**Minutes**

**Treasury Investment Council Meeting**

**May 12, 2022 / 1:33 p.m.**

**Attendees**:

***Members Present:*** Katy Wojciechowski, State Board of Administration (*Chair*)

(*via GoToMeeting/* George Barbar, Mesirow Financial

*conference call*) Bob Doyle, Doyle Wealth Management, Inc

Ray Graziotto, Seven Kings Management, Inc.

***Absent:*** Eric Levin, SEAMLEV Investments

Bill Gilbert, Portfolio Manager

***Treasury Staff:*** Tanner Collins, Director of the Treasury

Pedro Morgado, Chief Investment Officer

Jennifer Pelham, Bureau Chief of Funds Management

Jamie Evans, Procurement Administrator

***Treasury Staff:*** Sarah Dugan, Bureau Chief of Collateral Management

(*via GoToMeeting/* David Wofford, Portfolio Manager

*conference call*) Andrew Davis, Financial Specialist

Jackson Vescelus, Financial Examiner/Analyst II

***Guest***: Scott Fennell, Deputy CFO

**Opening** **Remarks**

Kathy Wojciechowski called the meeting to order at 1:33 P.M.

**Approval of minutes**

The December 9, 2021 meeting minutes were presented for approval.

***A motion was made to approve the meeting minutes; there were no changes and it passed unanimously*.**

**Florida Economy in the pandemic, Pool Growth and Federal Money Received** (*see attached presentation*)

Tanner Collins presented an overview of the Florida economy: The unemployment numbers in Florida were up because of the pandemic, reaching a level of 14.2% in May 2020, higher than during the Great Recession of 2008 (10.9% peak). Some of these numbers were higher because of the types of workers that Florida has namely substantial number of retail and restaurant workers. Unemployment in Florida was down to 5.6% in December versus 4.5% for the US average. The labor participation rate has increased from 55.5% in 2020 to a current rate of 59.4%.

Tanner then stated how the big driver of economic data for Florida has been population growth, which has continued to stay strong even during the Pandemic. Between April 2018 and 2019 population grew by 334,904 residents (1.61%), while between April 2019 and 2020 the State added 348,338 residents (1.64% growth). Tanner mentioned that future growth out to 2025 is expected to slow down to about 1.4%.

The Treasury pool grew in leaps and bounds because the State stayed open during the Pandemic and because of the Federal stimulus money that was received. Total Federal money received was around $11 billion, with half received in May 2020 and the other half received in May 2021. Federal moneys received coupled with growth in State receipts caused the pool to grow from $24 billion in 2020 to $51.3 billion as of the end of April 2022. From July 2021 to March 2022 the State is $11.6 billion in positive Net receipts. Tanner mentioned that every month on tax receipts days, the State is averaging between 3 and 4 billion dollars in receipts, a significant increase from the-pre pandemic era.

**Team Update and Current Initiatives in Treasury** (*see attached presentation*)

Tanner Collins introduced the new Investment team members Jackson Vescelus and Andrew Davis who joined the team in February and March, respectively. There were still two positions that were open, the Administrator of External Managers and the Compliance Officer position as well as a new position for credit analyst that was being created for the Treasury team.

Tanner provided an update on the Florida PALM implementation: Florida PALM will be used for general State accounting while for the highly complex and specialized investment accounting solution we will be looking for an alternative Investment accounting provider.

Pedro Morgado gave an update on the initiative to add two new Intermediate Duration Managers:

* Currently evaluating top firms RFPs
* Followed by formal in-person presentations and selection of the two winning Firms
* Due diligence to be conducted by Treasury / Verus and
* Contract signing and funding of the new Managers.

Pedro next discussed the steps being taken to add Asset Backed Securities (ABS) exposure to our internally managed portfolios:

* Decision was made to create a separately managed account(s) to invest in this space
* Ultra-Short and Short Duration will own totality of this account
* Currently having conversations with BNY Mellon, Bloomberg AIM and Accounting area to see the most efficient way to create and operationalize this new SMA account(s)

Finally, Pedro mentioned three things that have been implemented to minimize trading costs in internal accounts:

* Adding a new Treasury platform (MarketAxess Rates)
* Maximizing open trading
* Increased use of internal swing trades

**Treasury Yield Curve changes and Fixed Income Markets -YTD** (*see attached presentation*)

Pedro Morgado went over the recent behavior of the treasury yield curve, Fed policy and the significant rise in interest rates due to much higher inflation numbers. Pedro then explained how negative returns are on the way and how the raising rate environment will affect the pool and each particular sector of the fixed income market.

