

# Major SBA Fund Returns Generally Met or Exceeded Market-Based Investment Benchmarks

Report 23-03

February 2023



# OPPAGA

Office of Program Policy Analysis and Government Accountability

## Major SBA Funds Generally Met or Exceeded Market-Based Investment Benchmarks

### EXECUTIVE SUMMARY

In the two years since OPPAGA’s last review, State Board of Administration (SBA) investment returns for most major investment funds met or exceeded market-based investment benchmarks.<sup>1</sup> During this time, the SBA’s 5-year and 10-year returns for major investment funds also exceeded benchmarks.

Florida Retirement System (FRS) Pension Plan investment returns met or exceeded the board’s overall investment objective for four of the five periods OPPAGA examined during a 30-year span. In addition, the fund’s multi-year performances were similar to returns for other states with large pension funds. For example, as of June 30, 2021, the FRS Pension Plan had a 10-year return of 9.3%, while nine comparable state pension funds had 10-year returns ranging from 7.7% to 10%.

The SBA’s operating and investment management costs increased from Fiscal Year 2020-21 to Fiscal Year 2021-22. To reduce investment management costs, the SBA reports that it negotiated lower fees and various discounts. For example, the SBA renegotiated Global Equity investment manager fee schedules for an annual savings of \$1.8 million and negotiated lower fees for Strategic Investments, with discounts ranging from 25 to 50 basis points off the standard rate.

#### REPORT SCOPE

Section 215.44(6), *Florida Statutes*, directs OPPAGA to examine the State Board of Administration’s management of investments every two years. This review examines the board’s management costs and performance for major investment funds as of June 30, 2022.

<sup>1</sup> During Fiscal Years 2018 Through 2020, Major SBA Fund Returns Exceeded Market-Based Investment Benchmarks Over the Long Term, OPPAGA Report [21-03](#), February 2021.

# BACKGROUND

## Organization

The State Board of Administration (SBA) is a constitutional entity and acts as the state's principal independent investment organization. The SBA invests funds contributed by state agencies, state universities and colleges, and local governments.<sup>2</sup> The SBA is governed by a three-member Board of Trustees, including the Governor as Chair, the Chief Financial Officer, and the Attorney General. The trustees delegate authority to the SBA's executive director and chief investment officer to carry out the trustees' strategic direction in day-to-day agency operations.

To assist the trustees and staff with their responsibilities, the trustees appoint individuals who have specific knowledge and expertise to several councils, advisory boards, and commissions, including the Investment Advisory Council (IAC).<sup>3</sup> The IAC provides independent oversight of the SBA's general objectives, policies, and strategies, and members of the IAC are required to possess familiarity with portfolio management, institutional investments, and fiduciary responsibilities.

## Assets Under Management

As of June 30, 2022, the SBA managed 31 investment funds with a total market value of \$228.0 billion. (See Appendix A for a list of these SBA funds as of June 30, 2022.) The board had five major investment funds, which are defined as funds with assets greater than or equal to \$1 billion.

- Florida Retirement System (FRS) Pension Plan
- FRS Investment Plan
- Local Government Surplus Funds Trust Fund (Florida PRIME Fund)
- Florida Hurricane Catastrophe Fund
- Lawton Chiles Endowment Fund<sup>4</sup>

The SBA's largest fund is the Florida Retirement System (FRS) Pension Plan, which had net assets of \$180.0 billion and comprised 79% of the total assets managed by the board as of June 30, 2022.

The market value of the SBA's total assets under management decreased by \$22.5 billion from June 30, 2021, to June 30, 2022. The SBA's major investment funds lost \$21.8 billion in market value in a single year. (See Exhibit 1.) The majority of losses, \$19.6 billion, were in the FRS Pension Plan and were attributed to investment losses (\$12.0 billion) and withdrawals from the fund (\$7.6 billion).

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<sup>2</sup> The SBA also invests funds on behalf of direct-support organizations of the state.

<sup>3</sup> Additional groups include the Audit Committee, the Florida Hurricane Catastrophe Fund Advisory Council, and the Florida Commission on Hurricane Loss Projection Methodology.

