

# INVESTMENT REPORT 2013-14



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The investment performance information for the period ending June 30, 2014 presented herein represents investment returns based on official data supplied by the SBA's independent asset custodian and performance measurement service provider, BNY Mellon Performance Reporting and Analytics Services, as of that date. Market values and other performance-related information presented herein may not match that reported elsewhere due to possible inclusion of subsequent updates to private market investment valuations, timing differences in the recognition of receivables and other items, or differences in GASB accounting rules and SBA performance measurement policies.



**TO THE TRUSTEES OF THE  
FLORIDA STATE BOARD  
OF ADMINISTRATION AND  
HONORABLE MEMBERS  
OF THE FLORIDA  
SENATE AND HOUSE OF  
REPRESENTATIVES:**

It is my privilege to submit the Annual Investment Report of the State Board of Administration of Florida (SBA) for the fiscal year ended June 30, 2014, 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. The SBA is dedicated to ensuring its responsibilities to invest Florida’s assets are executed ethically, prudently, and in strict accordance with applicable law, policies, and fiduciary standards.

**ANOTHER YEAR OF STRONG PERFORMANCE**

**In FY 2013-14 All Major Mandates Showed Positive Returns and Beat Their Respective Benchmarks**

**Florida Retirement System Pension Fund**

The FRS Pension Fund generated a 17.40% return, beating its benchmark of 17.02%, and ending the year with a market value of \$149.1 billion. This represents a fund balance increase of \$16.7 billion more than last year’s fiscal year-end figure, after net distributions of \$5.9 billion to participants. This is the fifth consecutive year of positive returns for the Pension Fund.

This year’s 17.40% return was generated from positive returns in all asset classes. The Global Equity asset class led this year with a 23.52% overall return. Strategic Investments, Real Estate, and Private Equity asset classes earned 13.19%, 14.92%, and 19.88%, respectively. Fixed Income and Cash each earned 3.78% and .22%, respectively. While recovery of the financial markets has been somewhat erratic, we are certainly pleased with our current performance, but we cannot lose sight of the fact that it is the long-term performance that matters most. In that regard, we are equally pleased to report that returns for the Pension Plan for the 20- and 25-year period are 8.83% and 9.02%, respectively.

**Florida Retirement System Investment Plan**

The FRS Investment Plan, established to provide Florida’s public employees with a flexible alternative to the traditional pension plan, also posted year-end gains in returns and participation. The one-year return based on aggregate member investment selection was 15.51%, beating a benchmark of 15.05%. The benchmark is based on the weighted aggregate of the performance of various indices representing each member’s asset allocation.

During the fiscal year, 25% of newly hired employees elected to join the Investment Plan, and 5,718 Pension Plan members used their second election to switch to the Investment Plan resulting in a record high of 157,227 member accounts. Additionally, the Plan’s year-end assets of \$9.04 billion were also at a record-setting level, representing an increase of approximately 14.7% over last year’s fiscal year-end figure.

## **Florida PRIME™**

For the fiscal year, Florida PRIME™ delivered an aggregate \$14.3 million in investment earnings to its 862 investors. Relative performance of Florida PRIME™ has been strong over short- and long-term time periods. For the period ending June 30, 2014, Florida PRIME™ generated excess returns (performance above the pool's benchmark) of approximately 12 basis points (0.12%) over the last 12 months, 16 basis points (0.16%) over the last three years, and 14 basis points (0.14%) over the last 5 years. Florida PRIME and its predecessor, the Local Government Investment Pool (LGIP), have beaten the benchmark for 18 consecutive years. Florida PRIME remains the premier local government investment pool available in Florida today by offering superior liquidity, transparency, and performance at a fraction of the cost of competitors.

Hewitt EnnisKnupp (HEK) completed the annual Best Practices Review of Florida PRIME™ and again found that the pool “is being managed in a manner consistent with best practices.” Additionally, the annual outside legal compliance review found that Florida PRIME™ continues to operate in compliance with Sections 218.405 — 218.415, Florida Statutes. Both of these findings are consistent with the review findings for all previous years since their inception in 2008.

## **Lawton Chiles Endowment Fund (LCEF)**

This fiscal year return on the endowment was 20.79%, beating the benchmark return by 237 basis points. LCEF has exceeded the benchmark for the one-, three-, five-, 10-year, and since-inception time periods. Florida Statutes direct the SBA to manage the LCEF as a perpetual endowment, implying preservation of capital and a sustainable spending rate. However, in spite of a strong history of investment performance, the proportion of the preservation objective sits at just 72.6%, largely due to non-program withdrawals used to support general appropriations.

## **Florida Hurricane Catastrophe Fund (FHCF)**

In 2014, Florida enjoyed its ninth year without a hurricane landfall, resulting in continued improvement in the health of the fund. Changes made by the Florida Legislature have strengthened the fund's cash balance position and reduced its potential liabilities, but the fund still may have to rely on post-event debt issuance to meet its obligations. The fund is managed to be able to quickly reimburse insurers in the event of a hurricane, so the prioritized goals are liquidity, safety of principal and competitive returns. The FHCF achieved a 0.20% actual return, beating the benchmark by 16 basis points. The FHCF has beaten its benchmarks for the one-, three-, five-, 10-, and 15-year time periods.

In 2013, the State Board of Administration Finance Corporation (formerly the Florida Hurricane Catastrophe Fund Finance Corporation) issued \$2.0 billion in pre-event bonds to ensure liquidity in the event of a future hurricane. The funds are invested in highly liquid investments until needed.

## **COSTS**

### **Continuing Leadership in Cost Management**

The SBA is an industry leader in cost management. While historically low cost, the SBA continues to be the lowest all-in cost provider among North American public and private pension fund peers at an “all-in” cost of 36.1 basis points. This is significantly below the peer median of 54.9 basis points.

We continue to review and assess the impacts of the Dodd-Frank federal requirements. While appropriately determining the impacts both on the SBA, and our providers could evolve over several years, it is reasonable to anticipate that the cumulative cost of implementation, including staffing, could be significant.

## **OPERATIONS**

### **Continued Improvement**

#### **Investment Plan Changes**

The SBA has always worked to ensure that the Investment Plan offers a range of current, best in class, cost effective investment options to its members. Our objective has always been to provide members with an increased likelihood of having a larger account balance at retirement via appropriate options and educational programs. While the line-up of options available to participants was state of the art 12 years ago when the Plan was begun, we concluded based on direct feedback from plan participants, it may not be meeting the evolving needs of all members.

Over the years, through focus groups, annual surveys, workshops and benefit fairs, many members have expressed a desire for an even wider array of investment options. As a result, the SBA undertook a realignment and expansion of Investment Plan options that became effective July 1, 2014.

The most noticeable change is a shift from risk-based Balanced Funds to 10 new Retirement Date Funds (also known as target date funds or life-cycle funds). Another change is the move from separate actively managed funds to broader multi-manager actively managed funds in some investment styles. This change will provide Investment Plan members with a broader diversification among investment styles and help mitigate downside risk. Additionally, in January 2014, the Plan added the Self-Directed Brokerage Account.

When coupled with the three broad based passively managed funds, the new lineup presents Investment Plan members with a clearer choice between active and passive portfolio combinations. The new investment fund design is centered on satisfying the needs of the three types of investors:

- Reluctant Investor- does not have the knowledge, interest or expertise in investing. The new Retirement Date Funds are designed for these members, who only need to pick the fund nearest their expected retirement date and all reallocations are made for them through the progression of time in the fund;
- Active Investor- may or may not need guidance and want to build their own portfolio using the Plan's Core Funds offered to take advantage of funds that are monitored by the SBA, most of which are not available in the retail marketplace. The core fund offerings are for these members; and
- Very Active Investor- considers themselves as a very experienced investor and does not want or need any assistance. The new Self-Directed Brokerage Account is offered for these members.

#### **Asset Allocation**

Recognizing the interest rate risk present in the current environment, based on the advice and hard work of the Investment Advisory Council, and with the approval of the Trustees, we made several adjustments to the Pension Fund Asset Allocation. The adjustments reduced the target exposure to Fixed Income while increasing allocations to four other asset classes. Most notably, the Real Estate target was raised from 7% to 10%. The benchmark for Fixed Income was changed to the Barclay's Capital U.S. Intermediate Aggregate Index in order to reflect a shorter duration target and mitigate interest rate risk. The Real Estate benchmark was modified to include a premium reflecting a higher hurdle rate for value added and opportunistic real estate investments. As part of the tuning process, allocations of Private Market underweights and overweights to Public Markets were established consistent with the Fund's risk targets.

#### **Risk**

While performance generally gets the headlines, risk may be the most important management function of prudent investors; and diversification is the foundation of risk management. The maturation of the alternative

asset classes has proven to be an efficient risk mitigation tool, while also contributing to enhanced returns. The addition of Alternative Investments has added value in all time periods. In the near term periods (one, three and five-year), Alternatives have added significant value. The difference in absolute risk for all periods is negligible (ranging from +0.3% to +8 basis points). Alternative Investments have improved the Total Fund's Sharpe Ratio (an accepted risk-adjusted measure of return) for the one-, three-, five- and 10-year time periods. Over longer term time horizons, the weight of Alternative Investments is very small and conversely starts to grow in the near term time horizons reflecting the maturing of the allocation. In short, the Alternatives allocation is accomplishing what it was set out to do.

## **LOOKING FORWARD**

### **Fund B**

As of September 5, 2014, 100% of the original principal in Fund B was returned to participants. Fund B cash holdings have been distributed as they became available from maturities, sales investment interest, and other income received from the assets in Fund B. In anticipation of excess returns on these investments, the SBA is conducting internal and external legal reviews, as well as working with the PLGAC and Trustees to determine the most appropriate, legally compliant method of distributing returns above the original principal amount and ensure compliance with Section 218.421(2)(e) F.S.

### **FHCF Emergency Assessments**

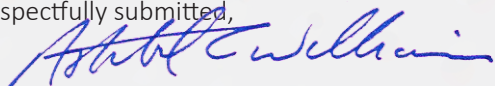
In order to provide sufficient funds to pay reimbursements from the 2005 hurricanes, the FHCF issued three series of tax-exempt, post-event revenue bonds. To support these bonds, assessments were levied on all Florida property and casualty insurance premiums except for those exempted by statute (workers' compensation, medical malpractice, and national flood insurance). The assessments applied to policies issued both by admitted insurers and by surplus lines insurers.

The FHCF is now able to provide for payment in full of the outstanding bonds due to beneficial growth in its assessment base and the final settlement of all 2005 insurer claims. Therefore, emergency assessments will be terminated approximately 18 months earlier than originally anticipated. The Florida Office of Insurance Regulation issued two Orders terminating the emergency assessments on all policies issued or renewed on or after January 1, 2015.

### **Recognition**

The members of the Investment Advisory Council, Audit Committee, and Participant Local Government Advisory Council have generously shared their talent, wisdom, and time, making contributions that strengthen our organization and add transparency to our governance. I would like to recognize and thank those whose efforts empower the SBA to fulfill our fiduciary responsibility and provide top-quality, low-cost investment and trust services.

Respectfully submitted,

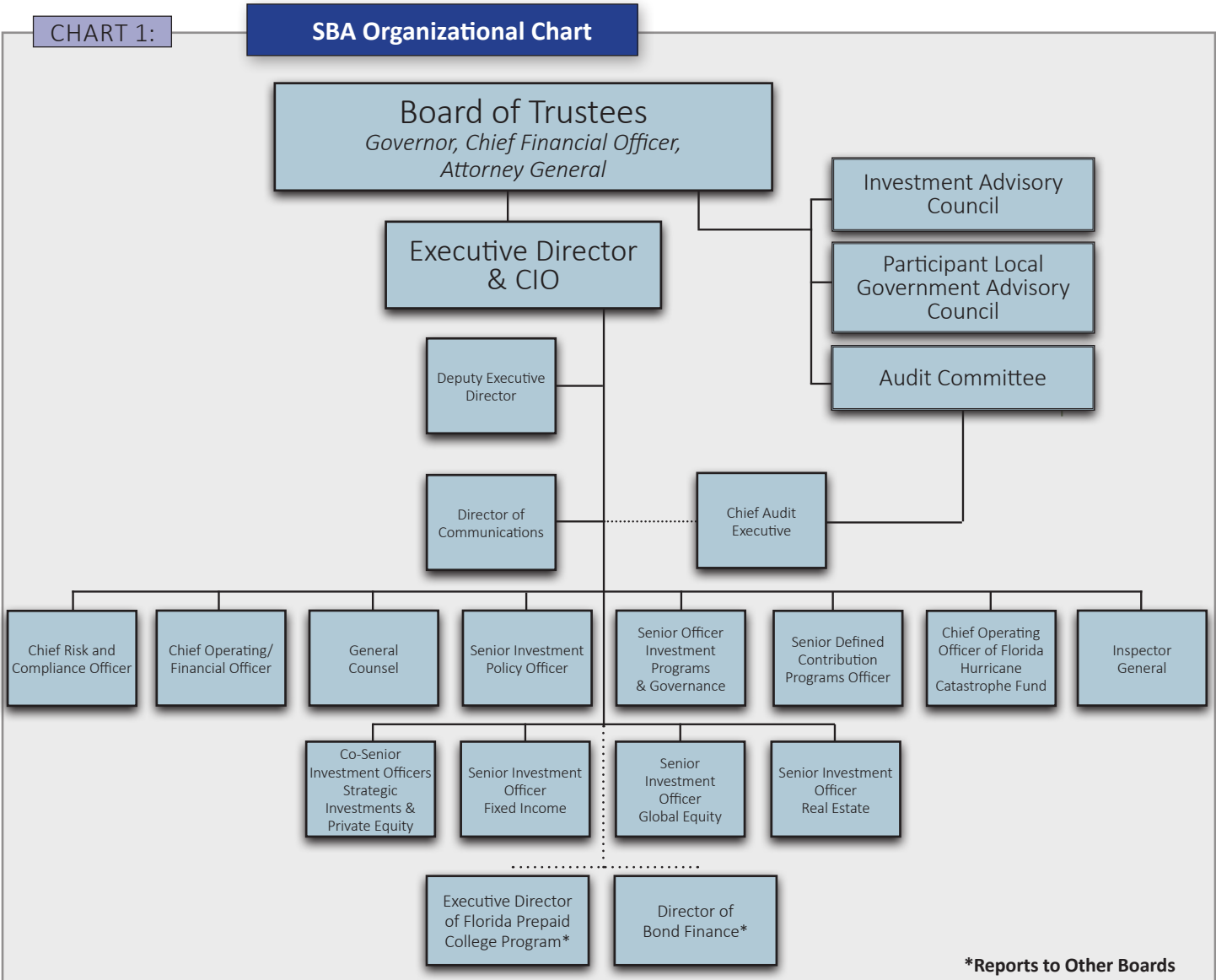


Ash Williams  
Executive Director & CIO



# SBA Organizational Structure and Oversight

The SBA is mandated by the Florida Constitution and is governed by a three-member Board of Trustees, comprised of the Governor as Chairman, the Chief Financial Officer and the Attorney General. The Trustees, in concert with legislative directives, have ultimate oversight of strategy. They delegate authority to the Executive Director & Chief Investment Officer (CIO) to carry out the strategic direction in the day-to-day financial investments and operations of the agency. The Executive Director & CIO manages approximately 200 professional investment and administrative support staff.



# Advisors, Consultants and Auditors

To assist the Trustees and staff with their responsibilities, the Trustees appoint members who have specific knowledge and expertise to several councils, advisory boards and commissions.

## Investment Advisory Council (IAC)

The IAC meets quarterly, or additionally as needed, to provide independent oversight of the SBA's general objectives, policies and strategies, while more broadly covering topics related to the general economic outlook. The IAC provides independent oversight of the SBA's funds and major investment responsibilities, ranging from the Florida Retirement System to the Lawton Chiles Endowment Fund. The Board of Trustees appoints nine members to serve on the IAC for four-year terms pursuant to Section 215.444(2), Florida Statutes.

## Audit Committee (AC)

The AC exists to assist the Trustees of the State Board of Administration in fulfilling their oversight responsibilities. The primary duties and responsibilities of the AC are to serve as an independent and objective party to monitor the SBA's processes for financial reporting, internal controls and risks assessment, compliance and review, and to appraise the audit efforts of the SBA's independent auditors and Office of Internal Audit. The Board of Trustees appoints three members to serve four-year terms.

## Participant Local Government Advisory Council (PLGAC)

The PLGAC was statutorily created as an additional measure to ensure that Florida PRIME™ is operated and managed in the best interest of investors in the fund. The PLGAC reviews the administration of the trust fund and makes recommendations regarding such administration to the Trustees. The PLGAC prepares and submits a written biennial report to the Trustees, the Investment Advisory Council, and the Joint Legislative Auditing Committee that describes the activities and recommendations of the council. The Board of Trustees appoints six members to serve on the PLGAC for four-year terms, subject to confirmation by the Florida Senate. Members must possess special knowledge, experience, and familiarity obtained through active, long-standing, and material participation in the dealings of the trust fund.

## Florida Hurricane Catastrophe Fund Advisory Council

The Board of Trustees appoints a nine-member advisory council to provide information and advice in connection with its duties related to the Florida Hurricane Catastrophe Fund (FHCF). The Council consists of an actuary, a meteorologist, an engineer, a representative of insurers, a representative of insurance agents, a representative of reinsurers, and three consumers.

## Florida Commission on Hurricane Loss Projection Methodology

The Commission was statutorily created as a panel of experts to provide actuarially sophisticated guidelines and standards for the projection of hurricane losses and is administratively housed within the State Board of Administration. The Commission consists of the following 12 members: the insurance consumer advocate, the senior employee of the State Board of Administration responsible for operations of the Florida Hurricane Catastrophe Fund, the Executive Director of the Citizens Property Insurance Corporation, the Director of the Division of Emergency Management, the actuary member of the Florida Hurricane Catastrophe Fund Advisory Council, an employee of the Office of Insurance Regulation who is an actuary responsible for property insurance rate filings and who is appointed by the Director of the Office of Insurance Regulation, a licensed professional structure engineer who is a full-time member of the State University System with expertise in wind mitigation techniques who is appointed by the Governor, and five members appointed by the Chief Financial Officer, as follows: an actuary who is employed full time by a property and casualty insurer which was responsible for at least one percent of the aggregate statewide direct written premium for homeowner's insurance in the calendar year preceding the member's appointment to the commission, an expert in insurance finance who is a full-time member of the faculty of the State University System and who has a background in actuarial science, an expert in statistics who is a full-time member of the faculty of the State University System and who has a background in insurance, an expert in computer system design who is a full-time faculty member of the State University System, and an expert in meteorology who is a full-time member of the faculty of the State University System and who specializes in hurricanes. The Board of Trustees annually appoints one of the members of the Commission to serve as chair.

The State Board of Administration uses investment, legal and other independent consultants on both a retainer and special project basis. Consultants generally serve as fiduciaries and the use of consultants allows the SBA to obtain best-in-class talent and objective external advice and oversight. Investment consulting services for special projects are engaged on a competitive basis by soliciting proposals from a pool of pre-qualified consultants.

## Investment Consultants

The SBA's investment consultants are required to act as fiduciaries under the Investment Advisers Act of 1940 and according to the requirements of Florida Statutes (i.e., essentially the ERISA fiduciary standards of care) in fulfilling their contractually assigned duties. Furthermore, the SBA requires investment consultants to submit an annual independence and disclosure compliance certification.

## Performance Measurement

The SBA maintains relationships with firms that provide independent performance measurement services to assist in evaluating the cost effectiveness of certain components of the SBA's investment programs.

## Special Projects

The SBA utilizes independent specialists and legal experts for special project work on a regular basis.

## External Auditors

The SBA utilizes an external audit protocol whereby the Audit Committee, through the Chief Audit Executive and the Executive Director & CIO, engages and oversees external auditors. The SBA obtains annual commercial audits of FRS Pension Plan, FRS Investment Plan and Florida Hurricane Catastrophe Fund financial statements. All other funds are subject to audit by the Auditor General of the State of Florida. The Audit Committee employs a pool of external auditors to be used for special project audits.



Dames Point Bridge, officially the Napoleon Bonaparte Broward Bridge, is a cable-stayed bridge over the St. Johns River in Jacksonville, Florida on the Interstate 295 East Beltway.

# SBA Mandate Overview

During the year, assets under SBA management increased by \$19.1 billion to \$180.97 billion. Table 1 shows details for each SBA fund.

TABLE 1:

Change in Assets Under Management - Fiscal Year 2013-14

	Market Value June 30, 2013	Investment Gain (Loss)	Net Contributions & (Withdrawals)	Market Value June 30, 2014
FRS Pension Plan	\$132,382,915,266	\$22,635,910,530	\$(5,920,869,454)	\$149,097,956,343
Florida Hurricane Catastrophe Fund	8,474,047,832	19,141,753	1,227,884,913	9,721,074,498
FRS Investment Plan	7,883,805,413	1,206,441,979	(49,522,537)	9,040,724,856
Florida PRIME <sup>1</sup>	6,802,408,558	10,820,887	(71,974,165)	6,741,255,281
SBA Finance Corporation	3,242,733,100	5,003,577	113,432,191	3,361,168,868
Debt Service	1,183,171,439	8,169,560	(26,671,266)	1,164,669,733
Lawton Chiles Endowment Fund	479,320,081	106,784,158	40,000,000	626,104,239
Department of the Lottery Fund	523,675,015	13,381,022	(95,449,169)	441,606,868
Police and Firefighters' Premium Tax Trust Fund	225,444,012	259,194	2,824,000	228,527,206
Florida Prepaid College Plan	144,323,518	40,275,310	29,757,352	214,356,180
Retiree Health Insurance Subsidy Trust Fund	121,407,506	219,149	(61,141,387)	60,485,268
Florida College Investment Plan	47,634,639	8,429,506	3,098,122	59,162,267
Fund B Surplus Funds Trust Fund	147,784,211	10,309,958	(101,385,000)	56,709,170
SBA Administrative Fund	34,405,303	32,979	5,362,140	39,800,421
PEORP Administrative Fund	36,651,504	71,073	(2,894,777)	33,827,799
University of Miami	20,843,392	34,590	0	20,877,982
Burnham Institute for Medical Research Fund	38,998,341	42,684	(20,786,984)	18,254,041
FL Prepaid College Plan Administrative Expense	451	988	14,340,258	14,341,697
Insurance Capital Build-up Program	5,188,139	16,813	1,295,204	6,500,155
Bond Fee Trust Fund	6,115,780	11,599	314,011	6,441,390
Florida Division of Blind Services	4,200,021	589,404	0	4,789,425
Torrey Pines Institute	4,774,516	21,421	(1,238,331)	3,557,606
Max Planck	3,387,289	5,004	0	3,392,293
Arbitrage Compliance Trust Fund	2,714,393	5,355	(29,137)	2,690,611
Oregon Health & Science University	2,570,076	3,368	0	2,573,444
McKnight Doctoral Fellowship Program	1,334,976	319,827	0	1,654,803
Charles Stark Draper Laboratory	1,111,739	414	0	1,112,153
FL College Investment Plan Administrative Expense	44,717	120	552,365	597,202
SRI International Fund	326,481	3,793	(225,377)	104,896
FSU Research Foundation	115,892	7,634	(93,439)	30,087
FL Endowment for Vocational Rehabilitation	21,290	692	(16,612)	5,370
Pinellas Suncoast Transit Authority	17,944	622	(13,907)	4,658
Inland Protection Financing Corporation	1,503	17	0	1,520
Gas Tax Clearing Fund <sup>2</sup>	0	(10,101)	10,101	0
Bond Proceeds Trust Fund <sup>2</sup>	5,922,256	161	(5,922,418)	0
Scripps Florida Funding Corporation <sup>3</sup>	4,716,016	700	(4,716,716)	0
<b>Total Assets Under Management</b>	<b>\$161,832,132,609</b>	<b>\$24,066,305,743</b>	<b>\$(4,924,080,020)</b>	<b>\$180,974,358,332</b>

<sup>1</sup> The Florida PRIME fund values at June 30, 2013 and June 30, 2014 have been reduced by \$476,391,200 and \$450,246,763, respectively. These values represent amounts that are reported by other SBA funds as investments in Florida PRIME (i.e., other funds managed by SBA that are invested in Florida PRIME). The amount reported for Contributions & (Distributions) has been increased by \$26,782,928, and Investment Gain(Loss) has been reduced by \$638,492, for the same reason.

<sup>2</sup> The fund balance is periodically zero due to cash flows.

<sup>3</sup> Account closed during the fiscal year.

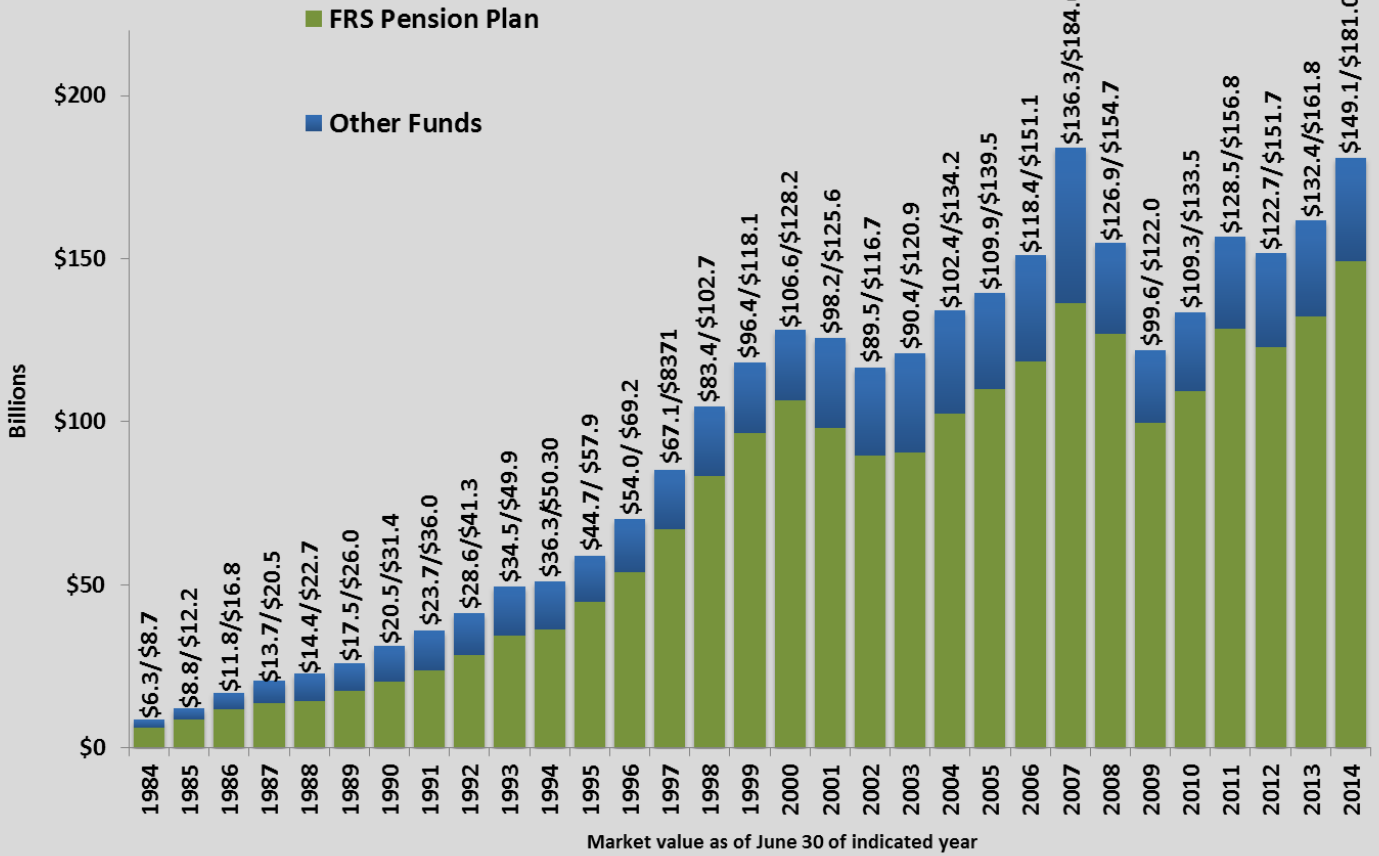
• Totals may not foot due to rounding

Source: SBA

CHART 2:

**Assets Under SBA Management**

Top number indicates total assets under management



Source: SBA

From 1984 to 1992, the total assets under SBA management reported for "Other Funds" were equal to the original cost value of investments, plus accrued interest receivable, plus or minus any pending sales or purchases of investments. Beginning in 1993, investments are reported at fair market value rather than original cost.

