**Minutes**

**Treasury Investment Council Meeting**

**December 9, 2021 - 9:35 a.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

PJ Gardner, AGW Capital Advisors

***Absent:*** Ray Graziotto, Seven Kings Management, Inc.

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

Pedro Morgado, Chief Investment Officer

Jennifer Pelham, Bureau Chief of Funds Management

Sarah Dugan, Bureau Chief of Collateral Management

Bill Gilbert, Portfolio Manager

Jaedin Renfroe, Financial Specialist

David Wofford, Portfolio Manager

***Treasury Staff:*** Jamie Evan, Procurement Administrator

(*via GoToMeeting/* Nadia Crum, Financial Specialist

*conference call*)

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

(*via GoToMeeting*

*Conference call*)

**Opening** **Remarks**

Kathy Wojciechowski called the meeting to order at 1:34 P.M.

**Approval of minutes**

The May 19, 2021 meeting minutes were presented for approval.

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

**Investments Team Update** (*see attached presentation*)

Tanner Collins and Pedro Morgado, presented information regarding the update to the Investment team.

* + David Wofford joined investments team as a Portfolio Manager.
  + Currently looking to add:

Senior PM

Jr. PM

Administrator of the External Managers Program

* + - * Strategies to help navigate these challenging times:

Increased use of technology

Cross-training and team approach

Expand Investment Consultant (Verus) role

**Update on systems implementation**

Tanner Collins discussed the latest developments with Florida PALM and the new Investment accounting system as well as with other technology solutions recently implemented in the Investments area (Bloomberg AIM Order Management Systems).

**Treasury Investment Pool Overview** (*see attached presentation*)

Tanner Collins presented an overview of the Treasury Investment Pool including the recent growth in pool size as well as a summary of the Federal moneys received:

CARES ACT Money / $5.9 billion / April 2020

CARE ACT - Rent Assistance Program / $871 million / January 2021

American Rescue Plan / $4.8 billion / May 2021

Total: **$11.6 billion**

**Future Inflows:** approx. $5 billion in April 2022 (part II of ARP money)

Pedro Morgado presented a summary of the reallocation decisions taken during the year of 2021. The pool has seen tremendous growth, $18 billion versus what it was pre pre-pandemic. We waited a little bit to see how the Florida's economy was going to react, how the state monies, receipts and disbursements we're going to behave and how quickly we would spend those federal monies. As we got comfortable with the balances and we keep seeing liquidity growing, earlier in the year starting February, we started moving some of the monies. So, from liquidity into the higher yielding higher return portfolio, we did it gradually and moved around 11.8 billion (see attached presentation).

Pedro Morgado presented the current Investment Pool allocation comparing it to the pre-Covid period. Even after the $11.8 billion that were reallocated out of Liquidity into higher yielding portfolios, the Pool still has ample Liquidity with almost 25% in the Liquidity account and 20% in the Ultra Short Duration account. At 30% of the Pool, the Long Duration portfolio is below historical average due to the need to protect the pool against expected higher interest rates.

**CIP Review – Most Significant Changes** (*see attached presentation*)

Pedro Morgado presented the recent changes to the Comprehensive Investment Policy. The overall intent of the changes was to increase the earnings potential of the Pool without significantly increasing its risks:

* + New higher limits on BBB exposure. Changes implemented in June / July and since then exposure has increased by $1 billion but continues to represent just around 5.5% of total Pool.
  + As a result of the recent SEC update to the Accredited Investor definition, we are not able to invest in 144a securities. This change was implemented in May and Managers immediately started taking advantage of the higher yield offered by these securities versus registered bonds. A the end of October, the Pool had $833 million (1.9% of the Pool) in 144a securities, the vast majority corporate bonds.
  + Removed CP maturity limits (7 days) for the Ultra-Short Portfolio. With short-term rates close to zero, CP is sometimes the best and only way to invest in corporate debt in large size.
  + Increased sector allocation limits in the Intermediate Duration portfolio. This is an intermediate step to allow this portfolio (just like the Long Duration) to be managed without sector limits. The goal is to control risks via the use of benchmark as well as through an active risk budget (tracking error).

**Pool Key Characteristics (and risks)** (*see attached presentation*)

Pedro Morgado gave an overview of the Investment Pool characteristics and risks. The overall message was that even after the recently implemented changes in investment policy and the re-allocation of assets to the higher yielding /higher risk portfolios, the Pool maintains a very conservative risk profile and allocation from both the perspective of ability to provide liquidity as well as reduced interest rate, credit and default risks:

**Total Pool Characteristics:** Over 76% of the Total Pool is invested in US Government securities which is the largest asset allocation. Corporate credit makes up 15% and no other asset sector is greater than 3%. Overall poll duration was 2.6 years and the pool yield has increased to 0.7%.

**Top 5 Non-US Govt Holdings at September 30, 2021:** The Pool is well diversified with the largest non-U.S. Government holding representing just 0.57% of the Pool (Bank of America).

**Basket Clause:** The basket clause continues to decline at $49.3 million in market value which is only 0.11% of the Total Pool

**Pool Rating:** The pool is easily under the AA-f rating from Standard & Poors.

**Pool Distributed Earnings and Performance** (*see attached presentation*)

Pedro reviewed the recent performance of the Pool both in terms of distributed earnings as well as its total return performance relative to benchmarks:

The long term key driver for long term returns and the ability to distribute earnings is the Investment Pool yield. Despite the recent increase in intermediate and long term rates, we continue have an environment where yield is scarce. Therefore, the distributed returns have declined: Treasury has distributed $121 in the first three months of the FY 2021/22 which represents an average rate of 0.99% (vs. 1.61% in the previous fiscal year).

**Investment Pool Q2 & Q3 2021 Total Returns vs. Benchmarks (excl. Time Deposits):** Total Pool outperformed its respective benchmark over the past six months led by strong relative performance by the Intermediate and Long Duration portfolios.

**Investment Pool Total Return (excl. Time Deposits):** Total Pool returns have outperformed the benchmark for 1, 3 and 5-year periods.

**Long Duration Portfolio Net of Fee Performance as of September 30, 2021:** Pedro presented the returns for the period ending September 30, 2021. All Managers but one continue to show good relative performance for all periods greater than six months while showing an expected recent (1 and 3 months) underperformance due to spread widening in spread sectors. Currently there are no Managers on watch.

**Intermediate Duration Portfolio Net of Fee Performance as of September 30, 2021:** Pedro repeated the exercise for the Intermediate Duration managers showing exactly the same results. Outperformance by all Manager for all periods greater than six months. No Managers on watch as well in this composite.

**Next Steps** (*see attached presentation*)

* + - * Continue to expand and maximize the use of the OMS system for Portfolio Management and Compliance functions
      * Fill the vacant positions and continue training and growing Treasury’s Investments team
      * Hire two more managers for the Intermediate Duration mandate
      * Analyzing options on how to best add exposure to Asset Backed Securities in our internally managed accounts
      * Re-allocate additional funds from Liquidity to the other higher yielding portfolios

**Summary/ Questions / Next Meeting**

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

*Meeting was adjourned at 2:42 P.M.*