<sup>4</sup> The Lawton Chiles Endowment Fund (LCEF) was a major investment fund with a market value of \$1.06 billion as of June 30, 2021. However, the 2021 Legislature repealed s. 215.5601, *F.S.*, which created the LCEF, and directed the SBA to liquidate the fund's assets by June 30, 2022. The SBA liquidated the LCEF and transferred the assets to the Division of Treasury Budget Stabilization Trust Fund effective July 1, 2021. Prior to the liquidation and transfer of the LCEF fund, the SBA reported fund performance of 31.10%, compared to benchmark returns of 28.78%, for fiscal year ended June 30, 2021.

## Exhibit 1

### Change in Market Value for Major Investment Funds as of June 30, 2022

Fund Name	Market Value June 30, 2021	Market Value June 30, 2022	Difference
Florida PRIME	16,591,045,713	17,704,792,482	\$1,113,746,769
Florida Hurricane Catastrophe Fund	12,619,493,101	12,422,873,240	(\$196,619,861)
Lawton Chiles Endowment Fund	1,055,810,641	460,108	(\$1,055,350,533)
FRS Investment Plan	14,802,421,403	12,811,826,722	(\$1,990,594,681)
FRS Pension Plan	\$199,600,498,385	\$179,954,710,565	(\$19,645,787,820)
<b>Total</b>	<b>\$244,669,269,243</b>	<b>\$222,894,663,117</b>	<b>(\$21,774,606,126)</b>

Source: OPPAGA analysis of SBA data.

## Resources

The SBA is self-supporting and funds expenses through various administrative fees charged on assets under the SBA's management.<sup>5</sup> The SBA allocated \$93.5 million and 232 full-time equivalent authorized positions to manage major investment activities in Fiscal Year 2021-22.<sup>6</sup>

## Investment Strategy

To maintain desired levels of diversification, the SBA sets target asset allocations for each portfolio. For example, the target asset allocation of the FRS Pension Plan Fund as of June 30, 2022, was the same in the prior fiscal year. (See Exhibit 2.) When public market asset classes exceed the target allocations, the SBA reports that it rebalances the portfolio by selling assets from classes over the target and purchasing assets that are under the target. The SBA annually reviews the target asset allocations by formally evaluating capital market assumptions, fund liabilities, and investment objectives; as well as by asset liability reviews performed by Aon, a third-party consultant.<sup>7</sup>

## Exhibit 2

### Target Asset Allocation for FRS Pension Plan as of June 30, 2022

Asset Class	Target Asset Allocation
Global Equity	53%
Investment Grade Fixed Income	18%
Strategic Investments	12%
Real Estate	10%
Private Equity	6%
Cash	1%
<b>Total</b>	<b>100%</b>

Source: SBA.

<sup>5</sup> The SBA is funded primarily by a 3.25 basis-point (0.0325%) administrative fee charged on assets under management; the FRS Investment Plan is funded primarily by a 6 basis-point (0.06%) charge on employer payroll; and the Florida Hurricane Catastrophe Fund is funded by reimbursement premiums charged on residential property insurers covered by the fund.

<sup>6</sup> This budget and number of full-time positions includes the following budget entities: SBA Operating (which includes the FRS Pension Plan and Florida PRIME), the FRS Investment Plan, and the Florida Hurricane Catastrophe Fund. The SBA also administratively supports the Division of Bond Finance and the Florida Prepaid College Board, which were not included in this total.

<sup>7</sup> Aon Investments (Aon) is a third-party contractual fiduciary consultant. Aon provides the SBA with an annual asset liability study and investment structure overview, which includes investment option fees compared to peer groups, performance, and industry trends. Every three years, Aon reports on legal options, management structure, and retirement income. Aon also provides quarterly performance reviews of the SBA's major investment funds.

The SBA reports that it utilizes strategies, including diversification, to address a variety of risks. For example, unexpected price fluctuations are a form of risk that may result in investment losses.<sup>8</sup> To address this, the SBA has a dedicated Risk Management and Compliance unit under the direction of a chief risk and compliance officer, whose responsibility is to promote and enhance prudent risk management. The SBA periodically conducts risk assessments to ensure that all investment operational processes continue to operate successfully and that the SBA has identified risks and implemented reasonable control activities. For example, the SBA engaged an external consultant to perform a mock U.S. Securities and Exchange Commission (SEC) exam covering the period of July 1, 2020, through December 31, 2021, relating to compliance processes over internal investment trading and operations. The exam indicated that SBA management has properly identified the primary compliance risks and implemented reasonable control activities related to internal investment trading and operations.

