

# Overview of the State Board of Administration of Florida



The State Board of Administration (SBA) is created by the Florida Constitution and is governed by a three-member Board of Trustees (Trustees), comprised of senior elected officials, the Governor as Chair, the Chief Financial Officer, and the Attorney General. The Trustees, by law, have ultimate oversight. They delegate authority to the Executive Director & Chief Investment Officer by administrative rule to provide the strategic direction and execution of the day-to-day operations. The Executive Director & CIO manages more than 200 professional investment and administrative support staff.

The SBA is an apolitical organization with a professional investment management staff and a strong record of delivering positive risk-adjusted returns on investments. The SBA is required to invest assets and discharge its duties in accordance with Florida law and in compliance with fiduciary standards of care. Under state law, the SBA and its staff are obliged to:

- Make sound investment management decisions that are solely in the interest of beneficiaries and investment clients.
- Make investment decisions from the perspective of subject-matter experts acting under the highest standards of professionalism and care, not merely as well-intentioned persons acting in good faith.

As a fiduciary, the SBA manages assets and provides administrative services that maximize the return on investments while prudently managing risk, controlling costs and providing appropriate diversification. SBA's financial performance is numerically measured and statistically evaluated against accepted industry benchmarks, making it easy to assess success and maintain accountability.

The SBA combines the best private sector and government oversight structures including external advisory bodies, an independent audit committee, an internal chief risk and compliance officer, internal audit capability, and an inspector general.

## Councils, Advisory Boards, and Commissions

The Trustees appoint volunteers to several statutory oversight entities who have specific knowledge and expertise relevant to SBA duties.

**Investment Advisory Council (IAC)** - The IAC provides independent policy oversight of SBA's funds and major investment responsibilities, meets at least quarterly to discuss general policies, and the appropriateness of investment strategy and policy for achieving long-term objectives. The Board of Trustees appoints nine members to serve on the IAC. Members are appointed for four-year terms, subject to senate confirmation, pursuant to Section 215.444(2), Florida Statutes.

**Audit Committee (AC)** - The AC assists the Trustees in fulfilling their oversight responsibilities. Three members are appointed and serve four-year terms, and meet at least quarterly. The AC provides independent oversight in the areas of financial reporting, internal controls and risks assessment, audit processes, and compliance with laws, rules, and regulations.

**Florida Hurricane Catastrophe Fund Advisory Council** - The Council provides the Trustees with information and advice with its duties related to the Florida Hurricane Catastrophe Fund (FHCF). The Trustees appoint a nine-member advisory council that 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 is a panel of experts to provide actuarially sophisticated guidelines and standards for the projection of hurricane losses. The Commission consists of 12 appointed members.

## Additional Advisory Resources

In addition to the internal staff employed by the SBA and the oversight entities mentioned above, independent external investment, legal and other advisory consultants and auditors are utilized on both a retainer and special project basis.

**Investment Consultants** are fiduciaries (essentially the ERISA fiduciary standards of care) in fulfilling their contractually assigned duties. The SBA requires investment consultants to submit an annual independence and compliance disclosure certification.

**Performance and Cost Measurement** - The SBA maintains relationships with firms that provide independent measurement services to assist in evaluating the cost effectiveness of certain components of the SBA's investment programs.

**Special Projects** - On a regular basis, the SBA utilizes independent specialists and legal experts for special project work.

**External and Internal Auditors** - The Audit Committee, through the Chief Audit Executive who also heads the SBA's internal audit team and the Executive Director & CIO, engages and oversees audit activity. The law requires the SBA to obtain annual commercial audits of the FRS Pension Plan and the FRS Investment Plan financial statements. The Audit Committee appoints a pool of auditors to be used for special project audits. The SBA also is covered by Florida's Auditor General and the Office of Program Policy Analysis and Government Accountability.

## **Budget**

The SBA manages its budget conservatively while recognizing that the agency needs sufficient resources to be successful. By virtue of the size of its operations, the SBA has the potential to capture significant scale economies and aggressively seeks to do so. The management fee charged is 2.25 basis points on most funds under management for administrative overhead, which equates to less than 3/100 of one percent. Florida PRIME charges 1 basis point. The budget is set annually by the Trustees, SBA's all-in cost are consistently among the lowest of our peers.

The SBA provides a variety of investment services to state and local government entities in Florida and has a history of generating excellent returns relative to risk.

The SBA manages over 30 funds with an AUM of \$201,149,168,148 as of June 30, 2018, some established as direct requirements of Florida Law and others developed as client-initiated trust agreements. The primary funds managed by the SBA are:

- Florida Retirement System Pension Plan, accounting for approximately 80 percent of all assets under management, with an AUM of \$160,439,358,858.
- Florida Retirement System Investment Plan, one of the nation's largest defined contribution plans, with an AUM of \$10,830,238,256.
- Florida PRIME provides eligible participants a safe, liquid, cost effective investment vehicle for their surplus funds, with an AUM of \$10,512,868,079.
- Florida Hurricane Catastrophe Fund, with an AUM of \$14,462,339,318, and the associated State Board of Administration Finance Corporation with and AUM of \$2,784,793,984.
- Lawton Chiles Endowment Fund, with an AUM of \$763,131,860.

Additionally, the SBA has important responsibilities that do not directly involve pension asset management. These roles include:

- Providing personalized retirement planning and financial counseling support to members of the Florida Retirement System through the MyFRS Financial Guidance Program.
- Administering the Florida Hurricane Catastrophe Fund and its associated programs.
- Serving as an investment consultant to retirement programs administered by other state agencies, including the State of Florida Deferred Compensation Program and the State University System Optional Retirement Program.
- Managing the corporate affairs of the Inland Protection Financing Corp., a public-private entity created to raise funds to pay reimbursement claims for pollution cleanup.
- Managing the corporate affairs of the Florida Water Pollution Control Financing Corp., which is the state's revolving fund set up to finance clean water initiatives for local government water and wastewater systems.
- Administering debt service funds for bonds issued according to the State Bond Act, which allows the Division of Bond Finance to issue tax exempt bonds to provide capital financing for state and selected government agencies.
- Independently assess and opine on the adequacy of revenue and cash flows to cover principle and interest on Florida sovereign and agency debt.

The SBA also serves as escrow agent for state bonds.

- Providing administrative support for the Division of Bond Finance and the Florida Prepaid College Program