STATE BOARD OF ADMINISTRATION

INVESTMENT REPORT

TWO THOUSAND AND NINE

Our Mission

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

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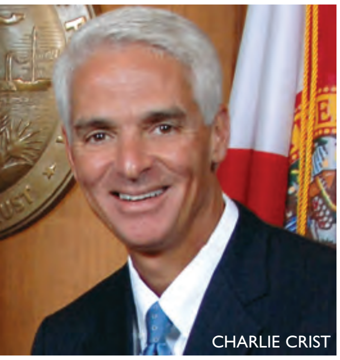
*This year the SBA is presenting its Investment Report in two parts: A printed main section with information relevant for most stakeholders and an electronic supplement with additional details. The supplement is available at www.sbafla.com/annualreports. Both parts can be accessed and printed from this site.

LETTER *from* THE TRUSTEES

October 16, 2009

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

It is our privilege to submit the annual Investment Report of the State Board of Administration of Florida (SBA) for the fiscal year ended June 30, 2009, pursuant to the requirements of Florida Statutes, Section 215.44(5). The statutory mandate of the SBA is to invest, manage and safeguard assets of the Florida Retirement System (FRS) Trust Fund – its primary fiduciary responsibility – as well as the assets of a variety of other funds, including the FRS Investment Plan, the Lawton Chiles Endowment Fund, the Florida Hurricane Catastrophe Fund and Florida PRIME, formerly known as the Local Government Investment Pool or LGIP. At the end of the fiscal year, the total net asset value of the 36 mandates and trusts under SBA management was $122 billion.



CHARLIE CRIST

During the fiscal year, we were pleased to welcome Ashbel C. Williams as the SBA's new Executive Director and Chief Investment Officer. Mr. Williams joined the SBA in October 2008 and is returning to a post he held previously for the SBA from 1991 to 1996. Mr. Williams brings a wealth of experience in the public and private sectors to this position. He has served in senior management positions in Florida's executive and legislative branches as well as serving as Managing Director at Fir Tree Partners and President and CEO of Schroder Capital Management. His strong Florida roots also include BS and MBA degrees from The Florida State University College of Business.

ALEX SINK

Fiscal year 2008-09 was a very difficult year for the markets and the economy in general. The S&P 500 Index fell 51% from its peak in January 2007 to its bottom in February 2008 (month-end to month-end). In light of such data, it is not surprising that it was also a challenging year for pension funds. Although a formal actuarial report for June 30, 2009 is not available at the time this letter is being written, the FRS Pension Plan appears to have ended the year somewhat underfunded for the first time since 1997 – approximately 88% funded, using higher system cost assumptions proposed by the FRS actuary. Though disappointing, this is still a strong fiscal position for the FRS Pension Plan. According to the most recent report available from the National Association of State Retirement Administrators (NASRA), a funding level "at or above 80%" is considered "an informal threshold of actuarial health." ("Public Fund Survey Summary of Findings for FY 2007," National Association of State Retirement Administrators, November 2008.)

BILL McCOLLUM

The NASRA report also states: "Underfunding is a matter of degree, not of kind. That is, simply because a plan is underfunded is not necessarily a sign of fiscal or actuarial distress; many pension plans remain underfunded for decades without causing fiscal stress for the plan sponsor." It goes on to note that, for fiscal year 2007, the "median funding level [was] 84.3%." Thus, despite the downturn, the FRS Pension Plan remains among the healthiest in the nation. In fact, if no other pension plan was affected by the downturn or increasing longevity of its members – clearly not the case – the FRS Pension Plan would still rank in the top quartile. Moreover, the strong rebound in financial markets since the end of the fiscal year may have eliminated a fair portion of the FRS Pension Plan's recent underfunding.

Near the end of the fiscal year, we approved policy changes to the investment policy guidelines for Florida PRIME, formalizing numerous measures of protection instituted in early 2008. The changes are designed to ensure that this vehicle is managed according to many of the same stringent standards as an SEC-registered money market fund.

Florida PRIME is among the first governmental investment pools nationwide to adopt rules and procedures such as those used by SEC-registered funds. The strengthened policies are geared to better position the fund to sustain extreme and prolonged redemption pressures. Florida PRIME offers management by a leading provider of SEC-registered money market funds, conservative investment policies, a Standard & Poor's AAA(m) rating, enhanced transparency, and extensive governance and financial reporting. As of June 30, 2009, the fund had total assets of approximately $6 billion, comprised of monies from over 800 governmental entities. Additional information can be found at www.sbafla.com/prime.

We were also proud to support the launch of the Florida Growth Fund during this fiscal year. The Florida Growth Fund initiative is one result of the Florida Technology and Growth Act enacted in May 2008. The legislation allows the SBA to prudently invest up to 1.5% of Florida Retirement System Pension Plan assets in technology and growth enterprises that have significant presence in Florida. Technology and growth investments include, but are not limited to, space technology, aerospace and aviation engineering, computer technology, renewable energy, and medical and life sciences. It is anticipated that these SBA investments will first and foremost benefit the FRS Trust Fund but will also help stimulate the state economy, attract additional investment capital to the state, and increase the presence of venture capital organizations. Investments available to the fund include venture capital funds, growth capital, mezzanine debt and co-investments.

On May 13, 2009, the Board of Trustees voted unanimously to initiate quarterly board meetings of the SBA and to convene an independent working group to study industry best practices and governance structures of other public pension funds.

As Trustees, we are dedicated to ensuring that the SBA discharges its duties to invest Florida's assets ethically, prudently and in strict accordance with applicable law and policies. We are encouraged by the increased transparency and responsiveness of the SBA and believe it remains one of the strongest and most effectively managed public investment organizations in the country. We also have been heartened by signs that our economy may be experiencing the early stages of a recovery and retain a cautiously optimistic outlook for the coming year.

As Trustees, we are dedicated to ensuring that the SBA discharges its duties to invest Florida's assets ethically, prudently and in strict accordance with applicable law and policies.

Respectfully submitted,

Governor, as Chairman

Charlie Crist

CHARLIE CRIST

Chief Financial Officer, as Treasurer

Alex Sink

ALEX SINK

Attorney General, as Secretary

Bill McCollum

BILL MCCOLLUM

Report *from* The Executive Director

This Investment Report for fiscal year 2008-09 comes at the end of my eighth month serving as Executive Director and CIO of the SBA and is my first annual report for the SBA since the close of my earlier term here in 1996.

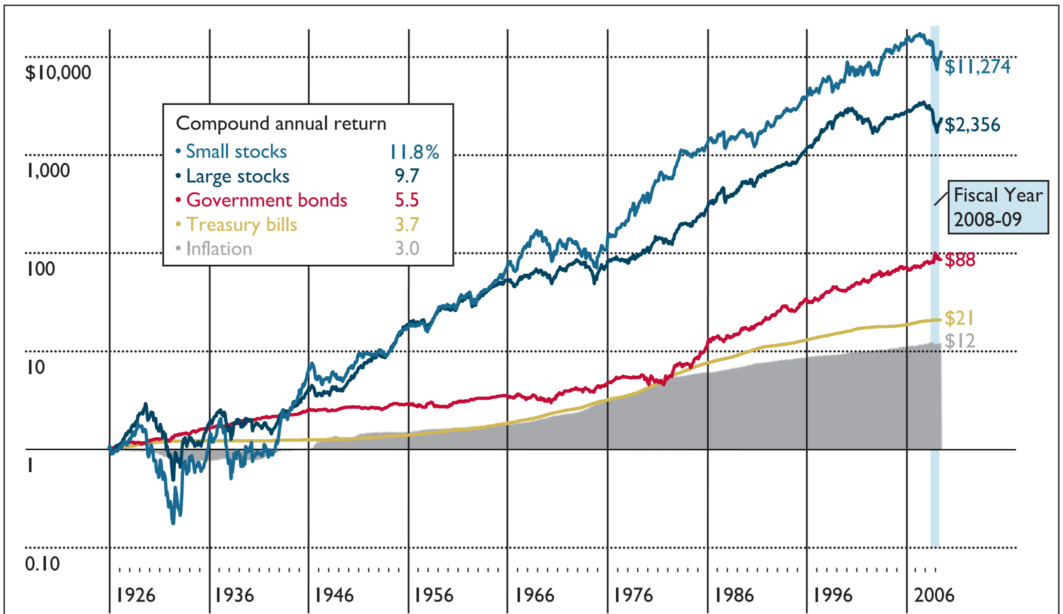
While the portfolio is larger and there are new faces on the SBA team, many of the issues and challenges are the same as in the early 1990s and will remain so because they are fundamental to investing. Markets are very good at keeping investors humble; usually about the time that a perspective achieves the dignity of "conventional wisdom," market dynamics change, the law of unanticipated consequences intervenes and "new paradigms" dominate earnest discussions of how the world has changed and how investors' thinking must evolve to match the new reality. Rather than chase the strategy(ies) du jour, we prefer to focus on the fundamentals: identifying and managing risk, finding value and continuing to build an organization that is up to fulfilling our obligation to approximately one million beneficiaries and numerous state and local government clients.

As uncomfortable as the 2008-09 financial crisis was (light blue shading), its impact was small in relation to the long-term trend of asset growth.

Chart 1: Long-Term Asset Growth

Stocks and Bonds Versus Inflation

January 1926 through August 2009



Hypothetical value of $1 invested at the beginning of 1926.
Assumes reinvestment of income and no transaction costs or taxes.

During the eight months I have been at the SBA, we are pleased to have progressed on a number of fronts and to have established paths to advance on others. Areas of focus have included:

- Funding a number of opportunistic strategies in the Strategic Investments asset class to take advantage of investments unique to the recent market environment and adding resources to bolster our opportunistic investing capabilities.

- Increasing the soundness of the Florida Hurricane Catastrophe Fund (FHCF) by reducing its liabilities, increasing its assets and improving access to capital markets.

- Continuing improvements in transparency, client focus, investment policy and operations for Florida PRIME (previously the Local Government Investment Pool). The Participant Local Government Advisory Council is an increasingly valuable partner.

- Addressing succession, recruitment and retention issues for our organization.
- Managing fallout from the credit crisis in various areas and revising policies, as appropriate, to reduce future risk exposure.
- Following up on outstanding audit issues, such as implementation of an independent compliance process, while working more closely with our Audit Committee.
- Responding to numerous legislative inquiries with timely, credible information.
- Researching governance at other public pension funds and highly regarded private investment institutions to identify best practices.
- Scheduling an asset/liability study of the FRS Pension Plan to facilitate an update of asset allocation and reexamination of the use of active vs. passive and internal vs. external asset management.
- Taking advantage of every available opportunity to meet with constituent groups, share information and respond to questions.

Looking ahead, our first priority will be making sure we are well-positioned to prosper in the post financial crisis world. This will mean a revisitation of the big picture fundamentals in partnership with the Investment Advisory Council and Trustees. We are fortunate to have a thoughtful, well-qualified Investment Advisory Council whose members generously share their time and expertise. Working with them, our staff and world-class consulting and investment manager resources, I am confident that we can deliver solid recommendations to the Trustees to ensure continued sound management of the FRS Pension Plan assets and other SBA responsibilities.

Looking ahead, our first priority will be making sure we are well-positioned to prosper in the post financial crisis world.

With respect to our largest investment mandate, the FRS Pension Plan, some critical big-picture points are worth remembering:

- *We are large.* The FRS Pension Plan has historically ranked among the largest five public pension plans in the nation and among the top ten in the world. We use our size to great advantage in capturing scale economies. Among 17 large peer public and private plans, the SBA's all-in cost to manage FRS Pension Plan assets was among the very lowest.[1]
- *We are liquid.* While the FRS Pension Plan's net benefit outflows are growing, they still represent a small portion of assets. Fiscal year 2008-09's net outflow of $3.2 billion was just over 3% of assets for the period.
- *We are invested for the long-term.* As Chart 1 on page 6 shows, over the long-term, patient investors have been handsomely rewarded, notwithstanding interim market setbacks.
- *We are highly diversified.* We face principally the risk of the broad markets (and the attendant return) because our portfolios are sufficiently diversified to minimize individual security risk. Further, leverage is judiciously utilized to avoid amplified downside risk.
- *We are healthy.* Despite the recent market setback, the FRS Pension Plan remains one of the best-funded public pension plans in the country.

[1] Defined Benefit Investment Cost Effectiveness Analysis, CEM Benchmarking Inc., October 2, 2009. At 24 basis points, the SBA's cost was second lowest, and 50% less than the median plan cost.

To put our position in broad perspective, even if our investments never made another dime (which, of course, will not be the case), we have an asset base today sufficient to cover benefit payments for the next 20 years.

Fiscal Year 2008-09 Year-End Performance and Market Comments

For the twelve months ending June 30, 2009, performance for the SBA's three key mandates was as follows:

	Managed Return	Target Return	Managed vs. Target
FRS Pension Plan	-19.03%	-17.89%	-1.14%
FRS Investment Plan	-15.16%	-15.45%	0.29%
Lawton Chiles Endowment Fund	-21.85%	-22.48%	0.63%

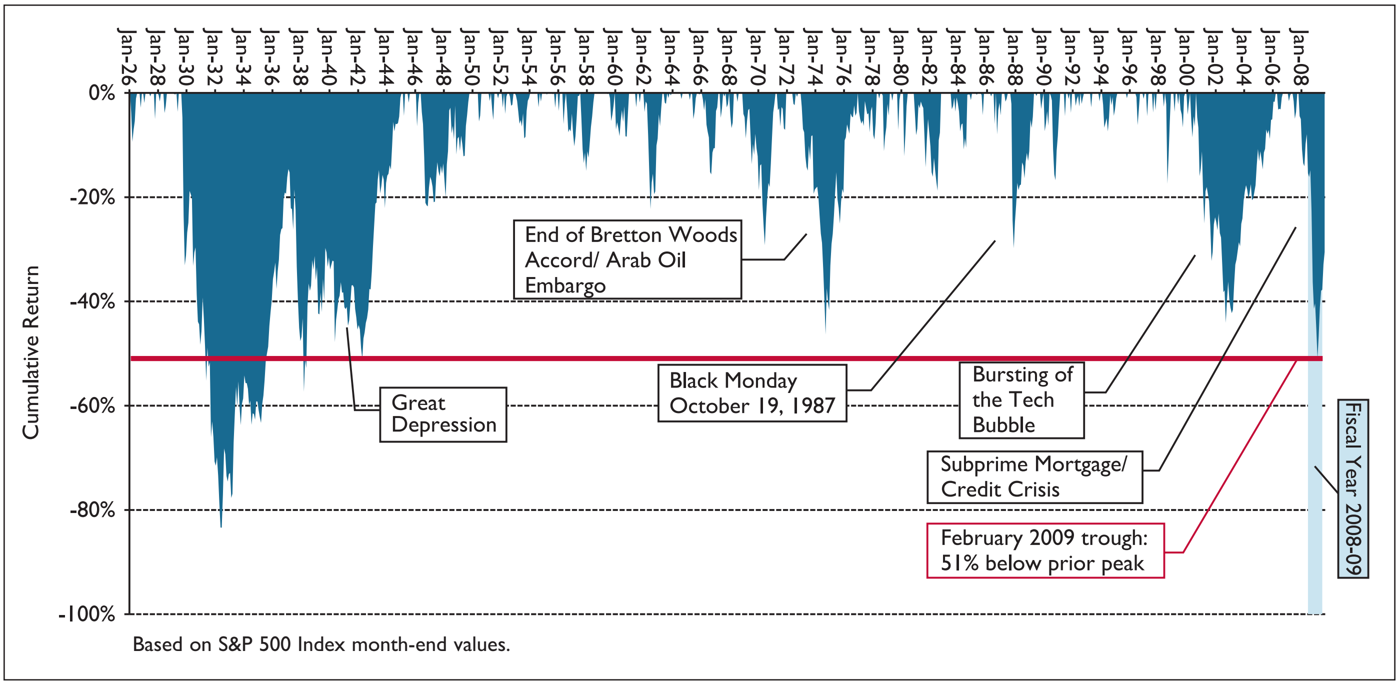
The recent downturn was the worst since the Great Depression, though the speed of its fall and projected recovery are like that of the 1970s recession.

This disappointing performance reflects the worst market downturn since the Great Depression. The chart below provides graphic perspective on how deep and sharp the 2008-09 drop was. The 51% fall in stock prices, month-end to month-end, was the worst since the second wave of the Great Depression in 1942. Fortunately, the duration of this downturn to date appears much more akin to that of the 1970s recession.

Attesting to the difficulties facing investors last year, Chart 3, on the facing page, illustrates widespread weakness across the asset classes. Among our broad asset classes, only fixed income and inflation-protected securities experienced gains, and those were quite modest.

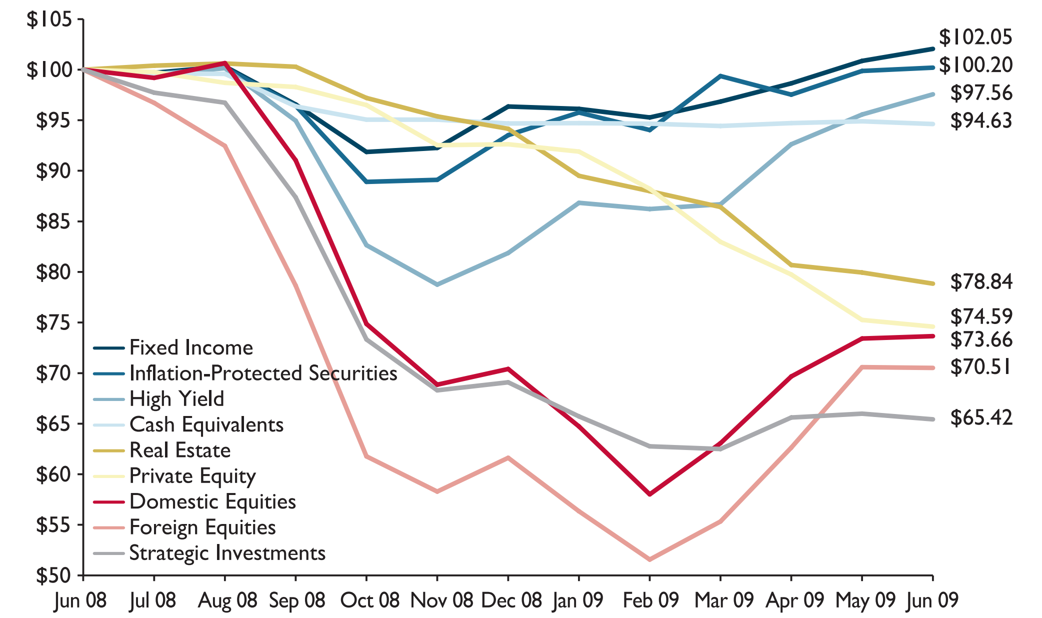
Nonetheless, while the fiscal year absolute returns were very weak, the year ended on a very strong note as signs of economic stability began to multiply. The Russell 3000 Index – a broad measure of U.S. equity performance – surged 16.8% during the quarter-ended June, and foreign stock markets, as measured by the MSCI ACWI ex-U.S. Investable Market Index, jumped 21.3%. Fixed income markets saw gains on narrowing credit spreads, and the Barclays Capital Aggregate Bond Index returned 1.8% for the quarter.

Chart 2: Historical U.S. Equity Declines
January 1926 through August 2009



Source: Wilshire Associates, Inc.

Chart 3: Asset Class Net Investment Gains
Growth of $100 Invested During Fiscal Year 2008-09



Based on FRS Pension Plan asset class returns except Inflation-Protected Securities is based on that class in the Lawton Chiles Endowment Fund.

Additionally, it is important to note that our largest mandate, the FRS Pension Plan, remains among the healthiest public pension plans in the United States, and we are well-positioned to take advantage of the financial market recovery that we see unfolding. We have certainly felt some pain through the recent market downturn, but those same conditions have created opportunities. The FRS Pension Plan's asset base has rebounded from the March 9, 2009 market low – adding about $20 billion in value between early March and the end of August – net of paying out $1.9 billion in benefit payments.