The SBA utilizes two general approaches—passive and active investing—when managing investments. Passive managers seek to achieve the returns of a market index, such as the Standard & Poor’s 500 index, the Russell 2000 Index, or the Morgan Stanley EAFE Index. The SBA manages 28.2% of total investments passively and primarily uses passive management where SBA staff has determined that active management is unlikely to out-perform these market indices.<sup>9</sup> In contrast, active managers rely on analytical research, forecasts, and their own judgment in making investment decisions with the goal of exceeding the return of a benchmark index. The SBA actively manages 71.8% of total investments and uses active management where there is the greatest possibility of out-performing a market index.<sup>10</sup>

## FINDINGS

The State Board of Administration uses several methods to evaluate fund short-term and long-term performance. These methods include comparing investment returns to industry benchmarks and investment objectives. Because the FRS Pension Plan is the largest fund the SBA manages, OPPAGA compared FRS Pension Plan returns to the returns of other large state retirement plans. Lastly, OPPAGA analyzed the SBA’s operating and investment management costs for the two fiscal years since OPPAGA’s last review.

### **Most major investment funds either met or exceeded market-based investment benchmarks**

The SBA evaluates financial performance against accepted industry benchmarks.<sup>11</sup> Major investment fund benchmarks are either set or recommended by external consultants, who give advice and recommendations for setting benchmarks. The SBA reports these benchmarks are appropriate to each

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<sup>8</sup> Additional forms of risk that the SBA identifies, analyzes, and manages include market risk, credit risk, interest rate risk, inflation risk, liquidity risk, currency risk, systemic risk, and specific risk.

<sup>9</sup> The SBA reports that there is the least likelihood to out-perform market indices in investments or markets that are well known or frequently traded, where information is complete, and research is easily accessible, such as stocks of large and well-known companies.

<sup>10</sup> The SBA reports the greatest possibility of out-performing a market index is in areas of the market where investments are not well-known and followed, information is scarce or opaque, there is not a lot of trading, and/or the market for information and pricing is inefficient, such as stocks of small companies or stocks on foreign exchanges that are not traded frequently.

<sup>11</sup> A benchmark is comprised of one or more indices whose movement is considered a general indicator of the direction of a portfolio or market.

asset class. Benchmark recommendations are then vetted by SBA staff and reviewed by the Investment Advisory Council. After IAC review, the trustees must review and approve benchmarks.<sup>12</sup>

**Almost all of the SBA’s investment returns for the four major investment funds either matched or exceeded benchmarks over a 10-year period.**<sup>13</sup> As of June 30, 2022, most major investment funds had returns above 1-year, 3-year, 5-year, and 10-year benchmarks. (See Exhibit 3.) For instance, FRS Pension Plan investments exceeded overall 1-year, 3-year, 5-year, and 10-year benchmarks by a range of 1.2% to 3.2%.

### Exhibit 3

#### Most SBA Major Investment Fund Returns Exceeded Market-Based Investment Benchmarks for Periods up to 10 Years

Major Investment Fund	Actual Returns Versus Benchmarks				
	FY 2020-21	FY 2021-22	3-Year	5-Year	10-Year
<b>FRS Pension Plan</b>	<b>29.46%</b>	<b>-6.27%</b>	<b>7.74%</b>	<b>7.69%</b>	<b>8.59%</b>
Performance Benchmark	26.25%	-9.05%	5.74%	6.22%	7.41%
<b>FRS Investment Plan</b>	<b>28.40%</b>	<b>-12.22%</b>	<b>4.95%</b>	<b>5.92%</b>	<b>6.93%</b>
Performance Benchmark	27.32%	-11.13%	4.90%	5.74%	6.68%
<b>Florida PRIME Fund 30-Day Average Yield</b>	<b>0.22%</b>	<b>0.31%</b>	<b>0.75%</b>	<b>1.29%</b>	<b>0.84%</b>
Performance Benchmark	0.10%	0.17%	0.60%	1.07%	0.64%
<b>Florida Hurricane Catastrophe Fund</b>	<b>0.22%</b>	<b>-2.40%</b>	<b>0.41%</b>	<b>1.23%</b>	<b>0.83%</b>
Performance Benchmark	0.21%	-2.47%	0.40%	1.19%	0.73%

<sup>1</sup> The 3-Year, 5-Year, and 10-Year returns are as of June 30, 2022.