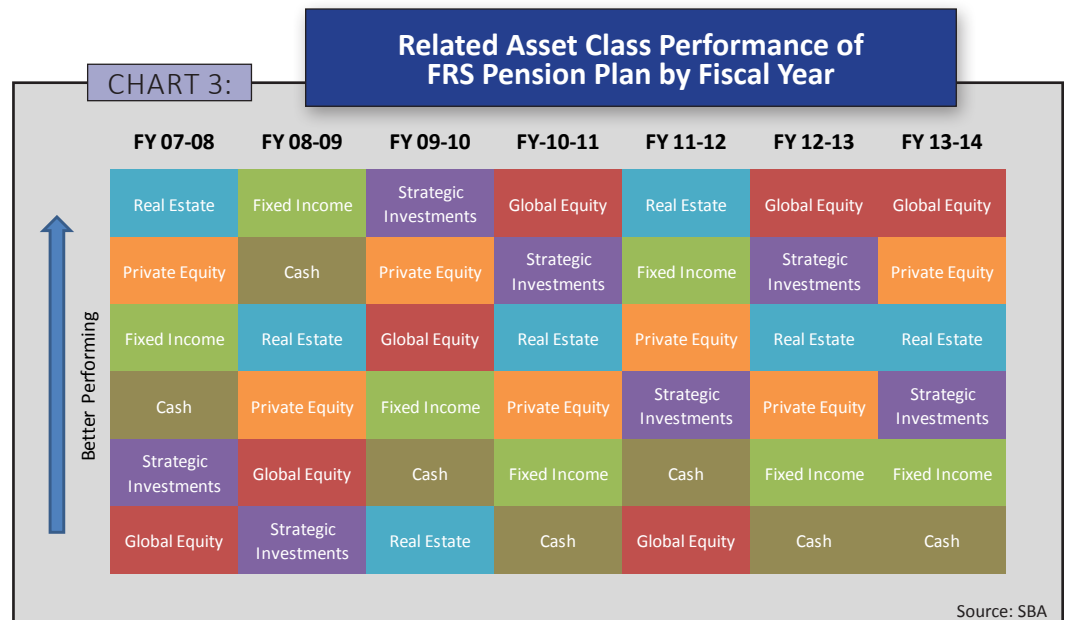


Astor Bridge is a single-leaf bascule bridge located in Astor, Florida that carries State Road 40 over the St. Johns River

# Asset Allocation

The SBA’s exposure to various major asset types or classes is considered its asset allocation. Because over 90% of the return of a diversified investment portfolio is attributable to its asset allocation, determining the proper asset allocation (i.e., the desired relative exposure to each asset class) is the most fundamental way in which the SBA pursues its investment objective. Likewise, managing actual asset class exposure over time (i.e., managing asset allocation) is important if the SBA is to avoid unnecessary risk. For example, if 60% exposure to stocks is determined to be necessary to meet a long-term return objective, exposures below that, if persistent or poorly timed, will cause the actual return to fall short of the objective. Conversely, an exposure to stocks greater than necessary will subject the portfolio to higher levels of volatility than necessary, which can also result in disappointing returns, particularly when equity markets are stressed.

A thoughtfully constructed portfolio will diversify across a sufficiently broad range of investments so that the portfolio has a high probability of meeting the investment objective, notwithstanding the wide distribution of performance often associated with individual investments. In other words, some individual investments may be poor performers during a specific time frame but, in a highly diversified portfolio, their overall impact on the portfolio will often be offset by other investments that, at the time, are better performers.



In practice, maintaining an exact asset allocation is difficult given the dynamic nature of markets and security prices. The SBA typically determines reasonable limits above and below desired asset allocations (known as the target or policy allocation) within which it accepts deviations from the target. This tolerance reflects the fact that trading in securities markets is not free. The SBA must balance the risk of disappointment from misallocation (i.e., not consistently holding their target asset mix) against the performance drag resulting from transaction costs. The scale tips when an asset class moves outside its tolerance range. At this point, the SBA is no longer willing to accept the risk from misallocation, so the portfolio will be rebalanced. This involves selling assets from classes in overweight status and using the proceeds to purchase assets that are underweight. Rebalancing is governed by specific policies that establish target ranges and rebalancing procedures for each asset class.

From time to time, the SBA may temporarily choose to adjust the target asset allocation. This is typically done based upon consideration of near-term market performance, but unusual liquidity needs or other unanticipated factors could also play a role in this decision. Temporary intentional deviation from target asset allocation exposures is known as tactical asset allocation. Most institutional investors recognize that tactical allocations based on a market view are high-risk propositions because of the difficulty of accurately predicting market movements (i.e., “timing” the market). The SBA agrees with this view and generally avoids tactical asset allocation.

The SBA has a long-standing practice of periodically adjusting its target asset allocation based on a formal reevaluation of capital market assumptions, fund liabilities, and the investment objectives.

# Risk and the Investment Process

Investing involves a tradeoff between return and risk. Investments expected to produce a higher rate of return over time are associated with a higher level of risk. The SBA has developed a risk framework designed to identify and categorize risks impacting the SBA. The framework considers a wide range of factors including risks which are specific to the investments themselves, operational processes used to manage the investments, and the environment in which the SBA operates.

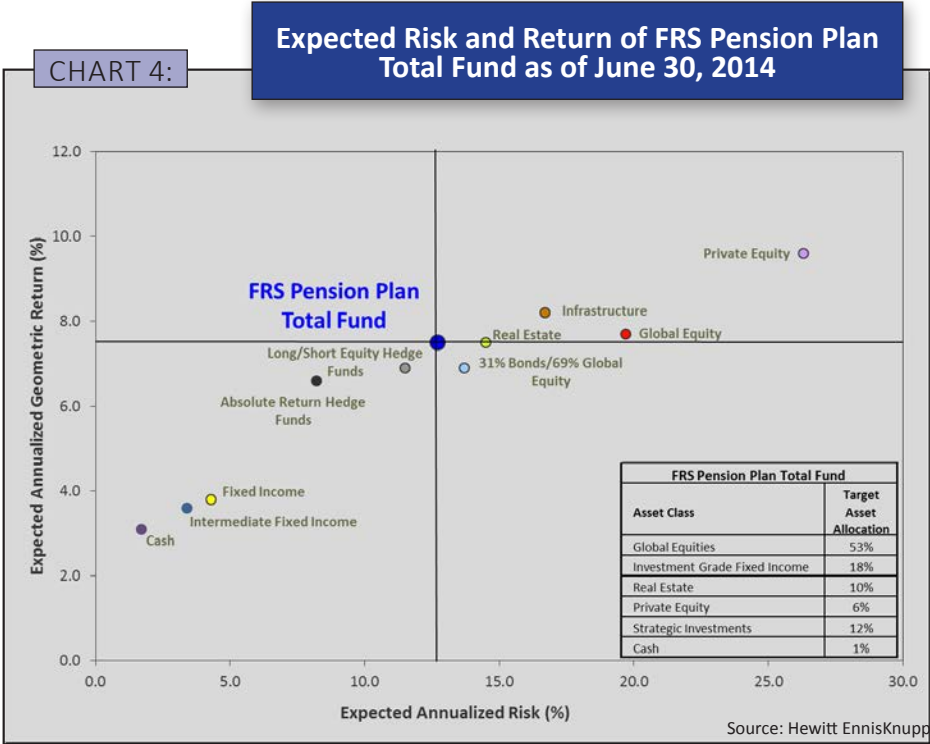
Once a clear investment objective has been formulated, those risks which pose a threat to achieving that investment objective are identified, analyzed, and ultimately managed. This process prioritizes the management of risk by identifying risks that should be avoided, those which may be mitigated, and those which must be accepted.

Investment Management Risk is one risk in the SBA’s risk framework and encompasses those forms of risk that directly arise in the pursuit of an investment return. Other types of risk consider threats to the organizational and managerial infrastructure that supports a prudent investment process and effective delivery of services. These are the risks that the SBA mitigates or avoids to the degree it can be done cost-effectively.

All securities carry inherent risk, which is common to financial instruments themselves. This risk is knowingly assumed by the investor, and sets the foundation for the risk/return tradeoff. Inherent risk includes those risks that relate to performance of the financial markets as a whole (market risk or systematic risk), as well as risks which can be diversified away (idiosyncratic or unsystematic risk).

While each investment in a portfolio may have widely varying returns, a thoughtfully constructed portfolio will diversify sufficiently across a broad range of investments so that the portfolio has a high probability of meeting the investment objective. In a highly diversified portfolio, the goal is for strongly performing securities to more than offset the impact of poorly performing securities in any given time period.

Chart 4 presents examples of how various asset classes and investment strategies carry different risk/return tradeoffs. For example, investing in a mix of 31% Bonds and 69% Global Equity has slightly higher risk and a lower return than the target allocation for the overall FRS Pension Plan.



The SBA uses the following classifications to describe inherent risk:

### **MARKET RISK**

This is the risk that the SBA may experience a loss from unexpected price fluctuations due to overall market movements. Market risk is a characteristic of all financial instruments. Generally speaking, the price of a security fluctuates due to market exposure and security-specific risk factors, collectively driven by the forces of supply and demand. Like any commodity in a freely functioning marketplace, the price of a security is directly proportional to its demand relative to its supply. There are numerous circumstances which can cause the demand for a particular security to increase or decrease. The demand for a stock, for example, is influenced by revised earnings expectations. Demand can also depend on a number of other factors including changing economic conditions, geopolitical events, inclusion in a particular market index, availability of similar securities, perceptions regarding specific industries, or company-specific factors.

### **CREDIT RISK**

This is the risk that an issuer of debt securities or a borrower may default on financial obligations. Credit risk is a characteristic of debt instruments. Changes in investor perceptions of the possibility of a default by the issuer cause a bond's prices to fluctuate, a phenomenon known as credit risk. For example, a credit rating downgrade by agencies such as Standard & Poor's and Moody's will typically cause the market price of the issuer's bonds to fall because of perceived increases in the possibility of a default. As with interest rate risk, this risk does not affect the bond's interest payments (provided the issuer does not actually default), but increases the volatility of the market price, which is of consequence to holders who may have to sell.

### **INTEREST RATE RISK**

This is the risk that an investment's value will change due to a change in interest rates. Interest rate risk affects bondholders more than stockholders. Due to the inverse relationship between interest rates and price, fixed-rate debt instruments are subject to interest rate risk, meaning that their market prices will decrease in value when generally prevailing interest rates rise. This allows the SBA the ability to earn a higher interest rate on its money elsewhere, perhaps by purchasing a newly issued bond that already features the higher current interest rate.

Prepayment risk is a special form of interest rate risk. It applies to callable bonds which are debt instruments that include an option for the issuer to "call" in the bond and repay debt early. In practice, bonds are most often called when interest rates are falling, resulting in an adverse reinvestment situation for the SBA. Once a bond is called, issuers can reissue the bonds at a lower interest rate. Thus, the SBA may not actually experience the larger cash flows it expected and must reinvest at lower market interest rates.

### **INFLATION RISK**

This is the risk that the return from investing may not offset the loss in purchasing power due to inflation, a reduction in the purchasing power of money. It can arise from an expansionary monetary policy, economic supply shock, or as a result of behavioral responses to general perceptions about future price growth. The SBA seeks financial gains in real terms; that is, to increase the inflation adjusted value of the FRS Pension Plan funds under management to keep up with liability growth. But because investment gains are commonly presented in nominal (e.g., not inflation adjusted) terms, the SBA will meet this goal only if the nominal investment gains exceed the rate of inflation.

Since inflation is a phenomenon affecting an economy's unit of exchange, inflation risk affects nearly every type of financial security. Equity instruments of certain companies are more resistant to this risk than those of others, depending on the pricing power of the company. Pricing power is the ability to charge a higher price without suffering a proportional reduction in sales volume. Real bonds (e.g., Treasury Inflation-Protected Securities) are an exception. They are not subject to inflation risk since their stated yield and face value at maturity are adjusted to compensate for the contemporaneous rate of inflation.

### **LIQUIDITY RISK**

This is the risk of having limited access to funds, a failure to meet liquidity needs, or a loss resulting from a lack of market liquidity. The SBA may find that, under certain circumstances, there is no ready buyer for a security it wishes to sell. The term "liquidity risk" distinguishes a form of market risk which typically occurs when demand for a given security is weak, or the supply of a security is low.





Hathaway Bridge, along U.S. Route 98, connects Panama City with Panama City Beach, Florida. The first Hathaway Bridge was originally known as the St. Andrews Bay Bridge. It was later named for Franz Hathaway, chairman of Florida's State Road Department, the agency that would eventually become the Florida Department of Transportation.

## **CURRENCY RISK**

This is the risk that an investment's value may change due to a change in exchange rates. In addition to other risks, the value in United States dollars of securities of foreign companies (denominated in foreign currencies) varies based on fluctuations in the value of the applicable foreign currency relative to the dollar. This so-called currency risk arises from differences in current or expected real growth, interest rates, inflation, and macro-policies between the countries.

## **SYSTEMIC RISK**

This is the risk that material portions of the global financial system will collapse or cease to function adequately. Systemic risk is the possibility of potentially catastrophic financial system instability, typically caused or exacerbated by idiosyncratic events or conditions among financial intermediaries. It results from interlinkages and interdependencies in the financial system or securities markets, where the failure of a single entity or cluster of entities could cause a cascading failure, potentially bankrupting or bringing down the entire system or market. All investments bear systemic risk.

## **IDIOSYNCRATIC RISK**

This is the risk specific to an individual security. It may be based on the company itself or the industry in which the company operates. Otherwise known as "specific" or "unsystematic" risk, this risk can be mitigated through proper portfolio diversification.

# Compliance with Investment Strategy

Although there are numerous definitions of “Investment Strategy,” the SBA considers the term to mean the plan it uses when determining the allocation of capital among various asset types including stocks, bonds, cash equivalents, alternative investments, and real estate, in order to achieve investment objectives. Investment strategy includes target asset class exposures, allowable deviation from those exposures, and benchmark indices (indicating baseline return and risk) for the major asset types. The investment strategy for each fund managed by the SBA is incorporated in an Investment Policy Statement or an Investment Portfolio/Fund/Mandate Guideline.

The SBA takes a systematic approach to monitoring compliance to ensure that funds under its management comply with applicable regulatory, statutory, contractual, policy, and guideline requirements. Organizationally, the SBA has a dedicated Risk Management and Compliance unit under the direction of a Chief Risk & Compliance Officer, who oversees all aspects of risk management as well as investment and regulatory compliance. The Chief Risk & Compliance Officer reports to the Executive Director & CIO and, in order to maintain operational independence, the position’s appointment and retention is subject to affirmation by the Trustees.

Investment Oversight Groups serve as the primary mechanism for the escalation, review, and resolution of compliance exceptions. These groups, as standing subcommittees of the SBA Senior Investment Group, regularly review compliance exceptions and associated risks and evaluate management responses. Investment Oversight Groups for Total Fund and for the public and private market asset classes meet no less frequently than quarterly, but may also meet on an ad hoc basis as needed. They are composed of the following members:

- Chief Risk & Compliance Officer (as chair)
- Designated asset class compliance officer
- Senior Investment Officer for the applicable asset class
- Director of Enterprise Risk Management

Beginning Fiscal Year 2012-13, the SBA transitioned the Lawton Chiles Endowment Fund Domestic Equity and Foreign Equity asset classes to a Global Equity asset class, which provided the fund access to a broader investment opportunity set, particularly in foreign securities. The Global Equity asset class is benchmarked to an index, 40%- 50% of which is comprised of foreign securities. The Fund’s historical asset allocation included a sufficient proportion of cash and fixed income investments to prevent the Fund’s foreign security exposure from exceeding the then 35% statutory cap on such investments. However, a large, legislative mandated cash withdrawal from the fund during 2013 temporarily caused the Fund to exceed the cap on foreign securities. The SBA reduced the foreign security exposure and managed the fund to a temporarily adjusted customized benchmark,

bringing the fund back into compliance in October 2013. The foreign securities’ cap was legislative increased to 50% in 2014.

With the exception of the item noted above, each of the funds managed by the SBA was in material compliance with its applicable investment strategy.

Periodic instances of individual portfolio policy and guideline compliance exceptions were reported and evaluated by the Investment Oversight Group. None of the exceptions constituted material non-compliance with investment strategy.

## Compliance with investment strategy:

1. Investment Policy Statement limitations on asset allocation are regularly monitored, as are more stringent internal rebalancing policy requirements for the FRS Pension Plan, the FRS Investment Plan and the Lawton Chiles Endowment Fund.
2. SBA staff monitors the limitations (including permitted securities and authorized ranges) contained in Section 215.47, Florida Statutes, on a monthly basis for multi-asset class funds.
3. For internally-managed public market portfolios, SBA staff performs monthly testing to determine compliance with portfolio constraints. Tests may be conducted on parameters such as eligible securities, credit quality, concentration limits, liquidity, authorized traders, and approved counterparties. Results of compliance testing are reviewed monthly by the respective Investment Oversight Groups.
4. For externally managed public market portfolios, investment managers are responsible for conducting compliance testing on SBA portfolios. However, SBA staff also conducts independent verification of external manager compliance at a minimum on a quarterly basis. Tests may be conducted on parameters such as eligible securities, credit quality, concentration limits, and liquidity. Results of compliance testing are reviewed by the respective Investment Oversight Groups on a minimum quarterly basis.
5. In the case of private market investment funds and limited partnerships, compliance is performed by SBA staff through a variety of means depending on the structure of the investment including monitoring investment guideline compliance, reviewing manager certifications and completing acquisition checklists. In addition, SBA accounting staff perform quarterly and annual reconciliations to the partnerships’ financial statements and external manager oversight staff perform site visits at certain selected manager/general partners throughout the year. Investor advisory boards and consultants provide an additional layer of oversight.

# SBA's Non-Investment Management Responsibilities

## MyFRS Financial Guidance Program

The award-winning MyFRS Financial Guidance Program gives all Florida Retirement System (FRS) members convenient access to personalized multimedia retirement planning assistance. Its goal is to provide objective information to help members make informed retirement planning choices that meet their individual goals and needs. The program provides no-charge retirement and financial planning services to both Pension Plan and Investment Plan members.

Members Receive Support Through Four Channels:

- Print and Video – Employees have access to personalized statements, video programs (including a 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 EY (formerly known as Ernst & Young) and counselors from the Florida Division of Retirement.
- MyFRS.com – This web portal is the official FRS education website. It provides FRS plan choice information and personalized retirement planning applications, including Financial Engines' Choice Services and their Personal Online Advisor Service. Members can enroll and manage their FRS Pension Plan or FRS Investment Plan benefits within the portal's secure single-sign-on architecture.
- Workshops – EY conducts workshops annually throughout Florida on FRS retirement plan choice, retirement planning, financial planning, education planning, insurance planning, cash and debt management, and estate planning.

The FRS offers newly hired 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 mobile workers. (More than one-half of new FRS hires will leave their jobs before meeting the eight-year requirement to qualify for FRS Pension Plan benefits). The FRS Pension Plan offers formula-based pension benefits that are based on salary and years of service.

During the fiscal year, approximately 60,000 newly hired employees chose between the two FRS retirement plans: the FRS Pension Plan, a traditional defined benefit plan; or the FRS Investment Plan, a self-directed defined contribution plan. Each newly-hired employee received an FRS new employee enrollment kit that consisted of a benefit comparison statement projecting benefits under both plans, plan information on both retirement plans, a new hire video CD on the benefits offered in both plans, an investment fund summary showing the available investment funds in the Investment Plan together with their fees and projected returns, and a short-form enrollment application. New employees were encouraged to call the toll-free MyFRS Financial Guidance Line to speak with an unbiased Financial Planner and to log on to the program website MyFRS.com to run additional benefit projections using the online choice service.

Active enrollments in the Investment Plan decreased by 2% and Pension Plan enrollments decreased by 1.15% during the 2013-14 fiscal year. Employees who do not make an active plan choice are automatically enrolled (defaulted) to the FRS Pension Plan. The default enrollments increased by almost 1% from the prior fiscal year. Employees are given one more opportunity during their active FRS career to switch plans. Members using their one time opportunity have consistently chosen to move from the Pension Plan to the Investment Plan.

## Non-FRS Plan Assistance

The SBA provides prudent and cost-effective investment consulting to assist the Plan Administrators of the State of Florida Deferred Compensation Program (FDCP), the State University System Optional Retirement Program (SUSORP) and the Senior Management Service Optional Annuity Program (SMSOAP) in fulfilling their fiduciary responsibilities to select investment products.



Star Island Bridge connects to a man-made island in Biscayne Bay, Florida.

## Corporate Governance

As part of the SBA's mission to invest, manage and safeguard the assets of its various mandates, the SBA plays a vital role in supporting initiatives to ensure that public companies meet high standards of independent and ethical corporate governance. The SBA acts as a strong advocate on behalf of FRS members and beneficiaries, retirees and other clients to strengthen shareowner rights and promote leading corporate governance practices at U.S. and international companies in which the SBA holds stock.

The SBA's corporate governance activities are focused on enhancing share value and ensuring that public companies are accountable to their shareowners with independent boards of directors, transparent disclosures, accurate financial reporting, and ethical business practices designed to protect the SBA's investments.

During the fiscal year ended June 30, 2014, the SBA executed votes on 10,037 public company proxies covering 92,488 individual voting items, including director elections, audit firm ratifications, executive compensation plans, mergers, acquisitions, and other management and shareowner proposals. The SBA's proxy votes were cast in 80 countries, with the top five countries comprised of the United States (2,933 votes), Japan (1,208), Hong Kong (669), United Kingdom (426), and Taiwan (420). The SBA voted "for" 78.7% of all proxy issues, "against" 17.9%, and abstained or did not vote due to share-blocking on 3.2% of issues. Of all votes cast, 19.4% were against the management-recommended vote, up from 18.2% during the same period ending in 2013.

Among all global proxy votes, the SBA cast at least one dissenting vote at 6,885 annual shareowner meetings, or 68.6% of all meetings. In addition to proxy voting, the SBA actively engages companies throughout the year, at times maintaining a year-round dialogue and analysis of corporate governance issues and other reforms. Engagement of this type can be a very effective way to advocate for positive changes and improve reporting by the companies in which the SBA invests. Improved corporate disclosures are a key objective of SBA engagement, as transparent and improved comparability can help all shareowners make better investment decisions.

The SBA's Corporate Governance unit prepares a separate annual report detailing its activities and additional reports on corporate governance topics covering a wide range of shareowner issues. Historical information, including prior reports, can be found within the governance section of the SBA's website, available at [www.sbafla.com](http://www.sbafla.com).

## 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.

## Administrative Services

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

# Investment Policy Statements, Portfolio Guidelines and Trust Agreements

The State Board of Administration maintains Investment Policy Statements, Investment Portfolio Guidelines and Trust Agreements for funds it manages. The purposes of these are to describe the role and control elements of investment activities. The following funds' guidelines were changed during Fiscal Year 2013-14:

- **Florida Prepaid College Plan & Florida College Investment Plan QMA Account**
- **Florida Retirement System Pension Plan**
- **Florida Retirement System Investment Plan**
- **Lawton Chiles Endowment Fund**

To view changes made during the fiscal year and all Investment Policy Statements, Investment Policy Guidelines and Trust Agreements, please visit the Funds We Manage section of the SBA's website at [www.sbafla.com](http://www.sbafla.com).



Main Street Bridge, officially the John T. Alsop Jr. Bridge, is a lift bridge crossing the St. Johns River in Jacksonville, Florida. In 1957, it was named after Mayor John T. Alsop, Jr., but continues to be known, even on road signs, as the Main Street Bridge.

# Florida Retirement System Pension Plan

## Overview and Investment Objective

The Florida Retirement System (FRS) Pension Plan, a defined benefit plan, is one of the largest public retirement plans in the U.S. At year-end, it comprised over 80 percent of total assets under SBA management. The FRS Pension Plan serves a working and retired membership base of nearly one million public employees.

In investing the FRS Pension Plan assets, the SBA follows statutory guidelines and a substantial body of internal policies and procedures. It has a robust governance and control structure in place, utilizes a wide array of professional consultants and external analysts, and employs a highly qualified staff of investment professionals. In keeping with the SBA's commitment to disciplined investment management services, the Investment Advisory Council provides independent oversight of the FRS Pension Fund's general objectives, policies and strategies.

The Pension Plan's long-term financial health rests on three legs: solid long-term investment performance, receipt of actuarially required annual contributions, and a reasonable benefit package.

The SBA's commitment to obtaining solid long-term performance is vital to ensuring that the FRS Pension Plan continues to help participating retirees meet their financial goals and that fund assets are invested prudently. However, investment gains alone are not sufficient to maintain the fund's financial health. Annually determined actuarially sound rates of contribution into the fund are necessary to ensure that the investment base is large enough to meet future Pension Plan benefit obligations. Contribution rates are set by the state legislature, along with plan structure and benefit levels. The Division of Retirement in the Department of Management Services administers the Pension Plan, directs actuarial studies, and makes benefit payments.

Historically, assigning funding and design responsibility to the legislature, benefit management to the Department of Management Services and investment management to the SBA has proven to be a productive partnership, with approximately \$2 of every \$3 paid to a retiree coming from investment gains, not from taxpayers or participants through contributions.