We remain ahead of our five-year and ten-year benchmarks. However, we missed our performance benchmarks for the year by 1.14 percentage points, in part due to under-performance in the Fixed Income, Private Equity, and Strategic Investments asset classes. The Real Estate, Domestic Equities, and Foreign Equities asset classes all exceeded their benchmarks for the period. I expect to see some continued challenges in certain asset classes including Fixed Income and Real Estate, as well as some attractive opportunities for patient, disciplined investors; and be assured, the SBA is a disciplined investor. We have made substantial commitments to opportunistic investments that, going forward, will allow us to take advantage of the same economic dislocations that have challenged certain existing positions.

The FRS Pension Plan will continue to be conservatively managed with a focus on diversification and long-term performance. This long-term approach and broad diversification are intended to provide growth and protection against weakness in individual investment categories and position the fund to better weather short-term economic cycles.

We adopt specific investment policy guidelines for the management of the FRS Pension Plan that reflect the appropriate risk, return, and diversification needed to meet its fiduciary requirements. Return objectives are predicated on the actuarial determination of future liabilities. Once the expected pension liabilities (i.e., future benefit payments) are estimated, an appropriate asset allocation mix that has the highest likelihood of meeting those requirements at minimum risk of shortfall at the total fund level is established. The FRS Pension Plan employs a mix of eight asset

Fiscal year 2008-09 saw weakness across all our diverse asset classes. Only two eked out modest gains. Public market returns turned up as the year wore on, while private market investments continued to fall, reflecting the valuation lags inherent in these types of investments.

classes (Fixed Income Investment Grade, High Yield, Domestic Equities, Foreign Equities, Real Estate, Private Equity, Strategic Investments, and Cash) to ensure appropriate diversification. Additionally, each asset class adheres to investment policy guidelines that further assure diversification within that asset class. The result is an appropriate portfolio that has a performance benchmark made up of its respective asset classes' performance benchmarks.

We are fiduciaries committed to prudently growing the assets of the FRS Pension Plan. Notwithstanding a thoughtful, disciplined approach to investing and the best efforts of dedicated staff and expert outside advisors, not all investments will succeed. To the extent we have failures, we will be honest with ourselves, our beneficiaries, and constituencies; we will identify mistakes made, learn our lessons, and move on.

We are fiduciaries committed to prudently growing the assets of the FRS Pension Plan.

Peter Cooper Village/Stuyvesant Town (PCV/ST) is a case in point. The SBA made the commitment to invest in the PCV/ST commingled fund in March 2007, as part of its opportunistic real estate category and funded the investment in June 2007. Consistent with the broad recession the U.S. has experienced, rent and occupancy levels have softened – especially in local economies closely tied to the financial industry. As a result, income growth for PCV/ST has been below the worst-case estimates. However, the recession did not reduce debt service costs; the combination of below-plan income growth and leverage has destroyed PCV/ST value for all equity investors. Accordingly, the SBA's carrying cost of $266 million has been written off and has been reflected in the net asset valuation of the fund since May 31, 2009. Despite this individual investment loss, the Real Estate asset class has performed ahead of its benchmark. In addition, it is more conservatively invested than its peers and thus is better postured to weather the stresses expected in commercial real estate over the next few years.

Other Issues of Note

- The SBA announced the launch of the Florida Growth Fund on June 19, 2009. The fund is one result of the Florida Technology and Growth Act, which allows the SBA to prudently invest up to 1.5% of FRS Pension Plan assets in technology and growth enterprises that have significant presence in Florida.

- Hamilton Lane, the investment manager of the Florida Growth Fund, expanded its team and opened offices in Orlando and Ft. Lauderdale in order to support the fund.

- The SBA formally announced a new brand identity for the Local Government Investment Pool on August 3, 2009. The new "Florida PRIME" branding reflects the improvements and added benefits for participants that have been developed over the last 18 months. A summary of Florida PRIME's performance and holdings through June 30, 2009, is included in this report. More detailed information can be found on the SBA website at www.sbafla.com/prime.

- From December 2007 through the end of the fiscal year, the SBA has transferred a total of $1.46 billion in liquid assets from Fund B to the accounts of participants in Florida PRIME. This amount represents nearly 73% of their original adjusted Fund B balances. We continue to work toward our objective of maximizing the present value of cash distributions from Fund B.

- Recent FHCF legislation reduced the Temporary Increase in Coverage Limit (TICL) coverage by $2 billion from the $12 billion that has been offered over the last two years. Of the $10 billion in coverage made available for the 2009-10 hurricane season, insurers selected only $5.6 billion, thus reducing potential liabilities of the fund. The combination of the legislative reduction in the coverage limit and the actual coverage selected by insurers has transferred approximately $6.4 billion of potential hurricane losses back to the private markets should a large hurricane event occur.

Like other successful institutional investors, we are process driven; we believe that having the right processes assures a favorable proportion of good outcomes. However, even a sound process may have the occasional bad outcome. Our job is to understand the difference between bad outcomes and bad processes, and be sure we have the right processes in place to meet our liabilities over the long-term.

Respectfully submitted,

Ashbel C. Williams
Executive Director and Chief Investment Officer
State Board of Administration

Like other successful institutional investors, we are process driven …

ECONOMIC *and* MARKET EVENTS

FISCAL YEAR 2008-09

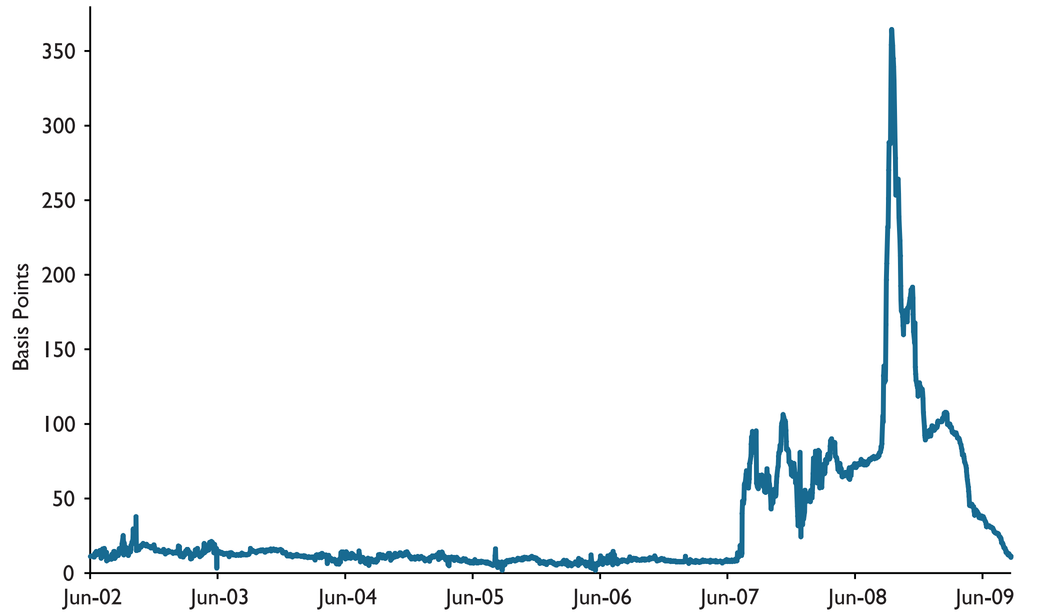
Heading into fiscal year 2008-09, the U.S. economy was in a state of lethargy that had begun with a 0.7% decline in real Gross Domestic Product (GDP) during the first quarter of calendar year 2008. This marked the economy's first negative quarter since 2001, and it was precipitated by the implosion of a housing bubble that had been fostered by record low mortgage rates and lax mortgage underwriting standards. Financial markets were already showing stress in late 2007 as rating agencies downgraded numerous debt instruments tied to subprime residential mortgages. In spite of these negatives, the economy bounced back briefly and posted positive growth in the second quarter of 2008. However, the main factor behind that growth was a declining trade deficit, as a falling U.S. dollar boosted demand for exports. This respite proved merely to be the calm before the storm.

The massive jump in risk premia spreads on short-term loans between banks indicated their extreme reluctance to lend because of heightened default risk.

In the third quarter of 2008 (the first quarter of fiscal 2008-09), real GDP slipped at a 2.7% annual rate as real personal consumption expenditures fell 3.5%, the first quarterly drop in household spending since 1991. The main factors squeezing household budgets were gasoline prices beyond $4 per gallon and declining housing values. Then, in September 2008, the tenor of the economic slowdown changed dramatically with the collapse of Lehman Brothers.

The financial distress that the Lehman collapse unleashed was immediately evident in the behavior of risk premia on short-term loans between banks. As illustrated in Chart 4 below, the OIS-LIBOR spread (the difference between the yields on overnight indexed swaps between banks and three-month interbank loans) jumped from an already elevated 50 basis points to over 350 basis points. This massive spread indicated that banks were extremely reluctant to lend to one another because of heightened default risk.

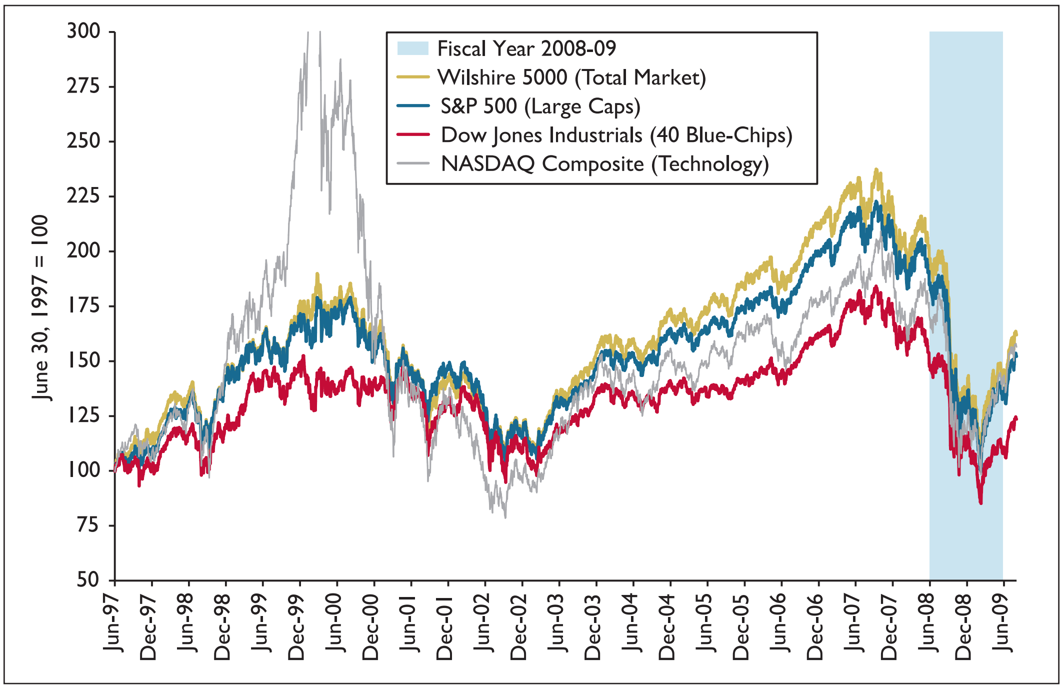
CHART 4: OIS-LIBOR SPREAD
June 2002 through August 2009



OIS or overnight indexed swap rate is each day's expected overnight fed funds rate.

Equity markets had been trending lower as the economy cooled, but at the end of August 2008, the S&P 500 still stood at 1,282.8, a relatively modest 18% decline from an all-time high of 1,565.2 set in October 2007. However, the demise of Lehman stoked fears of widespread bankruptcies, and frightened investors scurried for the exits. Over the next several months, the S&P 500 lost another 39%. No industry sector was spared in this frenzied sell-off, but financial shares were hit the hardest as the S&P Diversified Banks Index plummeted 85% peak to trough. Real Estate Investment Trusts (REITs) also took a massive pounding as profit prospects for commercial real estate investments dimmed. The Wilshire RESI Index lost 75% of its peak value.

Chart 5: Major U.S. Stock Market Indices
June 1997 through August 2009



Stock markets across the board fell sharply during fiscal year 2008-09, as the credit crunch and widespread pessimism dominated investor behavior.

Foreign equities were hit by the same difficulties that plagued U.S. shares. Financial institutions around the globe faced balance sheet problems stemming from the U.S. subprime debacle and the Lehman-induced credit crunch. With the U.S. consumer retrenching and international trade drying up, countries that were heavily export-dependent experienced double-digit declines in real GDP – driving their bourses lower. The MSCI ACWI ex-U.S. Index, a measure of publicly-traded foreign stock prices, fell almost 60%.

Fixed income markets offered little refuge from the turmoil in equities. Given the depth of the recession, most corporate bond issues were viewed with a jaundiced eye as investors fled to the safety of Treasuries. Credit spreads for AAA- and BBB-rated issues doubled post-Lehman, pushing prices for non-government issues to inordinately low levels.

As conditions devolved during 2008, policymakers took a gradualist approach in hopes that conventional tools would be adequate to contain damage to financial markets and the larger economy. The Federal Reserve cut the fed funds rate six times between the end of 2007 and September 2008. Unfortunately, these cuts had little effect as lending institutions had acquired a distinct distaste for risk. On the fiscal side, the Bush administration sponsored a tax cut that put some $150 billion of additional disposable income into consumers' pockets. Regrettably, most of that money was needed to keep gas in the family car, thanks to the spike in prices. However, as financial markets unraveled in late 2008, it became evident that the economy was experiencing something unseen since the 1930s – a major financial panic that would infect all sectors of the economy and could not be meaningfully counteracted by the usual remedies.

Historically, in most U.S. financial panics, the main driving force was a loss of confidence in the banking system. Before the introduction of deposit insurance, anything that made depositors fearful that their institution could not honor withdrawal requests would spur a "run on the bank." Banks would then try to obtain liquidity to meet the demands of depositors. In extreme cases, there was not sufficient systemwide liquidity and banks attempted to liquidate assets by calling in loans. If numerous borrowers were unable to repay their loans quickly, banks were forced to write them off and risk falling into insolvency. In the early 1930s, roughly 5,000 banks in the U.S. suffered that fate with utterly disastrous consequences for the economy as a whole. Nothing remotely similar had been seen since the Great Depression, but that is essentially what happened in late 2008. This time, thanks to deposit insurance, it was not bank depositors who were the problem. However, as the financial system had evolved over the decades, numerous other sources of systemic risk had developed, including uninsured money market mutual funds, hedge funds, and counterparties to derivatives contracts. As investor confidence in these financial intermediaries and their products waned, they suffered runs much as banks had in the past – with an attendant need for liquidity. Unfortunately, given the distressed environment, normal sources of liquidity (i.e., the commercial paper market) were frozen. With credit unavailable, the only other option was to liquidate assets. However, widespread attempts to do so simply depressed asset prices further, intensifying investors' desire to escape from financial entanglements.

In September 2008, the tenor of the economic slowdown changed dramatically with the collapse of Lehman Brothers. Frightened investors scurried for the exits amid fears of widespread bankruptcies.

The overseers of the financial system had not seen this coming pre-Lehman, but they quickly grasped the severity of the problem and implemented innovative damage-control measures. History has taught that when a financial meltdown occurs, the collapse of the system can become largely a function of negative psychology; stemming the deterioration in attitudes is critical to limiting damage to the economy. Consequently, the Fed took a scattergun approach by expanding the array of instruments that it would accept at the discount window to include asset-backed securities, purchasing commercial paper directly on the open market, making special credit facilities available, and allowing some investment banks to convert to bank holding companies – giving them direct access to Federal Reserve sources of liquidity. The U.S. Treasury instituted a program to take assets off bank balance sheets and provide them with capital via the Troubled Assets Relief Program (TARP).

Nonetheless, the financial system had already sustained massive injuries, and the emergency measures deployed would take time to have an impact. In the meantime, the economy could not be spared from being dragged down along with the financial sector. Theretofore, the pace of economic decline had been restrained, but with many households and businesses now unable to obtain credit, overall economic activity plunged. This had immediate and severe effects on labor markets. Over the first eight months of 2008, job losses had been relatively small, averaging only 137,400 per month. In September 2008, they jumped to 321,000, and a string of monthly losses above 500,000 started in November. Fewer jobs cut even deeper into household disposable income and exacerbated the impact of pricier fuel. The result was a very unhappy holiday season for retailers as consumer sentiment sank to levels near historic lows and real personal consumption expenditures declined again. The lack of consumer support contributed materially to an outsized 5.4% (annualized) drop in real GDP in the fourth quarter of 2008, but other sectors helped make this the economy's worst three months since 1981. The Institute for Supply Management's surveys of business intentions plummeted to near-record lows in both the manufacturing and non-manufacturing sectors, and business investment tumbled 19.5%. The foreign sector ceased to be an offset to slack domestic demand as international trade flows were stifled by a lack of credit and the fact that the recession had spread around the globe. Many state and local governments were forced to reduce their spending thanks to falling tax receipts, which worsened the decline in aggregate demand.

Economic activity continued to plunge in the first quarter of 2009, and real GDP sank 6.4% (annualized). New home sales continued to decline, impeding any recovery in residential construction, and vehicle sales slid to extremely low levels as many would-be purchasers were unable to acquire financing. Looming auto company bankruptcies also acted as a deterrent to potential car buyers. Business investment was again very weak as firms cut investment spending by another 39.2%.

With the pace of economic decay accelerating, the incoming Obama administration made a broad fiscal package a top priority. In March 2009, it announced the passage of an $819 billion plan to boost spending at the federal, state and local levels. The near-term impact of the plan was expected to be limited as the majority of outflows would not occur until 2010. The administration also took steps to ensure the solvency of troubled domestic auto manufacturers. Other governments around the globe responded proactively to the worsening economic scenario. Numerous central banks cut interest rates and many took other steps to maintain the solvency of their financial institutions. China announced a massive spending package designed to put large numbers of workers on government payrolls. Japan also enacted a stimulus plan on the order of 2% of its GDP.

By the second quarter of 2009, the situation in financial markets was beginning to stabilize. Volatility indexes for stocks and bonds, which had exploded in late 2008, returned to near-normal levels. Credit and bond spreads were also much improved as government efforts to free up financial markets bore fruit. Most importantly to investors, stock markets began to emerge from the valley of gloom as belief spread that market prognosticators' more dire predictions would not be fulfilled. On March 9, 2009, the S&P 500 Index stood at 676.5, down a staggering 56.8% from its peak in October 2007. But as fear subsided, markets started to rebound from that low. April 2009 was one of the strongest months for U.S. stocks in history with the S&P 500 posting a 9.4% advance. Equities continued to rise in May, and then moved sideways in June. But, for the full second quarter, the S&P 500 was up 15.2%. The MSCI ACWI ex-U.S. Index did even better as it jumped 21.3%. Granted, these gains recovered only a fraction of the losses suffered in the market meltdown, but they greatly improved sentiment in many sectors of the economy.

By the second quarter of 2009, the situation in financial markets was beginning to stabilize. As the year went on, job losses slowed, and confidence measures improved.

The effect of spreading financial stability on the overall economy was immediate and palpable. U.S. Commerce Department data showed that real GDP declined just 0.7% in the second quarter of 2009. The business sector contributed materially to this slower pace of decline as it drastically reduced its rate of spending contraction versus the previous two quarters. Home sales began to pick up as prices showed some signs of stabilizing – albeit at low levels. Indexes of consumer and business confidence rose. New claims for unemployment compensation declined from their peak earlier in the year. This last data point was especially meaningful since a drop in new jobless claims tends to presage the bottom of a recession. A growing number of economic forecasters began to see the recession ending by mid-2009.