Source: SBA.

The only major investment fund that did not meet or exceed all benchmarks was the FRS Investment Plan, which fell short of the 1-year benchmark in Fiscal Year 2021-22 by 1.1%. According to the SBA, the plan’s performance lagged due to active equity and fixed income managers failing to meet the stated benchmarks. In response, the SBA reports that it is conducting additional monitoring of these managers to ensure they are following the contracted investment process and not underperforming other active managers in the same asset class. If underperformance occurs for four consecutive quarters, the SBA requests a retention report from its public markets manager consultant. A retention report explores all elements of a manager’s performance, organization, personnel and investment philosophy, and processes. If overall underperformance occurs for a year, but not four consecutive quarters, SBA staff hold extended discussions during an annual review with the consultant about what caused the underperformance and SBA’s expectations for the future.

**Although other funds met benchmarks, SBA attributes negative returns to the FRS Pension Plan in Fiscal Year 2021-22 to factors affecting the global economy.** The SBA noted that the slow recovery from the global pandemic, increases in demand, and Russia's invasion of Ukraine strained global supply chains and contributed to high levels of inflation. The U.S. Federal Reserve attempted to counter the rise in prices by raising interest rates. As a result, the SBA reports that equities fell at the start of 2022 when higher interest rates significantly affected the technology sector in particular and as markets began to adjust.

As previously noted, approximately 81% of the FRS Pension Plan’s assets are allocated to return-seeking assets including global equity, private equity, real estate, and strategic investments, so it would

<sup>12</sup> For the Hurricane Catastrophe Fund, SBA staff recommends benchmarks, and then the fund’s consultant reviews and comments on the appropriateness of staff recommendations.

<sup>13</sup> Asset class performance is measured in accordance with a broad market index appropriate to each asset class. For example, the performance of the fixed income asset class within the FRS Pension Plan is measured against the Barclays Capital U.S. Intermediate Aggregate Index.

be expected that these investments would be negatively affected by these market events. However, SBA’s asset allocation is designed to mitigate that risk. According to the SEC, owning a mix of equities and less volatile bonds generally helps to reduce risk. This is because when the stock market rises, bond prices often fall. However, the SBA reports that over the past year, the diversification of assets was less effective in combating market risk because equities and bonds both experienced double digit declines.<sup>14</sup>

The SBA is currently reviewing the long-term asset allocation to address new and emerging financial market trends and plans to revise the asset allocation in spring 2023. The SBA expects that alternative asset classes, which have lower correlation to equity markets, will offset declines experienced in public equities and bonds. Alternative asset classes, which include private equity and strategic investments, provided positive returns of 25.07% and 7.78%, respectively, in Fiscal Year 2021-22.<sup>15</sup> Currently, the SBA is authorized by Florida law to invest up to 20% of any of funds in alternative investments. The SBA had 21.4% of funds in alternative investments as of June 30, 2022, exceeding the investment limit. As a result, the SBA is required to forego new investments in the asset class, though it is not required to divest in current active investments.

## The FRS Pension Plan generally met or exceeded long-term investment objectives as of June 30, 2022

In addition to using market-based investment benchmarks, the SBA also measures FRS Pension Plan performance using a long-term investment objective. 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. The SBA Board of Trustees sets the overall long-term investment objective, which is to earn, on average and over the long-term, a compounded rate of return of 4% plus inflation per annum.

As of June 30, 2022, the FRS Pension Plan met its investment objective in four of the five periods OPPAGA reviewed. (See Exhibit 4.) The SBA reports that that the FRS Pension Plan did not meet the 15-year objective due to the Great Financial Crisis (December 2007 to June 2009). Because the 15-year objective started when the Great Financial Crisis began, the SBA reports that subsequent returns were not enough to make up for the losses sustained during that period.

### Exhibit 4

As of June 30, 2022, FRS Pension Plan Managed Returns Generally Met the SBA’s Long-Term Investment Objective<sup>1</sup>



<sup>1</sup> Annualized returns are net of fees.