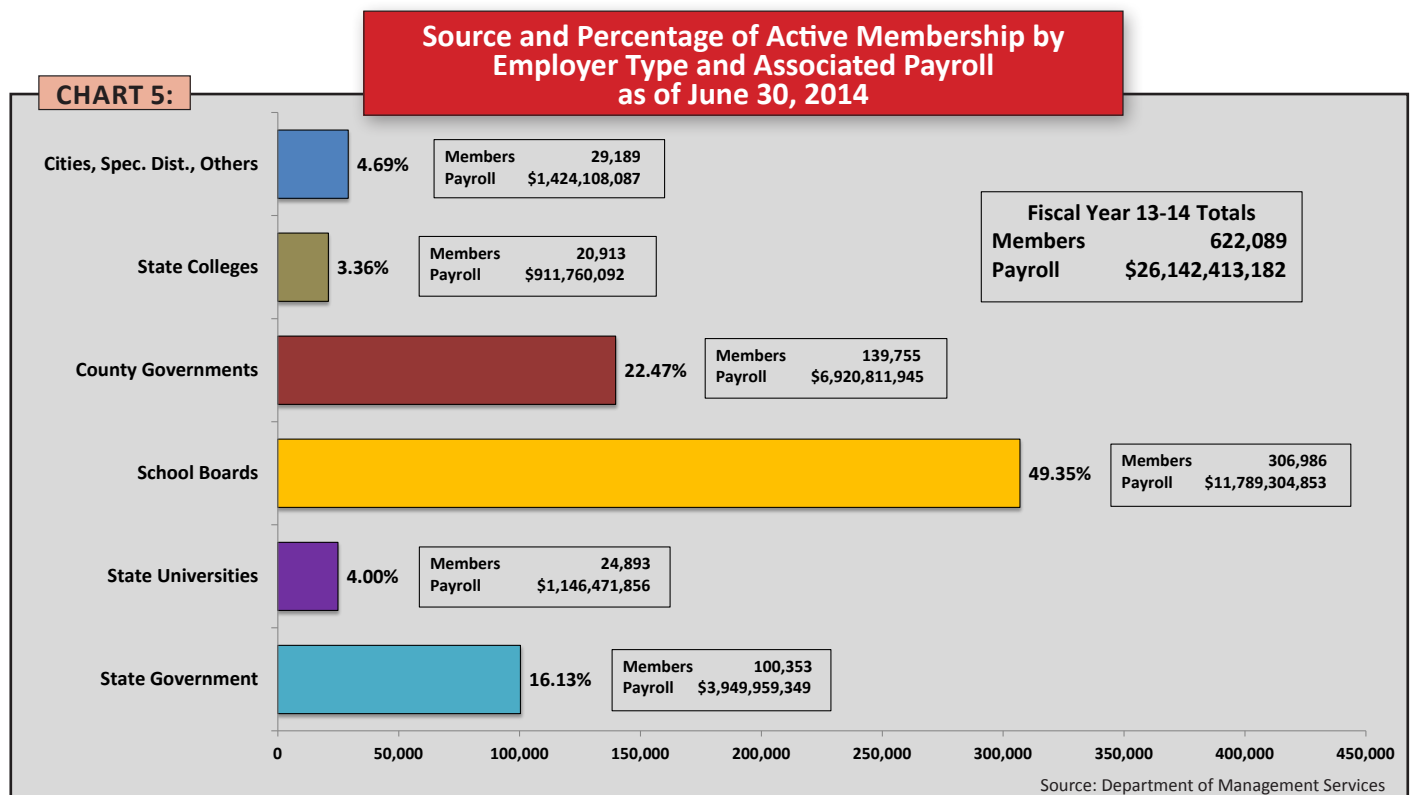
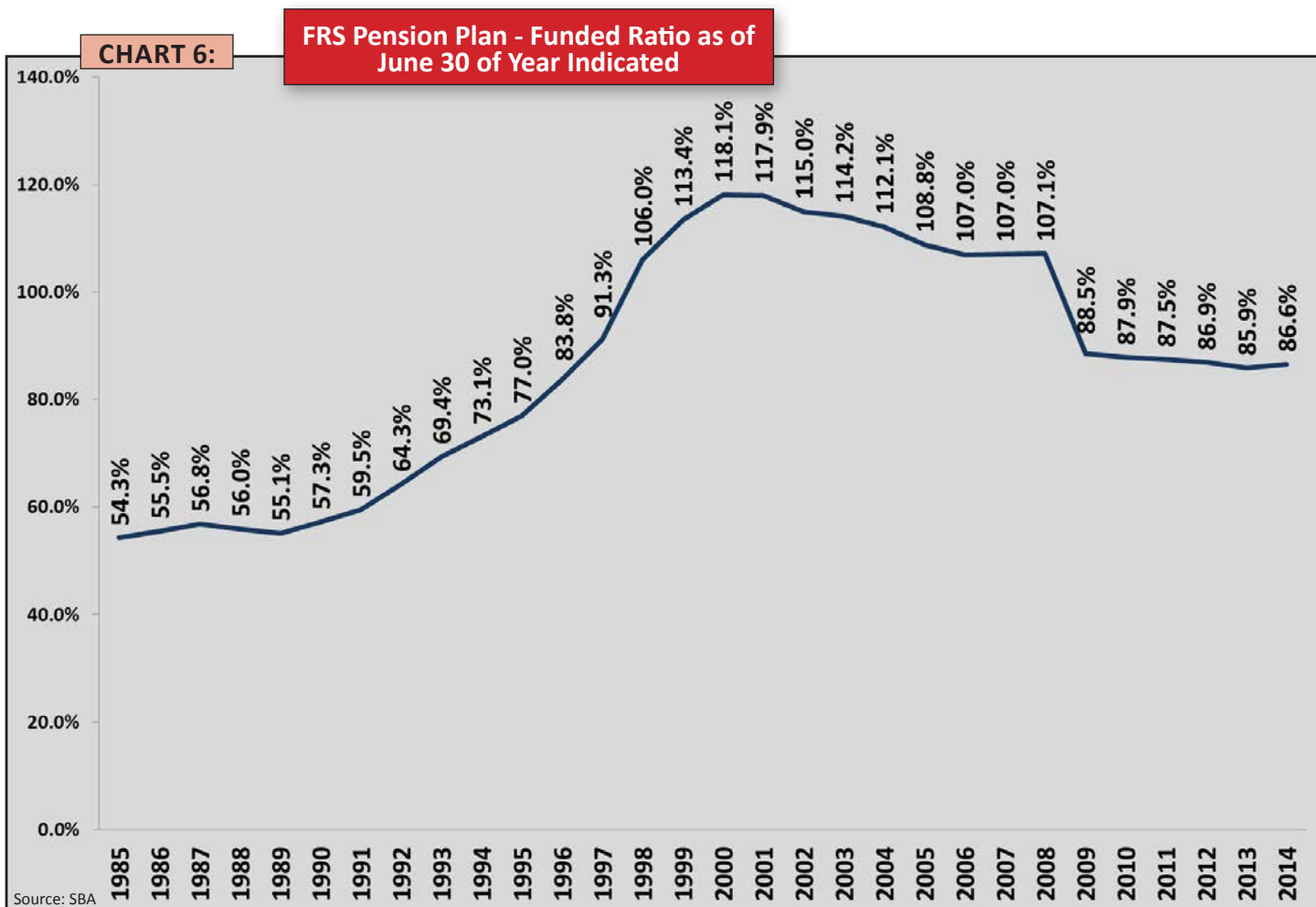


Chart 6 shows the funded ratio, a comparison of a pension fund’s assets to its projected liabilities, of the Florida Retirement System Pension Plan. A funded ratio at or above 100% indicates that the fund is fully able to cover its long-term obligations (payment obligations to current and future retirees).

During the 11 years ending in 2009, the Pension Fund enjoyed an actuarial surplus, meaning that it was ahead of schedule in building wealth in order to fund its future projected benefit payment obligations. This allowed contribution rates to be lower than normal. Actuarial deficits (a funded ration below 100%) mean that the Fund has fewer assets than necessary to pay all current and projected future benefit obligations. Actuaries agree that contributions should be higher than the normal cost level in order to pay down any projected deficit.



## Performance

The SBA’s investment policy objective for the FRS Pension Plan portfolio is to provide investment returns sufficient for the plan to be maintained in a manner that ensures the timely payment of promised benefits to current and future participants and to keep costs at a reasonable level, given actuarially required contributions. The SBA’s operating goal is to earn a compounded return of 5% plus the rate of inflation per annum over the long run.

Chart 7 (page 24) compares the SBA’s actual return on Pension Plan assets to its investment objective of 5% real growth (inflation plus 5%) for the fund. This objective is derived from an asset/liability analysis of expected benefit growth, contribution levels, market performance, and a risk tolerance for the fund. Over the long-term, 20 years and greater, the SBA has consistently met its long-term objective. Fifteen-year performance reflects the impact of two unusually difficult periods for investors: the bursting of the tech bubble in the early 2000s, and the more recent mortgage crisis and global recession.

In addition to its investment objective for the Pension Plan, the SBA measures its investment performance relative to market-based benchmarks. Table 2 (page 24) compares actual returns to the total fund benchmark for various periods ending June 30, 2014.

The SBA's actual returns on Pension Plan assets have met or exceeded the long-term investment objective of the fund for the 10-, 20-, 25- and 30-year periods.

CHART 7:

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

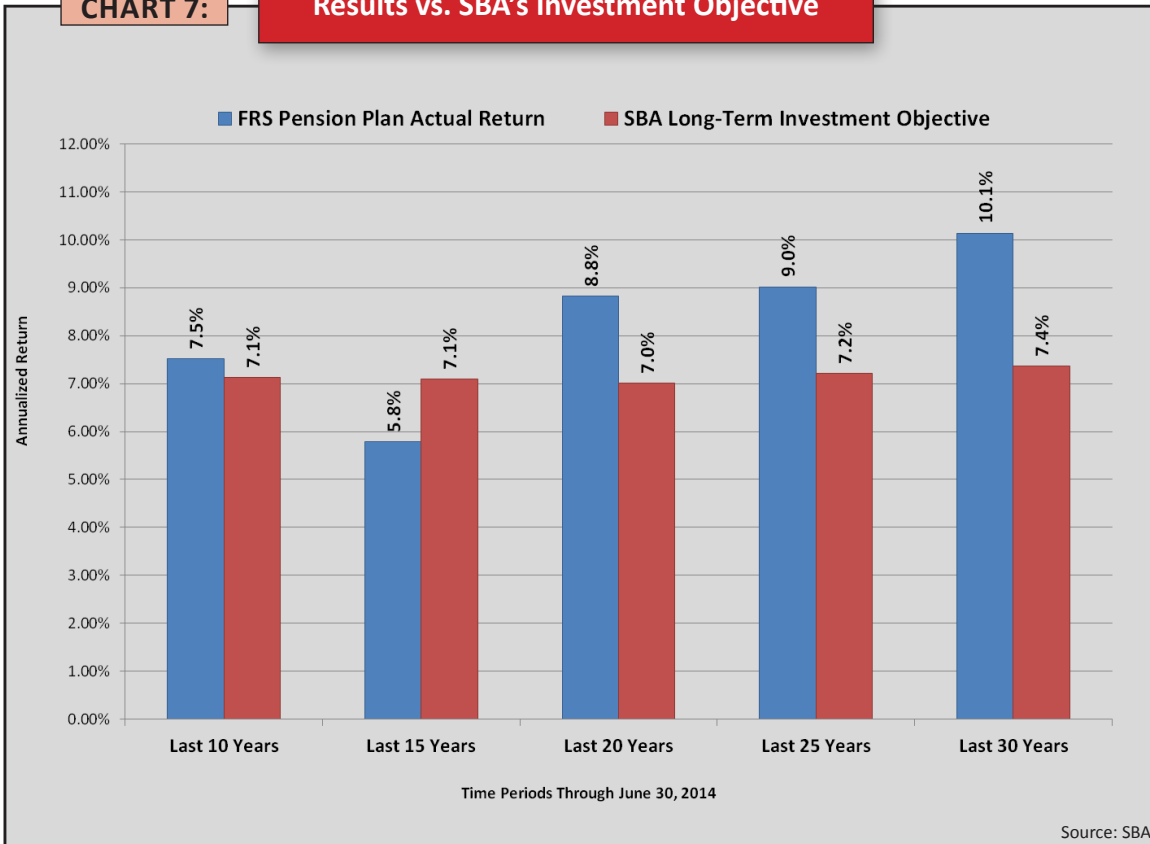


TABLE 2:

FRS Pension Plan Actual Return vs. Benchmark

	Actual Return	Benchmark Return	Actual Over (Under) Bmk.
One Year	17.40%	17.02%	0.38%
Three Years	10.02%	9.26%	0.76%
Five Years	13.14%	12.08%	1.06%
Ten Years	7.52%	7.00%	0.52%
Fifteen Years	5.79%	5.26%	0.53%

- All returns are annualized for periods indicated through June 30, 2014.
- 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.
- Totals may not foot due to rounding.

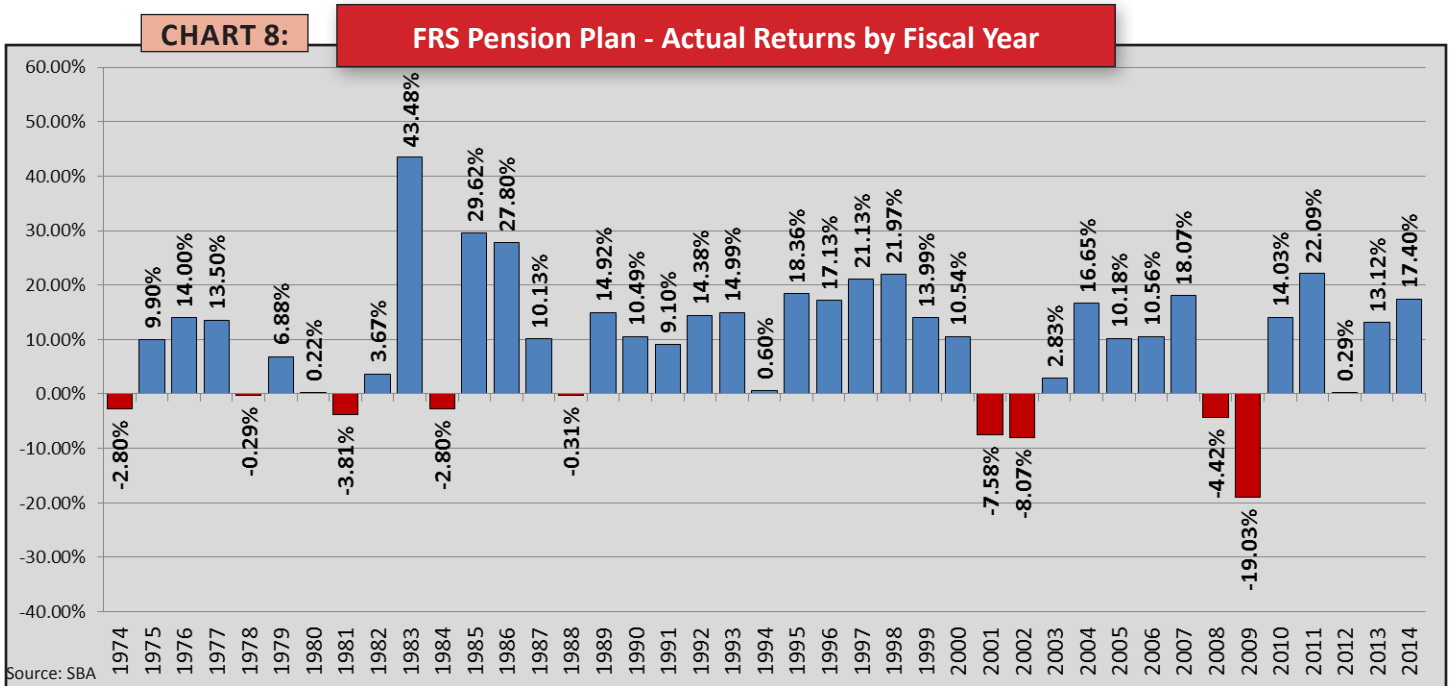
Source: SBA

The SBA's actual returns on Pension Plan assets have met or exceeded the performance benchmarks for the 1-, 3-, 5-, 10- and 15-year periods.



Chart 8 provides the historical one-year returns earned by the Pension Plan.

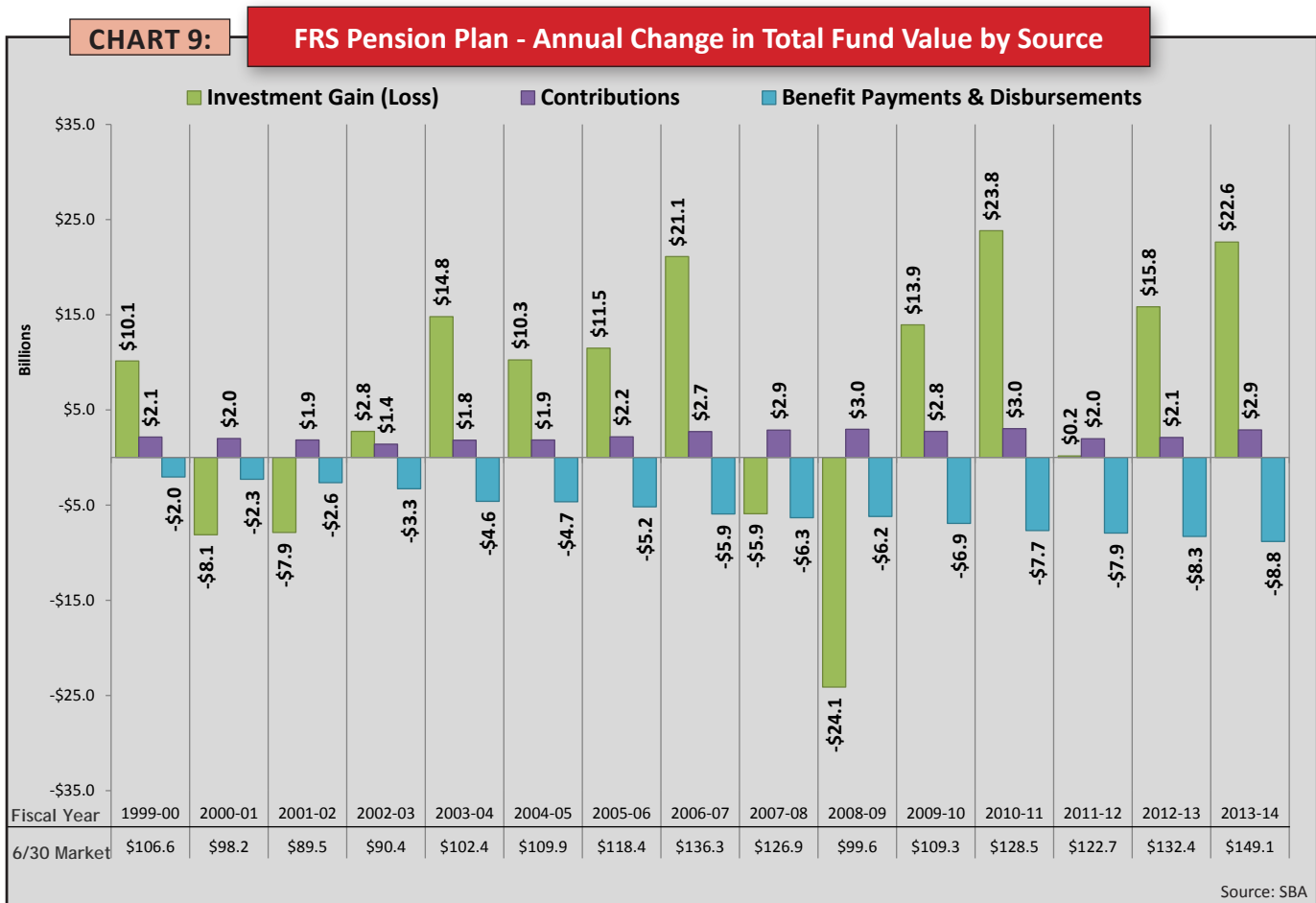
**The SBA has earned a positive return on Pension Plan assets in 32 of the last 41 years, or over three-quarters of the time. In 24 of those years, the return exceeded 10%.**



The Bridge of Lions is a double-leaf bascule bridge that spans the Intracoastal Waterway in St. Augustine, Florida.



Chart 9 presents the key drivers of growth in the FRS Pension Plan's asset base. Over the period shown, investment returns (green bars) have generally been positive, with two notable exceptions: the bursting of the tech bubble in the early part of this century and the mortgage crisis that began in 2008. Benefit payments (the blue bars falling downward, representing outflows) have grown steadily over the period. This is typical of a mature plan. Contributions into the fund (purple bars) shrank during the early 2000s, reflecting the surplus the fund had at the time.



Totals may not foot due to rounding



John E. Mathews Bridge, a cantilever bridge in Jacksonville, Florida, which spans the St. Johns River. It was named after John E. Mathews, a Florida state legislator and Chief Justice of the 1955 Florida Supreme Court, who helped gather funding for the bridge's construction.

## Cost

Tables 3 and 4 present elements of the SBA's cost structure that have historically been of interest to stakeholders.

**TABLE 3:**

### FRS Pension Plan - External Investment Management Fees Fiscal Year 2013-14

Asset Class	Dollar Amount	Return Basis <sup>1</sup>
Global Equity	\$ 143,191,916	0.27%
Strategic Investments	115,311,535	1.59%
Fixed Income	10,277,549	0.10%
Real Estate	69,941,502	0.67%
Private Equity	124,894,198	1.79%
<b>Total</b>	<b>\$ 463,616,701</b>	<b>0.53%</b>

<sup>1</sup> 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.

• Totals may not foot due to rounding.

Source: SBA

**TABLE 4:**

### FRS Pension Plan - Net Brokerage Commissions

Asset Class	Dollar Amount <sup>1</sup>
Global Equity <sup>2</sup>	\$ 34,508,971
Strategic Investments	146,352
Fixed Income	1,120,145
Real Estate	1,795,447
Private Equity	5,885
<b>Total</b>	<b>\$ 37,576,800</b>

<sup>1</sup> Brokerage commission amounts for the entire fiscal year are presented in the appropriate year-end asset class.

<sup>2</sup> The amount reported for the Global Equity asset class includes \$4,890,627 that is SBA's estimated share of broker commissions that were paid in commingled funds.

• Totals may not foot due to rounding.

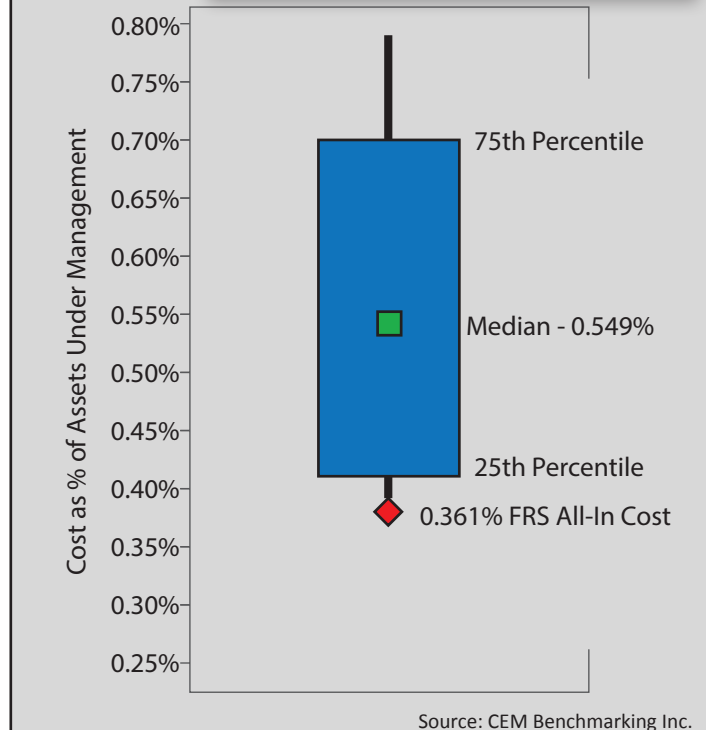
Source: SBA

**The SBA's all-in costs are the lowest among its peer group**

Chart 10 puts the cost-effectiveness of the Pension Plan into perspective. The chart compares the SBA's cost to those of similar-sized public retirement plans, selected by the independent firm CEM [Cost Effectiveness Measurement] Benchmarking Inc., as appropriate peer organizations.

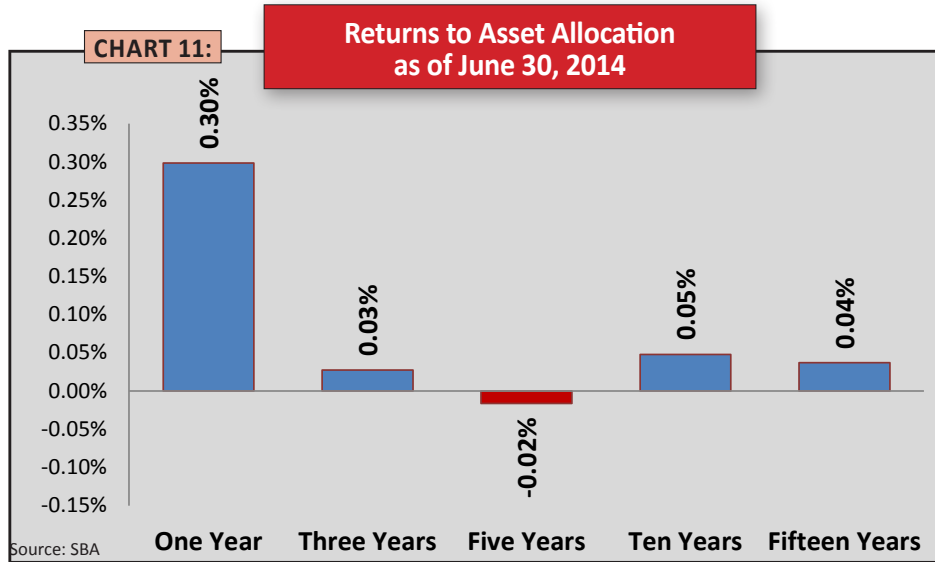
**CHART 10:**

### FRS Pension Plan Cost Comparison All-In Calendar Year 2013 Costs Universe of 17 Large Public Pension Plans



## Asset Allocation

Returns attributed to asset allocation arise from differences between asset class actual and target allocations as percentages of the Total Fund. During the 12-month period ended June 30, 2014, returns to asset allocation beat the target return by 30 basis points. Longer term differences are shown in Chart 11.



## Asset Classes

The Pension Plan portfolio is currently divided into six asset classes: Global Equity, Fixed Income, Real Estate, Private Equity, Strategic Investments and Cash Equivalents. Asset class performance is measured against a broad market index appropriate to the asset class. The indices identified in Table 5 are used as the primary benchmarks for the asset classes.

**TABLE 5: Authorized Target Indices as of 6/30/2014**

Asset Class	Index
Global Equity	A custom version of the MSCI All Country World Investable Market Index (ACWI IMI), in dollar terms, net of withholding taxes on non-resident institutional investors, adjusted to reflect the provisions of the Protecting Florida's Investments Act
Fixed Income	The Barclays Capital U.S. Intermediate Aggregate Index
Real Estate	An average of the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index- Open-ended Diversified Core Equity, net of fees, weighted at 90%, and the FTSE EPRA/NAREIT Developed Index, in dollar terms, net of withholding taxes on non-resident institutional investors, weighted at 10%
Private Equity	The Russell 3000 index return plus a fixed premium return of 300 basis points per annum
Strategic Investments	A weighted-average of individual portfolio level benchmark returns
Cash & Cash Equivalents	iMoneyNet First Tier Institutional Money Market Funds Net Index

Source: SBA

Benchmarks for the Florida Retirement System were updated July 1, 2014. The benchmarks provided above were in effect on June 30, 2014.

## Rebalancing

The investment strategy for the Pension Plan is to implement the policy allocation within relatively narrow bands around policy target weights. The SBA manages this strategy through asset allocation and risk-budgeting policies.