Incoming data over the next few months buttressed that view. Job losses slowed, and confidence measures improved further. The Institute for Supply Management's manufacturing index rose 4 points to 52.9 in August 2009, its first foray into growth territory since January 2008 and its highest level since June 2007. This boded well for business investment going forward. A directed government program to spur auto sales was certainly a factor in this gain, but other industries also showed improvement, especially those with exposure to exports. The foreign sector gave evidence that depressed trade flows were recovering as both exports and imports increased in July. New home sales climbed over 500,000 in August, albeit with the help of a government tax credit for first-time homebuyers.

Thanks to this and other favorable data, belief spread among economic forecasters that the recession was over – perhaps ending as early as June 2009. Nonetheless, there was little reason to be exuberant. The recession of 2007 - 2009 would go down as the longest and deepest since the 1930s. Moreover, the financial system still faced issues stemming from billions of dollars in commercial real estate backed mortgages and securities. The Federal Reserve and Treasury would need to deal with the overhang of debt as well as financial and business entanglements that resulted from their far-flung efforts to rescue the system. Households experienced massive wealth losses during the financial collapse. Some of the estimated $14 trillion that vanished had since reappeared, but consumers were expected to be in a frugal mood for an extended period as they repaired their balance sheets. Moreover, job losses were expected to persist for several more months, making growth in consumer spending even more subdued. Also, with private sector spending coming back slowly, hard-hit state and local governments were not expected to increase expenditures at a brisk pace. However, a good deal of "dry powder" from the fiscal stimulus package remained; with investor psychology back to something like normal, the economy was projected to attain upward momentum and be able to sustain it over the next few years.

While significant problems and issues remained, the economy was projected to attain upward momentum in the second half of 2009.

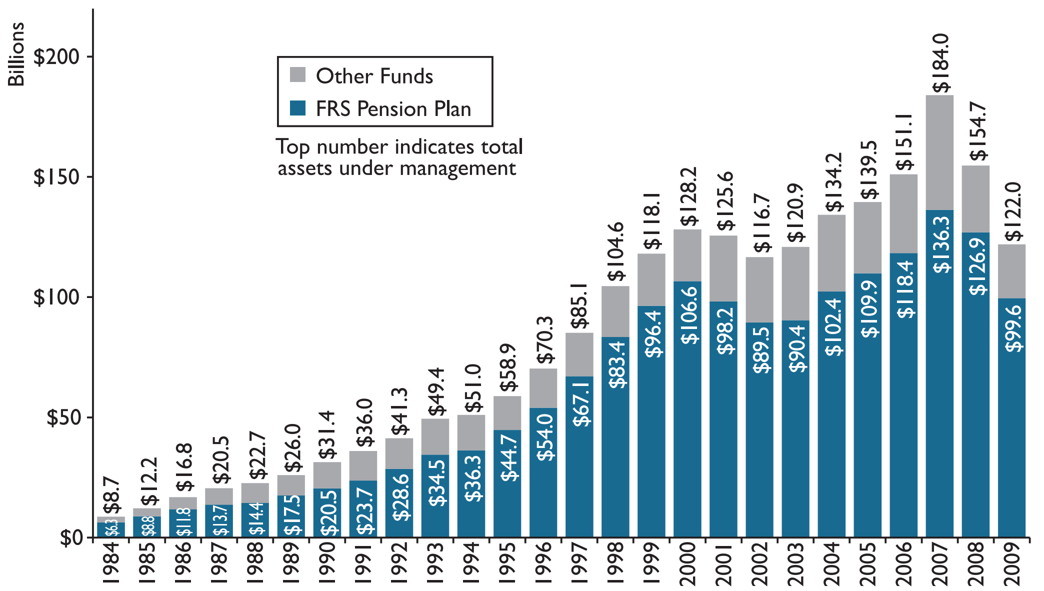
SBA Mandate *Overview*

As of June 30, 2009, the SBA managed 26 different investment funds housing the assets of 36 mandates and trusts. A mandate is an investment responsibility established as a direct requirement of Florida law. Trusts are investment responsibilities allowed under law and established pursuant to a trust agreement with a client. Six of the SBA's 26 funds are commingled investment pools that contain the assets of a variety of clients.[2] Twenty clients have at least some of their assets in separately managed funds. The remaining clients are invested solely in the SBA's investment pool products. At fiscal year-end, 810 clients participated in Florida PRIME through nearly 1,600 individual accounts. Twenty-one clients were invested in the CAMP-MM product. Pooling smaller portfolios into larger investment funds affords economies of scale and other investment management advantages, enhancing returns for participants.

As of June 30, 2009, the SBA managed 26 different investment funds housing the assets of 36 mandates and trusts.

Table 1 lists the net asset value of each mandate and trust at fiscal year-end. Of the total assets under SBA management, $115.4 billion, or nearly 95%, was managed in separate accounts. During the year, assets under SBA management decreased to $122.0 billion from $154.7 billion, a reduction of $32.8 billion, reflecting investment performance as well as fund deposits and withdrawals. Table 3 shows these details for each SBA fund.

Chart 6: Assets Under SBA Management



Market value as of June 30 of indicated year.

The value of assets under management reflects investment performance (gains and losses) as well as cash flows (fund contributions and withdrawals).

Performance data for the SBA's major investment funds for various periods ending June 30, 2009 are shown in tabular form in a following section of this report (Investment Facts at a Glance, page 24). In those tables, SBA managed return is the return actually earned by the fund. The benchmark return is a relative performance yardstick; current benchmark definitions are shown at the bottom of the performance tables. The difference between the SBA's managed return and the fund's benchmark, shown in the last column of these tables, is commonly referred to as value added.

The chief determinant of a fund's long-term return and investment risk is its asset allocation, meaning its exposure to the various asset classes. For each of the SBA's

[2] Two of the six pools were closed during the year and held residual balances at year-end: CAMP-FI and CAMP-DE. Another two were liquidating funds closed to client transactions: Fund B and CAMP-MM-B.

separately managed accounts and pooled investment products, Table 4 indicates exposure to each asset type. A detailed discussion of the SBA's approach to asset allocation and associated performance results appears in Section 1-B of the electronic supplement to this report, available at www.sbafla.com/annualreports.

Return data is not calculated individually for every fund under management. This is either because the fund is managed in one or more commingled pools or because returns are not indicative of the SBA's effectiveness in managing the assets. Table 2 indicates the specific circumstances for each such fund.

Table 1: SBA Assets Under Management by Investment Vehicle as of June 30, 2009

	Separately Managed Assets	SBA Investment Pools: Local Govt. Pools	CAMP-MM [4]	CAMP-FI [5]	CAMP-DE [5]	Total Assets Under Management
Funds With Separately Managed Assets						
1. FRS Pension Plan	$99,579,207,613	$ -	$ -	$ -	$ -	$99,579,207,613
2. Florida Hurricane Catastrophe Fund Finance Corp.	4,632,954,465	-	-	-	-	4,632,954,465
3. FRS Investment Plan	4,076,397,897	-	-	-	-	4,076,397,897
4. Florida Hurricane Catastrophe Fund	3,080,861,570	-	-	-	-	3,080,861,570
5. Debt Service	1,565,434,508	-	-	-	-	1,565,434,508
6. Department of the Lottery Fund	1,029,759,313	-	6	-	-	1,029,759,319
7. Lawton Chiles Endowment Fund	551,540,536	-	11,964,837	18,469	177,632	563,701,474
8. Retiree Health Insurance Subsidy Trust Fund	237,374,904	-	24,886,746	-	-	262,261,650
9. Florida Prepaid College Plan	165,382,631	-	97,024			165,479,655
10. Burnham Institute for Medical Research Fund	119,058,614	-	2,638,891	-	-	121,697,505
11. Scripps Florida Funding Corporation	111,582,364	-	-	-	-	111,582,364
12. Max Planck	67,139,620	-	-	-	-	67,139,620
13. Oregon Health & Science University	47,259,215	-	-	-	-	47,259,215
14. University of Miami	38,560,767	-	-	-	-	38,560,767
15. Florida College Investment Plan	24,403,593	-	-	-	-	24,403,593
16. Torrey Pines Institute for Molecular Studies Fund	18,481,091	-	39,320	-	-	18,520,411
17. Charles Stark Draper Laboratory [6]	8,091,663	-	-	-	-	8,091,663
18. Bond Proceeds Trust Fund [1]	3,234,403	-	-	-	-	3,234,403
19. McKnight Doctoral Fellowship Program	971,424	-	378,579	-	3,751	1,353,754
20. Gas Tax Clearing Fund [1]	-	-	-	-	-	-
Accounts Invested Solely in SBA Investment Pools						
21. Florida PRIME [2]	-	5,985,804,634	-	-	-	5,985,804,634
22. Fund B Surplus Funds Trust Fund [2]	-	279,844,224	-	-	-	279,844,224
23. Police and Firefighters' Premium Tax Trust Fund	-	-	205,847,126	-	-	205,847,126
24. SBA Administrative Fund [3]	-	-	45,852,477	6,721	-	45,859,198
25. PEORP Administrative Fund	-	-	34,091,153	-	-	34,091,153
26. SRI International Fund	-	-	4,052,213	-	-	4,052,213
27. Insurance Capital Build-up Program [4]	-	-	4,027,408	-	-	4,027,408
28. Arbitrage Compliance Trust Fund	-	-	2,226,331	-	-	2,226,331
29. Florida Endowment for Vocational Rehabilitation	-	-	2,078,284	-	-	2,078,284
30. Florida Division of Blind Services	-	-	2,042,393	295	5,899	2,048,587
31. Bond Fee Trust Fund	-	-	1,469,083	-	-	1,469,083
32. FSU Research Foundation	-	-	272,195	8,988	156,045	437,228
33. Florida Prepaid College Plan Administrative Expense	-	-	48,704	-	-	48,704
34. Florida College Investment Plan Administrative Expense	-	-	48,307	-	-	48,307
35. Pinellas Suncoast Transit Authority	-	-	42,144	-	-	42,144
36. Inland Protection Financing Corporation	-	-	1,454	-	-	1,454
Total Assets Under Management	**$115,357,696,191**	**$6,265,648,858**	**$342,104,675**	**$34,473**	**$343,327**	**$121,965,827,524**

[1] The fund balance is periodically zero due to cash flows.
[2] Individual accounts are not shown. As of June 30, 2009, there were 1,590 funded individual accounts in Florida PRIME. Fund B had 1,435 accounts.
[3] CAMP-MM balance includes an adjustment to the fund's cash balance for June service charges scheduled to be paid June 30, 2009, but not paid to the fund until after June 30th.
[4] Includes CAMP-MM and CAMP-MM-B. CAMP-MM balances include uninvested cash as of June 30, 2009.
[5] CAMP-FI and CAMP-DE closed effective April 2009. These balances represent residual amounts.
[6] Fund opened during the year.

Table 2: Separate Account Portfolios Without Performance Data, by Reason [1] as of June 30, 2009

Portfolios with Dedicated Bond Strategies	Episodically Funded Portfolios	Client Directed Assets
Debt Service	Gas Tax Clearing Fund	Max Planck
Department of the Lottery Fund	Bond Proceeds Trust Fund	Oregon Health & Science University
Scripps Florida Funding Corporation		McKnight Doctoral Fellowship Program [2]
Burnham Institute for Medical Research Fund		Charles Stark Draper Laboratory
Torrey Pines Institute for Molecular Studies Fund		
University of Miami		

[1] Returns for these portfolios either cannot be calculated or are not meaningful.
[2] Returns are calculated for this account per agreement with the client. However, because the holdings are client directed, the returns are not indicative of SBA investment performance.

Table 3: Change in Assets Under Management - Fiscal Year 2008-09

	Market Value June 30, 2008	Investment Gain (Loss)	Contributions & (Distributions)	Market Value June 30, 2009
FRS Pension Plan	$126,936,896,868	$(24,119,202,750)	$(3,238,486,505)	$99,579,207,613
Florida PRIME	7,049,753,651	104,421,034	(1,168,370,051)	5,985,804,634
Florida Hurricane Catastrophe Fund Finance Corporation	7,305,725,895	(60,066,528)	(2,612,704,902)	4,632,954,465
FRS Investment Plan	4,369,245,885	(668,560,663)	375,712,675	4,076,397,897
Florida Hurricane Catastrophe Fund	2,078,065,319	7,816,160	994,980,091	3,080,861,570
Debt Service	1,659,365,056	56,617,703	(150,548,251)	1,565,434,508
Department of the Lottery Fund	1,160,180,378	75,905,676	(206,326,735)	1,029,759,319
Lawton Chiles Endowment Fund	2,134,948,415	(462,704,215)	(1,108,542,726)	563,701,474
Fund B Surplus Funds Trust Fund	630,544,356	(212,550,132)	(138,150,000)	279,844,224
Retiree Health Insurance Subsidy Trust Fund	242,242,150	(1,197,257)	21,216,757	262,261,650
Police and Firefighters' Premium Tax Trust Fund	237,311,443	(1,881,317)	(29,583,000)	205,847,126
Florida Prepaid College Plan	213,640,479	(60,899,598)	12,738,774	165,479,655
Burnham Institute for Medical Research Fund	117,411,426	9,871,581	(5,585,502)	121,697,505
Scripps Florida Funding Corporation	155,641,417	6,079,373	(50,138,426)	111,582,364
Max Planck	84,217,340	2,922,280	(20,000,000)	67,139,620
Oregon Health & Science University	45,207,018	2,052,197	-	47,259,215
SBA Administrative Fund	46,948,448	1,050,863	(2,140,113)	45,859,198
University of Miami	59,907,819	2,037,481	(23,384,533)	38,560,767
PEORP Administrative Fund	31,099,710	(540,774)	3,532,217	34,091,153
Florida College Investment Plan	24,945,046	(5,988,597)	5,447,144	24,403,593
Torrey Pines Institute for Molecular Studies Fund	21,761,658	1,391,071	(4,632,318)	18,520,411
Charles Stark Draper Laboratory [2]	-	91,663	8,000,000	8,091,663
SRI International Fund	9,539,108	(183,958)	(5,302,937)	4,052,213
Insurance Capital Build-up Program	30,085,087	(533,077)	(25,524,602)	4,027,408
Bond Proceeds Trust Fund [1]	-	7,509	3,226,894	3,234,403
Arbitrage Compliance Trust Fund	2,252,945	(40,273)	13,659	2,226,331
Florida Endowment for Vocational Rehabilitation	2,238,918	(31,155)	(129,479)	2,078,284
Florida Division of Blind Services	2,389,620	(341,033)	-	2,048,587
Bond Fee Trust Fund	2,025,338	(43,810)	(512,445)	1,469,083
McKnight Doctoral Fellowship Program	2,517,104	(263,350)	(900,000)	1,353,754
FSU Research Foundation	78,376,311	(8,691,318)	(69,247,765)	437,228
Florida College Investment Plan Administrative Expense	49,360	(955)	(98)	48,307
Florida Prepaid College Plan Administrative Expense	48,742	(915)	877	48,704
Pinellas Suncoast Transit Authority	6,393,017	280,415	(6,631,288)	42,144
Inland Protection Financing Corporation	1,481	(27)	-	1,454
Gas Tax Clearing Fund [1]	-	10,658	(10,658)	-
Total Assets Under Management	**$154,740,976,808**	**$(25,333,166,038)**	**$(7,441,983,246)**	**$121,965,827,524**

[1] The fund balance is periodically zero due to cash flows.
[2] Fund opened during the fiscal year.

Table 4: Asset Classes Represented in SBA Investment Portfolios as of June 30, 2009

Portfolios With Separately Managed Assets	U.S. Equities	Foreign Equities	Investment Grade Fixed Income	High Yield Bonds	Treasury Inflation-Protected Securities	Real Estate	Private Equity	Strategic Investments	Cash Equivalents
FRS Pension Plan [1]	x	x	x	x		x	x	x	x
Florida Hurricane Catastrophe Fund			x						x
Florida Hurricane Catastrophe Fund Finance Corporation			x						x
FRS Investment Plan	x	x	x	x	x				x
Debt Service			x						x
Lawton Chiles Endowment Fund	x	x	x		x				x
Department of the Lottery Fund			x						x
Scripps Florida Funding Corporation			x						x
Retiree Health Insurance Subsidy Trust Fund			x						x
Florida Prepaid College Plan	x								
Burnham Institute for Medical Research Fund			x						x
Florida College Investment Plan	x								
Torrey Pines Institute for Molecular Studies Fund			x						x
Bond Proceeds Trust Fund			x						x
McKnight Doctoral Fellowship Program			x						x
Gas Tax Clearing Fund			x						x
Max Planck			x						x
University of Miami			x						x
Oregon Health & Science University			x						x
Charles Stark Draper Laboratory									x
SBA Pooled Investment Products									
Florida PRIME									x
CAMP-Money Market									x
Fund B Surplus Funds Trust Fund			x						
CAMP-Money Market-B			x						

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

Risk *and the* Investment Process

Introduction

Risk is the potential for disappointment. Those who invest in financial instruments face a constellation of risks, some tied to the performance of the instruments themselves, some tied to the strategy for selecting the instruments, and yet others tied to the transactional processes through which investments are made. Every form of risk ultimately bears upon one fundamental consideration: the investment objective. The investment objective is the goal or goals an investor seeks to meet in putting his capital at risk.

A clearly formulated investment objective is an essential first step in managing risk. It provides a basis for prioritizing those risks which should be avoided or minimized (i.e., those which carry the greatest potential for frustrating the attainment of the investment objective). Importantly, it helps identify the type and level of investment risk that must be accepted in order to meet the objective.

The key risk an investor faces is the possibility of failing to meet the investment objective.

The term "investment risk" encompasses those forms of risk that directly arise in the pursuit of an investment return. Other types of risk deal with threats to the organizational and managerial infrastructure that supports a prudent investment process and effective delivery of services. These are the risks that an informed investor mitigates or avoids to the degree it can be done cost-effectively.

Why must some level of investment risk be tolerated? Because there can be no investment return without the acceptance of risk. As the *Barron's Dictionary of Finance and Investment Terms* puts it, "if you don't want the risk, don't expect the return" – or, colloquially, "no pain, no gain."

In well-functioning financial markets, investors are willing to accept higher risks only with a reasonable expectation of a higher return. Why? Because demand and supply of capital are what ultimately cause higher risk investments to yield higher returns over the long-term. This stands in contrast to low-risk investments which, because of a relatively ample capital supply, yield lower returns.

The challenge for the thoughtful investor is to carefully assess his or her own tolerance for disappointing results versus the applicable investment objective, weigh the likely distribution of outcomes from various investment options, and select the course that appropriately balances likely outcomes over the investment horizon.

Enterprise Risk Management

The SBA is implementing an enterprise-wide and increasingly systematic approach to evaluating and managing the risks it faces. Examples of key risks include the following categories. A description of each and their component categories is found in Section 5 of the electronic supplement to this report, available at www.sbafla.com/annualreports.

- Investment Risk
- Operational Risk
- Human Capital Risk
- Service Provider Risk
- Client Relationship Risk
- Communications / Public Affairs / Reputational Risk
- Business Continuity / Infrastructure Risk
- Fraud / Misconduct / Internal Control Risk
- Compliance Risk
- Legal Risk

Investment Risk Management

As noted, investment risk is the one type of risk that has the potential of being directly coupled with a reward; i.e., an investment return. Determination of the appropriate level of investment risk can be done only in the context of the investment objective, subject to a tolerance for risk. Investment objectives are often multi-part, reflecting the complexities and trade-offs inherent in real world situations. The following three examples illustrate the diversity of investment objectives among the funds managed by the SBA:

- Florida PRIME's investment objective consists of three parts which, "in priority order, are safety, liquidity, and competitive returns with minimization of risks."[3]

  The funds invested in Florida PRIME are available for investment only because of a short-term mismatch between the revenue receipts and spending obligations of Florida local governments. Here the disappointment from a loss in principal is more consequential than the realization of a low yield. Investment risk is therefore managed by confining investments to a narrowly defined set of high quality, short duration "cash-equivalent" instruments.