Source: SBA.

<sup>14</sup> Defined by the MSCI All Country World IMI Index, global equities declined by 16.5% year-over-year as of June 30, 2022. The Bloomberg Aggregate Bond Index, a representative of the U.S. bond market, declined 10.3% year-over-year.

<sup>15</sup> Per industry convention, private equity returns are presented on a dollar-weighted basis.

# FRS Pension Plan performance over multiple year periods was comparable to other large public pension funds

In addition to comparing the FRS Pension Plan’s performance to internal benchmarks, OPPAGA compared investment returns to the returns from other state pension funds. In Fiscal Year 2020-21, the SBA’s one-year investment performance for the FRS Pension Plan was 29.5%. This one-year return was higher than the nine other large pension plans that OPPAGA examined. According to the SBA’s consultant, Aon, private equity was the largest contributor of all asset classes to the FRS Pension Plan’s relative performance during the one-year period.

The FRS Pension Plan’s performance over multi-year periods was average compared to those for other large public pension funds. For example, the SBA’s 10-year return on the FRS Pension Plan for the period ending June 30, 2021, was 9.3%, and the nine comparison funds had 10-year returns that ranged from 7.7% to 10%. (See Exhibit 5.) Aon reported that compared to peers, the FRS Pension Plan had modestly greater exposure to public equity concentrated in foreign securities, which contributed to the fund outperforming peers across periods.

## Exhibit 5

### FRS Pension Plan Investment Returns Ranked Sixth Compared to Returns for Other Large State Retirement Plans Over 10 Years<sup>1</sup>

Fund	Overall Rate of Return				Net Market Value of Pension Assets (in Billions)
	1-Year	3-Year	5-Year	10-Year	
Washington State Department of Retirement Systems	28.7%	13.1%	12.6%	10.0%	\$150.2
New York State Teachers' Retirement System	25.4%	12.7%	11.9%	10.0%	\$146.3
State Teachers Retirement System of Ohio	29.2%	12.5%	12.2%	9.8%	\$98.1
Teachers Retirement System of Georgia	29.2%	13.3%	12.3%	9.8%	\$99.1
California State Teachers Retirement System	27.2%	12.2%	11.8%	9.7%	\$308.6
Florida Retirement System Pension Plan <sup>2</sup>	29.5%	12.3%	12.0%	9.3%	\$199.6
Teacher Retirement System of Texas <sup>3</sup>	27.3%	11.3%	11.2%	9.0%	\$210.5
Virginia Retirement System	27.5%	11.3%	10.7%	8.8%	\$105.0
California Public Employees' Retirement System	21.3%	10.7%	10.3%	8.5%	\$485.2
North Carolina Retirement System	19.1%	9.8%	9.5%	7.7%	\$121.4

<sup>1</sup> Period-to-period performance results are very sensitive and dependent on beginning and endpoints of measurement. Therefore, OPPAGA examined other large state retirement plans with similar fiscal year end dates as the FRS Pension Plan. OPPAGA did not examine plans with end dates other than June 30, 2021, such as the New York State and Local Retirement System and Ohio Public Employees Retirement System, which were included in previous reports.

<sup>2</sup> FRS Pension Plan performance is as of June 30, 2021.

<sup>3</sup> Teacher Retirement System of Texas rate of return performance is as of June 30, 2021. The plan’s net market value of pension assets is as of August 31, 2021.

Source: Comprehensive annual financial reports and other financial reports from the FRS Pension Plan and other pension plans.

## SBA operating and investment management costs increased

**SBA operating costs increased 5% (\$3.4 million) for major investment funds.** (See Exhibit 6.) The SBA’s operating costs include human capital (salaries and benefits) and information technology that provides the intellectual and technological capabilities to manage a portfolio of complex public and private market investments. A majority of these operating cost increases (\$2.2 million, or 63%) were

due to additional staff, benefits, and technology enhancements. The SBA reports that it increased salaries and benefits to recruit and retain full-time employees. From Fiscal Year 2020-21 to Fiscal Year 2021-22, the SBA increased salaries by \$418,467 (2%) and benefits by \$663,384 (7%) or a total of \$1.1 million. The benefits increases were increased costs for social security, state dental, disability, health, and life insurance, and state retirement. The SBA's contractual services for information services, data processing, and cloud storage increased by \$1.1 million (15%); this represented 31% of the SBA's total cost increase during the two fiscal years.