**FRS Pension Plan - Returns by Asset Class  
for Periods Ending June 30, 2014**

**TABLE 6:**

	Actual Return	Benchmark Return	Actual Over (Under) Bmk.
<b>Global Equity</b>			
One Year	23.52%	23.36%	0.16%
Three Years	11.59%	10.47%	1.12%
Five Years	15.98%	14.93%	1.05%
Ten Years	7.58%	7.09%	0.49%
Fifteen Years	4.85%	4.32%	0.53%
<b>Fixed Income</b>			
One Year	3.78%	3.28%	0.50%
Three Years	3.96%	3.30%	0.65%
Five Years	6.49%	4.63%	1.85%
Ten Years	5.31%	4.92%	0.39%
Fifteen Years	5.88%	5.57%	0.31%
<b>Real Estate</b>			
One Year	14.92%	12.87%	2.05%
Three Years	14.19%	11.87%	2.33%
Five Years	9.64%	8.21%	1.43%
Ten Years	9.03%	4.37%	4.67%
Fifteen Years	9.45%	6.13%	3.33%
<b>Private Equity<sup>1</sup></b>			
One Year	20.49%	28.44%	(7.95%)
Three Years	12.44%	19.71%	(7.28%)
Five Years	15.23%	22.38%	(7.15%)
Ten Years	8.97%	12.37%	(3.40%)
Fifteen Years	7.37%	8.99%	(1.62%)
<b>Strategic Investments</b>			
One Year	13.19%	11.26%	1.93%
Three Years	10.89%	8.06%	2.83%
Five Years	15.93%	9.45%	6.48%
<b>Cash &amp; Cash Equivalents</b>			
One Year	0.22%	0.02%	0.20%
Three Years	0.26%	0.04%	0.21%
Five Years	0.62%	0.12%	0.50%
Ten Years	1.03%	1.85%	(0.83%)
Fifteen Years	1.84%	2.29%	(0.45%)

<sup>1</sup> Per industry convention, Private Equity returns are presented on a dollar-weighted basis. Interim returns may not be meaningful or indicative of ultimate performance during the early stages of the investment life cycle.

- Tables may not foot due to rounding.

Source: SBA

**Table 6 presents returns by asset class over periods from one to 15 years, as applicable, compared to benchmark returns.**

**SBA CONTRACTS WITH PRIVATE EQUITY PARTNERSHIPS REQUIRE THE FOLLOWING DISCLOSURE:**

- Because of the long-term nature of investing in private equity, funds can produce low or negative returns in the early years of the partnership. In the first few years of the partnership, management fees are drawn from partner's capital, and portfolio companies are held at cost, leading to a potential understatement of ultimate value.
- Due to numerous factors, including limited valuation and reporting standards, the return information for private equity in this report may not reflect the expected return of the partnerships. The returns contained in this report are calculated by the SBA or its agent 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.

Chart 12 illustrates how returns over the year performed for each class.

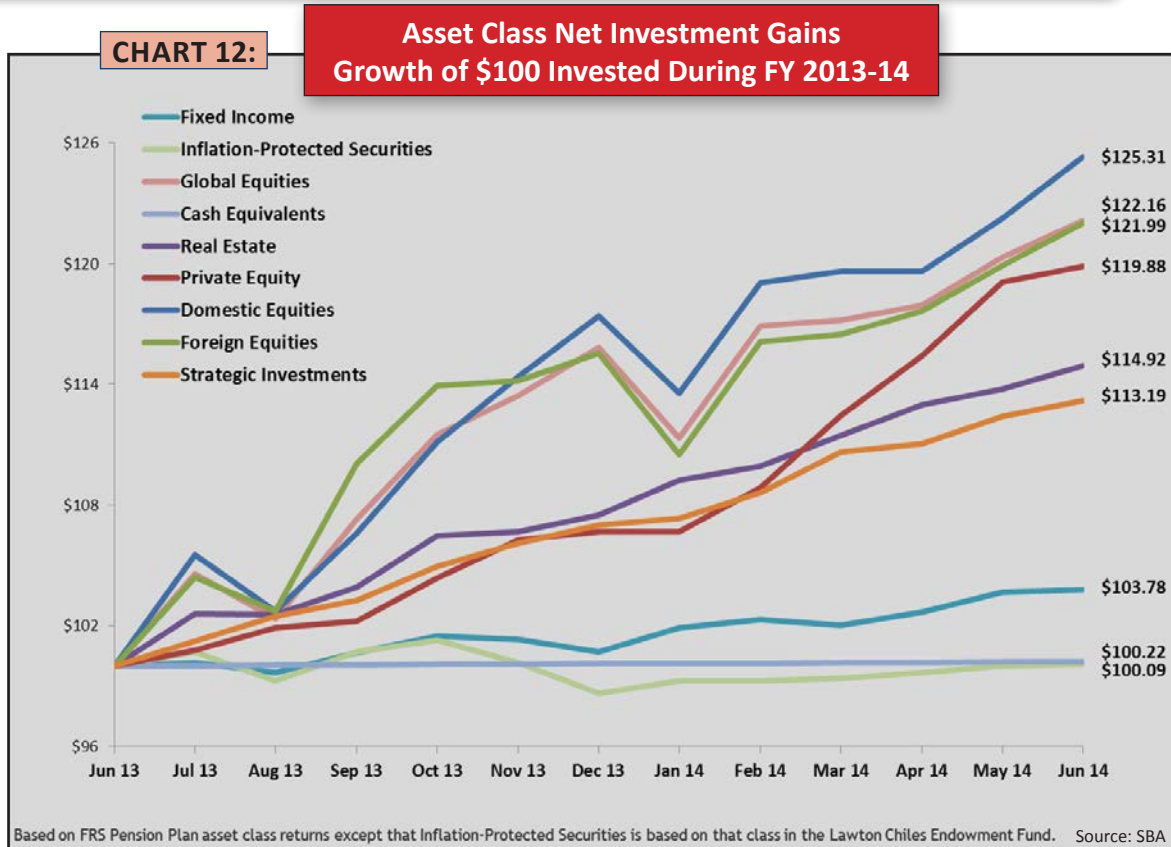


Table 7 shows the dollar impact each asset class had on the overall fund.

**TABLE 7:**

**FRS Pension Plan - Change in Market Value Fiscal Year 2013-14**

	Market Value 6/30/2013	Net Contributions & (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
Global Equity				
--Domestic Equities <sup>1</sup>	\$ 36,239,705,277	\$ (3,513,340,689)	\$ 8,771,215,599	\$ 41,497,580,188
--Foreign Equities <sup>1</sup>	37,428,260,794	(3,204,377,311)	7,996,509,601	42,220,393,085
--Global Equities <sup>1</sup>	4,593,466,732	452,045,785	1,055,580,492	6,101,093,009
--Currency Overlay <sup>1</sup>	0	(5,267,592)	2,649,619	(2,617,974)
<b>Total Global Equity</b>	<b>78,261,432,803</b>	<b>(6,270,939,807)</b>	<b>17,825,955,312</b>	<b>89,816,448,308</b>
Fixed Income	29,108,897,932	(150,721,030)	1,109,804,213	30,067,981,115
Real Estate	10,143,542,908	(548,678,049)	1,462,631,464	11,057,496,323
Private Equity	6,892,041,617	(135,000,000)	1,318,252,053	8,075,293,670
Strategic Investments	6,752,566,988	428,431,002	931,040,750	8,112,038,740
Cash & Cash Equivalents <sup>2</sup>	1,224,433,017	756,038,430	(11,773,262)	1,968,698,186
<b>Total FRS Pension Plan</b>	<b>\$ 132,382,915,266</b>	<b>\$ (5,920,869,454)</b>	<b>\$ 22,635,910,530</b>	<b>\$ 149,097,956,343</b>

<sup>1</sup> Subcomponents of Global Equity include Domestic Equities, Foreign Equities, Global Equities and Currency Overlay.

<sup>2</sup> The investment gain (loss) reported for the Cash & Cash Equivalents asset class includes \$34,043,261 in SBA investment service charges and bank fees paid in several cash expense accounts on behalf of the entire FRS Pension Plan. Excluding these expenses, the reported investment gain (loss) would have been a positive \$22,269,999.

• Totals may not foot due to rounding.

Source: SBA

## Passive vs Active Investing

Investment management can be divided into two broad categories of management style, each reflecting a fundamentally different view regarding how modern capital markets behave. These two schools of thought are generally referred to as passive and active management.

Passive managers attempt to construct their portfolios to closely approximate the performance of well-recognized market indices such as the Russell 1000 Index (large U.S. companies), Russell 3000 Index (large & small U.S. companies) or MSCI World ex-US Investable Market Index (international companies). Passive investing typically has the lowest management costs. Additional savings can be realized when these portfolios are managed internally.

Active managers build a stock portfolio utilizing a wide variety of strategies for identifying companies believed to offer above-average prospects, i.e., those that can “beat the market.” Regardless of the approach, all active managers share a common thread: they buy and sell securities selectively based on their evaluation of future events. Active investing, because of research and time requirements, tends to be more costly.

The SBA employs an active investment strategy where the probability of being paid for assuming the increased cost and risk of active investing is greatest. Conversely, where there is the least likelihood to outperform market indices, the SBA tends to passively invest and save management costs associated with active management. One of the SBA’s historical strengths has been operating at a very low cost. The SBA’s size and significant proportion of passive investments are contributors to the SBA’s cost advantage.

Table 8 shows internal versus external management and the passive versus active management of the funds’ resources.

**TABLE 8:**

### Total Fund and Asset Class Allocation June 30, 2014

Asset Class	Internal	External	Passive	Active	% of Total
Global Equity	38.6%	61.4%	50.2%	49.8%	60.2%
Fixed Income <sup>1</sup>	66.7%	33.3%	50.8%	49.2%	20.2%
Cash & Cash Equivalents <sup>2</sup>	100.0%	0.0%	0.0%	100.0%	1.3%
Real Estate	51.2%	48.8%	0.0%	100.0%	7.4%
Private Equity	3.1%	96.9%	0.0%	100.0%	5.4%
Strategic Investments	0.5%	99.5%	0.0%	100.0%	5.4%
<b>Total Fund</b>	<b>42.0%</b>	<b>58.0%</b>	<b>40.5%</b>	<b>59.5%</b>	<b>100.0%</b>

Asset Class	Internal (\$m)	External (\$m)	Passive (\$m)	Active (\$m)	Total (\$m)
Global Equity	34,660	55,157	45,113	44,704	89,816
Fixed Income <sup>1</sup>	20,050	10,018	15,271	14,797	30,068
Cash & Cash Equivalents <sup>2</sup>	1,969	0	0	1,969	1,969
Real Estate	5,662	5,396	0	11,057	11,057
Private Equity	250	7,825	0	8,075	8,075
Strategic Investments	38	8,074	0	8,112	8,112
<b>Total Fund</b>	<b>\$ 62,628</b>	<b>\$ 86,470</b>	<b>\$ 60,383</b>	<b>\$ 88,715</b>	<b>\$ 149,098</b>

<sup>1</sup> Includes STIPFRS Reserve Liquidation Fund

<sup>2</sup> Includes Securities Lending Account and TF STIPFRS NAV Adjustment Account

Totals may not foot due to rounding

Source: SBA

## Portfolios by Asset Class

The following tables show the beginning and ending market values for each individual Pension Plan portfolio, together with net contributions and transfers, and investment gain or loss. The portfolios are grouped into separate tables by asset class.

**TABLE 9:**

### FRS Pension Plan - Global Equity Change in Market Value Fiscal Year 2013-14

Account Name	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
<u>Domestic Equities</u>				
<u>Active All Cap:</u>				
- Jacobs Levy Long Extension Strategy <sup>3</sup>	\$ (5,170)	\$ (21,418)	\$ 26,588	\$ 0
<u>Active Large Cap:</u>				
- Aronson Johnson Long	1,153,558,125	(75,516,921)	284,967,734	1,363,008,938
- Jackson Square Partners <sup>5</sup>	1,010,230,995	0	294,956,090	1,305,187,085
- Quantitative Management Associates	1,212,723,806	(50,007,258)	292,830,602	1,455,547,151
- Smith Asset Management Large Cap Enhanced	1,166,944,947	0	310,996,697	1,477,941,643
<u>Active Small Cap:</u>				
- AQR R2000 Equity	138,974,041	0	35,087,472	174,061,513
- BMO Asset Management	120,296,007	0	32,381,034	152,677,041
- Cortina Asset Management	131,591,270	0	19,831,438	151,422,709
- Cupps	128,885,433	0	(131,749)	128,753,683
- Delta	82,245,806	0	23,631,835	105,877,640
- Fisher Investments	200,931,695	(16,823,666)	40,283,151	224,391,180
- PanAgora Asset Management	157,579,413	(12,071,742)	42,077,733	187,585,404
- Signia Capital	137,353,758	0	31,118,028	168,471,786
- Stephens Investment Management Group	146,266,052	0	27,359,083	173,625,135
- TAMRO Capital Partners	120,134,271	0	16,469,701	136,603,972
- Tygh Capital Management <sup>3</sup>	15	(122)	108	0
- Vaughan Nelson Investment Management	199,408,706	(18,123,502)	52,387,154	233,672,357
<u>Passive:</u>				
- Avatar R1000 Index Fund	12,997,328,759	(2,858,462,450)	3,075,304,323	13,214,170,632
- Nova Portfolio <sup>1</sup>	0	2,501,758,663	221,572,837	2,723,331,500
- Phoenix Portfolio	17,135,246,066	(2,991,502,698)	3,975,943,962	18,119,687,331
<u>Other:</u>				
- Domestic Equity Asset Class Transition	11,283	7,430,425	(5,878,222)	1,563,486
<b>Total Domestic Equities</b>	<b>36,239,705,277</b>	<b>(3,513,340,689)</b>	<b>8,771,215,599</b>	<b>41,497,580,188</b>
<u>Foreign Equities</u>				
<u>All Country:</u>				
- Acadian Long	625,708,666	0	164,846,507	790,555,173
<u>Developed Markets:</u>				
- AQR Capital Management Small Cap	458,370,888	(17,000,000)	130,559,666	571,930,554
- Artisan Partners	1,589,715,053	0	379,265,610	1,968,980,663
- Ballie Gifford Overseas Limited	1,681,478,515	(238,700,000)	497,276,926	1,940,055,442
- BlackRock Global Inv. Index Plus	1,520,097,309	0	372,920,682	1,893,017,991
- BlackRock Global Inv. Small Cap Strategy	691,530,466	(92,000,000)	190,618,587	790,149,054
- BlackRock Global Inv. World Ex-US	9,840,833,226	(1,536,306,089)	2,256,655,841	10,561,182,978
- BlackRock Global Inv. World Ex-US Alpha Tilts	1,692,558,579	0	463,707,328	2,156,265,907
- BlackRock Restructuring <sup>4</sup>	0	0	0	0
- Capital Guardian Trust Company <sup>3</sup>	7,789	0	(6,682)	1,106
- Dimensional Fund Advisors	399,073,326	(671,369)	141,166,100	539,568,057
- Epoch Investment Partners	376,858,531	(39,000,000)	97,905,260	435,763,792
- Foreign Equity Internal Active <sup>3</sup>	1,361	0	73	1,433
- Franklin Templeton Small Cap	281,461,275	0	74,135,068	355,596,344
- Mondrian Investment Partners Small Cap	375,392,471	(20,000,000)	80,705,512	436,097,984
- Morgan Stanley Investment Management	1,735,734,596	(100,000,000)	356,900,463	1,992,635,059
- New Star Institutional Asset Management <sup>3</sup>	7,419	0	26	7,445
- PineBridge Investments <sup>3</sup>	4,961	(514)	241	4,688
- Principal Global Investors- FE	383,602,010	(45,000,000)	113,975,207	452,577,217
- Pyramis Global Advisors	1,653,511,430	(314,600,000)	354,012,794	1,692,924,223



Account Name - continued	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
- Pyramis Global Advisors Trust Small Cap	369,146,986	(23,000,000)	88,606,828	434,753,814
- Sprucegrove Investment Management	1,741,134,938	(200,000,000)	384,439,721	1,925,574,659
- Templeton Investment Counsel	1,801,749,802	(146,000,000)	402,427,442	2,058,177,243
- Victory Capital Management <sup>3</sup>	576	(47)	78	607
- Walter, Scott & Partners, Ltd.	1,691,674,635	0	221,641,637	1,913,316,271
- William Blair	392,285,031	(30,000,000)	77,536,185	439,821,216
<u>Emerging Markets:</u>				
- Aberdeen Asset Management	891,122,977	(39,000,000)	79,744,341	931,867,318
- Acadian Asset Management Inc.	929,020,031	(106,000,000)	133,217,201	956,237,232
- AQR Capital Mgt. Emerging Markets Small Cap	98,941,538	0	12,204,941	111,146,479
- BlackRock EM	580,623,561	0	84,833,461	665,457,022
- Dimensional Fund Advisors EM	361,282,379	671,369	52,738,598	414,692,346
- Genesis Emerging Markets	863,811,725	(100,000,000)	133,992,661	897,804,386
- Mondrian Investment Partners Ltd.	928,429,202	(41,800,000)	86,199,530	972,828,732
- State Street Global Advisors	787,483,913	0	96,590,717	884,074,630
- Trilogy	860,486,188	(110,000,000)	133,849,757	884,335,945
- Wells Capital Emerging Markets	707,081,984	0	79,751,346	786,833,330
- William Blair & Company, LLC	632,700,335	0	125,240,234	757,940,569
- William Blair Emerging Markets Small Cap	155,070,607	25,000,000	40,438,254	220,508,861
<u>Frontier Markets:</u>				
- Aberdeen Frontier Markets	120,424,350	0	21,537,406	141,961,756
- First State Frontier Markets	112,903,298	0	8,333,343	121,236,641
- HSBC Global Frontier Markets	95,590,133	0	28,093,791	123,683,924
<u>Other:</u>				
- Global Equity Cash	1,348,673	(30,970,660)	30,446,917	824,930
- Global Equity Policy Transition Acct 1	0	0	64	64
- Global Equity Policy Transition Acct 2	61	0	(61)	0
<b>Total Foreign Equities</b>	<b>37,428,260,794</b>	<b>(3,204,377,311)</b>	<b>7,996,509,601</b>	<b>42,220,393,085</b>
<u>Global Equities</u>				
<u>Active:</u>				
- Acadian Asset Management	6,561	(139)	444	6,866
- Citigroup Global Transition <sup>1</sup>	0	3,682,682	(3,679,614)	3,069
- Epoch Investment Partners Global	758,421,318	0	189,303,244	947,724,562
- Franklin Templeton	103,911	(69)	3,028	106,870
- Hexavest Inc.	747,707,634	0	137,028,953	884,736,587
- Intech Investment Management	1,370,100,503	(225,275,716)	313,143,800	1,457,968,587
- McLean Budden	4,638	(1,285)	186	3,539
- MFG Asset Management	490,409,820	0	81,974,871	572,384,690
- Schroders Investment Management	719,037,251	49,151,305	164,503,686	932,692,241
- Trilogy Global Advisors	507,563,616	172,393,995	131,198,755	811,156,365
<u>Passive:</u>				
- Atlas Portfolio <sup>1</sup>	0	451,429,302	42,880,154	494,309,456
<u>Other:</u>				
- Global Equities Cash Expense	0	828,661	(828,485)	176
- Global Equities Transition Account 1	111,481	(162,951)	51,470	0
<b>Total Global Equities</b>	<b>4,593,466,732</b>	<b>452,045,785</b>	<b>1,055,580,492</b>	<b>6,101,093,009</b>
<u>Currency Overlay</u>				
- Cambridge Managed <sup>1</sup>	0	(2,057,103)	1,445,032	(612,071)
- CIBC Global Managed <sup>1</sup>	0	(345,205)	(1,133,557)	(1,478,762)
- Harmonic Managed <sup>1</sup>	0	(672,274)	1,892,854	1,220,580
- P/E Global Managed <sup>1</sup>	0	(2,193,011)	445,290	(1,747,720)
<b>Total Currency Overlay</b>	<b>0</b>	<b>(5,267,592)</b>	<b>2,649,619</b>	<b>(2,617,974)</b>
<b>Total Global Equity</b>	<b>\$ 78,261,432,803</b>	<b>\$ (6,270,939,807)</b>	<b>\$ 17,825,955,312</b>	<b>\$ 89,816,448,308</b>

<sup>1</sup> Account opened during the fiscal year.

<sup>2</sup> Account closed during the fiscal year.

<sup>3</sup> Account closed in a prior year. Residual activity occurred in the current fiscal year.

<sup>4</sup> Account inactive during the fiscal year.

<sup>5</sup> Name changed from Delaware Investments to Jackson Square Partners during the fiscal year.

• Totals may not foot due to rounding.

Source: SBA

TABLE 10:

### FRS Pension Plan - Fixed Income Change in Market Value Fiscal Year 2013-14

Account Name	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
<u>Aggregate:</u>				
- Active Core	\$ 4,331,848,772	\$ 84,239,221	\$ 143,696,574	\$ 4,559,784,566
- BlackRock Core Bond Enhanced Index	2,396,951,536	0	93,366,000	2,490,317,536
- Investment Grade AA Account	75,653,023	45,131,983	10,201,517	130,986,523
- Neuberger Berman Core	1,546,498,385	0	61,763,132	1,608,261,517
- PIMCO Core	1,879,731,909	0	57,291,909	1,937,023,818
- Prudential Conservative Core	1,001,802,033	0	34,588,547	1,036,390,580
- REVE Note <sup>1</sup>	115,014,536	(115,015,440)	904	0
- Smith Breeden Associates	1,861,159,191	0	95,075,859	1,956,235,050
- Taplin, Canida & Habacht	943,520,369	0	46,506,601	990,026,970
<u>Government/Corporate:</u>				
- Fixed Income Gov't./Corp. Passive Account	10,399,386,250	(505,701,864)	262,379,712	10,156,064,098
<u>Mortgage:</u>				
- Fixed Income MBS Passive	4,335,284,912	557,001,464	222,364,814	5,114,651,190
<u>Other:</u>				
- Fixed Income Cash Expense Account <sup>2</sup>	0	143,737	(143,737)	0
- Fixed Income Transition Account	1,256	(65,655,363)	(65,654,108)	0
- STIPFRS Reserve Liquidation Fund	222,045,762	(150,864,767)	17,058,272	88,239,267
<b>Total Fixed Income</b>	<b>\$ 29,108,897,932</b>	<b>\$ (150,721,030)</b>	<b>\$ 1,109,804,213</b>	<b>\$ 30,067,981,115</b>

<sup>1</sup> Account closed during the fiscal year.

<sup>2</sup> Account opened during the fiscal year.

• Totals may not foot due to rounding.

Source: SBA

TABLE 11:

### FRS Pension Plan - Private Equity Change in Market Value Fiscal Year 2013-14

Account Name	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
<u>Partnerships:</u>				
- 3i Eurofund V, L.P.	\$ 41,363,580	\$ (6,642,136)	\$ 18,146,651	\$ 52,868,095
- 3i Growth Capital Fund	25,771,658	(7,431,809)	8,700,853	27,040,702
- ABRY Partners VII, L.P.	54,315,014	7,220,133	7,406,837	68,941,984
- Advent International GPE VI	59,103,154	(12,291,342)	16,120,791	62,932,603
- Advent International GPE VII, L.P.	21,628,785	19,707,083	12,801,940	54,137,808
- Apax VIII, L.P.	12,205,229	23,675,175	(1,134,539)	34,745,864
- Apollo Investment Fund IV, L.P. <sup>2</sup>	3,663,937	(1,833,000)	(1,830,937)	0
- Apollo Investment Fund V, L.P. <sup>2</sup>	23,686,970	(21,299,461)	(2,387,509)	0
- Apollo Investment Fund VI, L.P.	171,762,790	(62,535,649)	37,717,639	146,944,780
- Apollo Investment Fund VII, L.P.	143,907,206	(73,463,546)	54,721,868	125,165,527
- Apollo Investment Fund VIII, L.P. <sup>1</sup>	0	8,889,133	(1,657,931)	7,231,202
- Ares Corporate Opportunities Fund III, L.P.	73,953,917	(3,178,587)	12,349,713	83,125,043
- Ares Corporate Opportunities Fund IV, L.P.	6,285,969	40,753,087	(799,122)	46,239,934
- ASF VI, L.P. <sup>1</sup>	0	18,575,506	804,199	19,379,705
- Asia Alternatives FL Investor, L.P. <sup>1</sup>	0	679,913	(601,644)	78,269
- Atlas Capital Resources II, L.P. <sup>1</sup>	0	1,585,373	(81,869)	1,503,503
- AXA LBO Fund V, L.P. <sup>1</sup>	0	36,048,495	(865,620)	35,182,875
- AXA Secondary Fund V, L.P.	61,380,132	(456,810)	10,086,024	71,009,346

Continued on next page

Account Name - continued	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
- BC European Capital IX, L.P.	32,044,227	20,311,937	1,187,767	53,543,931
- Berkshire Fund VIII, L.P.	15,444,330	5,195,588	1,013,771	21,653,689
- Blackstone Capital Partners V, L.P.	130,624,937	(46,193,473)	38,476,240	122,907,704
- Blackstone Capital Partners VI, L.P.	54,120,209	37,940,115	13,351,303	105,411,627
- Carlyle Asia Growth Partners IV, L.P.	40,628,337	4,820,876	8,511,911	53,961,124
- Carlyle Partners II, L.P. <sup>2</sup>	1,717,431	(1,885,000)	167,569	0
- Carlyle Partners III, L.P. <sup>2</sup>	483,981	(4,398)	(479,583)	0
- Carlyle Partners IV, L.P.	45,944,456	(35,010,845)	11,145,230	22,078,841
- Carlyle Partners V, L.P.	159,484,497	(24,829,016)	42,143,028	176,798,509
- Carlyle Partners VI, L.P.	0	41,088,784	(2,567,104)	38,521,680
- Carlyle Partners Europe III, L.P.	51,510,701	(20,757,271)	16,232,473	46,985,904
- Centre Capital Investments II <sup>2</sup>	196,201	(938,248)	742,046	0
- Charlesbank Equity Fund VII, L.P.	37,468,536	1,896,804	16,737,705	56,103,045
- Charterhouse Capital Partners IX, L.P.	54,701,880	(2,106,023)	14,409,677	67,005,535
- Chartwell Capital Investors II, L.P. <sup>2</sup>	9,441,616	(5,546,842)	(3,894,774)	0
- Cortec Group V, L.P.	19,671,185	12,133,135	1,565,462	33,369,782
- Cressey & Company Fund IV, L.P.	31,852,144	(15,224,239)	16,286,472	32,914,377
- CVC Capital Partners VI <sup>1</sup>	0	790,164	(431,374)	358,790
- CVC European Equity Partners V	66,953,664	(1,265,165)	11,863,474	77,551,972
- Cypress Equity Fund <sup>2</sup>	453,709	(294,357)	(159,351)	0
- DCPF VI Oil and Gas Coinvestment Fund, L.P. <sup>1</sup>	0	4,705,809	(193,070)	4,512,739
- Denham Commodity Partners Fund VI, L.P.	14,102,486	15,239,172	6,737,991	36,079,649
- EnCap Energy Capital Fund VIII, L.P.	38,934,416	12,787,110	2,699,255	54,420,780
- EnCap Energy Capital Fund IX, L.P.	4,854,684	8,713,897	(52,053)	13,516,527
- Energy Capital Partners II, L.P.	88,856,584	(14,453,765)	29,472,785	103,875,604
- Energy Capital Partners III, L.P. <sup>1</sup>	0	7,555,809	(2,066,021)	5,489,788
- Energy & Minerals Group Fund III, L.P. <sup>1</sup>	0	46,394	(46,394)	0
- EnerVest Energy Fund XII-A, L.P.	56,978,389	(27,047,050)	19,860,972	49,792,311
- EnerVest Energy Institutional Fund XIII-A, L.P.	1,510,221	35,706,691	(1,319,461)	35,897,451
- Fairview Special Opportunities Fund, L.P.	30,710,431	45,522,822	13,340,352	89,573,604
- Fairview Ventures Fund II, L.P.	35,362,604	(5,574,905)	6,835,981	36,623,680
- Fairview Ventures Fund III, L.P.	63,496,388	(2,314,207)	18,523,870	79,706,051
- First Reserve Fund XI, L.P.	80,306,376	(13,808,823)	(8,401,544)	58,096,009
- First Reserve Fund XII, L.P.	162,810,976	(13,278,921)	5,365,525	154,897,580
- Francisco Partners III, L.P.	32,728,718	21,757,624	14,908,646	69,394,988
- FS Equity Partners V, L.P. <sup>2</sup>	14,971,897	(14,211,608)	(760,289)	0
- FS Equity Partners VI, L.P.	50,560,856	15,796,253	16,442,658	82,799,767
- Gores Capital Partners I, L.P.	21,065,829	(468,750)	(309,296)	20,287,783
- Gores Capital Partners II, L.P.	34,995,814	(5,544,085)	(75,810)	29,375,919
- Gores Capital Partners III, L.P.	59,286,046	7,434,394	20,916,015	87,636,455
- Green Equity Investors III, L.P. <sup>2</sup>	5,579,205	(5,656,000)	76,795	0
- Green Equity Investors IV, L.P. <sup>2</sup>	121,559,712	(121,601,759)	42,047	0
- Green Equity Investors V, L.P.	80,123,763	(18,805,147)	21,724,624	83,043,240
- Green Equity Investors VI, L.P.	17,972,814	42,313,470	4,641,690	64,927,975
- Grove Street Partners Buyouts, LLC	99,137,772	(7,859,624)	13,904,538	105,182,686
- Grove Street Partners Buyouts II, LLC	34,256,955	19,982,438	3,179,847	57,419,240
- Grove Street Partners Ventures, LLC	179,053,755	(34,678,155)	49,673,448	194,049,047
- Grove Street Partners Ventures II, LLC	134,194,048	14,257,877	58,632,708	207,084,633
- GS Partners Ventures III, L.P.	3,250,092	17,805,829	(1,573,409)	19,482,513
- Hellman & Friedman Capital Partners V, L.P.	34,219,873	(33,881,966)	9,488,601	9,826,509
- Hellman & Friedman Capital Partners VI, L.P.	59,078,411	(43,823,564)	34,318,403	49,573,250
- Hellman & Friedman Capital Partners VII, L.P.	49,979,818	62,617,272	17,353,390	129,950,480
- Hicks, Muse, Tate & Furst III, L.P. <sup>2</sup>	26,716,141	(22,711,000)	(4,005,141)	0
- Hicks, Muse, Tate & Furst Fund IV, L.P. <sup>2</sup>	10,823,781	(8,344,000)	(2,479,781)	0
- Hicks, Muse, Tate & Furst Fund V, L.P. <sup>2</sup>	743,435	(706,890)	(36,545)	0
- Insight Venture Partners VIII, L.P.	0	50,475,594	(2,309,457)	48,166,137