- The FRS Pension Plan's investment objective, also multi-part, is "to provide investment returns sufficient for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and keeps the plan cost at a reasonable level. To achieve this, a long-term real return of 5% per annum (compounded and net of investment expenses) should be attained... As additional considerations, the Board seeks to avoid excessive volatility in short-term plan cost levels and excessive risk in long-term cost trends."[4]

  Because the FRS Pension Plan is essentially a perpetual trust fund – one which actuarially funds retirement benefit obligations for current and future generations of plan beneficiaries – it can tolerate significantly more short-term fluctuation in the value of investments than the prior example. In fact, the objective of keeping plan costs "at a reasonable level" dictates the need for a relatively elevated long-term real return of 5% per annum. The SBA invests plan assets over a variety of investment types and tolerates a relatively high level of period-to-period fluctuation in asset values as a necessary condition of achieving the objective.[5] Investment risk is managed by having a high degree of diversification across asset types (i.e., stocks, bonds, real estate, etc.) and securities.

- The investment objective for the Burnham Institute for Medical Research Fund is to "provide liquidity to fund the anticipated disbursement schedule of [Burnham] through 2015, with very limited risk of principal." A secondary objective is to maximize the overall yield, "given the quality, liquidity and funding constraints."[6]

  Because the objective contains highly specific payout requirements, as to both timing and magnitude, the objective is met by investing in fixed income securities with maturity dates and face values consistent with the prescribed liquidity obligations. Investment risk is managed by investing only in securities with minimal credit (non-payment) risk. Reinvestment risk is avoided by tying maturities directly to the payout schedule.

Risk is inevitable if one seeks to earn an investment return.

[3] Section 218.405(2), Florida Statutes.

[4] Florida Retirement System Defined Benefit Investment Policy Statement, adopted December 9, 2008.

[5] The FRS Pension Plan's performance during fiscal year 2008-09 illustrates this point. Over the long run, the fund has benefited greatly from an elevated exposure to seemingly "high-risk" stocks. With a 58% policy allocation to domestic and foreign stocks, the value of the fund declined to roughly $83 billion as of early March 2009 due to the global credit crisis. As of this writing, much of this "lost" value has been recouped with the significant bounce in global stock markets that has lifted the fund's value above $110 billion.

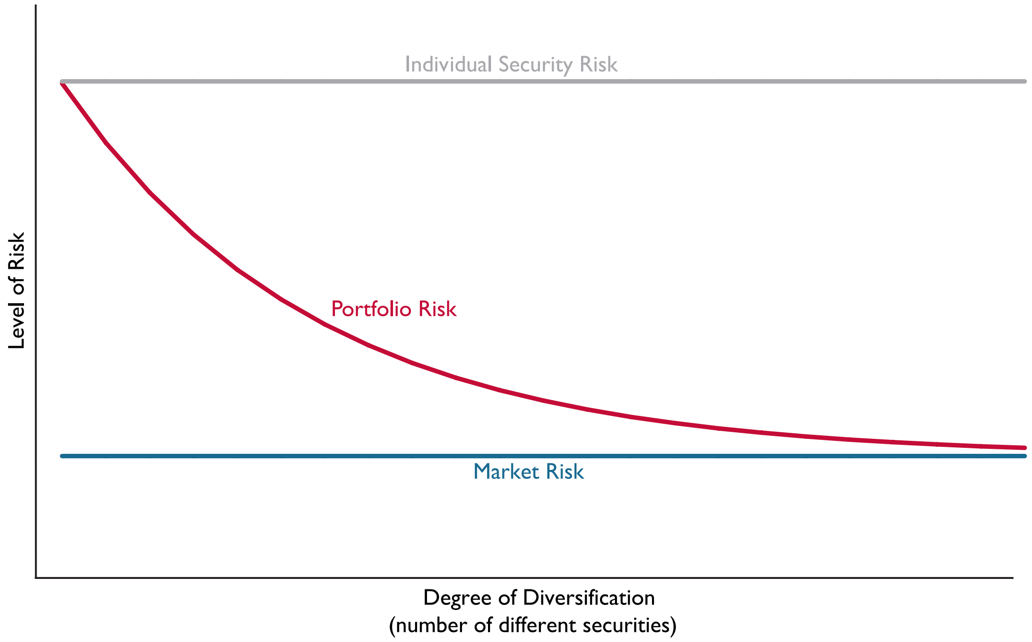
[6] Trust agreement by and among the Burnham Institute for Medical Research, the Office of Tourism, Trade, and Economic Development and the State Board of Administration of Florida, as Trustee, dated October 31, 2006.

Two Fundamental Risk Management Tools

Diversification is a risk management tool that can be utilized across many dimensions of the investment process. Whether applied across securities, asset types, investment managers or investment strategies, diversification is an essential tool to help assets weather changing economic and financial conditions.

The chart below is a graphic example of how diversification applies across security types.

Chart 7: The Impact of Diversification



Diversification can substantially mitigate the impact of security-specific risk on a large investment portfolio. As of June 30, 2009, the FRS Pension Plan portfolio held 15,525 unique security types.

Diversification across asset classes and within asset classes (i.e., across securities, investment managers and strategies) is a powerful tool to manage risk.

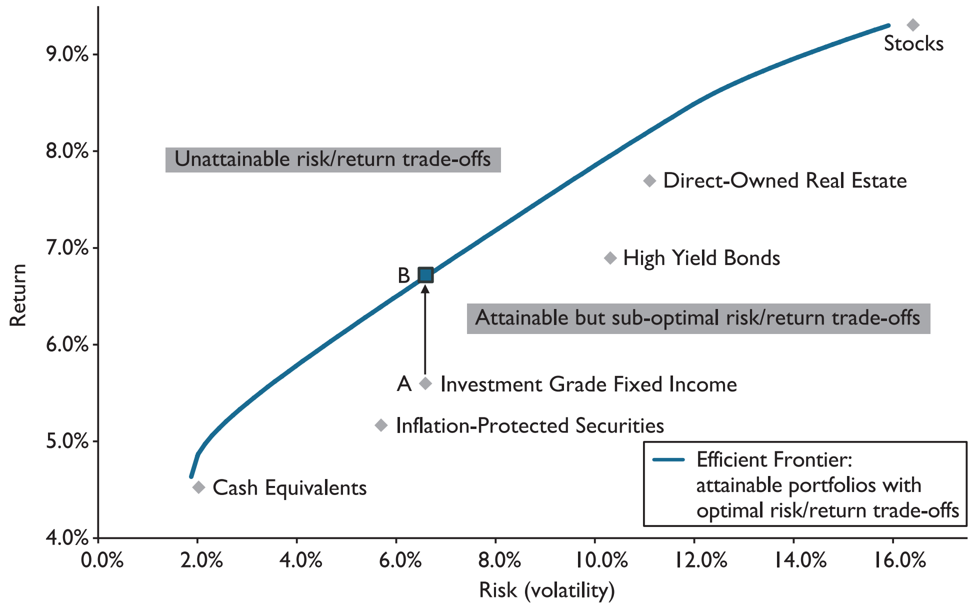
Given suitable diversification among the asset types appropriate for a given portfolio, a second important investment risk mitigation tool involves so-called portfolio optimization. Nobel Laureate Professor Harry Markowitz revolutionized investment management with his technique for constructing "efficient portfolios" that optimizes the risk/return trade-off along a continuum of asset mixes. His process quantitatively demonstrates how a portfolio can encompass securities with significant risk yet, in conjunction with appropriate exposures to lower risk securities, can provide a risk/return profile that outperforms other combinations.

Chart 8, on the following page, presents a simple graphical illustration of this principle, with optimized portfolios along the line Markowitz termed the "efficient frontier." As an example of the power of portfolio optimization, the portfolio labeled as "B" on the efficient frontier line has almost 27% exposure to equities and 24% exposure to real estate, yet it provides the same expected risk as a bond-only portfolio (point "A") but with a significantly higher return. Thus, a portfolio seeking a moderate or even low level of risk could rationally hold a certain amount of higher risk investments and be better off than one without them.

A greater challenge for the investor is determining which portfolio on the efficient frontier is best suited to his or her needs. Commonly, portfolios which emphasize capital preservation are thought of as low risk, whereas those that emphasize capital growth are deemed high risk. These characterizations are certainly accurate if risk is viewed narrowly in the context of return volatility. For those with a short planning horizon, return volatility is indeed a significant risk – as is the risk of illiquidity.

Chart 8: Efficient Frontier

Return vs. Risk



Each attainable point on the chart represents a portfolio with a distinct asset mix. Most points represent a mix of the specific asset types noted. Portfolios on the efficient frontier line represent the highest attainable expected return for a given level of risk.

However, investors with a long planning horizon may rationally conclude just the opposite. A young person with a 30-year career ahead and possibly another 30 years of retired life would be ill-served to invest his or her retirement savings in a portfolio of so-called low-risk (i.e., low-volatility) securities. Such a strategy would indeed avoid the psychological stress of seeing sharp declines in the market value of the portfolio from time to time. However, by the time the portfolio needed to be liquidated, the investor would likely find it supported a far lower standard of living than one with higher interim volatility. To such an investor, year-to-year variation in asset values is not the principal risk; rather, it is the failure to accumulate sufficient wealth over the long run.

The SBA has concluded that cash investments – those that have the least volatility and the greatest likelihood of capital preservation – are the riskiest types of assets for the FRS Pension Plan portfolio. This is because they are least likely to provide the long-term growth necessary to support the Plan's liabilities and cash flows. Conversely, they are the most appropriate investments for Florida PRIME, given its emphasis on short-term liquidity and capital preservation.

A clear understanding of the purpose for which funds are being invested is essential to effective risk management because the *fundamental* risks investors must manage are those which impede attainment of their investment objective. The SBA adopts investment policies for each of its portfolios that encompass both an appropriate investment objective for the selected mandate and an investment strategy designed to best support that objective. These documents are provided in Section 8 of the electronic supplement to this report, available at www.sbafla.com/annualreports. A discussion of the risks associated with financial instruments of the major asset classes managed by the SBA appears in Section 5 of the supplement.

The SBA has concluded that cash investments are the riskiest types of assets for the FRS Pension Plan because they are least likely to provide the long-term growth necessary to support the Plan's liabilities.

- The FRS Pension Plan portfolio is the SBA's largest investment mandate.
- The investment objective for this fund is to earn on average over the long run a compounded rate of return of 5% plus inflation per annum.
- The FRS Pension Plan serves a working and retired membership base of nearly one million persons.
- The FRS Pension Plan is one of the best-funded and largest public pension funds in the nation.
- Over the past 20 years, more than 64% of Pension Plan benefit payments have been funded by investment gains.

CHART 9: FRS PENSION PLAN

Growth of $1.00 Initial Investment: June 1973 to June 2009

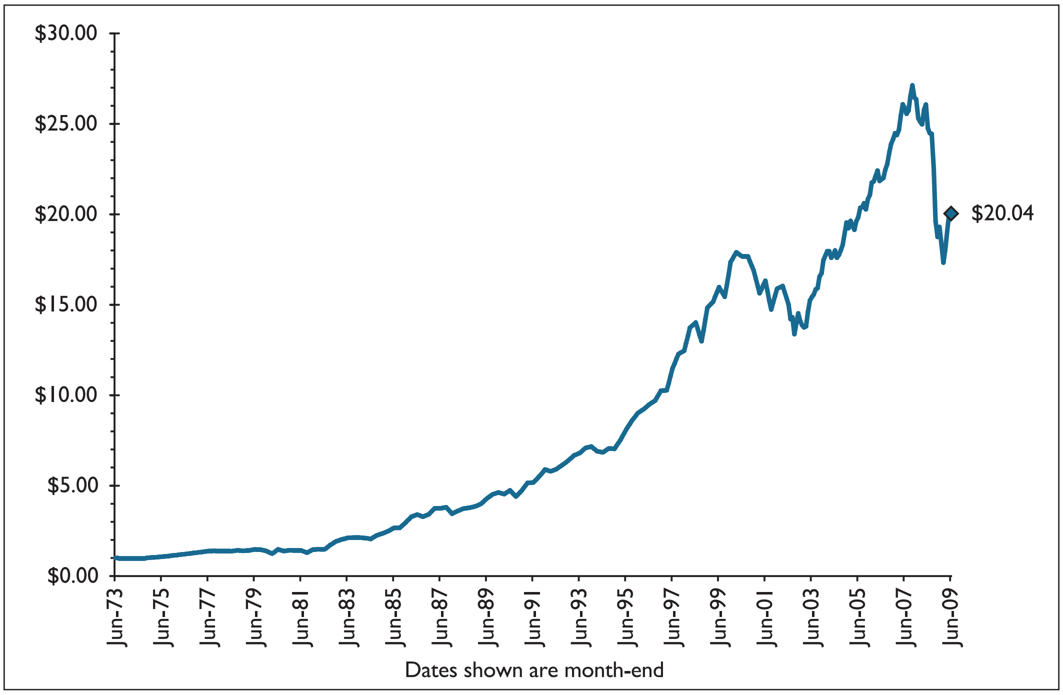


CHART 10: FRS PENSION PLAN

SBA Managed Returns by Fiscal Year

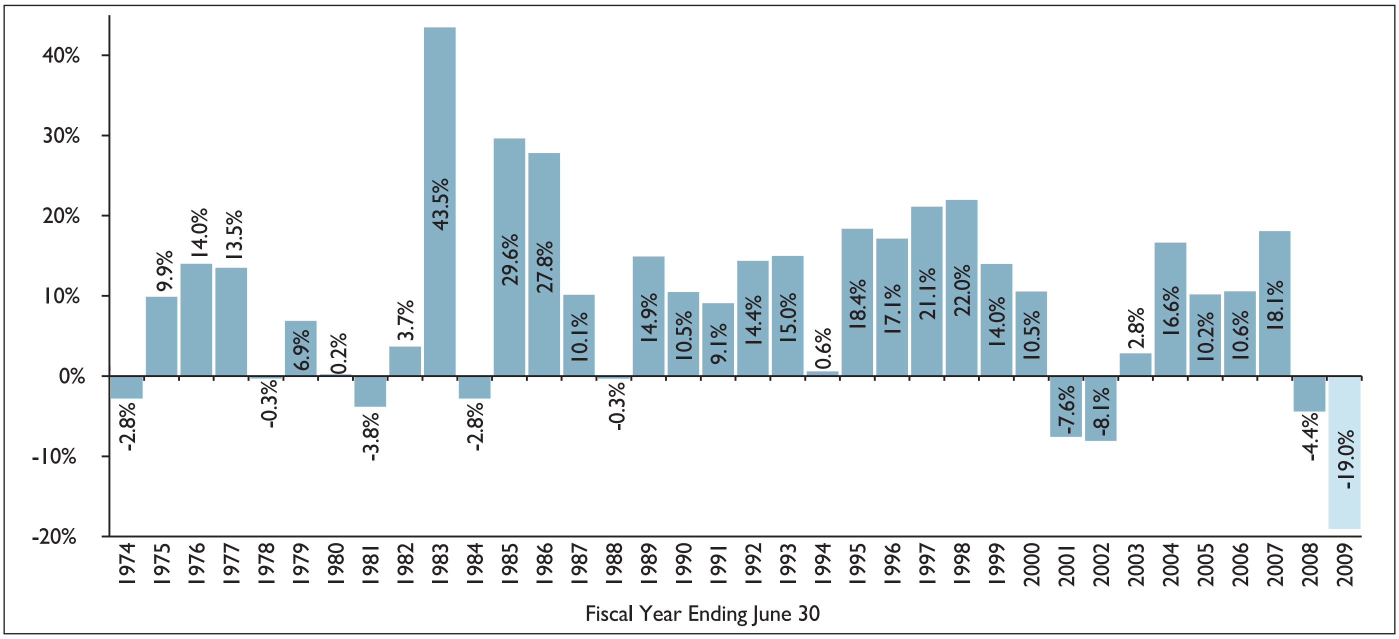


Chart 11: Long-Term FRS Pension Plan Performance Results vs. SBA's Investment Objective

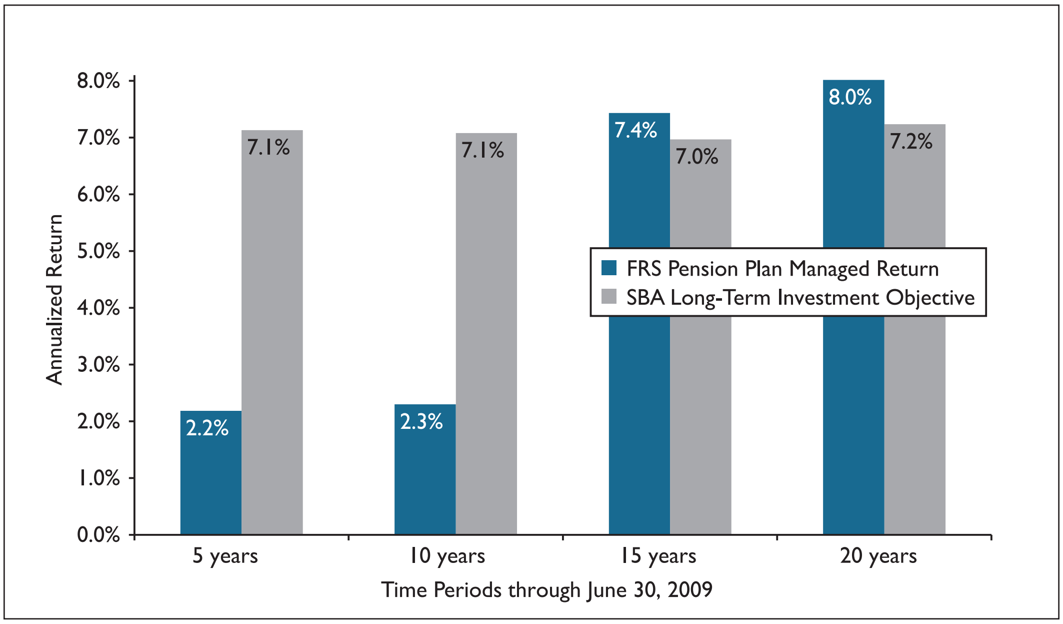


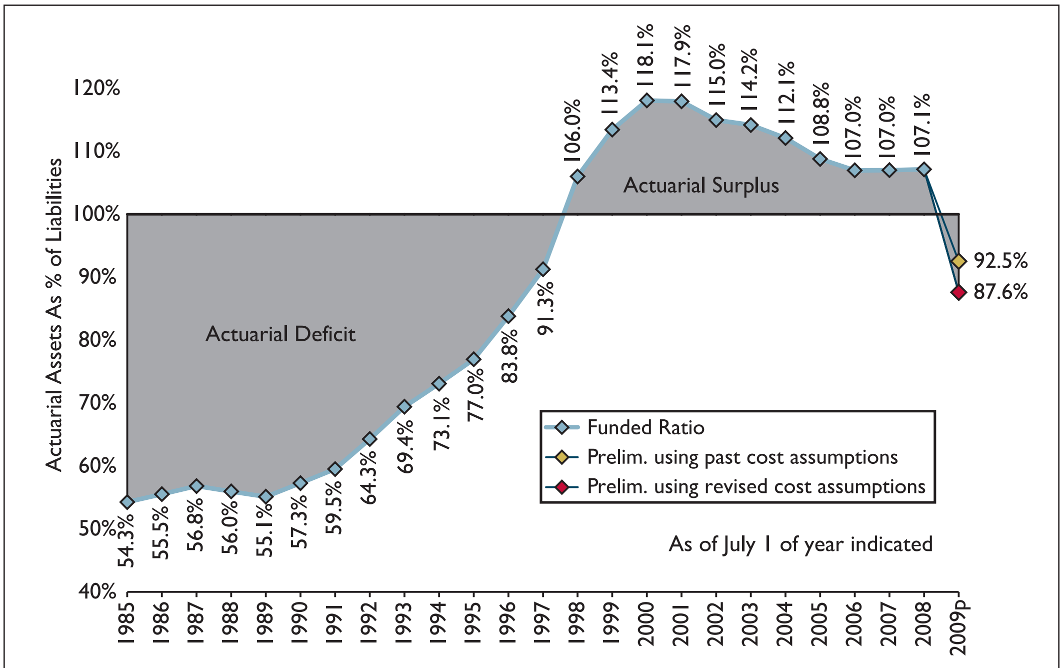
Table 5: FRS Pension Plan

Returns for Periods Ending June 30, 2009

	SBA Managed Return	Benchmark Return	Mgd. Over (Under) Bmk.
One Year	-19.03%	-17.89%	-1.14%
Three Years	-2.96%	-2.55%	-0.41%
Five Years	2.17%	2.16%	0.01%
Ten Years	2.29%	2.01%	0.28%
Fifteen Years	7.43%	7.43%	-0.01%

- All returns are annualized for periods indicated through June 30, 2009.
- Benchmark is a weighted blend of individual asset class target indices as applicable; weights and benchmarks are established in the FRS Pension Plan Investment Policy Statement.