#### Exhibit 6

#### The SBA's Operating Costs Increased 5% (\$3.4 Million) From Fiscal Year 2020-21 to Fiscal Year 2021-22

Fund	Operating Costs	
	Fiscal Year 2020-21	Fiscal Year 2021-22
State Board of Administration <sup>1</sup>	\$45,282,940	\$47,942,918
FRS Investment Plan	\$19,172,622	\$19,592,416
Hurricane Catastrophe Fund	\$5,886,897	\$6,247,045
<b>Total</b>	<b>\$70,342,460</b>	<b>\$73,782,378</b>

<sup>1</sup> This fund refers to the SBA Operating budget entity, which includes the FRS Pension Plan and Florida PRIME.

Source: SBA data as of June 30, 2022.

**SBA investment management costs increased 9% (\$65 million) for major investment funds from Fiscal Year 2020-21 to Fiscal Year 2021-22.** (See Exhibit 7.) Investment costs refer to expenses such as investment management fees, service charges, and legal and consulting fees.

#### Exhibit 7

#### The SBA's Investment Management Costs Increased 9% (\$65 Million) From Fiscal Year 2020-21 to Fiscal Year 2021-22

Fund	Investment Management Costs	
	Fiscal Year 2020-21	Fiscal Year 2021-22
FRS Pension Plan	\$691,342,000	\$752,370,000
FRS Investment Plan	\$5,614,000	\$7,736,000
Florida PRIME Fund <sup>1</sup>	\$5,218,000	\$5,778,000
Hurricane Catastrophe Fund	\$3,707,000	\$5,284,000
<b>Total</b>	<b>\$705,881,000</b>	<b>\$771,168,000</b>

<sup>1</sup> Florida PRIME Fund costs are as an investment trust as a whole.

Source: SBA data as of June 30, 2022.

The SBA reports that several factors affected the increase in investment management costs. For example, the SBA's use of active versus passive management affects investment manager fees on an ongoing basis. The SBA reports that active investing, because of research and time requirements, tends to be more costly than passive investing. From Fiscal Year 2020-21 to Fiscal Year 2021-22, the SBA increased the proportion of total assets under active management by 6% and decreased the proportion of passively managed assets by 10%. According to the SBA, a greater volume of assets under active management generally results in higher investment management costs.

The SBA's use of internal versus external managers also affected investment management costs. The SBA reports contracting with external managers because they have access to certain international and specialized markets or sectors that the SBA does not have internally, which adds to the overall cost associated with portfolio management. Notably, private equity and strategic investments have the

highest external investment management fees at 0.91% and 1.29%, respectively.<sup>16</sup> These asset classes have the highest percentage of external management of all FRS Pension Plan asset classes at 100% for private equity and 99.6% for strategic investments.

The SBA increased the asset allocation in these higher-cost asset classes from Fiscal Year 2020-21 to Fiscal Year 2021-22 by 20%, from 17.8% to 21.4% of total pension plan assets. Although overall management costs increased as a result, the SBA paid 13% less in management fees for these asset classes from Fiscal Year 2020-21 to Fiscal Year 2021-22. The SBA reports that because the board negotiates the management fees of external managers, an increase in the amount of externally managed assets may not result in the same percentage increase in investment management costs.

OPPAGA found that SBA investment management costs have been steady relative to assets under management, and the proportion of growth in expenses is parallel to the growth in those assets. This finding is consistent with SBA claims that both investment management fees and SBA investment service charges are largely assessed on assets under management over time and vary based upon those assets.