Continued on next page

Account Name - continued	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
- JH Whitney VII, L.P.	28,864,768	8,932,063	4,699,095	42,495,926
- Kelso Investment Associates VII, L.P.	26,253,791	(22,242,617)	2,369,826	6,381,000
- Kelso Investment Associates VIII, L.P.	69,122,133	4,585,924	14,747,283	88,455,340
- KKR Asia Fund II, L.P.	0	26,543,733	(1,593,723)	24,950,010
- KKR European Fund III	40,410,466	892,764	10,458,545	51,761,775
- Kohlberg Investors V, L.P. <sup>2</sup>	29,537,467	(22,243,039)	(7,294,428)	0
- Kohlberg Investors VI, L.P.	30,433,078	(17,117,319)	1,841,690	15,157,449
- KPS Special Situations Fund III, L.P.	27,092,052	6,558,243	5,591,345	39,241,639
- KPS Special Situations Fund IV, L.P.	0	12,319,661	(147,374)	12,172,287
- Lexington Capital Partners IV, L.P.	15,319,925	(7,673,059)	2,316,274	9,963,140
- Lexington Capital Partners V, L.P.	18,983,742	(7,963,804)	3,293,108	14,313,046
- Lexington Capital Partners VI-B, L.P.	60,952,304	(12,723,275)	10,928,145	59,157,174
- Lexington Capital Partners VII, L.P.	122,915,059	(11,782,125)	22,127,170	133,260,104
- Lexington Co-Investment Partners (Pools I & II), L.P. <sup>2</sup>	15,745,764	(22,348,138)	6,602,374	0
- Lexington Co-Investment Partners II (Pools III & IV), L.P.	153,629,071	(103,074,009)	35,979,881	86,534,943
- Lexington Co-Investment Partners 2005, L.P.	322,454,385	(40,482,831)	48,310,428	330,281,982
- Lexington Co-Investment Partners 2005 II (Pool III), L.P.	162,118,551	39,482,561	18,813,294	220,414,406
- Lexington Middle Market Investors III, L.P.	1,744,413	17,141,037	3,570,875	22,456,325
- Liberty Partners II <sup>2</sup>	1,900,000	(1,662,220)	(237,780)	0
- Liberty Partners III <sup>3</sup>	3,000,000	(8,512,210)	5,512,210	0
- Liberty Partners V	5,615,089	(3,047,302)	(4,053)	2,563,734
- Liberty Partners VI	119,937,720	(81,460,245)	(20,549,492)	17,927,983
- Liberty Partners VII	31,493,989	(5,199,835)	(7,337,281)	18,956,872
- Liberty Partners Group II	(764)	2,601	(1,995)	(158)
- Lindsay Goldberg & Bessemer II, L.P.	78,710,028	(27,039,939)	4,057,082	55,727,171
- Lindsay Goldberg III, L.P.	62,463,849	(5,079,154)	12,189,055	69,573,750
- Montagu Private Equity Fund IV	16,359,901	3,259,887	4,461,750	24,081,539
- New Mountain Partners II, L.P.	21,107,625	(18,219,240)	3,829,479	6,717,864
- New Mountain Partners III, L.P.	87,730,084	(6,364,530)	15,691,153	97,056,707
- New Mountain Partners IV, L.P. <sup>1</sup>	0	46,527	2,010,217	2,056,744
- PAI Europe V, L.P.	34,041,353	(3,624,873)	9,966,562	40,383,042
- Pantheon Global Secondary Fund IV, L.P.	55,886,105	(350,000)	13,234,318	68,770,423
- Pantheon Venture Partners II, L.P.	87,339,026	(6,400,000)	10,006,750	90,945,776
- Permira IV, L.P.	57,584,627	(19,765,416)	14,016,398	51,835,609
- Permira V, L.P. <sup>1</sup>	0	21,454,378	(1,941,702)	19,512,676
- Platinum Equity Capital Partners, L.P.	18,386,837	(1,245,646)	402,698	17,543,889
- Platinum Equity Capital Partners II, L.P.	53,787,625	(18,875,031)	17,280,607	52,193,201
- Platinum Equity Capital Partners III, L.P.	23,590,908	7,563,013	15,509,077	46,662,998
- Post Oak Energy Partners II, L.P. <sup>1</sup>	0	245,356	(240,848)	4,508
- Pomona Capital VI, L.P.	28,556,442	(5,022,396)	2,570,483	26,104,529
- Pomona Capital VII, L.P.	30,063,936	(5,666,193)	2,434,325	26,832,068
- Providence Equity Partners VI, L.P.	43,874,083	(12,870,955)	4,008,941	35,012,069
- Providence Equity Partners VII, L.P.	10,740,051	21,562,795	(806,115)	31,496,731
- RCP Advisors Fund IV, L.P.	39,300,561	(9,442,968)	7,550,510	37,408,103
- RCP Advisors Fund V, L.P.	34,600,857	(992,426)	7,174,981	40,783,412
- RCP Advisors Fund VI, L.P.	27,915,803	2,500,000	1,696,468	32,112,272
- RCP Advisors Fund VII, L.P.	16,995,703	2,012,543	3,567,878	22,576,124
- RCP Advisors Fund VIII, L.P.	3,890,158	5,000,277	(949,318)	7,941,117
- RCP Advisors Fund IX, L.P. <sup>1</sup>	0	500,000	0	500,000
- Ripplewood Partners II, L.P. <sup>2</sup>	49,196,591	(24,461,000)	(24,735,591)	0
- Riverside Capital Appreciation Fund V, L.P.	58,008,131	(12,011,141)	2,373,777	48,370,767
- Riverside Capital Appreciation Fund VI, L.P.	0	9,243,694	(2,169,564)	7,074,130
- Riverside Europe Fund IV, L.P.	43,367,987	(6,732,589)	8,230,475	44,865,874

Account Name - continued	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
- Rubicon Technology Partners, L.P. <sup>1</sup>	0	20,795	(20,795)	0
- Silver Lake Partners IV, L.P.	0	15,323,411	(1,614,807)	13,708,604
- Snow Phipps II, L.P.	22,458,493	2,156,482	5,267,445	29,882,421
- Summit Partners Growth Equity Fund VIII-A, L.P.	16,670,025	39,539,853	9,049,231	65,259,109
- SVB Capital Partners III, L.P. <sup>1</sup>	0	2,636,687	(44,934)	2,591,753
- SVB Strategic Investors Fund V-A, L.P.	25,454,589	37,166,130	10,025,095	72,645,814
- SVB Strategic Investors Fund V-A Opp, L.P.	13,589,847	10,500,000	2,560,790	26,650,637
- SVB Strategic Investors VI-A, L.P.	1,875,000	12,532,700	(21,810)	14,385,890
- TA XI, L.P.	53,943,396	(2,500,000)	15,297,064	66,740,460
- Thoma Bravo Fund IX, L.P.	52,536,619	(38,730,579)	34,221,774	48,027,814
- Thoma Bravo Fund X, L.P.	53,658,804	11,380,455	32,936,312	97,975,571
- Thoma Bravo Fund XI, L.P. <sup>1</sup>	0	4,800,462	(1,211,538)	3,588,924
- Thoma Bravo Special Opportunities Fund I, L.P. <sup>1</sup>	0	22,306,922	8,456,032	30,762,954
- Thoma Cressey Fund VIII, L.P.	50,603,268	(6,714,986)	5,687,536	49,575,818
- Thomas H. Lee Equity Fund V, L.P. <sup>2</sup>	5,136,444	(6,191,198)	1,054,754	0
- Thomas H. Lee Equity Fund VI, L.P.	66,989,961	(5,310,245)	11,280,893	72,960,609
- Top Tier Venture Capital II, L.P.	72,226,757	(15,722,987)	15,708,457	72,212,227
- Top Tier Venture Capital III, L.P.	59,815,018	(6,831,384)	10,075,430	63,059,063
- Top Tier Venture Capital IV, L.P.	93,155,310	(7,671,020)	28,406,233	113,890,523
- Top Tier Special Opportunities Fund, L.P.	9,788,328	57,516	(1,644,927)	8,200,917
- TowerBrook Investors II, L.P.	42,673,713	(1,721,945)	5,079,058	46,030,826
- TowerBrook Investors III, L.P.	95,930,639	11,950,989	15,243,880	123,125,508
- TowerBrook Investors IV, L.P.	0	1,538,133	(1,745,461)	(207,328)
- TPG Growth II, L.P.	16,808,742	27,489,316	9,599,034	53,897,092
- TPG Partners IV, L.P. <sup>2</sup>	26,797,598	(25,712,458)	(1,085,141)	0
- TPG Partners V, L.P.	67,154,652	(17,615,234)	21,924,044	71,463,462
- TPG Partners VI, L.P.	151,475,763	(1,392,219)	23,598,687	173,682,231
- Trident V, L.P.	36,935,681	21,979,513	7,114,881	66,030,076
- TrueBridge/FLSBA Special Purpose, LLC.	11,533,419	14,750,000	6,969,439	33,252,858
- TrueBridge/FLSBA Special Purpose II, LLC	0	1,275,000	(11,950)	1,263,050
- TrueBridge-Kauffman Fellows End. Fund II, L.P.	49,106,461	27,913,836	15,504,024	92,524,321
- TrueBridge-Kauffman Fellows End. Fund III, L.P.	5,649,829	16,250,000	(1,859,641)	20,040,188
- TSG Capital Fund III, L.P.	72,830	0	(49,584)	23,246
- W Capital Partners III, L.P. <sup>1</sup>	0	18,632,133	(307,545)	18,324,588
- Warburg Pincus Private Equity IX, L.P.	46,672,402	(25,056,707)	10,223,326	31,839,022
- Warburg Pincus Private Equity X, L.P.	143,564,796	(43,192,392)	32,037,115	132,409,520
- Warburg Pincus Private Equity XI, L.P.	38,492,262	47,460,600	4,758,862	90,711,724
- Wellspring Capital Partners III, L.P. <sup>2</sup>	234,562	(201,226)	(33,336)	0
- Wellspring Capital Partners IV, L.P.	44,760,743	(2,766,895)	2,083,308	44,077,156
- Wellspring Capital Partners V, L.P.	26,450,527	24,788,146	(3,835,723)	47,402,950
- Willis, Stein & Partners III, L.P. <sup>2</sup>	5,482,508	(5,521,103)	38,595	0
<u>Other:</u>				
- Private Equity Cash	113,328,683	(45,950,104)	300,125	67,678,704
- Private Equity Cash Expense	0	1,709,753	(1,709,753)	0
- Private Equity Transition <sup>1</sup>	0	185,419,999	(2,778,847)	182,641,152
<b>Total Private Equity</b>	<b>\$ 6,892,041,617</b>	<b>\$ (135,000,000)</b>	<b>\$ 1,318,252,053</b>	<b>\$ 8,075,293,670</b>

<sup>1</sup> Account opened during the fiscal year.

<sup>2</sup> Account closed during the fiscal year.

<sup>3</sup> Account assets sold during the fiscal year. Account remains open for expected final residual activity.

• Private Equity market values are estimates of value which may or may not represent what would be actually realized in arm's-length sales transactions. The market values are self-reported by the external managers of these accounts and incorporate their estimate of the value of illiquid publicly traded securities and private market holdings.

• Totals may not foot due to rounding.

Source: SBA

**FRS Pension Plan - Strategic Investments**  
**Change in Market Value Fiscal Year 2013-14**

**TABLE 12:**

Account Name	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
<u>Debt:</u>				
- ABRY Advanced Securities Fund, L.P.	\$ 59,665,466	\$ (58,532,385)	\$ 9,648,597	\$ 10,781,678
- ABRY Advanced Securities Fund II, L.P.	76,083,827	6,265,157	13,624,701	95,973,685
- ABRY Advanced Securities Fund III, L.P. <sup>1</sup>	0	1,428,458	0	1,428,458
- ABRY Senior Equity III, L.P.	54,442,916	(15,965,822)	8,867,127	47,344,221
- ABRY Senior Equity IV, L.P.	9,986,843	7,116,512	1,038,059	18,141,414
- Anchorage Capital Partners, L.P.	182,311,870	0	29,161,222	211,473,092
- Apollo Credit Liquidity Fund, L.P.	77,739,528	(55,541,553)	3,929,294	26,127,269
- Audax Credit Opportunities, LLC	232,500,573	98,700	17,608,363	250,207,636
- Bayview Opportunity Master Fund II b, L.P.	47,474,319	(27,619,917)	9,324,754	29,179,156
- Bayview Opportunity Master Fund III b, L.P.	90,256,721	50,659,712	12,155,649	153,072,082
- BlackRock Carbon Capital III, Inc.	37,403,517	(30,043,001)	3,113,791	10,474,308
- BlackRock Carbon Capital V, Inc.	0	114,038,814	2,151,880	116,190,693
- Blackstone Credit Liquidity Partners, L.P.	4,568,340	(4,457,354)	3,357,582	3,468,568
- Blackstone/GSO Capital Solutions Fund, L.P.	89,405,202	(33,583,818)	19,813,756	75,635,140
- Carlyle Mezzanine Partners II, L.P.	104,978,625	(34,442,755)	15,886,287	86,422,157
- Castlelake III, L.P. <sup>1</sup>	0	21,947,463	(258,869)	21,688,594
- Cerberus Institutional Real Estate Partners III, L.P. <sup>1</sup>	0	65,381,797	(825,112)	64,556,685
- Colony Distressed Credit Fund II, L.P.	67,095,132	(13,914,392)	8,181,906	61,362,646
- Colony Distressed Credit & Special Situation Fund III, L.P. <sup>1</sup>	0	35,425,226	0	35,425,226
- Crescent Mezzanine Partners VI, L.P.	27,089,140	25,662,113	2,786,958	55,538,211
- CVI Credit Value Fund A, L.P.	146,311,260	(23,431,887)	29,403,404	152,282,777
- CVI Credit Value Fund II A, L.P.	80,000,000	109,428,413	32,753,928	222,182,341
- CVI Global Value Fund A, L.P.	212,807,089	(111,770,804)	41,622,706	142,658,991
- Distressed Managers II FL, L.P.	59,144,559	(8,021,886)	4,287,614	55,410,287
- Falcon Strategic Partners III, L.P.	71,996,360	(11,933,612)	3,778,855	63,841,603
- Falcon Strategic Partners IV, L.P.	34,553,548	4,391,599	2,448,653	41,393,800
- GSO Capital Opportunities Fund, L.P.	89,451,646	(26,852,704)	9,319,527	71,918,469
- GSO Capital Opportunities Fund II, L.P.	31,013,987	9,359,586	4,698,946	45,072,519
- GSO Capital Solutions Fund II, L.P.	0	4,235,574	1,135,059	5,370,633
- King Street Capital Fund, L.P.	225,912,108	0	19,118,296	245,030,404
- Levine Leichtman Capital Partners IV, L.P.	109,649,884	(46,038,938)	7,063,503	70,674,449
- Levine Leichtman Capital Partners V, L.P.	0	24,013,819	(1,617,370)	22,396,449
- Morgan Stanley Mezzanine Partners Pooled Fund, L.P. <sup>2</sup>	125,056	(102,260)	(22,796)	0
- Neuberger Berman Asset Management, LLC	951,051	0	2,163	953,214
- Oaktree Opportunities Fund VIII, L.P.	95,419,781	(27,682,333)	15,708,589	83,446,037
- Oaktree Opportunities Fund VIIIb, L.P.	48,893,426	5,000,000	6,945,825	60,839,251
- Oaktree Opportunity Fund IX, L.P.	9,968,001	53,000,000	4,048,830	67,016,831
- OCM Opportunities Fund VIIb, L.P.	14,466,207	(4,754,176)	1,266,188	10,978,219
- PCG Special Situation Partners, L.P.	62,370,321	(14,718,974)	12,482,889	60,134,236
- Principal RE Debt (SBAF Mortgage Fund), LLC	190,572,384	26,785,095	18,820,908	236,178,387
- Providence Debt Fund III, L.P. <sup>1</sup>	0	39,457,109	470,135	39,927,244
- Providence TMT Debt Opportunity Fund II, L.P.	111,050,967	(24,254,536)	12,955,608	99,752,039
- Providence TMT Special Situation Fund, L.P.	80,047,550	(39,681,645)	4,463,299	44,829,204
- Special Situation Partners II, L.P.	84,586,810	(22,043,459)	6,368,566	68,911,917
- Square Mile Partners III, L.P.	64,283,322	(25,321,320)	7,336,813	46,298,815
- TAC 2007 (TPG Credit Fund), L.P. <sup>2</sup>	7,694,376	(7,881,857)	187,481	0
- TCW Crescent Mezzanine Partners V, L.P.	90,310,410	(40,518,742)	8,208,934	58,000,602
- Tricon IX, L.P.	114,163,853	(19,585,660)	14,777,498	109,355,690
- Tricon XI, L.P.	58,882,787	(25,339,886)	6,746,539	40,289,440

Account Name - continued	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
- Trigate Property Partners II, L.P.	5,448,389	10,051,728	465,166	15,965,283
- Varde Fund X, L.P.	125,353,944	0	17,836,096	143,190,040
- Varde Fund XI, L.P. <sup>1</sup>	0	180,039,057	12,614,915	192,653,972
- VSS Structured Capital II, L.P.	55,776,763	(21,467,158)	15,406,195	49,715,800
- Wayzata Opportunities Fund II, L.P.	42,810,034	(30,574,805)	8,524,068	20,759,297
- Wayzata Opportunities Fund III, L.P.	7,399,037	9,765,000	(961,031)	16,203,006
<u>Equity:</u>				
- Blackstone Unit Trusts	3,925,064	0	2,067,434	5,992,498
- Cevian Capital II, L.P.	147,919,000	0	37,165,000	185,084,000
- Highline Capital Partners, L.P.	166,804,180	0	35,222,854	202,027,034
- JHL Capital Group Fund, LLC <sup>1</sup>	0	100,056,082	(574,385)	99,481,697
- KV Partners, LLC	206,104,486	(93,852,469)	65,866,945	178,118,962
- Lexington GP Holdings, L.P.	68,728,412	(5,602,114)	6,245,401	69,371,699
- P2 Capital Fund, L.P.	162,242,345	0	33,420,531	195,662,876
- Providence Equity Global Group, LLC	76,275,641	71,828,239	(4,804,878)	143,299,002
- Scopia PX, LLC	106,264,436	0	4,570,988	110,835,424
- Scout Capital Partners II, L.P. <sup>2</sup>	231,305,167	(243,821,380)	12,516,213	0
- Starboard Value and Opportunity Fund, LLC	162,558,577	50,008,000	28,364,772	240,931,349
- Three Bridges Europe Fund, L.P.	79,601,209	0	5,924,079	85,525,288
<u>Flexible Mandates:</u>				
- Davidson Kempner Institutional Partners, L.P.	100,000,000	32,716	7,671,093	107,703,809
- Gruss Global Investors Fund, L.P.	161,996,461	0	10,795,630	172,792,091
- HBK Fund II, L.P. <sup>1</sup>	0	150,092,803	9,792,758	159,885,561
- Litespeed Partners, L.P. <sup>1</sup>	0	100,114,728	8,346,019	108,460,747
- Luxor Capital Partners, L.P. <sup>1</sup>	0	100,021,585	1,599,930	101,621,515
- Mason Capital Fund, L.P.	219,834,274	0	15,265,133	235,099,407
- OZ Domestic Partners II, L.P.	226,892,508	0	17,770,895	244,663,402
- Taconic Opportunity Fund, L.P.	232,205,806	0	17,795,574	250,001,380
- York Capital Management, L.P.	171,836,655	0	37,161,605	208,998,260
<u>Global Macro:</u>				
- MKP Opportunity Partners, L.P. <sup>1</sup>	0	150,066,382	(66,382)	150,000,000
<u>Special Situations:</u>				
- Castlelake Aviation II, L.P. <sup>3</sup>	53,243,136	(1,674,157)	9,759,081	61,328,060
- Florida Growth Fund, LLC	196,864,038	963,598	14,554,620	212,382,256
- Florida Growth Fund Tranche II, LLC	38,901,224	32,213,508	8,251,641	79,366,373
- Florida Growth Fund Credit Tranche, LLC <sup>1</sup>	0	10,386,189	(1,203,874)	9,182,315
- GI Partners Fund III, L.P.	98,938,311	(47,359,679)	14,568,594	66,147,226
- GI Partners Fund IV, L.P. <sup>1</sup>	0	1,855,130	(1,736,230)	118,900
<u>Real Assets:</u>				
- Boston Timber Opportunities, LLC	130,046,842	34,486,584	20,087,078	184,620,504
- EIG Energy Fund XVI, L.P. <sup>1</sup>	0	12,782,209	(3,569,301)	9,212,908
- Global Infrastructure Partners II, L.P.	52,666,762	254,524	12,211,954	65,133,240
- Jackson Timberland Opportunities, LLC	98,322,908	(3,392,314)	13,033,155	107,963,749
- Orion Mine Finance Fund I, L.P. <sup>4</sup>	23,325,651	23,998,877	3,934,935	51,259,464
<u>Other:</u>				
- Strategic Investments Cash Account	40,289,505	(12,753,342)	78,897	27,615,060
- Strategic Investment Cash Expense Account	0	1,821,011	(1,821,011)	0
- Strategic Investments Transition Account	3,057,463	(1,568,998)	2,542,054	4,030,519
<b>Total Strategic Investments</b>	<b>\$ 6,752,566,988</b>	<b>\$ 428,431,002</b>	<b>\$ 931,040,750</b>	<b>\$ 8,112,038,740</b>

<sup>1</sup> Account opened during the fiscal year.

<sup>2</sup> Account closed during the fiscal year.

<sup>3</sup> Name changed from Airline Credit Opportunities II, L.P. to Castlelake Aviation II, L.P.

<sup>4</sup> Name changed from RK Mine Finance Fund II, L.P. to Orion Mine Finance Fund I, L.P.

• For certain strategic investments accounts, market values are estimates of value which may or may not represent what would be actually realized in arm's-length sales transactions. In such cases, the market values are self-reported by the external managers of these accounts and incorporate their estimate of the value of illiquid publicly traded securities and private market holdings.

• Totals may not foot due to rounding.