Chart 12: FRS Pension Plan Funded Ratio



Note: Amounts are interpolated for 1986, 1988, 1990, 1992, 1994 and 1996.
Actuarial valuations were conducted biennially prior to 1997. p=preliminary

Chart 13: FRS Pension Plan Assets by Class

$99.6 billion as of June 30, 2009

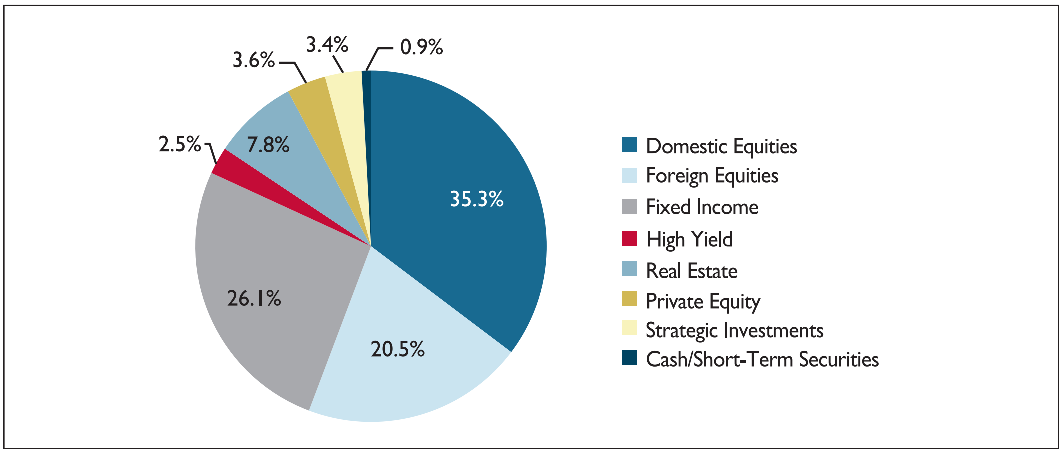
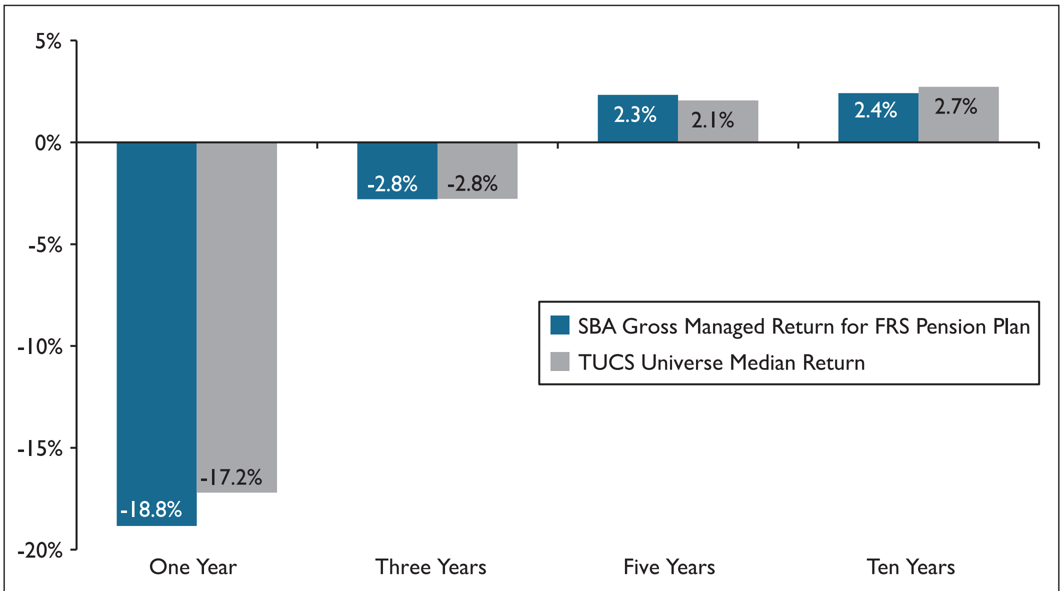


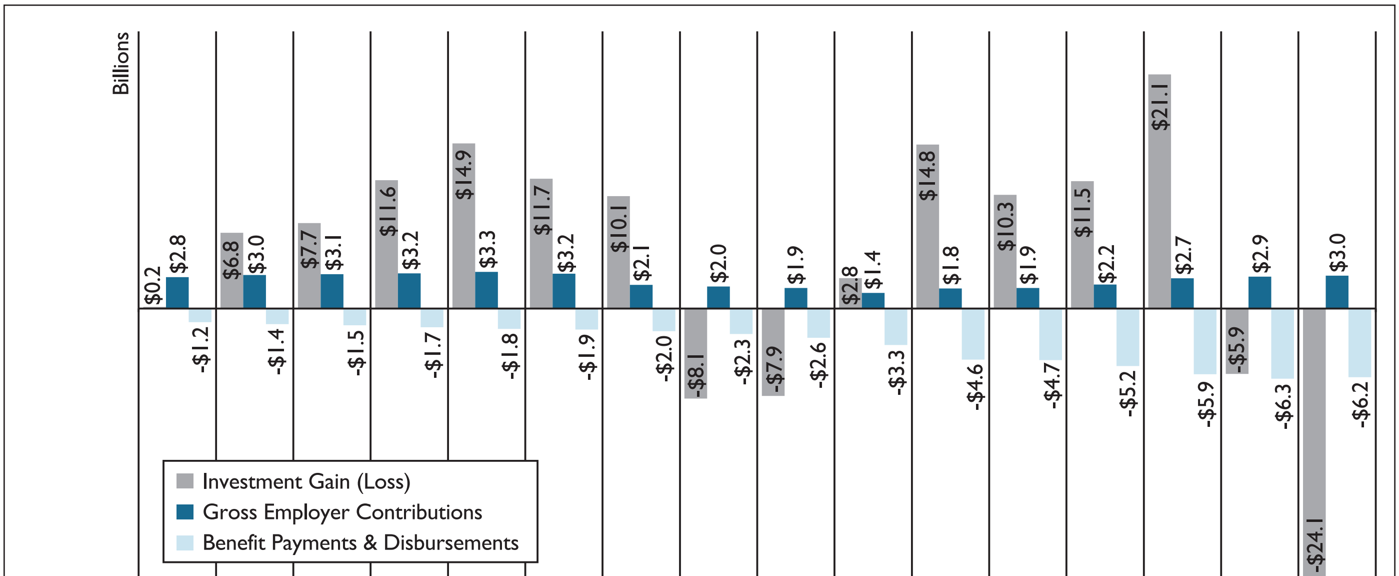
Chart 14: Gross Returns of Corporate and Public Defined Benefit Plans

For Periods Ending June 30, 2009



Based on TUCS universe of public and private defined benefit pension plans consisting of 319 plan sponsors with over $1.8 trillion in combined assets. TUCS = Trust Universe Comparison Service

Chart 15: FRS Pension Plan – Annual Change in Total Fund Value by Source



Fiscal Year	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Investment Gain (Loss)	$0.2	$6.8	$7.7	$11.6	$14.9	$11.7	$10.1	-$8.1	-$7.9	$2.8	$14.8	$10.3	$11.5	$21.1	-$5.9	-$24.1
Gross Employer Contributions	$2.8	$3.0	$3.1	$3.2	$3.3	$3.2	$2.1	$2.0	$1.9	$1.4	$1.8	$1.9	$2.2	$2.7	$2.9	$3.0
Benefit Payments & Disbursements	-$1.2	-$1.4	-$1.5	-$1.7	-$1.8	-$1.9	-$2.0	-$2.3	-$2.6	-$3.3	-$4.6	-$4.7	-$5.2	-$5.9	-$6.3	-$6.2
6/30 Market Value ($b)	$36.3	$44.7	$54.0	$67.1	$83.4	$96.4	$106.6	$98.2	$89.5	$90.4	$102.4	$109.9	$118.4	$136.3	$126.9	$99.6

- The FRS Investment Plan is modeled after private sector 401(k) plans and has been offered to FRS employees since August 2002.
- The primary objectives of the plan are to offer investment options that avoid excessive risk, to have a prudent degree of diversification relative to broad market indices and to provide a long-term rate of return, net of all expenses and fees, that achieves or exceeds the returns on comparable market benchmark indices.
- As of June 30, 2009, there were 121,522 active accounts in the Investment Plan.
- The Investment Plan offers a diversified mix of 20 low-cost investment options, including three balanced funds, all through private sector providers. Average fees across all investment funds are highly competitive at 0.22%.

CHART 16: FRS INVESTMENT PLAN

Growth of $1.00 Initial Investment: July 2002 to June 2009

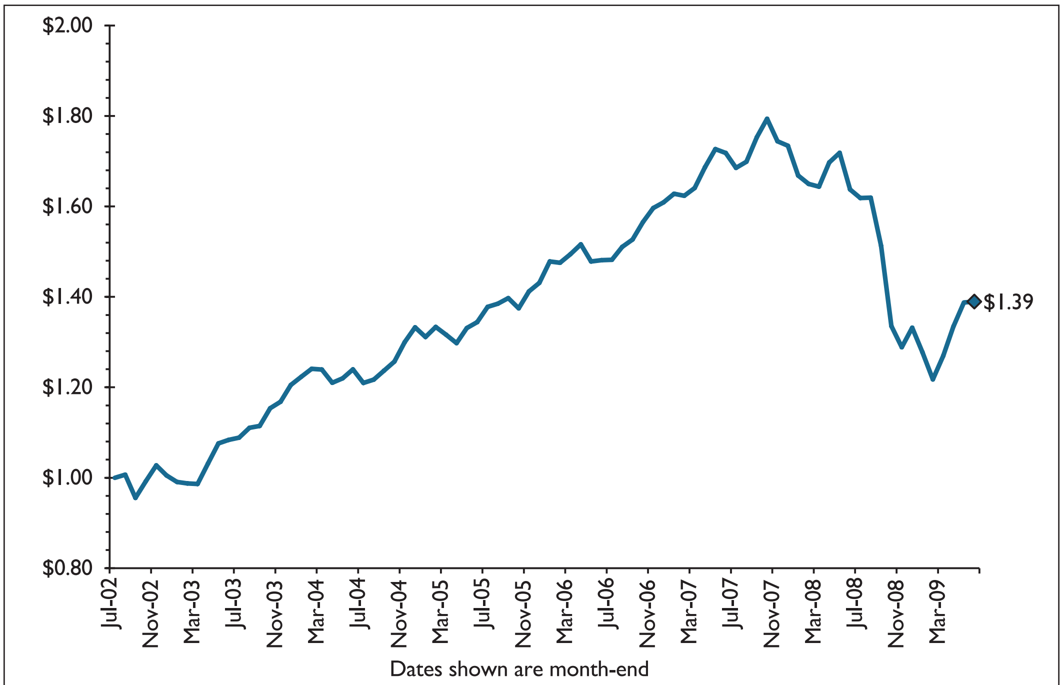
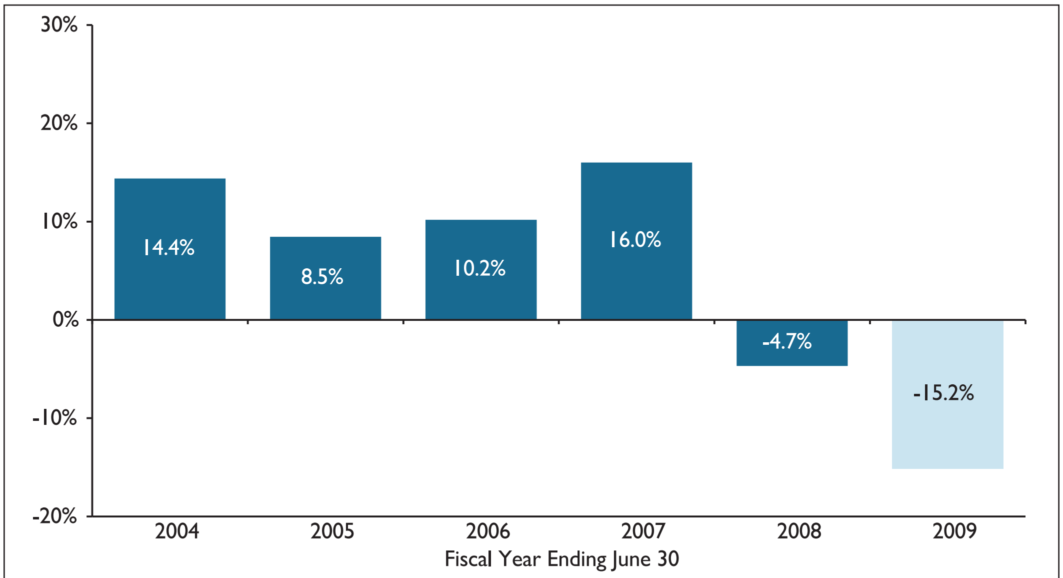


CHART 17: FRS INVESTMENT PLAN

SBA Managed Returns by Fiscal Year



Note: Fiscal year 2003-04 was the first full year of performance for this fund.

Table 6: FRS Investment Plan
Returns for Periods Ending June 30, 2009

	SBA Managed Return	Benchmark Return	Mgd. Over (Under) Bmk.
One Year	-15.16%	-15.45%	0.29%
Three Years	-2.11%	-2.59%	0.48%
Five Years	2.31%	1.90%	0.41%
Since Inception	4.87%	4.57%	0.30%

- All returns are annualized for periods indicated through June 30, 2009.
- Benchmark is a weighted blend of individual asset class aggregate benchmarks as applicable per the FRS Investment Plan Investment Policy Statement; weights are based on contemporaneous market valuations, per participant asset allocation choices.
- Inception of the fund is August 2002.

Chart 18: FRS Investment Plan Assets by Product Type
$4.08 billion as of June 30, 2009

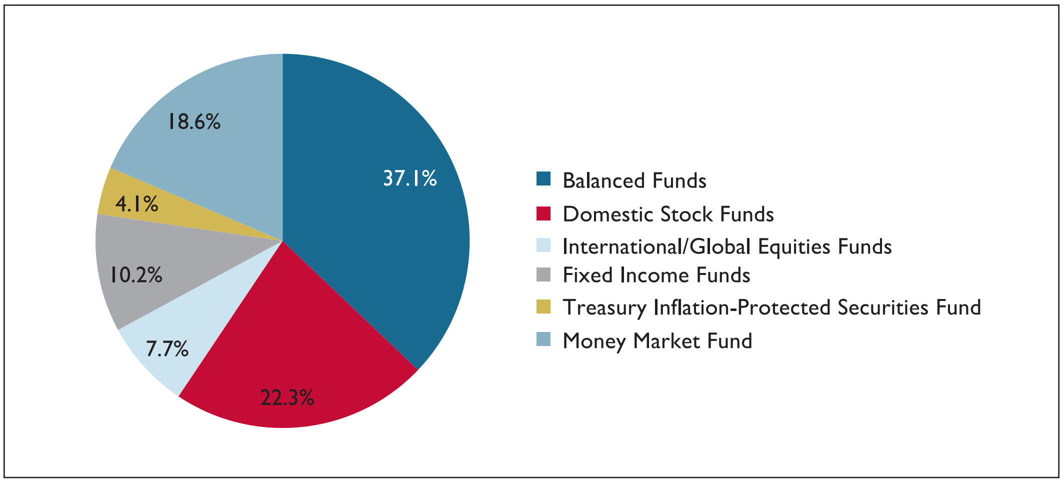


Chart 19: FRS Investment Plan
Annual Change in Total Fund Value by Source

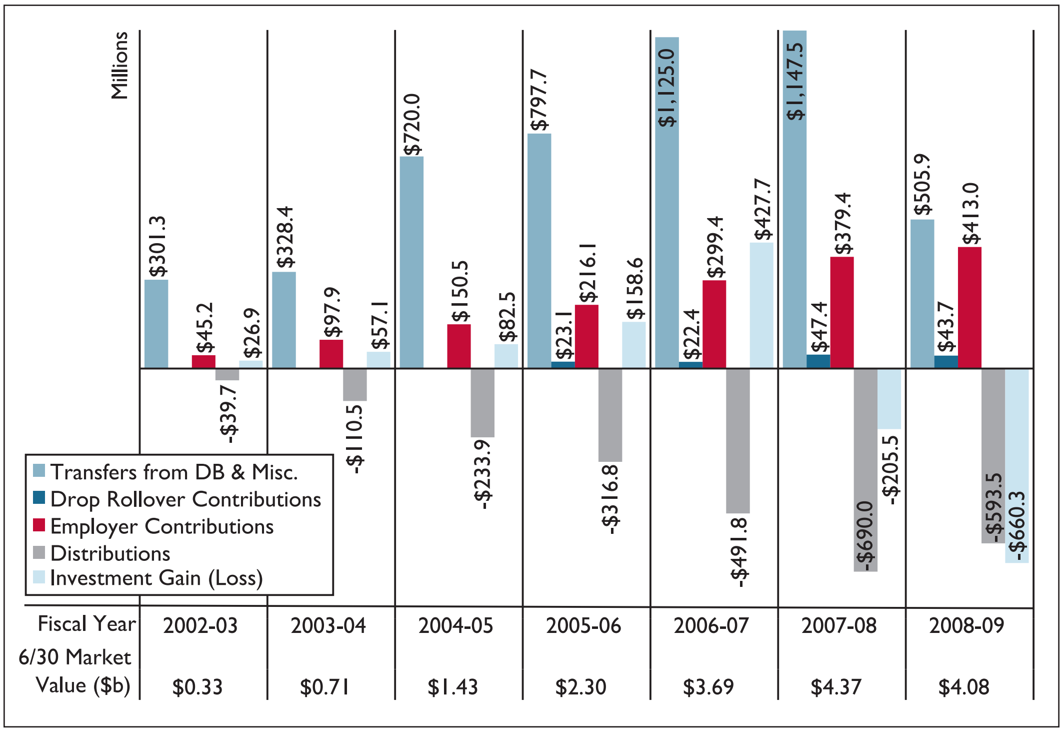
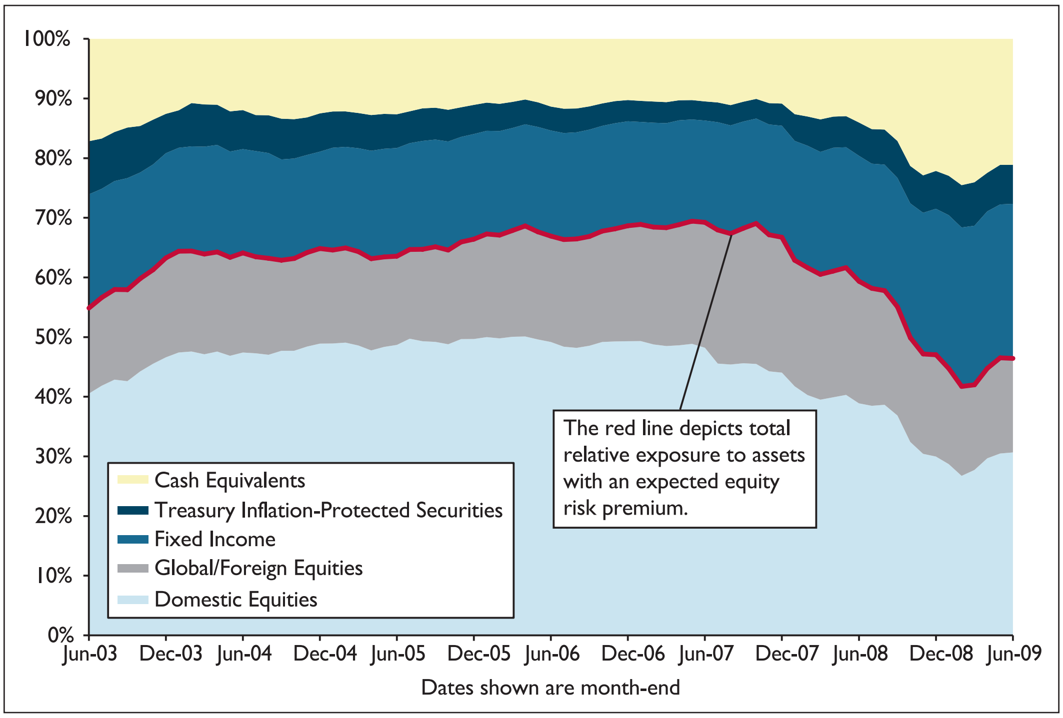


Chart 20: FRS Investment Plan Exposure by Asset Class

Fiscal Years 2004 to 2009



- This portfolio was funded at the beginning of the decade with $1.7 billion of Florida's tobacco litigation settlement proceeds.
- The purpose of the fund is, among other public health related goals, to provide a perpetual source of enhanced funding for state children's health programs, child welfare programs, children's community-based health and human services initiatives, elder programs, and biomedical research activities related to tobacco use.
- Despite the difficult market environment immediately following its initial funding, the Endowment's capital preservation investment objective was met by fiscal year 2005-06.
- An extraordinary appropriation of over $1 billion from the Endowment to support general fund spending was required in fiscal year 2008-09.