**To reduce investment management costs, the SBA reports negotiating lower fees and various discounts.** For the FRS Pension Plan, the SBA renegotiated 10 existing global equity investment manager fee schedules for an annual savings of \$1.8 million and negotiated lower fees for strategic investments with private markets managers and hedge funds. The SBA reports that discounts typically range from 25 to 50 basis points off the standard rate.<sup>17</sup>

**Benchmarking reports indicate that the investment management costs were slightly higher than those of peer institutions.**<sup>18</sup> Despite efforts to reduce costs, CEM Benchmarking reports for the 5-year period ending December 31, 2020, state that the FRS Pension Plan had a slightly higher cost by 0.3 basis points compared to peers.<sup>19</sup> The SBA reports that the higher costs were mainly due to the plan's investments in private assets. However, the SBA stated that economies of scale allowed the fund to obtain positive net benefits and that passive global equity managers provide additional cost savings. According to CEM Benchmarking, investment plan participants' cost in the FRS Investment Plan was 2.6 basis points higher than peers.<sup>20</sup> CEM Benchmarking attributes these differences to the plan having most assets invested in active investment options and higher investment plan participant advice cost. In addition, the SBA stated that the FRS Investment Plan pays all administrative expenses for investment plan participants, which results in higher costs compared to peers.<sup>21</sup>

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<sup>16</sup> External management fees are expressed as a percentage of the average of the month-end asset value of externally managed portfolios in each asset class. This measure is comparable to an annual expense ratio.

<sup>17</sup> A basis point is one one-hundredth of one percent; i.e., 1/10,000.

<sup>18</sup> The SBA contracts CEM Benchmarking to perform evaluations of investment costs, return performance, and risk.

<sup>19</sup> The peer group for the FRS Pension Plan consisted of 17 U.S. public sponsors with assets that ranged from \$39 billion to \$411.9 billion.

<sup>20</sup> Although plan participants' cost for the FRS Investment Plan is higher than plan peers, CEM Benchmarking reports that some FRS Investment Plan costs are lower. For example, CEM Benchmarking reports that the FRS Investment Plan's investment management fees are lower cost by 3.4 basis points compared to peers.

<sup>21</sup> The peer group for the FRS Investment Plan consisted of 18 defined contribution plan sponsors with assets that ranged from \$3.4 billion to \$28.4 billion.

# AGENCY RESPONSE

In accordance with the provisions of s. 11.51(2), *Florida Statutes*, a draft of OPPAGA's report was submitted to the State Board of Administration. The board's written response has been reproduced in Appendix B.

# APPENDIX A

## All State Board of Administration Funds, Returns, and Market Values

### Exhibit A-1

#### SBA Assets Under Management as of June 30, 2022

Fund Name	Market Value June 30, 2021	Investment Gain (Loss)	Net Contributions (Withdrawals)	Market Value June 30, 2022
FRS Pension Plan	\$199,600,498,385	\$(11,983,012,269)	\$(7,662,775,551)	\$179,954,710,565
Florida PRIME	16,591,045,713	44,119,104	1,069,627,666	17,704,792,482
FRS Investment Plan	14,802,421,403	(1,903,466,128)	(87,128,553)	12,811,826,722
Florida Hurricane Catastrophe Fund	12,619,493,101	(314,072,205)	117,452,345	12,422,873,240
State Board of Administration Finance Corporation	4,233,843,268	(103,243,001)	(697,811,434)	3,432,788,833
Debt Service	445,668,945	2,196,926	27,471,725	475,337,597
Retiree Health Insurance Subsidy Trust Fund	393,942,863	1,564,180	79,684,821	475,191,864
Police and Firefighters' Premium Tax Trust Fund	282,463,201	672,852	16,259,000	299,395,053
Department of the Lottery Fund	291,927,307	(24,702,511)	(13,848,114)	253,376,682
SBA Administrative Fund	56,403,151	241,953	22,878,560	79,523,665
Florida College Investment Plan	69,393,717	242,192	8,963,528	78,599,437
FRS SBA Investment Plan Administrative Fund	14,833,644	52,224	(157,820)	14,728,048
Florida ABLE, Inc.	6,659,663	25,244	1,592,149	8,277,056
Florida Division of Blind Services	8,535,837	(1,075,967)	0	7,459,870
Bond Fee Trust Fund	6,798,040	22,907	(76,415)	6,744,533
Florida ABLE, Inc., Administrative Expense	2,652,338	9,174	117,353	2,778,865
Arbitrage Compliance Trust Fund	2,546,501	8,423	(102,824)	2,452,100
Insurance Capital Build-Up Program	3,983,017	11,040	(1,629,988)	2,364,069
Florida Prepaid College Plan Administrative Expense	390,891	3,601	1,958,556	2,353,048
Bond Proceeds Trust Fund	524,298	1,352	(11,771)	513,878
Lawton Chiles Endowment Fund	1,055,810,641	627,696	(1,055,978,229)	460,108
Florida College Investment Plan Administrative Expense	691,974	1,362	(290,973)	402,363
FDOT Financing Corporation	6,500	(7,487)	23,049	22,062
Inland Protection Financing Corporation	1,643	5	0	1,649
Florida Prepaid College Plan	508,925	407	(507,943)	1,389
Gas Tax Clearing Fund	1,646,661	12,706	(1,659,365)	1
Burnham Institute for Medical Research Fund	0	495	(495)	0
Torrey Pines Institute for Molecular Studies Fund	0	246	(246)	0
SRI International Fund	0	1,653	(1,653)	0
Pinellas Suncoast Transit Authority	0	263	(263)	0
Florida Endowment for Vocational Rehabilitation	0	303	(303)	0
<b>Total Assets Under Management<sup>1</sup></b>	<b>\$250,492,691,627</b>	<b>\$(14,279,763,256)</b>	<b>\$(8,175,953,191)</b>	<b>\$228,036,975,179</b>