Source: SBA

**TABLE 13:**

**FRS Pension Plan - Real Estate  
Change in Market Value Fiscal Year 2013-14**

Account Name	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
<u>Agriculture Funds:</u>				
- Goose Pond Agricultural, Inc.	\$ 240,754,805	\$ (24,866,814)	\$ 52,935,692	\$ 268,823,683
- Sunshine Agriculture, Inc.	160,723,517	(15,485,596)	25,858,615	171,096,537
<u>Joint Ventures:</u>				
- Campus Advantage	786,856	82,080,999	6,765,058	89,632,912
- IDI NALI A	94,554,331	(4,391,726)	18,744,681	108,907,286
- IDI NALI B	18,189,499	(1,371,930)	823,135	17,640,704
- IDI NALI C	58,098,154	(3,277,119)	12,575,766	67,396,802
- IDI NALI D	25,764,137	15,164,344	8,575,206	49,503,688
- Konover South Portfolio Holdings, LLC <sup>2</sup>	28,476,536	(25,339,507)	(3,143,120)	(6,092)
- MS Inland Fund, LLC <sup>2</sup>	99,854,546	(126,936,993)	27,090,417	7,972
- MS NHP Fund, LLC	148,678,854	(12,632,001)	19,076,980	155,123,832
- Ramco	128,304,667	(7,462,241)	16,293,930	137,136,357
<u>Pooled Funds:</u>				
- Beacon Capital SP Fund V	34,552,376	(8,341,589)	2,128,755	28,339,542
- BlackRock Diamond Property Fund	41,170,277	(147,734)	3,110,610	44,133,152
- BlackRock Retail Opportunity Fund	14,414,017	(13,827,677)	(101,199)	485,141
- Blackstone Real Estate Partners Asia <sup>1</sup>	0	43,066,217	2,022,184	45,088,401
- Blackstone Real Estate Partners VI	243,301,923	(21,864,609)	70,824,556	295,261,870
- Blackstone Real Estate Partners VII	169,571,944	39,549,373	46,043,798	255,165,115
- Brookfield-Fairfield US Multifamily Fund I	38,668,366	5,465,523	12,312,891	56,446,780
- Brookfield-Fairfield US Multifamily Fund II <sup>1</sup>	0	8,947,046	(912,584)	8,034,462
- Carlyle Realty Partners VI	34,778,965	9,550,378	13,150,878	57,480,221
- EMI Pooled Fund Expenses Account	0	33,987	(33,987)	0
- Europa Fund IV <sup>1</sup>	0	2,995	(2,995)	0
- Hines Value Added Fund II	50,283,059	(13,787,147)	4,586,489	41,082,401
- JP Morgan Special Situation Fund	119,143,343	(4,467,975)	19,926,082	134,601,451
- JP Morgan Strategic Property Fund	308,062,031	(14,145,592)	39,196,660	333,113,099
- Prime Property Fund	274,450,257	(11,186,681)	36,461,158	299,724,735
- Principal Enhanced Property Fund	54,316,156	(16,161,494)	7,909,556	46,064,218
- Principal US Property Fund	234,793,099	0	26,930,481	261,723,580
- Prudential PRISA	246,799,669	(8,481,483)	31,504,926	269,823,112
- Prudential PRISA Fund II	131,304,831	(3,201,437)	20,344,820	148,448,214
- Prudential PRISA Fund III	168,131,145	(5,027,457)	20,285,761	183,389,449
- Rockpoint Real Estate Fund III	54,458,080	(27,784,460)	(2,343,380)	24,330,240
- Rockpoint Real Estate Fund IV	23,070,988	(1,614,694)	10,038,294	31,494,589
- RREEF America REIT II Pooled Fund	230,682,898	(11,017,895)	29,544,009	249,209,013
- Starwood Distressed Opportunity Fund IX	23,229,612	43,800,000	11,205,802	78,235,414
- Tristan EPISO 3 <sup>1</sup>	0	9,229,045	(1,036,381)	8,192,664
- UBS Pooled Fund	234,679,512	(7,073,895)	21,519,242	249,124,860
<b>Principal Investments:</b>	<b>5,163,423,195</b>	<b>(227,725,910)</b>	<b>707,000,245</b>	<b>5,642,697,530</b>
<u>Real Estate Investment Trusts (REITs):</u>				
- AEW Global REIT	313,909,090	(40,000,000)	39,314,762	313,223,852
- CohenSteers Global REIT	298,163,421	(80,378,049)	30,366,206	248,151,578
- Invesco Global REIT	314,551,153	(40,000,000)	39,171,214	313,722,367
- RREEF Global REIT	312,543,854	(40,000,000)	36,894,277	309,438,131

Continued on next page



Account Name - continued	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
<u>Other:</u>				
- Real Estate Cash Account	6,903,744	12,066,212	37,510	19,007,466
- Real Estate Cash Expense Account <sup>1</sup>	0	365,538	(365,538)	0
- Real Estate Transition Account <sup>3</sup>	0	0	0	0
<b>Total Real Estate Investments</b>	<b>\$ 10,143,542,908</b>	<b>\$ (548,678,049)</b>	<b>\$ 1,462,631,464</b>	<b>\$ 11,057,496,323</b>

<sup>1</sup> Account opened during the fiscal year.

<sup>2</sup> Account closed during the fiscal year. Balances and activity reflect residual activity.

<sup>3</sup> Account inactive during the fiscal year

• For certain real estate accounts, market values are estimates of value which may or may not represent what would be actually realized in arm's-length sales transactions.

• Totals may not foot due to rounding.

Source: SBA

**TABLE 14:**

**FRS Pension Plan - Miscellaneous Portfolios  
Change in Market Value Fiscal Year 2013-14**

Account Name	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss) <sup>2</sup>	Market Value 6/30/2014
Cash Expense Account <sup>2</sup>	\$ 0	\$ 20,649,981	\$ (20,649,981)	\$ 0
Central Cash/Short-Term <sup>2</sup>	1,296,568,366	723,279,828	4,538,740	\$ 2,024,386,934
TF STIPFRS NAV Adjustment Account	1,115,678	0	(593,434)	522,244
Cash Securities Lending Account <sup>3</sup>	(73,251,027)	(1,284,659)	18,324,693	(56,210,992)
Total Fund Cash Expense Account <sup>1,2</sup>	0	13,393,280	(13,393,280)	0
<b>Total Cash Asset Class</b>	<b>\$ 1,224,443,017</b>	<b>\$ 756,038,430</b>	<b>\$ (11,773,262)</b>	<b>\$ 1,968,698,186</b>

<sup>1</sup> Account opened during the fiscal year.

<sup>2</sup> The Cash Expense Account and the Total Fund Cash Expense Account are both used to pay various expenses (including SBA investment service charges and bank fees) that are paid on behalf of the entire FRS Pension Plan. Excluding these expenses, the reported investment gain (loss) would have been \$0 for both accounts.

<sup>3</sup> Beginning in June 2013, the SBA began including the net unrealized gain (loss) on invested cash collateral in the securities lending program in the total market value of the Cash Securities Lending Account. In fiscal year 2014, the net unrealized loss decreased, resulting in an unrealized gain of \$17,210,695 that is included in the Investment Gain (Loss) column. Excluding this gain, the Cash Securities Lending Account would have reported a net investment gain of \$1,113,998, which consisted primarily of securities lending fee rebates received for the months of July 2013 to October 2013.

• Totals may not foot due to rounding.

Source: SBA

**TABLE 15:**

**FRS Pension Plan Net Securities Lending  
Revenue by Fiscal Year**

2000-01	\$ 45,645,138
2001-02	49,744,143
2002-03	34,628,432
2003-04	34,558,808
2004-05	38,447,917
2005-06	50,490,779
2006-07	54,097,509
2007-08	115,505,817
2008-09	96,168,151
2009-10 <sup>1</sup>	(134,528,845)
2010-11	43,594,622
2011-12	43,777,884
2012-13	48,168,513
2013-14	44,532,896
<b>Total</b>	<b>\$ 564,831,763</b>

<sup>1</sup> The loss for 2009-10 resulted from a decline in value of various investments held in the securities lending portfolio. The recovery in value of these investments was not considered probable. Therefore, the underlying securities were written down resulting in a net realized loss. Net income without this loss was \$38,001,712.

• This table is on an accrual basis, not a cash basis, meaning income is recorded when earned, not when received.

• Total may not foot due to rounding.

Source: SBA

Securities lending is the short-term loan of securities for a fee. With its large portfolio of assets, the Pension Plan is well suited to such a program. Mutual funds and ETFs typically have lending programs for the same reasons. The demand to borrow shares typically comes from hedge funds or short-sellers. When securities are loaned, borrowers provide collateral, such as cash or government securities, of value equal to or greater than the loaned securities. As shown in Table 15, the program has provided significant gains over the long term. However, fallout from the mortgage crisis resulted in losses during Fiscal Year 2009-10. In response, the program was restructured to a more conservative set of investment guidelines.

## Florida Investments

In 2008, the Florida Legislature authorized the SBA to invest up to 1.5% of net state retirement system trust fund assets in technology and high-growth investments of certain businesses with a significant presence in Florida, 215.47(7), Florida Statutes.

The Legislature made a determination that such investments would economically benefit the state. These investments may include space technology, aerospace and aviation engineering, computer technology, renewable energy, and medical and life sciences. The SBA created the Florida Growth Fund as the vehicle to carry out this mandate.

As part of the initiative, Florida Statutes require the SBA to report the year-end value of all the Pension Plan's Florida-based investments, as well as the component that can be considered growth and technology. Table 16 provides those figures for all Pension Plan investments that meet the criteria.



Seven Mile Bridge in the Florida Keys, in Monroe County, Florida. It connects Knight's Key in the Middle Keys to Little Duck Key in the Lower Keys.

**TABLE 16:**

**All Florida Holdings**

**Growth & Technology**

Asset Class	Net Asset Value	Net Asset Value
Separate Accounts- Direct		
Global Equity	\$ 686,539,898	\$ 320,928,390
Fixed Income	81,142,783	15,457,779
Real Estate- Core <sup>1</sup>	382,815,268	0
Real Estate- Non-Core <sup>1</sup>	82,788,275	0
Sub-Total Separate Accounts	\$ 1,233,286,224	\$ 336,386,169
Commingled Accounts- Indirect <sup>2</sup>		
Real Estate- Commingled <sup>3</sup>	257,504,910	0
Private Equity- Commingled <sup>4</sup>	218,682,783	28,847,295
Strategic Investments- Commingled	594,885,313	169,217,269
Sub-Total Commingled	1,071,073,006	198,064,564
<b>Total</b>	<b>\$ 2,304,359,230</b>	<b>\$ 534,450,733</b>

<sup>1</sup> Real Estate Core and Non-Core data as of June 30, 2014, net of debt.

<sup>2</sup> The Pension Plan owns Florida investments in commingled funds valued at \$1,071,073,006. The Pension Plan owns shares of each commingled fund, not the underlying assets, i.e., property, equity or debt instruments. The assets are owned by the funds.

<sup>3</sup> Real Estate Commingled Account data as of June 30, 2014, net of debt.

<sup>4</sup> Private Equity data as of March 31, 2014.

Source: SBA

# Florida Retirement System Investment Plan

## Overview and Investment Objective

The Florida Retirement System (FRS) Investment Plan was established by the legislature to provide Florida’s public employees with a portable, flexible alternative to the FRS traditional defined benefit plan. Since opening its first employee account nearly 12 years ago, the FRS Investment Plan has become one of the largest optional public-sector defined contribution retirement plans in the U.S., with more than 157,000 members and \$9.0 billion in assets as of June 30, 2014.

The primary objectives of the Investment Plan are to offer investment options that avoid excessive risk, have a prudent degree of diversification relative to broad market indices and provide a long-term rate of return, net of all expenses and fees, which achieves or exceeds the returns on comparable market benchmark indices.

The Executive Director & CIO is responsible for selecting, evaluating, and monitoring performance of the investment options, with a focus on maximizing returns within appropriate risk constraints. The FRS Investment Plan has a diverse offering of 19 low-cost institutional and mutual fund investment options, which include three risk-targeted balanced funds, consisting of optimized mixes of existing investment options from within five public market asset classes.

The SBA follows Florida Statutes’ fiduciary standards of care in managing the FRS Investment Plan’s options. The Investment Advisory Council provides independent oversight of the plan’s general objectives, policies, and strategies.

## Performance

Investment performance in the FRS Investment Plan is measured on an absolute basis (actual returns) and relative to appropriate market benchmarks for each investment option. Performance data is aggregated for the total fund and for each product type, using participant allocations as the weighting factors. Unlike the Pension Plan, asset allocation in the Investment Plan is the responsibility of each individual investor.

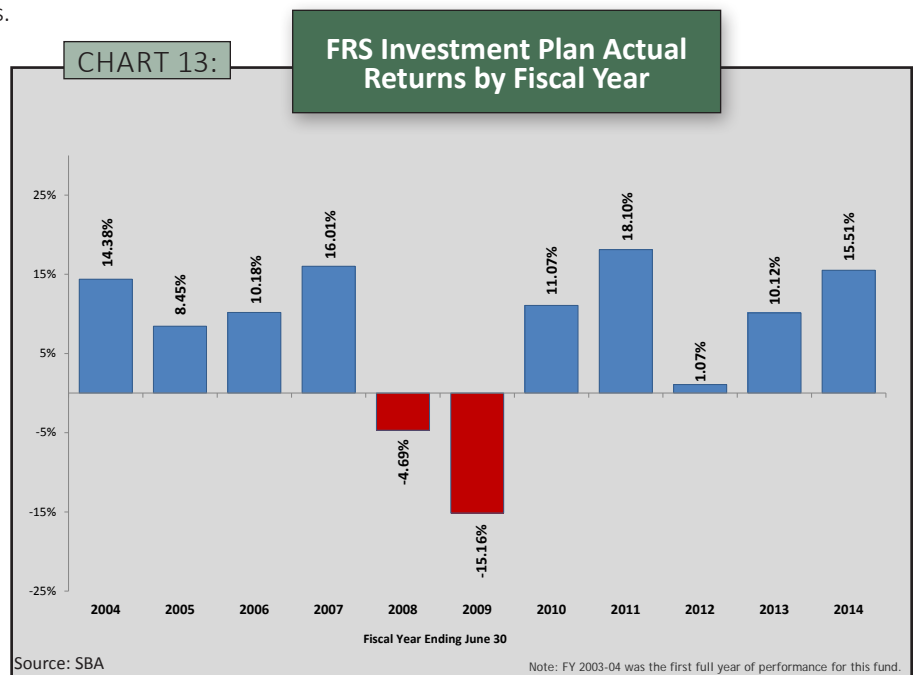


TABLE 17:

**FRS Investment Plan Returns vs. Benchmark**

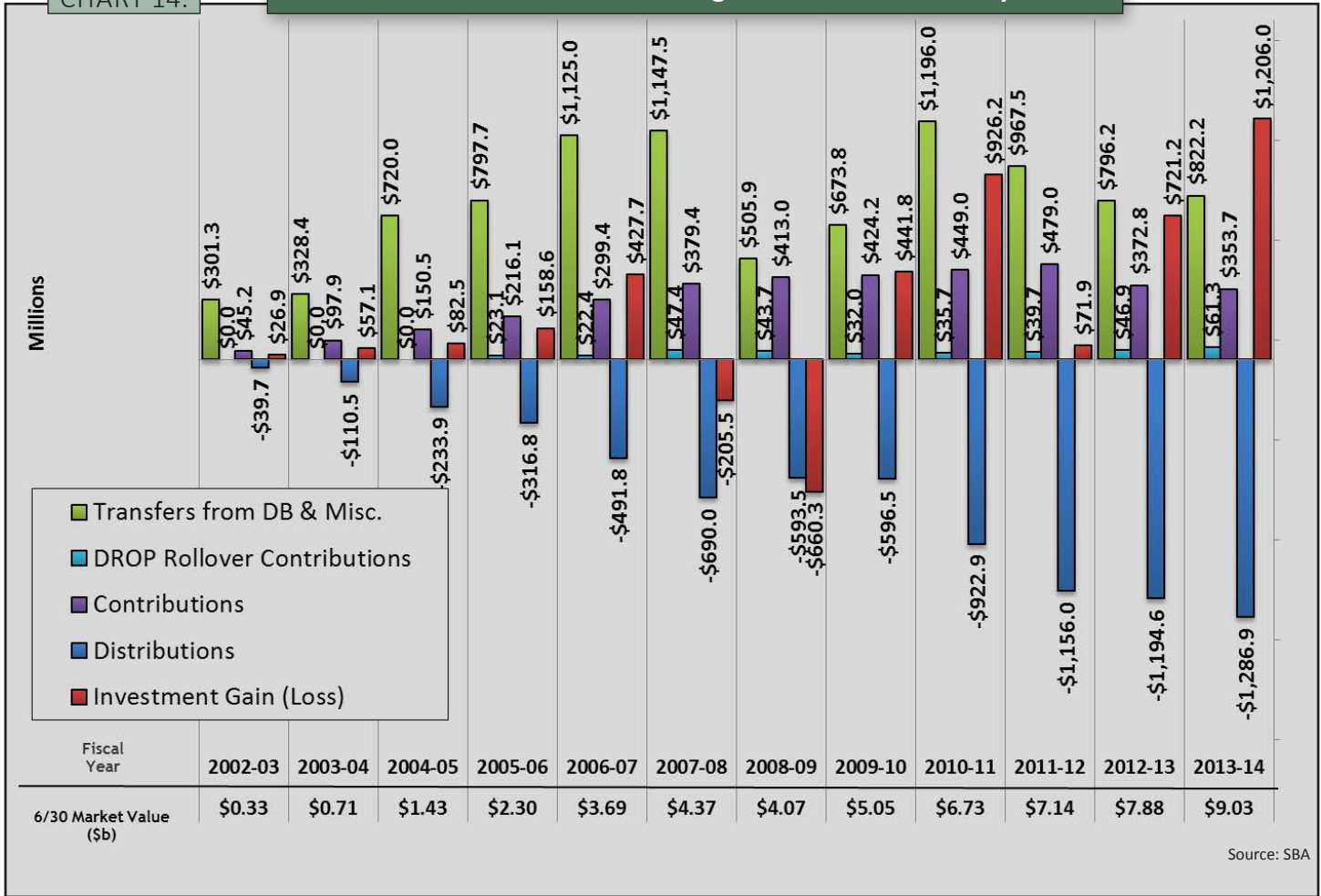
	Actual Return	Benchmark Return	Actual Over (Under) Bmk.
One Year	15.51%	15.05%	0.46%
Three Years	8.74%	8.48%	0.25%
Five Years	11.02%	10.55%	0.47%
Ten Years	6.58%	6.13%	0.45%
Since Inception	7.41%	7.04%	0.37%

- All returns are annualized for periods indicated through June 30, 2014.
- Benchmark is a weighted blend of individual asset class target indices 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.

Source: SBA

CHART 14:

**FRS Investment Plan - Annual Change in Total Fund Value by Source**



Source: SBA



Trammell Bridge carries State Road 20 over the Apalachicola River in the Florida Panhandle between Blountstown and Bristol. It was named for United States Senator from Florida and former Governor Park Trammell, who died in office in 1936.

**Costs**

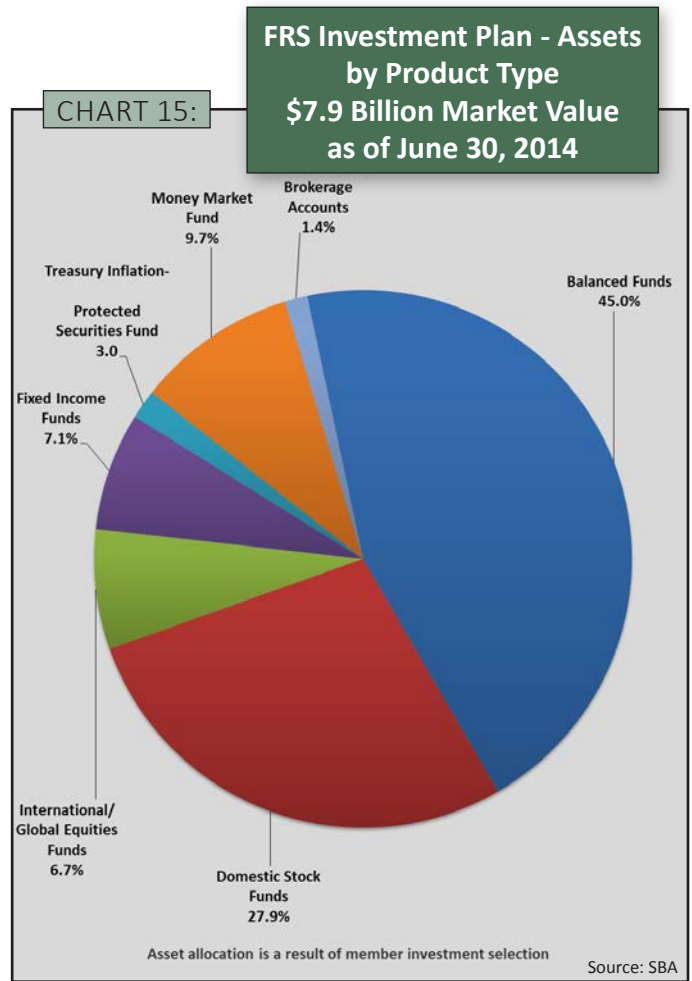
Total plan cost equals the sum of investment option management fees plus administrative, education and fiduciary costs. The FRS Investment Plan's total plan cost (or expense ratio) for calendar year 2013 was 38 basis points (bps). This exceeded its benchmark cost of 30 bps by 8 bps, or 0.08%.

The benchmark cost equals the Plan's asset mix multiplied by the size-adjusted peer median cost for each asset category.

The reason for exceeding the benchmark is the extensive education program and resources offered to all FRS members. Without these costs, the Investment Plan would be lower than all peers..

## Investment Options

The FRS Investment Plan offers a diversified array of fund options that span the risk and return spectrum. In 2004, a comprehensive review of the original 42 fund options resulted in the options being consolidated to 19 funds in the five asset classes. As of June 30, 2014, 19 funds are offered in the asset classes consisting of a Money Market fund, a U.S. Treasury Inflation-Protected Securities fund, Fixed Income, Domestic Equities and International Equities funds. Average fees across all investment funds are highly competitive at 0.19%.



Old Seven Mile Bridge, originally known as the Knights Key-Pigeon Key-Moser Channel-Pacet Channel Bridge, was constructed from 1909 to 1912 under the direction of Henry Flagler as part of the Florida East Coast Railway's Key West Extension, also known as the Overseas Railroad.

## Balanced Funds

These funds are particularly appropriate for “one-stop shopping.” They seek favorable long-term returns by keeping costs low and investing across multiple asset classes to diversify and control risk. They invest in various investment funds in different proportions to keep their overall level of risk relatively steady over time. The proportions and specific funds included in each Balanced Fund may change over time. Financial Engines, a federally registered investment advisor and fiduciary to the FRS, will periodically provide updated investment fund mixes to the FRS which they believe will provide the best balance between expected risk and return.

TABLE 18:

### FRS Investment Plan - Balanced Funds

Annual Average Investment Returns After Deducting Fees – Data Through June 30, 2014

Fund Name Performance Benchmark	Last 12 Months			Last 3 Years			Last 5 Years			Last 10 Years			Since Inception		
	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added
FRS Select Conservative Balanced Fund Conservative Balanced Aggregate Index	6.28%	6.09%	0.19%	3.95%	3.79%	0.16%	5.22%	5.00%	0.22%	4.60%	4.21%	0.39%	4.89%	4.47%	0.42%
FRS Select Moderate Balanced Fund Moderate Balanced Aggregate Index	15.10%	15.07%	0.03%	8.57%	8.44%	0.13%	10.67%	10.44%	0.23%	6.36%	6.13%	0.23%	7.33%	7.14%	0.19%
FRS Select Aggressive Balanced Fund Aggressive Balanced Aggregate Index	19.54%	19.63%	(0.09%)	10.67%	10.72%	(0.05%)	12.89%	12.89%	0.01%	6.94%	6.99%	(0.06%)	8.10%	8.25%	(0.15%)

Source: SBA

## Money Market Fund

This fund invests in short-term securities (financial instruments or obligations) that are high quality and can be sold quickly with little loss of value. The funds have limited risk of declining in value; however, over the long term, returns have been modest, basically keeping pace with inflation. Money market funds are not FDIC insured or guaranteed.

TABLE 19:

### FRS Investment Plan - Money Market Fund

Annual Average Investment Returns After Deducting Fees – Data Through June 30, 2014

Fund Name Performance Benchmark	Last 12 Months			Last 3 Years			Last 5 Years			Last 10 Years			Since Inception		
	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added
FRS Select Yield Plus Money Market Active Fund Institutional Money Market Average Index	0.18%	0.02%	0.16%	0.24%	0.04%	0.19%	0.24%	0.12%	0.12%	1.86%	1.86%	(0.01%)	1.78%	1.78%	0.00%

Source: SBA

## Treasury Inflation-Protected Securities Fund

This fund invests in United States Treasury Inflation-Protected Securities (TIPS). TIPS are U.S. government bonds and, like other bonds, pay a fixed rate of interest based on the face value of the bond when issued. TIPS bonds are designed to provide long-term inflation protection by attaching the face value of the bond to changes in inflation. When inflation increases, the adjusted face value would increase. As with all bonds, TIPS are a promise of payment at a point in the future. As actual and anticipated interest rates and inflation rise and fall, the current value of those future payments will rise and fall as well.

TABLE 20:

### FRS Investment Plan - TIPS Fund

Annual Average Investment Returns After Deducting Fees – Data Through June 30, 2014

Fund Name Performance Benchmark	Last 12 Months			Last 3 Years			Last 5 Years			Last 10 Years			Since Inception		
	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund Barclays Capital TIPS Index	4.62%	4.44%	0.18%	3.67%	3.55%	0.11%	5.64%	5.55%	0.09%	5.32%	5.25%	0.08%	5.87%	5.84%	0.03%

Source: SBA

## Bond Funds

These funds invest primarily in bonds, which are like IOUs – a company or government agency borrows money and pays it back with interest to the bondholder (the entity making the loan). The quality of a bond is reflected in the credit rating of the company or agency that issues the bond. The short-term risk of bond funds is relatively low. However, over time, the value of a bond is affected by interest rates, inflation, and other factors. When inflation or interest rates go up, the value of bonds goes down because they pay a fixed rate of interest (the market sees other investments as being more attractive). Therefore, bonds and bond funds do not always protect the value of retirement savings against inflation.

TABLE 21:

### FRS Investment Plan - Fixed Income Funds

Annual Average Investment Returns After Deducting Fees – Data Through June 30, 2014

Fund Name Performance Benchmark	Last 12 Months			Last 3 Years			Last 5 Years			Last 10 Years			Since Inception		
	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added
FRS Select U.S. Bond Enhanced Index Fund Barclays Capital Aggregate Bond Index	4.54%	4.37%	0.17%	3.82%	3.66%	0.15%	5.01%	4.85%	0.15%	5.13%	4.93%	0.20%	5.09%	4.92%	0.18%
PIMCO Total Return Fund Barclays Capital Aggregate Bond Index	4.76%	4.37%	0.38%	4.19%	3.66%	0.52%	6.25%	4.85%	1.40%	6.24%	4.93%	1.31%	6.15%	4.92%	1.24%
Pyramis Intermediate Duration Pool Fund Barclays Capital Intermediate Aggregate Bond Index	3.70%	3.48%	0.22%	3.42%	2.86%	0.56%	5.16%	4.23%	0.93%	4.64%	4.57%	0.07%	4.83%	4.53%	0.31%
FRS Select High Yield Fund Barclays Capital US HiYld Ba/B-1% Issuer Cap	10.89%	11.24%	(0.35%)	8.63%	9.37%	(0.75%)	n/a	n/a	n/a	n/a	n/a	n/a	9.76%	10.47%	(0.72%)

Source: SBA

## U.S. Stock Funds

These funds invest primarily in equity shares or stocks issued by U.S. companies. The short-term risk of stocks has been much higher than bonds. However, over long periods of time, stocks have generally performed better than bonds.

TABLE 22:

### FRS Investment Plan - Domestic Equities Funds

Annual Average Investment Returns After Deducting Fees – Data Through June 30, 2014

Fund Name Performance Benchmark	Last 12 Months			Last 3 Years			Last 5 Years			Last 10 Years			Since Inception		
	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added
FRS Select U.S. Stock Market Index Fund Russell 3000 Index	25.26%	25.22%	0.04%	16.52%	16.46%	0.06%	19.40%	19.33%	0.07%	8.30%	8.23%	0.07%	9.43%	9.37%	0.09%
FRS Select U.S. Large Value Stock Active Fund Russell 1000 Growth Index	24.51%	23.81%	0.70%	16.96%	16.92%	0.04%	19.55%	19.23%	0.32%	n/a	n/a	n/a	5.34%	4.80%	0.54%
FRS Select U.S. Large Growth Stock Active Fund Russell 1000 Growth Index	30.13%	26.92%	3.21%	15.93%	16.26%	(0.33%)	18.88%	19.24%	(0.36%)	8.67%	8.20%	0.48%	9.12%	9.10%	0.02%
Fidelity Growth Company Fund Russell 3000 Growth Index	30.30%	26.75%	3.54%	16.91%	16.11%	0.79%	21.66%	19.34%	2.33%	11.06%	8.27%	2.79%	12.74%	9.28%	3.46%
Fidelity Low-Priced Stock Fund Russell 2500 Value Index	22.49%	24.94%	(2.45%)	15.69%	16.02%	(0.33%)	20.40%	21.58%	(1.18%)	10.68%	9.40%	1.28%	12.41%	11.60%	0.81%
Prudential Mid-Cap Quantitative Core Equity Fund S&P Mid-Cap 400 Index	27.57%	25.24%	2.33%	16.91%	15.26%	1.65%	23.87%	21.67%	2.20%	n/a	n/a	n/a	11.93%	11.13%	0.80%
American Beacon Small-Cap Value Fund Russell 2000 Value Index	25.72%	22.54%	3.18%	15.95%	14.65%	1.30%	21.97%	19.88%	2.09%	n/a	n/a	n/a	9.88%	8.82%	1.06%
T Rowe Price Small Cap Stock Fund Russell 2000 Index	24.02%	23.64%	0.38%	15.94%	14.57%	1.37%	23.16%	20.21%	2.95%	10.67%	8.70%	1.97%	12.23%	11.24%	0.99%

Source: SBA

## Foreign Stock Funds

These funds invest primarily in equity shares or stocks issued by foreign companies. Foreign stocks are affected by additional risk factors such as foreign laws and regulations, differences in accounting practices, political risk (foreign governments are sometimes unstable), and currency risk (differences in the relative value of domestic and foreign money). Over the long term, foreign stocks have not performed quite as well as U.S. stocks, but they have provided diversification benefits.