CHART 21: LAWTON CHILES ENDOWMENT FUND

Growth of $1.00 Initial Investment: June 1999 to June 2009

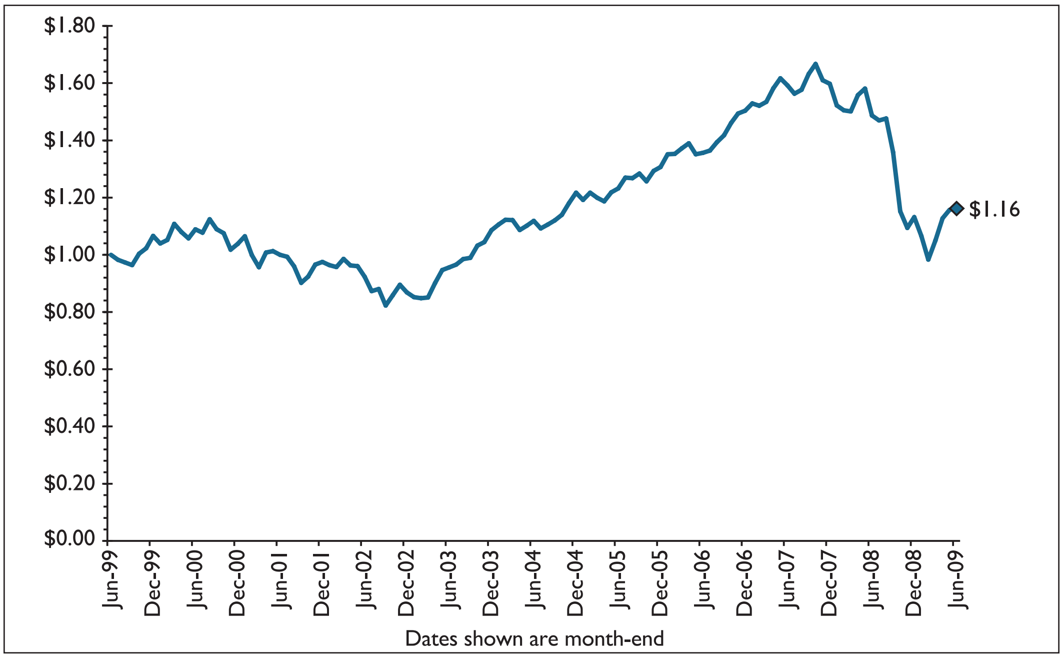


CHART 22: LAWTON CHILES ENDOWMENT FUND

SBA Managed Returns by Fiscal Year

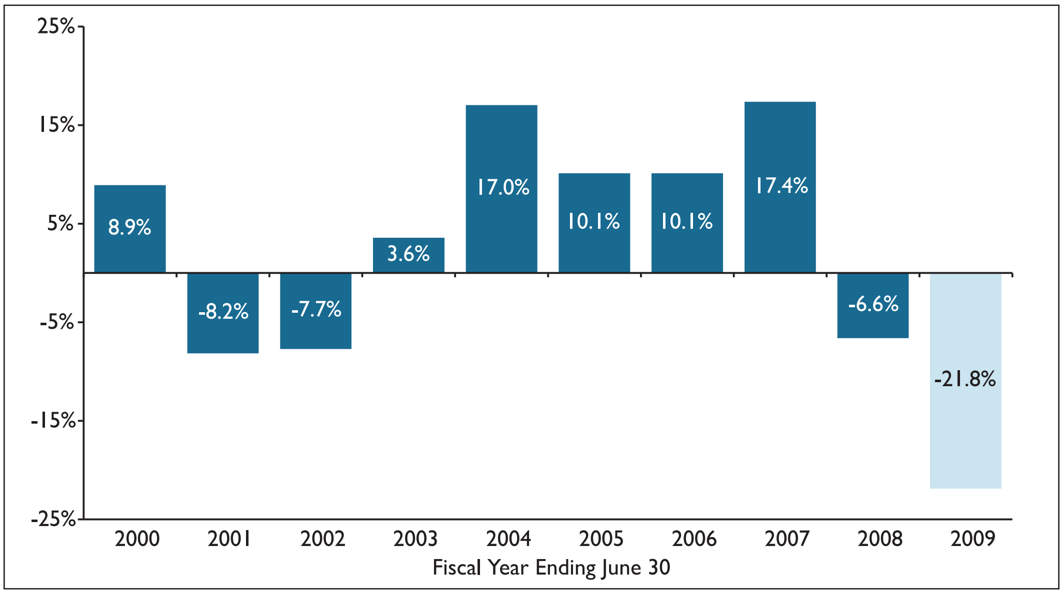


Table 7: Lawton Chiles Endowment Fund
Returns for Periods Ending June 30, 2009

	SBA Managed Return	Benchmark Return	Mgd. Over (Under) Bmk.
One Year	-21.85%	-22.48%	0.63%
Three Years	-5.03%	-5.29%	0.27%
Five Years	0.76%	0.35%	0.41%
Ten Years	1.51%	1.22%	0.29%

- All returns are annualized for periods indicated through June 30, 2009.
- Benchmark is a weighted blend of individual asset class target indices as applicable; weights and benchmarks are established in the Lawton Chiles Endowment Fund Investment Policy Statement.

Chart 23: Lawton Chiles Endowment Fund Assets by Type
$563.7 million as of June 30, 2009

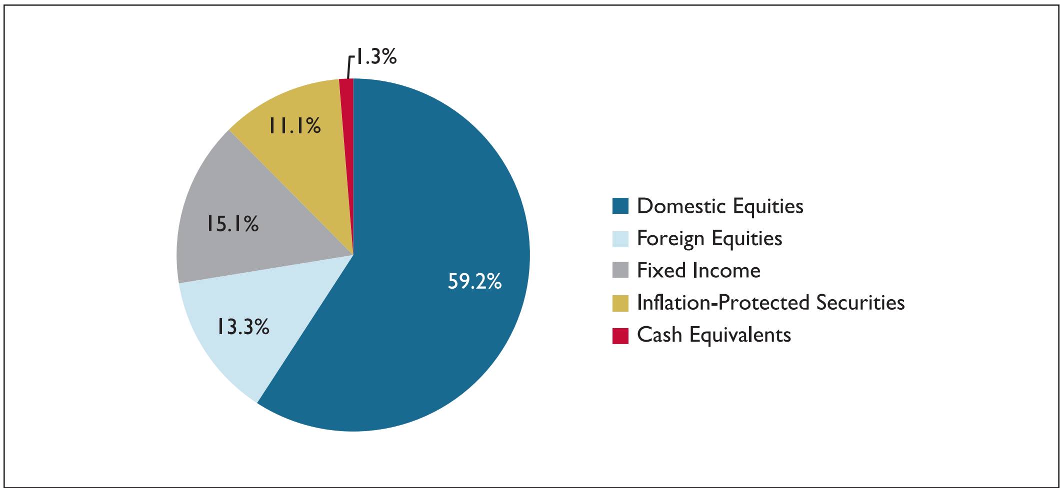


Chart 24: Lawton Chiles Endowment Fund
Annual Change in Total Fund Value by Source

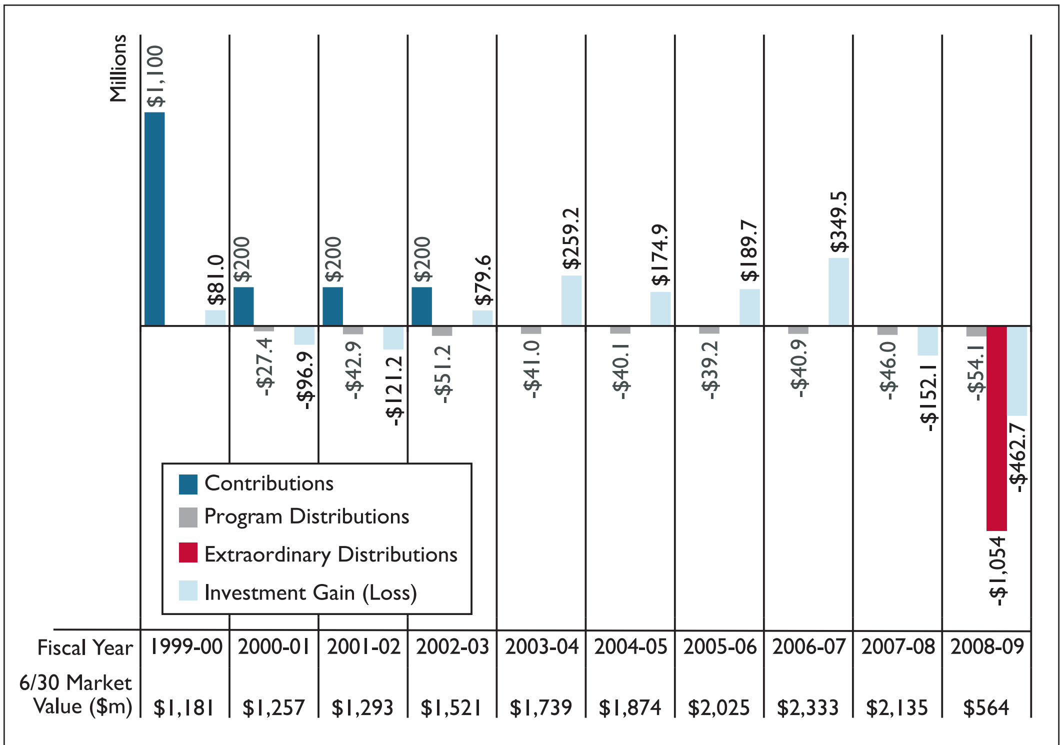


Chart 25: Lawton Chiles Endowment Fund

Total Fund Value, Contributions and Distributions - Nominal Dollars

Fiscal Year End	Fund Market Value	Total Contributions*	Program Distributions	Extraordinary Distributions
	$m	$m	$m	$m
06/30/00	1,181.0	1,100.0	-	-
06/30/01	1,256.8	200.0	27.4	-
06/30/02	1,292.7	200.3	42.9	-
06/30/03	1,521.0	200.3	51.2	-
06/30/04	1,739.2	0.2	41.0	-
06/30/05	1,874.0	0.2	40.1	-
06/30/06	2,024.5	0.2	39.2	-
06/30/07	2,333.0	0.2	40.9	-
06/30/08	2,134.9	0.2	46.0	-
06/30/09	563.7	0.3	54.1	1,054.4
Total Contributions & Distributions		**1,701.8**	**382.9**	**1,054.4**

*Includes external contributions plus biomedical reserve clawback.

Chart 26: Lawton Chiles Endowment Fund

Total Fund Value, Contributions and Distributions - Real (1999) Dollars

Fiscal Year End	Fund Market Value	Total Contributions*	Program Distributions	Extraordinary Distributions
	$m	$m	$m	$m
06/30/00	1,138.6	1,095.2	-	-
06/30/01	1,173.4	191.0	26.2	-
06/30/02	1,194.2	188.4	40.1	-
06/30/03	1,376.1	184.0	46.5	-
06/30/04	1,523.8	0.2	36.2	-
06/30/05	1,601.4	0.2	34.3	-
06/30/06	1,658.3	0.1	32.6	-
06/30/07	1,861.0	0.2	33.4	-
06/30/08	1,621.6	0.2	35.6	-
06/30/09	434.4	0.2	42.2	818.2
Total Contributions & Distributions		**1,659.6**	**327.1**	**818.2**

*Includes external contributions plus biomedical reserve clawback.

- Florida PRIME is an exclusive service for Florida local governments, providing a cost-effective investment vehicle for their surplus funds.
- Florida PRIME's investment strategy emphasizes, in order of importance, preservation of capital, liquidity and competitive yield.
- Florida PRIME is a highly enhanced version of the SBA's prior Local Government Investment Pool that now offers management by an industry leader in professional money management, conservative investment policies, a Standard & Poor's AAA(m) rating, enhanced transparency, and extensive governance and financial reporting.
- From December 2007 through the end of fiscal year 2008-09, the SBA has transferred a total of $1.46 billion in liquid assets from Fund B to participants in Florida PRIME. This amount represents nearly 73% of their original adjusted Fund B balances. Fund B is a separate fund which holds relatively illiquid securities that were formerly a part of the Local Government Investment Pool.

CHART 27: FLORIDA PRIME

Growth of $1.00 Initial Investment: May 1984 to June 2009

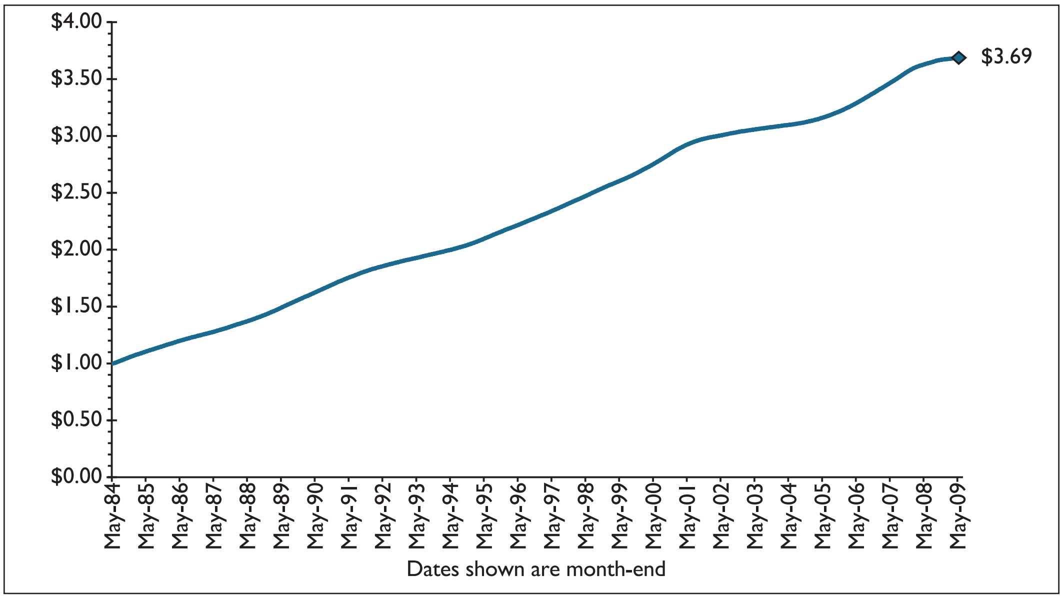


CHART 28: FLORIDA PRIME

SBA Managed Yields by Fiscal Year

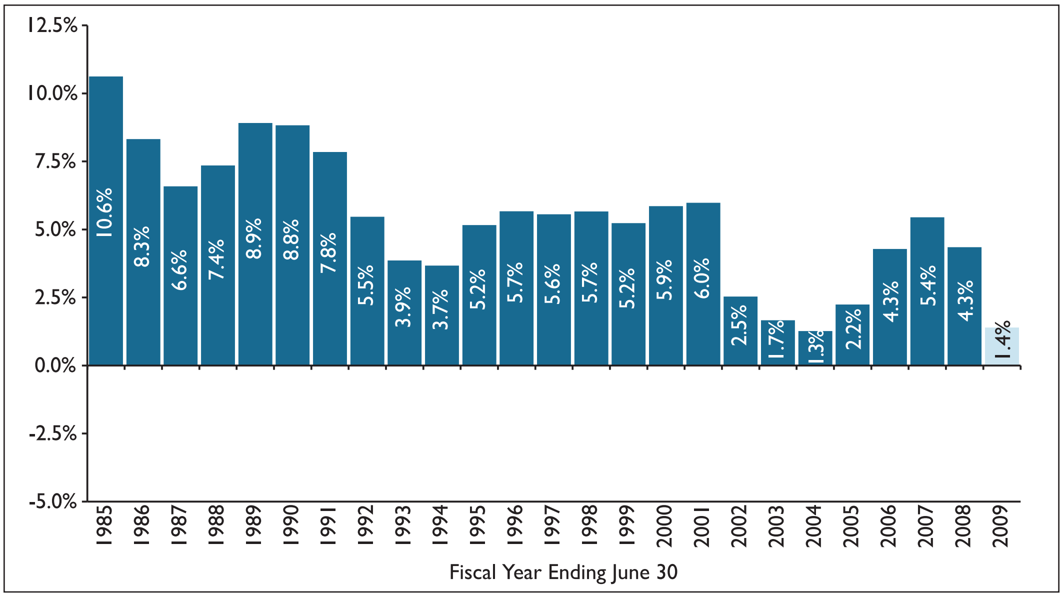


TABLE 8: FLORIDA PRIME

Yields for Periods Ending June 30, 2009

	SBA Managed Yield	Benchmark Yield	Mgd. Over (Under) Bmk.
One Year	1.39%	1.35%	0.04%
Three Years	3.71%	3.52%	0.19%
Five Years	3.53%	3.31%	0.22%
Ten Years	3.49%	3.23%	0.26%
Fifteen Years	4.14%	3.97%	0.17%

- All yields are annualized for periods indicated through June 30, 2009.
- Yields are net of fees, reflect amortized cost and are annualized on a 360-day basis pursuant to Chapter 19-7.011, Florida Administrative Code.
- Benchmark is the S&P AAA/AA Rated GIP All 30-Day Net Index for all time periods except the period July 1994 to March 1995 where an approximation using 1-month LIBOR was used.
- Value added relative to a gross-of-fees version of the benchmark is as follows: one year -0.16%; three years -0.02%; five years 0.0%; ten years 0.02%; and fifteen years -0.07%. See the SBA's Monthly Report to the Trustees and Monthly Summary Report for Florida PRIME for additional performance details.