**Investment Strategy Adopted** (*see attached presentation*)

Pedro Morgado explains what the thoughts are and how the pool will be affected, with some changes to the investment strategies that the Investment workgroup adopted and how to take advantage of the market that we are currently in.

Maintained significant amounts of cash while waiting for stability in markets:

% of Pool in Liquidity and Ultra Short Duration accounts:

* Pre-COVID: 35% – 40% / End of April 2022: 55%

Increased CP limits for Liquidity account:

* Overall limit increased from $750 million to $1.2 billion
* Single issuer exposure increased by $100 million (AA) and $50 million (A)

Taking advantage of the very steep yield curve in the 0 to 2-year area:

* Moving $7 billion from Liquidity to Ultra Short Duration account
* Implementing a barbell structure to invest surplus moneys within the Liquidity account

Reduced exposure to the longer duration accounts.

**Investment Pool Allocation, Returns, Reallocations and Performance** (*see attached presentation*)

Pedro Morgado talked about how the pool has substantially increased its allocation to the front end to protect against rising rate environment. Long Duration portfolio, which of course is the most sensitive to rising interest rates, represented just 24.1% of the pool at the end of April versus an average of 35% pre-pandemic period. This is probably the lowest percentage we would like to have since this is portfolio with the highest earnings potential in the long-run. With 55% in Liquidity and Ultra Short accounts, the pool has a substantial amount of “dry powder” to be able to deploy at a later time into higher yielding higher return portfolios. The $5 billion additional moneys to be received (second part of the American rescue plan) will be used to fund the two new Intermediate Duration Managers (at least $2 billion) but also to make sure that allocation to the Intermediate and Long Duration portfolios do not drop from the current low levels. Pedro summarized all the reallocation decisions taken since early 2021.

Returns were painful to look at with almost double digits negative returns year to date. However, relative to benchmarks, all portfolios and the pool are outperforming. Adding to the difficult environment is the restriction we put on managers not to exceed 75% of the income in losses. This limits the ability to swap into higher yielding positions and limits future returns. As the pool generates higher earnings or income in the short duration portfolios, we are considering allowing Managers to go over that 75% limit in their ability to realize losses. The 1, 3 and 5 year returns were shown in the slides as well as the positive income that was still being distributed to all participants. Earned income is starting to grow, which is allowing the realized losses to increase without being felt by participants and keeping positive returns for the pool. The performance of the External program was then discussed where, despite some short-term weakness, all managers maintain their outperformance in every period 2 years or longer.   
  
**BBB Exposure, Basket Clause and Pool Rating** (*see attached presentation*)

Changes in the CIP allowed BBB exposure to increase. However, despite an increase of almost $1.2 billion in BBB exposure, due to pool growth, this still represented just 5.4% of the pool (same % as in March of 2021). The recent change by the SEC to the Accredited Investor designation has allowed Treasury to invest in 144a securities. Managers have taken advantage of this and increased exposure to $1.4 billion at the end of March 2022. The Basket Clause was discussed and showing a decline and still is a small part of the pool, way under the allowable amount and very safe for the pool (0.08% at the end of March versus a maximum allowed of 3.0%)

Pool rating stayed at AA-f which is actually lower than could be rated, but the Investment workgroup likes to stay conservative with it and continued to ask to stay at that rating per Standard and Poor’s. Despite the increase in BBB securities, adding 144a securities and extending a little the duration on the external side, the credit score (53.74) is still solidly in the AA category. In summary, the Pool has plenty of liquidity, and is very conservatively allocated. We keep trying to increase yield safely while waiting for a little more clarity on Fed policy and inflation, to be more aggressive in reallocating assets to the longer duration portfolios.

**Summary/ Questions / Next Meeting**

Next meeting will be announced for some time in November, 2022.

*Meeting was adjourned at 2:59 P.M.*