<sup>1</sup> Totals may not sum due to rounding.

Source: SBA.

# APPENDIX B

## Agency Response



STATE BOARD OF ADMINISTRATION  
OF FLORIDA

1801 HERMITAGE BOULEVARD, SUITE 100  
TALLAHASSEE, FLORIDA 32308  
(850) 488-4406

POST OFFICE BOX 13300  
32317-3300

RON DESANTIS  
GOVERNOR  
CHAIR

JIMMY PATRONIS  
CHIEF FINANCIAL OFFICER

ASHLEY MOODY  
ATTORNEY GENERAL

LAMAR TAYLOR  
INTERIM EXECUTIVE DIRECTOR &  
CHIEF INVESTMENT OFFICER

February 21, 2023

PK Jameson  
OPPAGA Coordinator  
111 West Madison Street, Suite 312  
Tallahassee, Florida 32399

Dear PK:

We have reviewed the preliminary and tentative OPPAGA report titled: *Major SBA Fund Returns Generally Met or Exceeded Market-Based Investment Benchmarks*. We have no objection or questions regarding the information presented in the report.

We welcome OPPAGA's efforts and, as always, we appreciate your diligence and professionalism.

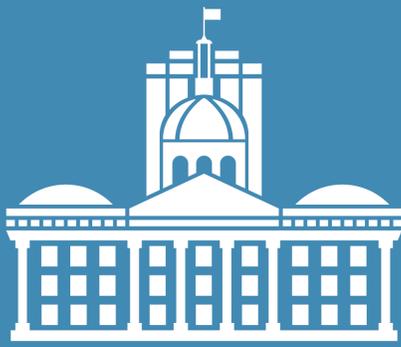
Sincerely,

A handwritten signature in blue ink, appearing to read "Lamar Taylor".

E. Lamar Taylor  
Interim Executive Director & CIO

ELT/apw

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# OPPAGA

Office of Program Policy Analysis and Government Accountability

OPPAGA provides performance and accountability information about Florida government in several ways.

- Reports deliver program evaluation and policy analysis to assist the Legislature in overseeing government operations, developing policy choices, and making Florida government more efficient and effective.
- Government Program Summaries (GPS), an online encyclopedia, provides descriptive, evaluative, and performance information on more than 200 Florida state government programs.
- PolicyNotes, an electronic newsletter, delivers brief announcements of research reports, conferences, and other resources of interest for Florida's policy research and program evaluation community.
- Visit OPPAGA's website.

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OPPAGA supports the Florida Legislature by providing data, evaluative research, and objective analyses that assist legislative budget and policy deliberations. This project was conducted in accordance with applicable evaluation standards. Copies of this report in print or alternate accessible format may be obtained by telephone (850/488-0021), by FAX (850/487-3804), in person, or by mail (OPPAGA Report Production, Claude Pepper Building, Room 312, 111 W. Madison St., Tallahassee, FL 32399-1475).

Project supervised by Emily Leventhal (850/717-0525)  
Project conducted by Alex Regalado and Laurelin Haas  
PK Jameson, Coordinator