CHART 29: FLORIDA PRIME HOLDINGS BY TYPE

$6.0 billion as of June 30, 2009

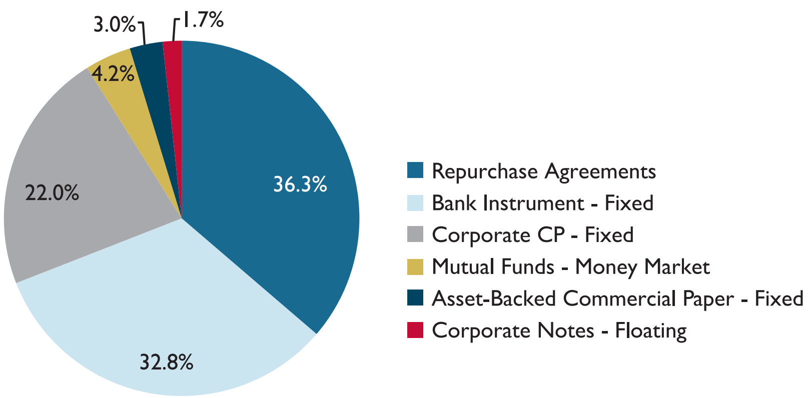


CHART 30: FLORIDA PRIME HOLDINGS BY CREDIT QUALITY

As of June 30, 2009

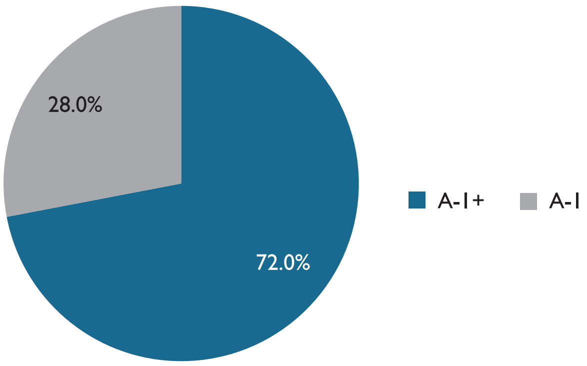


CHART 31: FLORIDA PRIME

Annual Change in Total Fund Value by Source

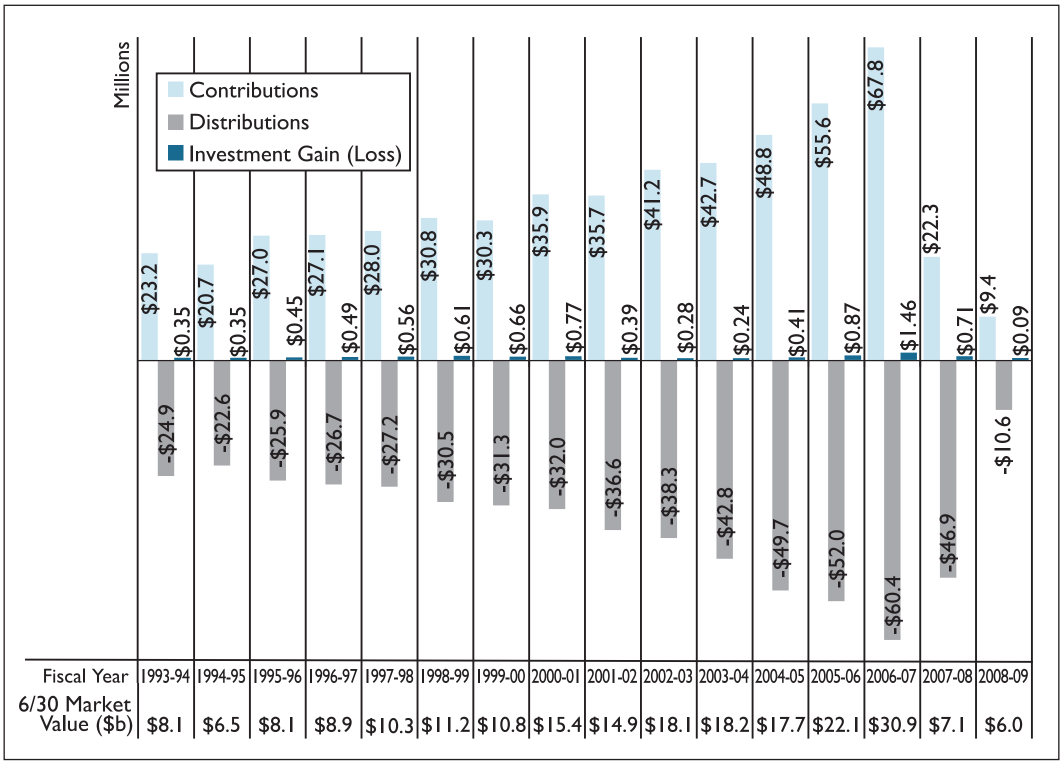


CHART 32: FLORIDA PRIME PARTICIPANT CONCENTRATION AS OF JUNE 30, 2009

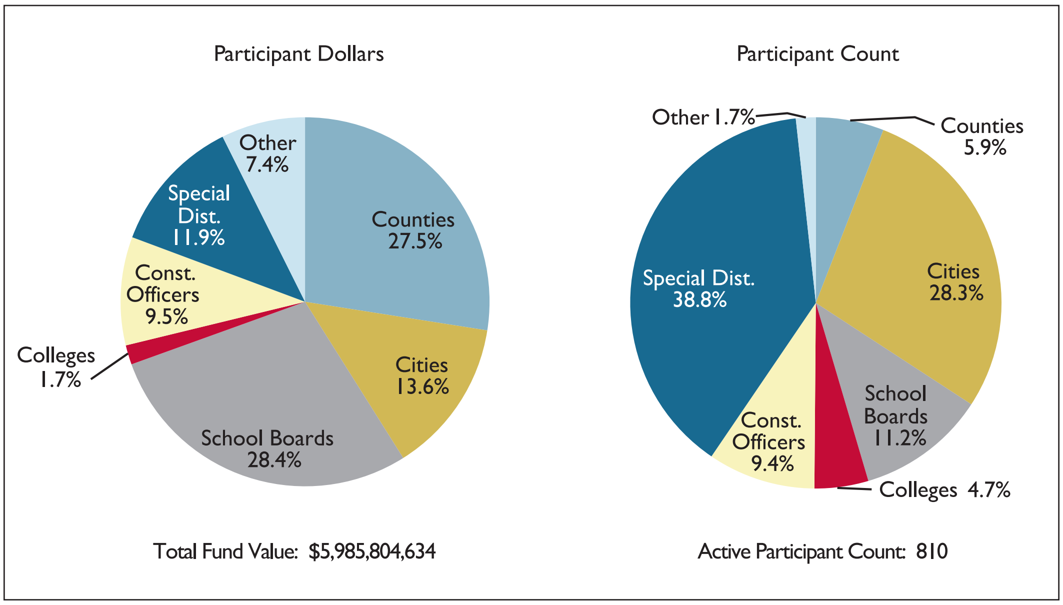


TABLE 9: FUND B SURPLUS FUNDS TRUST FUND

Returns for Periods Ending June 30, 2009

	SBA Managed Return	Benchmark Return	Mgd. Over (Under) Bmk.
One Year	-39.85%	NA	NA
Since Inception	-31.96%	NA	NA

• All returns are annualized for periods indicated through June 30, 2009.

• As a liquidating fund, this portfolio does not have a market-based benchmark. Its investment object is to maximize the present value of distributions to participants.

• Inception of the fund is December 2007.

- The CAMP-Money Market (CAMP-MM) portfolio is a 2a-7-like money market pool for non-pension assets of Florida governmental entities and trusts.
- CAMP-MM's three-part investment objective, in priority order, is safety, liquidity, and competitive returns with minimization of risks.
- At fiscal year-end, 18 clients held positions in CAMP-MM, with individual balances as high as $202.7 million.
- CAMP-MM-B is a separate fund which holds relatively illiquid securities that were formerly a part of CAMP-MM.

CHART 33: CAMP-MM
Growth of $1.00 Initial Investment: June 1999 to June 2009

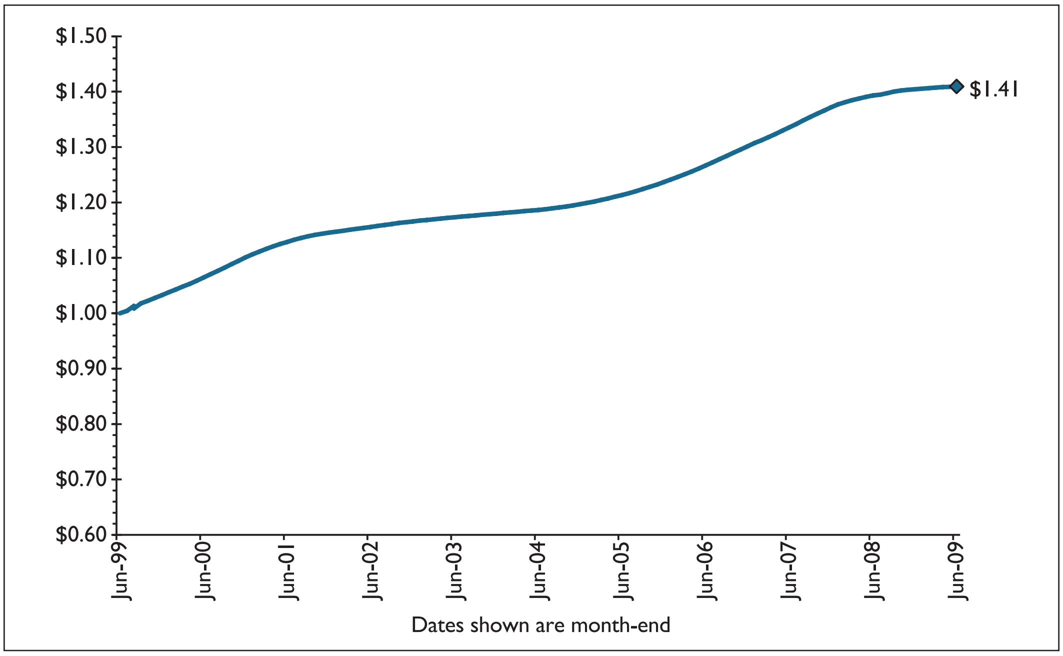


CHART 34: CAMP-MM
SBA Managed Yields by Fiscal Year

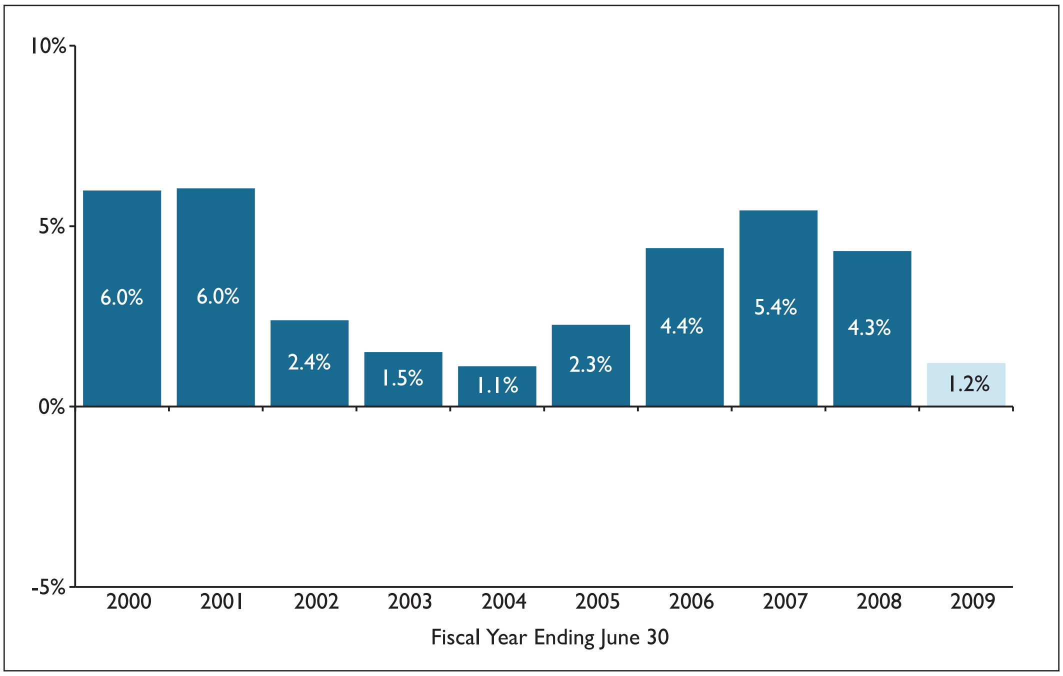


Table 10: CAMP-MM

Yields for Periods Ending June 30, 2009

	SBA Managed Yield	Benchmark Yield	Mgd. Over (Under) Bmk.
One Year	1.20%	1.54%	-0.35%
Three Years	3.63%	3.36%	0.27%
Five Years	3.51%	3.35%	0.15%
Ten Years	3.45%	3.25%	0.19%

- All yields are annualized for periods indicated through June 30, 2009.
- Yields are net of fees, reflect amortized cost and are annualized on a 360-day basis.
- Benchmark is the S&P AAA/AA Rated GIP All 30-Day Gross Index for all time periods.
- Inception of the fund is July 1999.

Chart 35: CAMP-MM Investments by Security Type

$342.1 million as of June 30, 2009

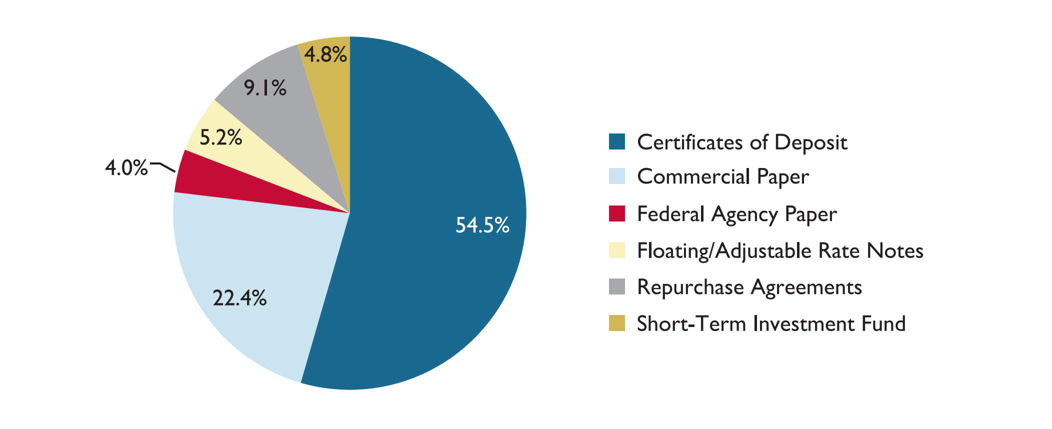


Table 11: CAMP-MM-B

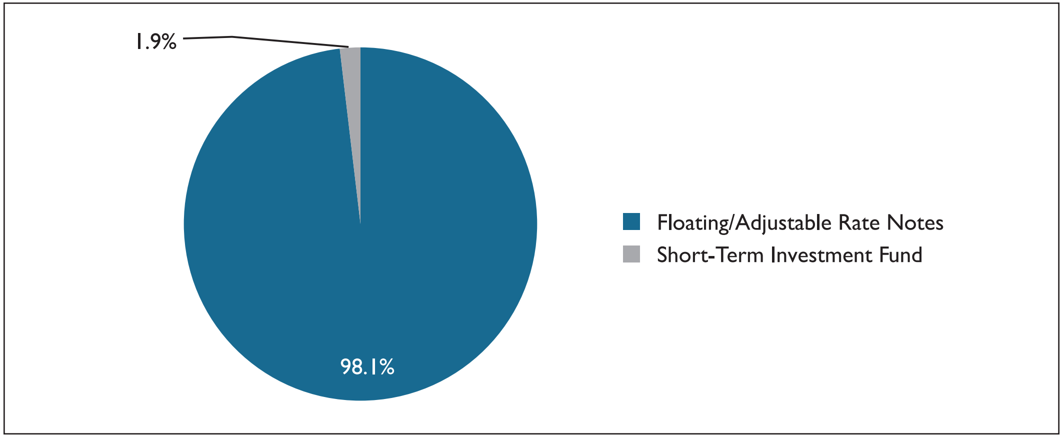
Returns for Periods Ending June 30, 2009

	SBA Managed Return	Benchmark Return	Mgd. Over (Under) Bmk.
One Year	-38.03%	NA	NA

- All returns are annualized for periods indicated through June 30, 2009.
- As a liquidating fund, this portfolio does not have a market-based benchmark. Its investment objective is to maximize the present value of distributions to participants.
- Inception of the fund is July 2008.

Chart 36: CAMP-MM-B Investments by Security Type

$12.7 million as of June 30, 2009



The Florida Hurricane Catastrophe Fund (FHCF)

- The FHCF (CAT Fund) is a tax-exempt trust fund created by the Florida Legislature in 1993, operating as a state-administered reinsurance program.
- Its purpose is to provide a stable and ongoing source of reimbursement to insurers for a portion of their catastrophic hurricane losses in order to provide additional insurance capacity for the state.
- The FHCF is currently reimbursing insurers for hurricane losses occurring in 2004 and 2005, and as of June 30, 2009, the fund had reimbursed participating insurers over $8.6 billion.
- In order for insurers to be reimbursed in a timely manner, the FHCF's investment policy objective has the following goals in order of priority: safety of principal, liquidity, and competitive returns.

The Florida Hurricane Catastrophe Fund Finance Corporation (Corp.)

- The Corp. was created as a public benefits corporation to provide a mechanism for the cost-effective and efficient issuance of bonds to fund hurricane losses for the FHCF.
- To reimburse insurers for losses resulting from the 2005 hurricane season, the Corp. issued bonds in the amount of $1.35 billion in fiscal year 2006-07 and $625 million in fiscal year 2008-09.
- The funding for these bonds comes from a 1% emergency assessment on the direct written premium for most property and casualty lines of business in Florida.
- To provide a source of additional funds to reimburse participating insurers for losses relating to future covered events, the Corp. issued notes in the amount of $3.5 billion in 2007.

The SBA's CAT Fund unit prepares a separate annual report detailing its programs, which is available at www.sbafla.com/fhcf. Performance data shown below for the CAT funds reflects those assets which are managed by the SBA.