TABLE 23:

### FRS Investment Plan - Global/International Equities Funds

Annual Average Investment Returns After Deducting Fees – Data Through June 30, 2014

Fund Name Performance Benchmark	Last 12 Months			Last 3 Years			Last 5 Years			Last 10 Years			Since Inception		
	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added	Actual Return	Benchmark Return	Value Added
FRS Select Foreign Stock Index Fund MSCI World ex U.S. Index	24.22%	23.83%	0.39%	7.94%	7.58%	0.37%	12.03%	11.67%	0.36%	7.43%	7.18%	0.25%	9.22%	8.92%	0.31%
American Funds EuroPacific Growth Fund MSCI All Country World ex U.S. Index	22.40%	22.27%	0.13%	7.41%	6.21%	1.20%	12.01%	11.21%	0.80%	n/a	n/a	n/a	8.12%	5.71%	2.41%
American Funds New Perspective Fund MSCI World Index	21.84%	22.95%	(1.11%)	12.21%	10.79%	1.42%	15.85%	14.36%	1.49%	9.51%	7.03%	2.48%	11.10%	8.46%	2.63%

Source: SBA



# Florida PRIME™/Fund B

## Overview and Investment Objective

Florida PRIME™ provides eligible participants a cost-effective investment vehicle for their surplus funds. Its investment strategy emphasizes, in order of importance, preservation of capital (safety), liquidity and competitive yield. Florida PRIME™ is managed by an industry leader in professional money management and maintains conservative investment policies and a Standard & Poor's 'AAAm' rating. Florida PRIME™ has enhanced transparency and extensive governance oversight. Florida PRIME™ continues to offer participants exceptional service, including expanded reporting, enhanced web functionality, improved customer service, and strengthened investment guidelines.

Florida PRIME™ is governed by Chapters 215 and 218, Florida Statutes, and Chapter 19-7 of the Florida Administrative Code (collectively referred to as, "applicable Florida law").

The Trustees (comprised of the Governor, the Chief Financial Officer, and the Attorney General of the State of Florida) have delegated the administrative and investment authority to manage Florida PRIME™ to the Executive Director & CIO of the SBA, subject to applicable Florida law. Additionally, the Trustees appoint a six-member Participant Local Government Advisory Council and a nine-member Investment Advisory Council. Both councils are responsible for review of the Florida PRIME™ Investment Policy Statement and any proposed changes prior to its presentation to the Trustees and may undertake other duties set forth in applicable Florida law.

## Eligible Participants

Units of local government eligible to participate in Florida PRIME™ include, but are not limited to, any county, municipality, school district, special district, clerk of the circuit court, sheriff, property appraiser, tax collector, supervisor of elections, state university, state college, community college, authority, board, public corporation, or any other political subdivision or direct support organization of the state.

As of June 30, 2014, Florida PRIME™ had a net asset value of \$7.2 billion, comprising assets held in 1,737 investor accounts on behalf of 862 participants. During the fiscal year, the fund's assets decreased by approximately \$87 million, representing a 1% decrease in net asset value.



Courtney Campbell Causeway is the northernmost bridge across Old Tampa Bay, carrying State Road 60 between Clearwater and Tampa. In 1948, the Davis Causeway was renamed for Courtney W. Campbell, a Clearwater Beach resident, U.S. Representative, and member of the Florida Road Board, who spearheaded efforts to ensure that needed repairs and beautification of the Causeway were completed.

## Performance

For the fiscal year ending June 30, 2014, Florida PRIME™ delivered an aggregate \$14.3 million in investment earnings to its investors. Relative performance of Florida PRIME™ has been strong over short- and long-term time periods. For the period ending June 30, 2014, Florida PRIME™ generated excess returns (performance above the pool's benchmark) of approximately 12 basis points (0.12%) over the last 12 months, 16 basis points (0.16%) over the last three years, and 14 basis points (0.14%) over the last five years. By historical standards, absolute returns have been low over the past five years, reflecting the near-zero Federal Funds rate strategy employed as part of the stimulative monetary policy of the Federal Reserve Board of Governors.

CHART 16:

Florida PRIME™ - Yields by Fiscal Year

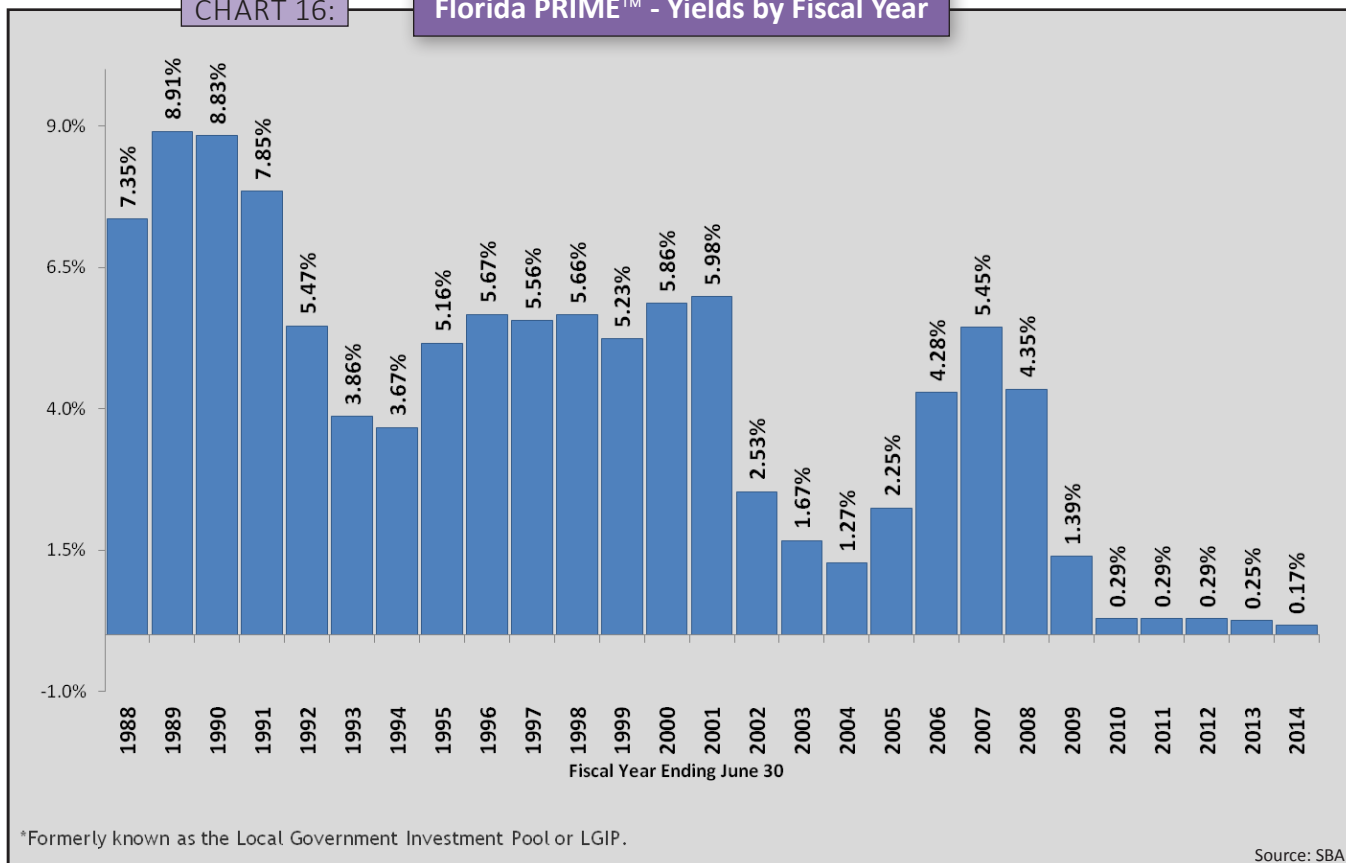


TABLE 24:

Florida PRIME™ - Participant Performance Data Through June 30, 2014

	Net Participant Yield <sup>1</sup>	Net-of-Fee Benchmark <sup>2</sup>	Actual Over (Under) Bmk.
One Year	0.17%	0.05%	0.12%
Three Years	0.23%	0.07%	0.16%
Five Years	0.26%	0.11%	0.14%
Ten Years	1.86%	1.70%	0.16%
Since 1/96	2.96%	2.77%	0.21%

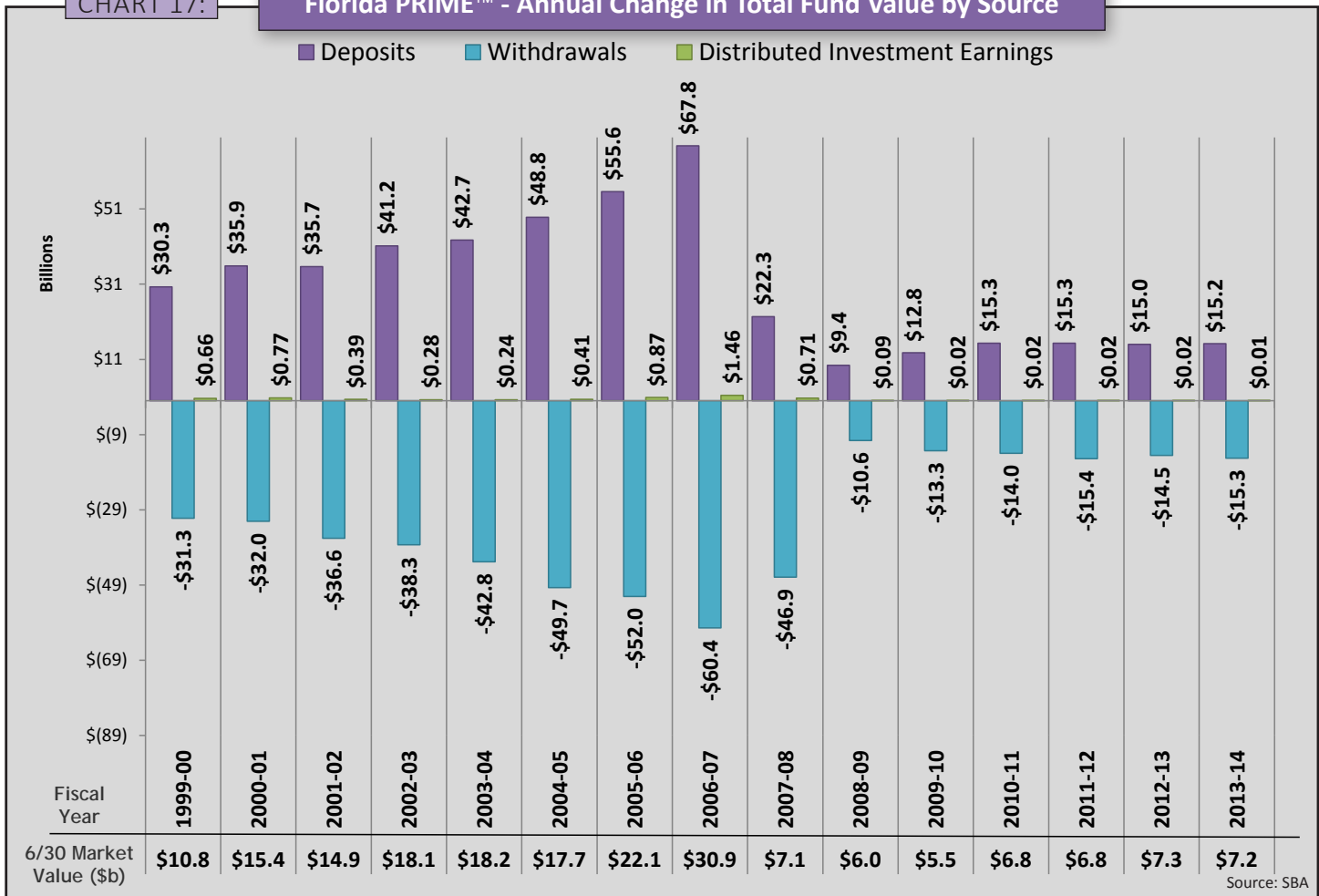
- Net asset value at month end: \$7,191.5,m
  - Net asset value includes investments at market value, plus all cash, accrued interest receivable and payables.
  - Numbers may not foot due to rounding.
1. Net of fees. Participant yield is calculated on a 365-day basis and includes adjustments for expenses and other accounting items to reflect realized earnings by participants.
  2. The net-of-fee benchmark is the S&P AAA/AA Rated GIP All 30-day Net Index for all time periods.

Source: SBA

During the fiscal year ending June 30, 2014, participant deposits totaled \$15.2 billion and participant withdrawals totaled \$15.3 billion, for a net decrease of approximately \$100 million in the pool's net asset value.

CHART 17:

Florida PRIME™ - Annual Change in Total Fund Value by Source



## Cost

As the lowest-cost investment pool in the state, Florida PRIME™ offers the best value for governmental investors, with total fees that are a fraction of the cost of other investment options. The all-in fees of Florida PRIME™ are approximately one-fourth (1/4) those of its closest competitor, are by far the lowest of any similar government investment pool (“GIP”) in the State of Florida, and are lower than most other GIPs nationwide and other institutional money market products. All investors are charged a uniform rate to participate in Florida PRIME™. As of June 30, 2014, the fee charged to Florida PRIME™ investors was 2.99 basis points (or 0.0299%) of account value. This charge covers the cost of investment management, record keeping, legal compliance, maintenance of a fund rating, and fiduciary oversight of the investment pool.

According to the most recent iMoneyNet™ report on GIPs, the average total cost for all types of money market funds was 14.39 basis points. The average fee for GIPs classified as money market funds was 7.59 basis points. These fee levels, approaching three to six times the cost of Florida PRIME™, are roughly commensurate with other statewide GIPs available to local governments in Florida, which range from 11 to 22 basis points, depending on the specific level of temporary fee waiver in effect.

According to iMoneyNet™ data, the average fee level for all taxable and tax-free, registered money market funds, excluding government-sponsored investment pools, stands at 11 basis points. The average expense ratio among all “prime” institutional money market funds equaled 11 basis points (actual charges) and 61 basis points (fees incurred but not charged), indicating a high proportional amount of fund expenses being temporarily waived.

## Fund B

The primary objective of the Fund B Surplus Funds Trust Fund (Fund B) is to maximize the present value of distributions from the Fund. Since the inception of Fund B on December 7, 2007, all the investments have undergone some level of restructuring and have been converted to distinct legal entities under SBA control. The securities remaining in Fund B are legacy items from four issuers whose financial circumstances gave rise to the November 2007 run on the Local Government Investment Pool. Through June 2014, investors cumulatively received distributions from Fund B totaling \$1.98 billion or approximately 98.5% of their original balances.

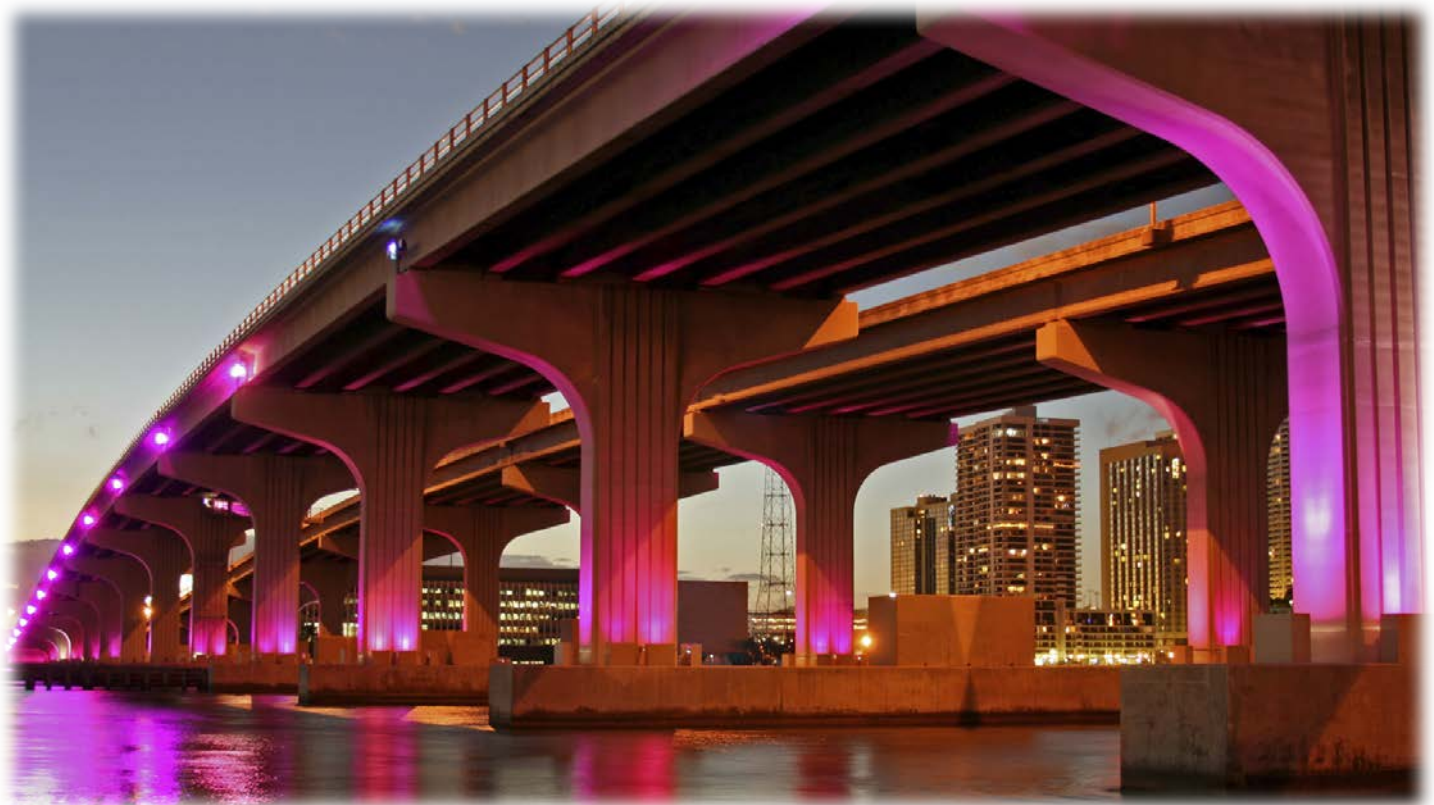
TABLE 25:

### Fund B Surplus Funds Trust Fund Returns for Periods Ending June 30, 2014

	Actual Return
One Year	10.18%
Three Years	16.09%
Since Inception	8.6%

- All returns are annualized for periods indicated through June 30, 2014.
- 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 was December 2007.

Source: SBA



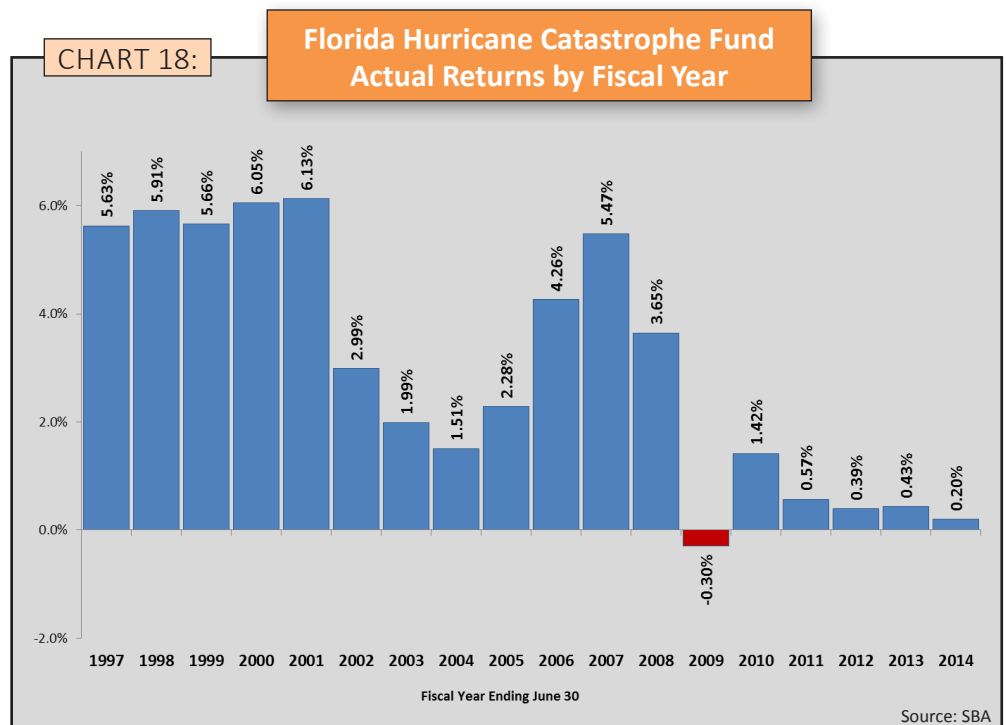
The General Douglas MacArthur Causeway is a six-lane causeway which connects Downtown Miami and South Beach, Miami Beach via Biscayne Bay.

# Florida Hurricane Catastrophe Fund/ State Board of Administration Finance Corporation

The Florida Hurricane Catastrophe Fund (FHCF) was created in 1993 in response to Florida’s property insurance crisis resulting from Hurricane Andrew. The purpose of this state tax-exempt trust fund is to encourage additional insurance capacity in the state by providing a stable and ongoing source of reimbursement to insurers for a portion of their catastrophic hurricane losses. The FHCF is financed by reimbursement premiums charged to participating insurers, investment earnings, and emergency assessments on most property and casualty insurers.

## Performance

The SBA acts as investment manager for the FHCF. Reimbursing insurers fully for their covered losses and in a timely manner is the primary mission of the Fund. Therefore, the investment objective for the Fund is defined by the following prioritized goals: (i) liquidity; (ii) safety of principal; and (iii) competitive returns. The investment returns of the portfolio are consistent with the mission of the Fund. Earnings for the most recent period continue to be modest by historical standards, due to the Fund’s conservative investment policy and the low interest rate environment during the year.



**TABLE 26:** Florida Hurricane Catastrophe Fund Returns for Periods Ending June 30, 2014

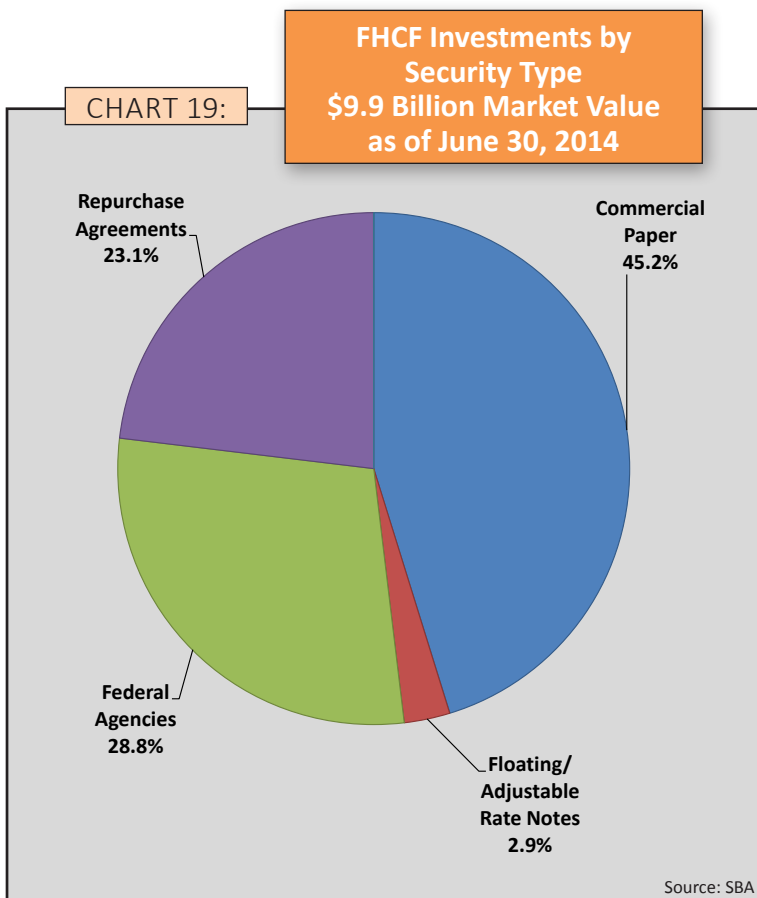
	Actual Return	Benchmark Return	Actual Over (Under) Bmk.
One Year	0.20%	0.04%	0.16%
Three Years	0.34%	0.06%	0.28%
Five Years	0.60%	0.11%	0.49%
Ten Years	1.82%	1.73%	0.09%
Fifteen Years	2.45%	2.16%	0.28%

- All returns are annualized for periods indicated through June 30, 2014.
- Benchmark is a blend of 50% of the average three-month Treasury Bill rate and 50% of the iMoneyNet First Tier Institutional Money Market Fund Net Index.
- Inception of the Fund was July 1996.

Source: SBA

## Portfolio

Cash flow needs for the FHCF after a hurricane are difficult to project, but it is prudent to assume that significant amounts of cash could be needed to pay covered losses quickly if there is a large event. Since paying such losses fully and in a timely manner is the primary mission of the FHCF, liquidity and principal stability in the portfolio must be paramount. The SBA invests in short-term, high quality, and highly liquid fixed income securities such as certificates of deposit, commercial paper, U.S. government agency notes, and U.S. Treasury bills.

