commission, the New York Stock Exchange, the Financial Accounting Standards Board and the Public Company Accounting Oversight Board. During fiscal year 2005-06, the SBA submitted seven formal regulatory comments on proposed reforms, including efforts to increase executive compensation disclosure and increase accountability within the director election process.

To learn more about the SBA's corporate governance activities and its votes, visit www.sbafla.com.

STATE BOARD OF ADMINISTRATION

SBA FLORIDA

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