CHART 37: FLORIDA HURRICANE CATASTROPHE FUND

Growth of $1.00 Initial Investment: June 1996 to June 2009

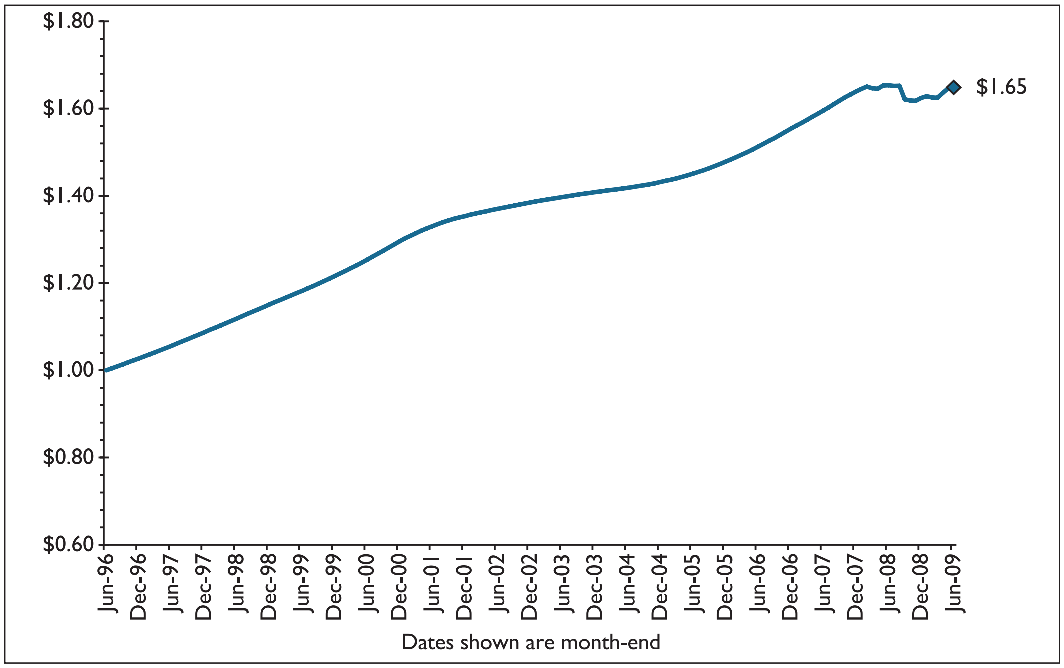


Chart 38: Florida Hurricane Catastrophe Fund

SBA Managed Returns by Fiscal Year

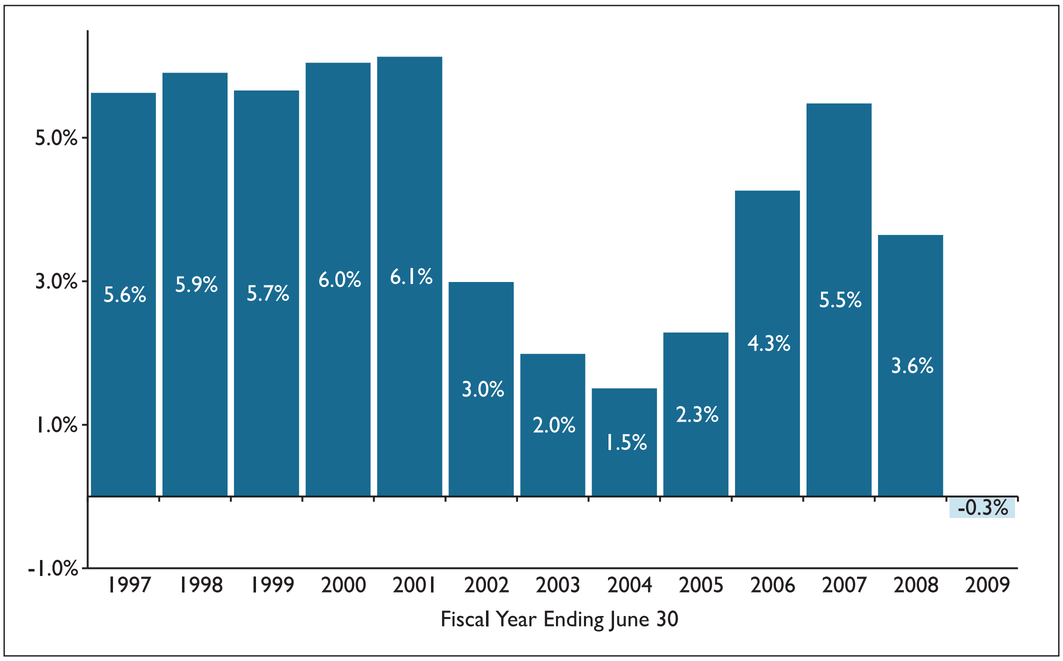


Table 12: Florida Hurricane Catastrophe Fund

Returns for Periods Ending June 30, 2009

	SBA Managed Return	Benchmark Return	Mgd. Over (Under) Bmk.
One Year	-0.30%	1.62%	-1.92%
Three Years	2.91%	3.68%	-0.77%
Five Years	3.06%	3.38%	-0.32%
Ten Years	3.38%	3.21%	0.17%
Since Inception	3.92%	3.67%	.25%

• All returns are annualized for periods indicated through June 30, 2009.

• Benchmark is the Merrill Lynch 1-month LIBOR CMTR Index for all time periods.

• Inception of the fund is July 1996.

Chart 39: Florida Hurricane Catastrophe Fund
Investments by Security Type

$3.1 billion as of June 30, 2009

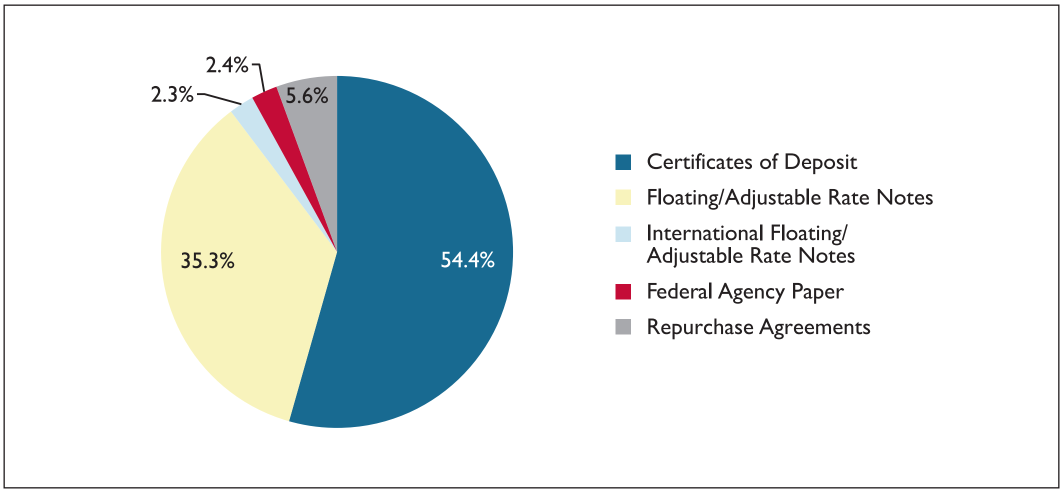


Chart 40: Florida Hurricane Catastrophe Fund Finance Corporation
Growth of $1.00 Initial Investment: July 2006 to June 2009

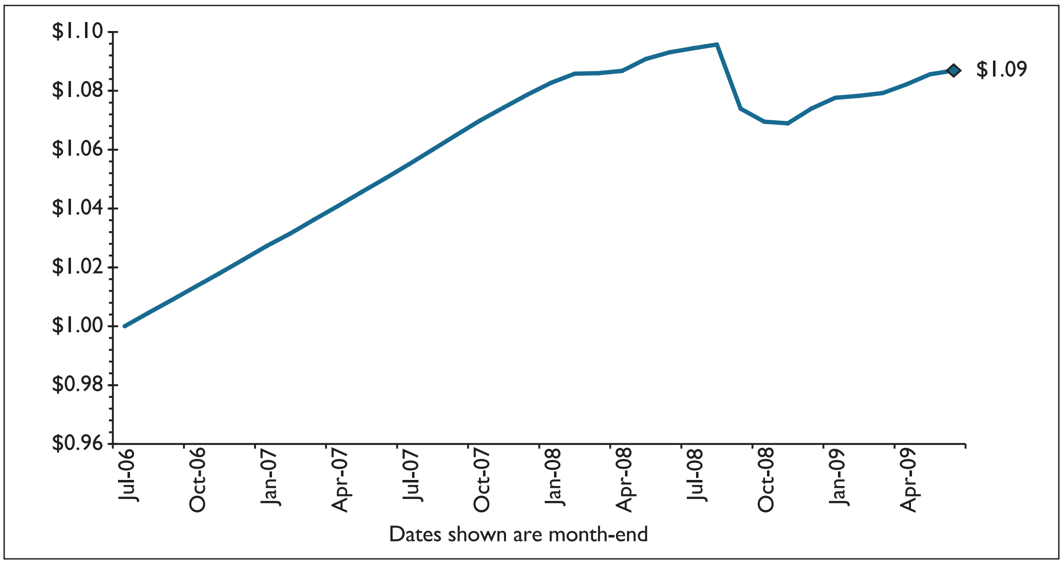
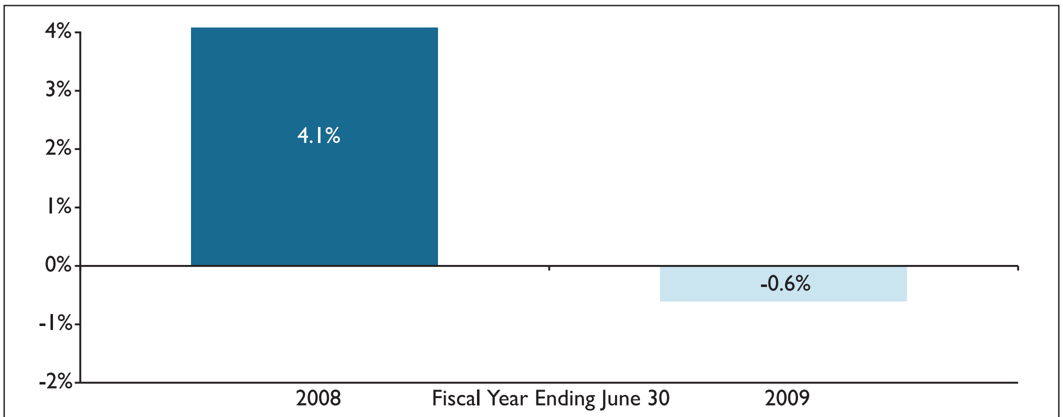


Chart 41: Florida Hurricane Catastrophe Fund Finance Corporation
SBA Managed Returns by Fiscal Year



Note: Fiscal year 2007-08 was the first full year of performance for this fund.

Chart 42: Florida Hurricane Catastrophe Fund Finance Corporation
Investments by Security Type
$4.6 billion as of June 30, 2009

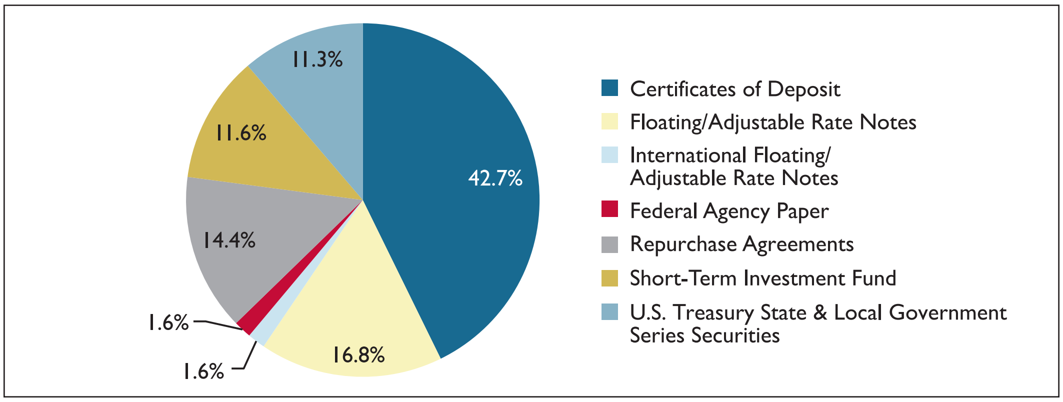


Table 13: Florida Hurricane Catastrophe Fund Finance Corporation
Returns for Periods Ending June 30, 2009

	SBA Managed Return	Benchmark Return	Mgd. Over (Under) Bmk.
One Year	-0.57%	1.62%	-2.19%
Since Inception	2.90%	3.77%	-0.87%

- All returns are annualized for periods indicated through June 30, 2009.
- Benchmark is the Merrill Lynch 1-month LIBOR CMTR Index for all time periods.
- Inception of the fund is August 2006.

- The Health Insurance Subsidy (HIS) is a program making payments to retired members of the Florida Retirement System to assist them in paying the costs of health insurance.
- Unlike the FRS Pension Plan, which is actuarially funded, HIS benefits are funded annually on a pay-as-you-go basis, similar to employer contributions to the FRS Investment Plan.
- The SBA manages the investment of HIS Trust Fund assets, with the objective of providing the necessary liquidity to meet distribution requirements, achieve competitive short-term returns, and preserve capital.
- Unprecedentedly low interest rates over the last year contributed to the underperformance of the portfolio, with floating rate notes in particular underperforming due to their difference in duration relative to the benchmark.

CHART 43: RETIREE HEALTH INSURANCE SUBSIDY TRUST FUND
Growth of $1.00 Initial Investment: February 1993 to June 2009

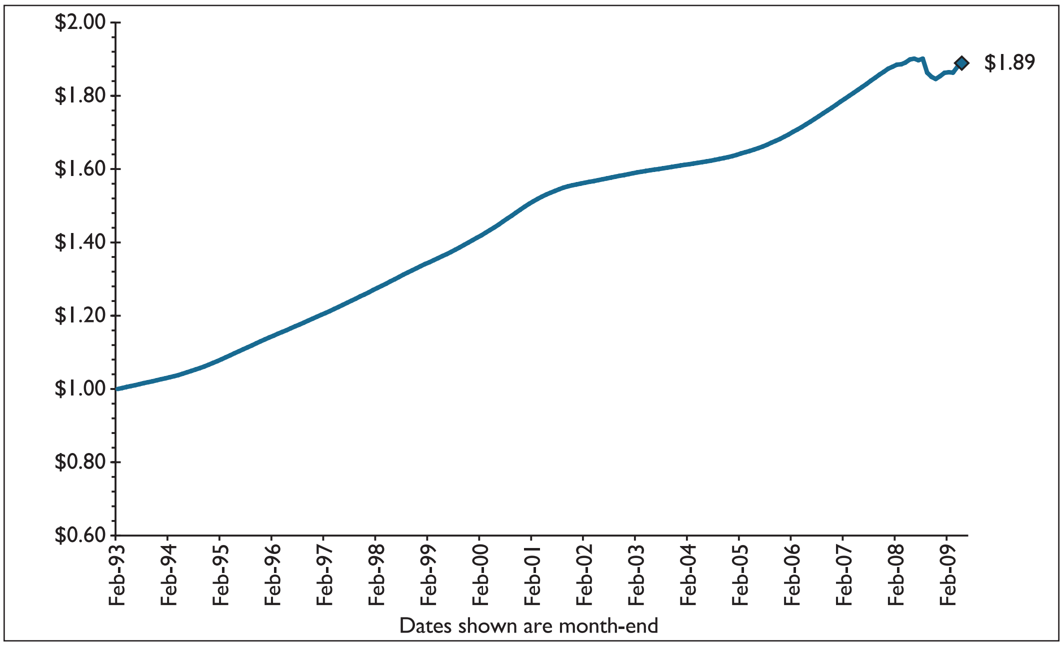
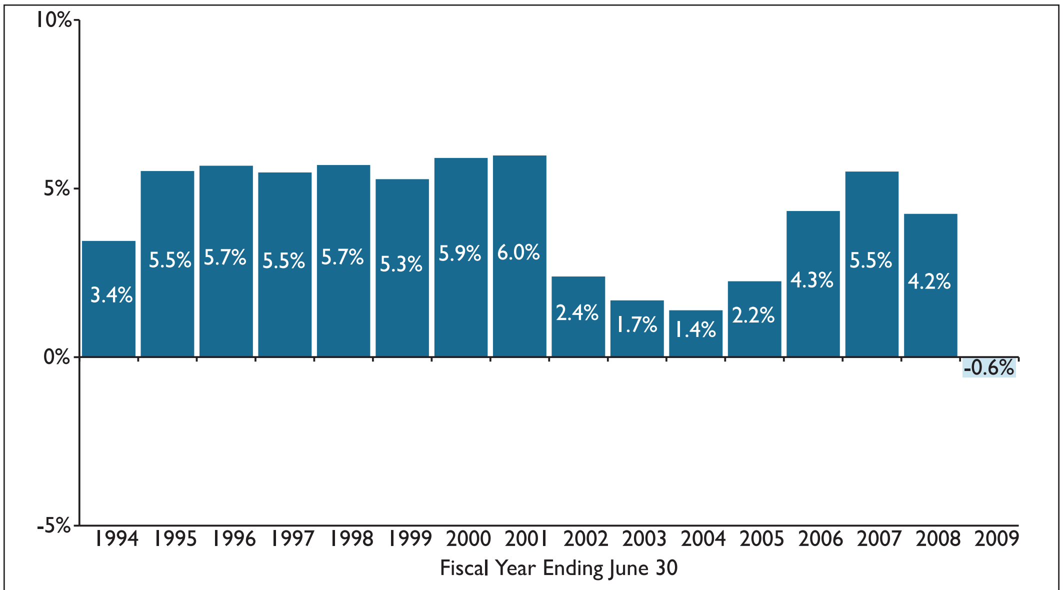


CHART 44: RETIREE HEALTH INSURANCE SUBSIDY TRUST FUND
SBA Managed Returns by Fiscal Year



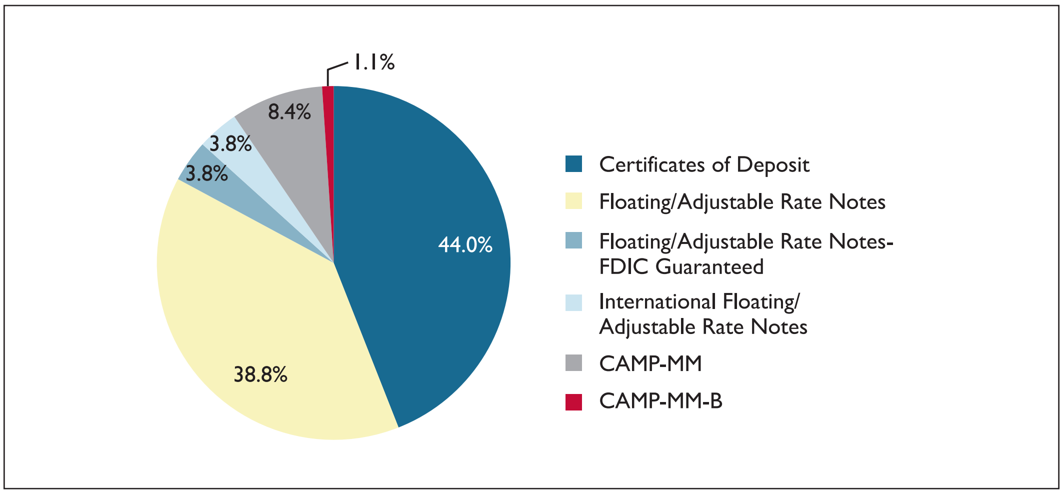
Note: Fiscal year 1993-94 was the first full year of performance for this fund.

Table 14: Retiree Health Insurance Subsidy Trust Fund
Returns for Periods Ending June 30, 2009

	SBA Managed Return	Benchmark Return	Mgd. Over (Under) Bmk.
One Year	-0.59%	4.25%	-4.84%
Three Years	3.02%	4.34%	-1.32%
Five Years	3.12%	4.25%	-1.12%
Ten Years	3.29%	NA	NA
Fifteen Years	4.03%	NA	NA

- All returns are annualized for periods indicated through June 30, 2009.
- Benchmark is the Merrill Lynch 1-year LIBOR for all time periods except for 10 and 15 years where a benchmark did not apply for the full period.

Chart 45: Retiree Health Insurance Subsidy Trust Fund Investments by Security Type
$262.3 million as of June 30, 2009



The valuations and accounting data contained in this report and its supplement reflect information current as of June 30, 2009 and are consistent with official investment return data as of that date supplied by the SBA's independent asset custodian, BNY Mellon Asset Servicing. These valuations will not necessarily match information included in the State of Florida Comprehensive Annual Financial Report for fiscal year 2008-09, due to its inclusion of subsequent updates to private market investment valuations and timing differences in the recognition of receivables and other items.

About the SBA

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

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

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

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

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

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

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