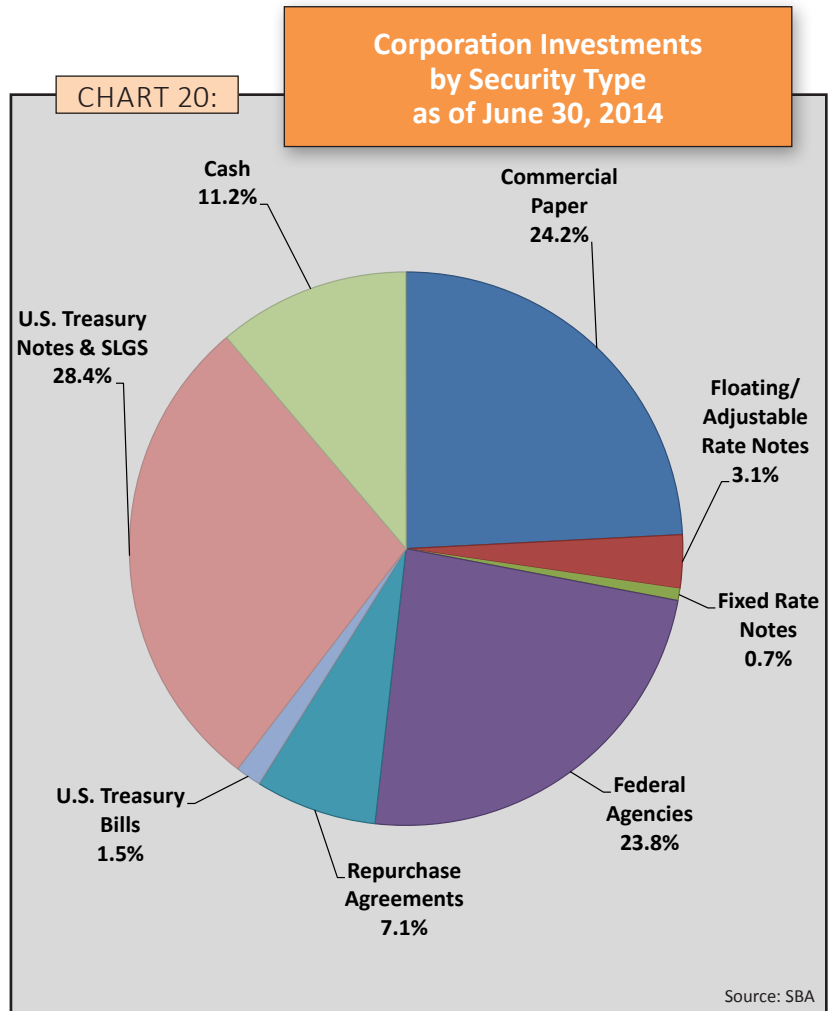


The Bob Graham Sunshine Skyway Bridge is a bridge spanning Tampa Bay, Florida, with a cable-stayed main span, and a total length of 21,877 feet. It is part of I-275 (SR 93) and US 19 (SR 55), connecting St. Petersburg in Pinellas County and Terra Ceia in Manatee County, Florida. In 2005, an act of the Florida Legislature officially named the current bridge the Bob Graham Sunshine Skyway Bridge, after the Governor of Florida and then U.S. Senator who presided over its design and most of its construction.

## State Board of Administration Finance Corporation

The State Board of Administration Finance Corporation (Corporation) 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 Florida Hurricane Catastrophe Fund (Fund).

During the fiscal year, the Fund made its final loss reimbursement payment to participating insurers for hurricane losses occurring in 2004 and 2005. In response to these hurricanes, the Corporation issued tax-exempt revenue bonds in the amount of \$1.35 billion in Fiscal Year 2006-07, \$625 million in Fiscal Year 2008-09, and \$676 million in Fiscal Year 2009-10. The funding source for the repayment of these bonds is a 1% emergency assessment on the direct written premium of most property and casualty lines of business in Florida. This assessment increased to 1.3% on January 1, 2011. The Office of Insurance Regulation issued Orders in July 2014 establishing that for all policies issued or renewed on or after January 1, 2015, the emergency assessment will be 0.0%. The Series 2006A Revenue Bonds matured on July 1, 2012, and the 2008A Bonds matured on July 1, 2014.



## Pre-Event Financing

In order to provide a source of additional funds to reimburse insurers for hurricane losses related to future covered events, the Corporation issued \$2.0 billion tax-exempt, pre-event Series 2013A revenue bonds in Fiscal Year 2012-13. The investment earnings on the bonds, as well as the Fund's reimbursement premiums, are the funding sources for the payment of interest.

The Corporation has the same investment objectives as the Fund, therefore, the investment returns and allocation of securities also reflect the short-term, high quality, and highly liquid nature of the portfolio.

**TABLE 27: State Board of Administration Finance Corporation Returns for Periods Ending June 30, 2014**

	Actual Return	Benchmark Return	Actual Over (Under) Bmk.
One Year	0.20%	0.04%	0.17%
Since Inception	0.18%	0.04%	0.14%

- All returns are annualized for periods indicated through June 30, 2014.
- Benchmark is a blend of 50% of the average three-month Treasury Bill rate and 50% of the iMoneyNet First Tier Institutional Money Market Fund Net Index.
- Inception of the fund was July 1996.

Source: SBA



The Palatka Memorial Bridge spans the St. Johns River and connects Palatka to East Palatka, Florida. The bridge is the only permanent vehicle crossing between Green Cove Springs and Astor.

# Lawton Chiles Endowment Fund

## Overview and Investment Objective

Created by the Florida Legislature in 1999, the purpose of the Lawton Chiles Endowment Fund (LCEF) 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.

## Capital Preservation Objective

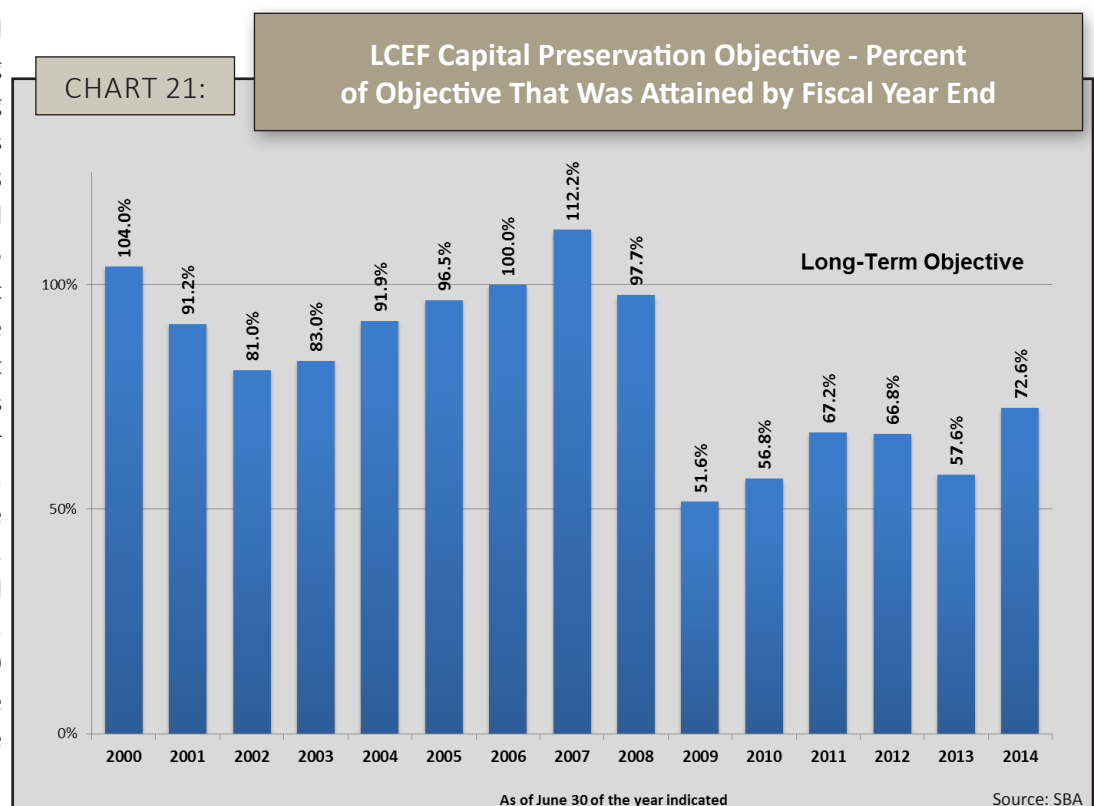
Florida law specifies that the LCEF shall be managed as a perpetuity, with an investment objective of long-term preservation of the real value of the principal. The law further requires a specified regular annual cash outflow for appropriation, as nonrecurring revenue.

Shortly after the LCEF was initially funded, the stock market experienced a severe downturn that eroded the value of the Fund 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 were not expected.

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

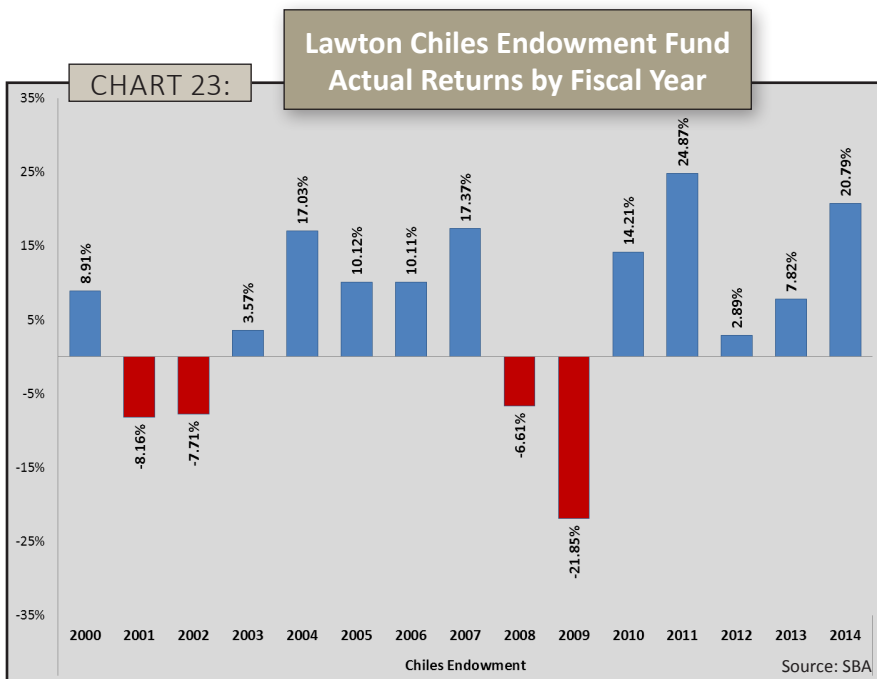
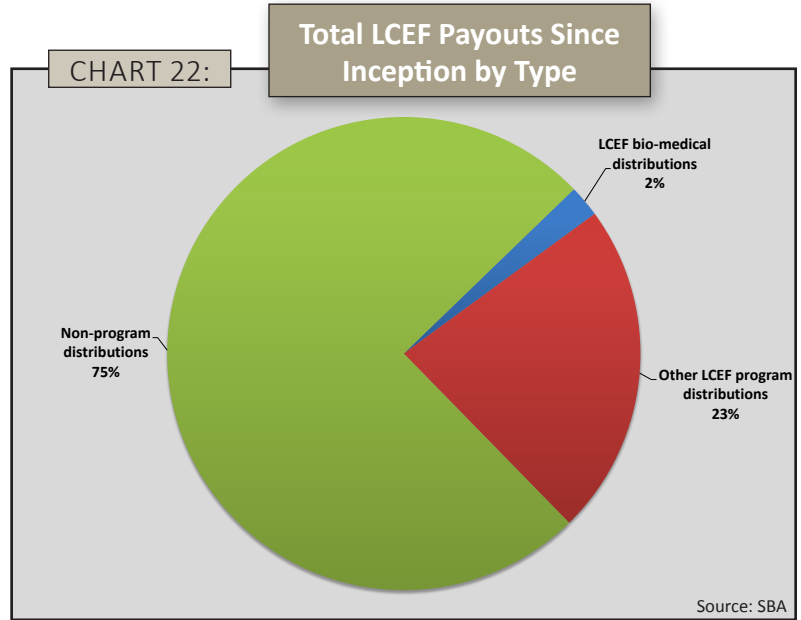
As illustrated in Chart 21, this structure proved quite beneficial. Following Fiscal Year 2001-02, the Fund was able to make steady progress toward attainment of the statutory investment objective, namely to provide a regular cash outflow for appropriation yet preserve the inflation-adjusted value of contributed capital. The goal was achieved in Fiscal Year 2005-06. Reflecting the robust markets of Fiscal Year 2006-07, the Fund closed that year with a 12.2% surplus position, and, after payouts, closed the following year very close to the objective.

However, the Fund experienced a second major challenge during Fiscal Year 2008-09. Facing substantial revenue shortfalls during the 2007 and 2008 sessions, the Legislature directed liquidation of a total of \$1.05 billion in Fund assets to support general appropriations. The general economic distress that had slowed revenue collections was accompanied by a major downturn in the financial markets. Because asset prices were depressed during this period, the withdrawal represented about 65% of the Fund's assets. As a result, Fiscal Year 2008-09 closed with the Fund's net value amounting to just 51.6% of the preservation objective.





Since then, a recovery in the markets, diminished payouts and a statutory alteration to the real preservation target have led to a modest recovery. By the end of Fiscal Year 2013-14, the Fund's net asset value had risen to 72.6% of the objective amount. As of June 30, 2014, the inflation-adjusted value of cumulative net contributions to the LCEF was approximately \$591 million (in 1999 dollars).



## Performance

Chart 23 illustrates actual returns for the LCEF for each year since its inception. Negative returns over two years early in the millennium and two years more recently are reflections, respectively, of the bursting of the tech bubble and the more recent financial crisis.

In addition to the statutory investment objective for the Endowment Fund, the SBA measures performance relative to market-based benchmarks. Table 28 compares actual returns to the benchmark return for various periods ending June 30, 2014.

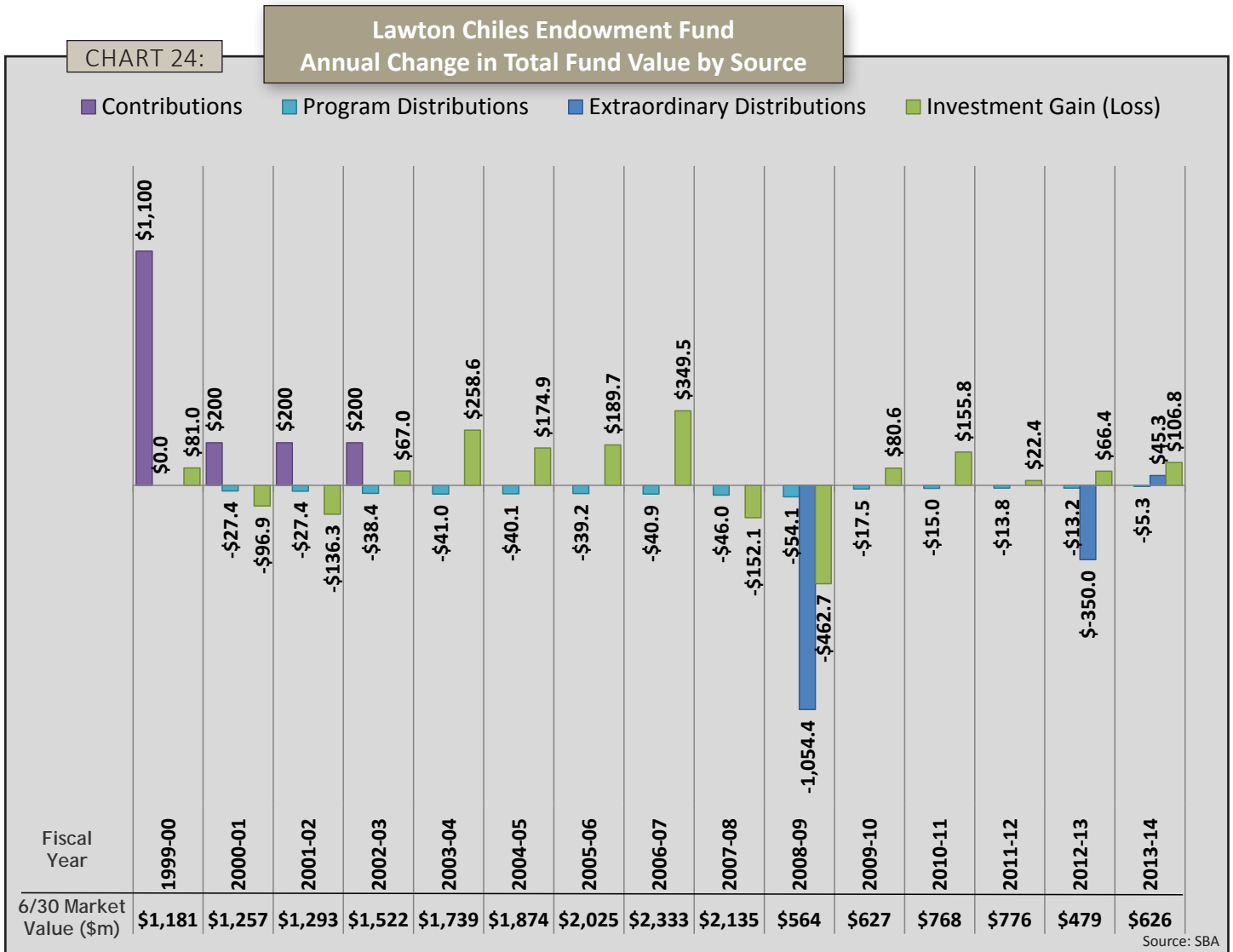
**TABLE 28: Lawton Chiles Endowment Fund Returns for Periods Ending June 30, 2014**

	Actual Return	Benchmark Return	Actual Over (Under) Bmk.
One Year	20.79%	18.42%	2.37%
Three Years	10.25%	9.01%	1.25%
Five Years	13.83%	12.76%	1.07%
Ten Years	7.10%	6.38%	0.72%
Since Inception	5.46%	4.93%	0.53%

- All returns are annualized for periods indicated through June 30, 2014.
- 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.
- Inception of the Fund was July 1999.

Source: SBA

Chart 24 illustrates the components of year-to-year change in the endowment’s net asset value. The Fund received external infusions of capital (i.e., contributions) only in the first four years of its existence (purple bars). Since then, the only support for annual payouts (light blue bars) has been earnings on those initial investments (green bars). The Fund’s assets were substantially reduced by the extraordinary payouts that occurred in FY 2008-09 and FY 2012-13 (dark blue bars).



## Cost

Table 29 presents the external investment management fees paid by the Fund.

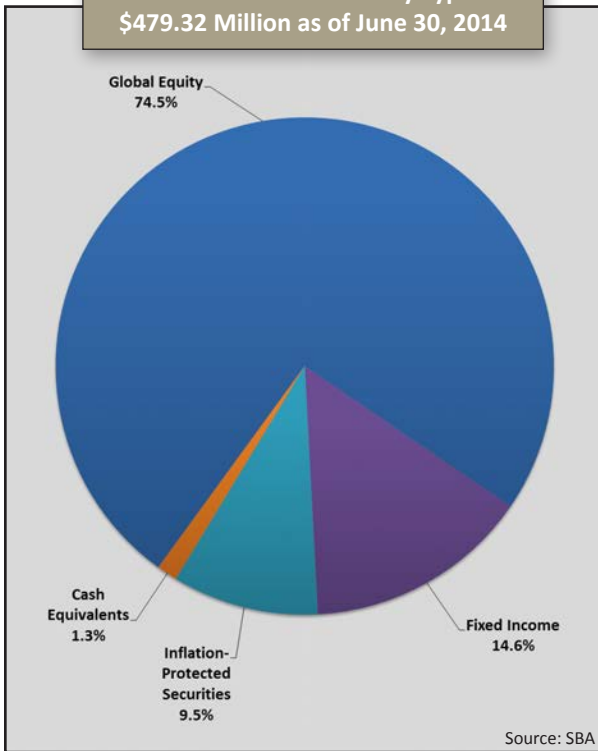
**TABLE 29: External Investment Management Fees Fiscal Year 2013-14**

Asset Class	Dollar Amount
Foreign Equities	\$ 437,650
Fixed Income	21,596
Inflation-Indexed	14,200
<b>Total</b>	<b>\$ 473,446</b>

Source: SBA

CHART 25:

**Lawton Chiles Assets by Type  
\$479.32 Million as of June 30, 2014**



Over its life, the only non-transitional change to the Endowment Fund's asset allocation was the elimination of exposure to Real Estate Investment Trust securities (REITs) at the beginning of Fiscal Year 2009-10. This was part of a general streamlining of the Fund's investment structure, as its net asset base shrank from \$2.13 billion on June 30, 2008 to \$0.56 billion a year later.

## Asset Allocation

The principal performance measure of a fund's asset allocation is a weighted composite of the benchmark returns of each of its asset classes, where the weights are the policy allocations for each class. Chart 24 shows the actual asset allocation for the LCEF as of June 30, 2014. Table 30 compares what would have been earned had actual exposures adhered strictly to the target weights and had the Fund earned only the benchmark return for each asset class, and the deviation from the policy weights that occurred in practice added to or detracted from the policy return of the Fund.

TABLE 30:

**LCEF Returns to Asset Allocation  
Periods Ending June 30, 2014**

	Policy Return	Implementation Return
One Year	18.71%	18.42%
Three Years	8.95%	9.01%
Five Years	12.74%	12.76%
Ten Years	6.58%	6.38%
Since Inception	5.17%	4.93%

Source: SBA

## Asset Classes

As of June 30, 2014, assets of the Lawton Chiles Endowment Fund are currently divided into four classes: Global Equity, Fixed Income, Inflation-Protected Securities and Cash Equivalents. Table 31 presents returns by asset class over various periods ending June 30, 2014.

TABLE 31:

**Lawton Chiles Endowment Fund Actual Returns  
by Asset Class for Periods Ending June 30, 2014**

	Actual Return	Benchmark Return	Actual Over (Under) Bmk.
<b>Global Equity</b>			
One Year	27.51%	24.54%	2.96%
Three Years	15.41%	13.53%	1.87%
Five Years	18.77%	17.26%	1.50%
Ten Years	8.43%	7.83%	0.60%
<b>Fixed Income</b>			
One Year	4.21%	4.37%	(0.16%)
Three Years	3.78%	3.66%	0.12%
Five Years	5.10%	4.85%	0.25%
Ten Years	5.00%	4.93%	0.07%
<b>TIPS</b>			
One Year	4.35%	4.44%	(0.09%)
Three Years	3.63%	3.55%	0.08%
Five Years	5.72%	5.55%	0.17%
Ten Years	5.62%	5.25%	0.37%
<b>Cash Equivalents</b>			
One Year	0.20%	0.05%	0.15%
Three Years	0.47%	0.08%	0.39%
Five Years	1.15%	0.19%	0.97%
Ten Years	2.14%	1.76%	0.39%

Source: SBA

## Portfolios by Asset Class

Table 32 shows the beginning and ending market values for each asset class and individual Endowment Fund portfolios, together with net contributions and withdrawals, and investment gain or loss.

**Lawton Chiles Endowment Fund Assets Under Management Market Value Change by Asset Class and Portfolio, Fiscal Year June 30, 2014**

TABLE 32:

	Market Value 6/30/2013	Net Contributions (Withdrawals)	Investment Gain (Loss)	Market Value 6/30/2014
<u>Global Equities Portfolios</u>				
Russell 3000 ex Tobacco Fund (Chiles Domestic Equity Portfolio)	26,879	(77,299)	52,451	2,031
Transition Account (Chiles Domestic Equity Trading)	107,275	0	4,168	111,444
Acadian (Chiles Foreign Equity)	348,679,494	17,154,739	100,655,622	466,489,855
<u>Fixed Income Portfolios</u>				
Chiles Barclays Aggregate	74,534,079	13,550,000	3,615,229	91,699,308
Chiles Fixed Income Cash Expense <sup>1</sup>	0	664	(664)	0
<u>Inflation-Indexed Bond Portfolios</u>				
Chiles TIPS- Chiles Inflation Linked Treasury	47,583,530	(46,749,114)	(603,742)	230,675
BlackRock TIPS Passive	0	56,129,114	3,073,726	59,202,840
Chiles TIPS Cash Expense <sup>1</sup>	0	669	(669)	0
<u>Cash/Short-Term Portfolios</u>				
Chiles Cash	8,389,389	(53,334)	26,420	8,362,475
Chiles Cash Expense	0	548	(548)	0
Chiles Securities Lending	(565)	0	6,177	5,612
Chiles Total Fund Expense <sup>1</sup>	0	44,014	(44,014)	0
<b>Total Lawton Chiles Endowment</b>	<b>\$ 479,320,081</b>	<b>\$ 40,000,000</b>	<b>\$ 106,784,158</b>	<b>\$ 626,104,239</b>

<sup>1</sup> Account was opened during the fiscal year.

• Totals may not foot due to rounding.

Source: SBA



The St. Elmo W. Acosta Bridge spans the St. Johns River in Jacksonville, Florida on a fixed span. It was named for City Councilman St. Elmo W. Acosta, who convinced voters to approve a \$950,000 bond issue for the original bridge.

# Other Funds Under Management

In addition to the major mandates and investment pools discussed earlier in this report, the SBA either managed or facilitated the management of assets for several other clients, within four broad categories. The clients and nature of the SBA's responsibilities are enumerated below. Assets may be held in one or more of the SBA's investment pools as well as in separately managed portfolios. Return data is not calculated individually for these clients either because the client's assets are managed in a pooled investment product, or because returns are not indicative of the SBA's effectiveness in managing the assets.

## Portfolios Managed Under Fiduciary Discretion

- Retiree Health Insurance Subsidy Trust Fund

The SBA develops and maintains an investment policy for this Fund, setting forth an investment benchmark, a portfolio style, a risk profile, holding limitations, authorized securities, an investment objective and so forth. The SBA exercises its discretion as an investment fiduciary, cognizant of the risk tolerance of the Fund, in a manner similar to its services for major mandate clients.

## Portfolios with Dedicated Bond Strategies

- Burnham Institute for Medical Research Fund
- Department of the Lottery Fund
- Charles Stark Draper Laboratory
- Max Planck
- Oregon Health & Science University
- SRI International Fund
- Torrey Pines Institute for Molecular Studies Fund
- University of Miami

Typically, for clients within this category, pursuant to a trust agreement containing investment policy guidelines, the SBA manages a portfolio of laddered fixed income and/or short-term instruments whose maturities are matched to a Principal Disbursement Schedule supplied by the client. For select clients, the SBA utilizes Florida PRIME™ for short-term cash allocations. For all of these clients, the SBA seeks to provide safety of principal and a competitive return within the confines of the payout amounts and dates specified by the client.

For each Lottery winner who chooses annuity payments rather than a lump sum payout, the SBA purchases Treasury STRIPS for the term prescribed with the net winnings allocated.

## Program Directed Assets – Specific Terms

- Bond Proceeds Trust Fund
- Debt Service
- Gas Tax Clearing Fund

These portfolios contain assets of state government programs temporarily available for investment. The programs are housed within or closely affiliated with the SBA. Pursuant to specific Investment Portfolio Guidelines, transactions are executed by the SBA's investment staff upon instruction from the program specifying the terms of the investment.

## Client Directed Assets – Investment Products

- Florida Division of Blind Services
- Florida Prepaid College Plan
- Florida Prepaid Investment Plan
- McKnight Doctoral Fellowship Program

For these clients, the SBA has secured certain products of external investment managers deemed cost-effective and suitable to the needs of the client. The clients determine whether and when to invest or withdraw their assets from these investment products.



The Sebastian Inlet Bridge is a high concrete arch bridge. It spans the Indian River outlet which is also referred to as the Sebastian Inlet. It connects State Road A1A in Indian River County, Florida, to State Road A1A in Brevard County, Florida. The Florida Legislature dedicated the bridge to Robert W. Graves in 1965. In 2004 it was dedicated to James H. Pruitt.

For additional resources and information on the  
State Board of Administration of Florida, please visit:  
[www.sbafla.com](http://www.sbafla.com)

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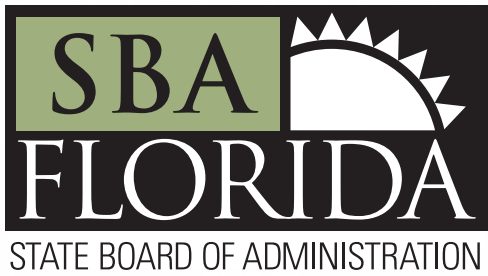
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