

State Board of Administration Management of Major Investment Funds: 2025

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OPPAGA

Office of Program Policy Analysis and Government Accountability

State Board of Administration Management of Major Investment Funds: 2025

EXECUTIVE SUMMARY

As of June 30, 2024, State Board of Administration (SBA) investment returns met most market-based investment benchmarks and investment objectives. All of the major funds met the 5-year and 10-year benchmarks. However, as of June 30, 2024, the Florida Retirement System (FRS) Pension Plan and the FRS Investment Plan did not meet 1-year benchmarks and the FRS Investment Plan did not meet 3-year benchmarks. Further, the FRS Pension Plan did not meet the 25-year long-term objective.

The SBA's major investment funds gained \$27.2 billion in market value since OPPAGA's last review in 2023.¹ The majority of gains, \$18.3 billion, were in the FRS Pension Plan and are attributable to positive investment returns. The Florida Hurricane Catastrophe Fund was the only major fund to lose value (-\$1.6 billion) due to substantial withdrawals totaling \$2.5 billion.

The Legislature recently enacted several laws that affected SBA operations, such as requiring the board to identify and maintain the Scrutinized Companies with Activities in Iran Terrorism Sectors List and to develop a divestment plan for all direct holdings in Chinese companies. The SBA reported taking several steps to implement these statutory changes. For example, the SBA reported that the September 2025 deadline to divest should provide sufficient time to prudently comply with the legislation and eliminate the board's long-term exposure to China, which was approximately 1.4% as of July 2024.

Since OPPAGA's 2023 review, the SBA's budget for major investment funds increased by \$14.9 million, with 15 additional full-time positions created. The SBA reported that budget increases were attributed to a need for additional positions and increased salaries, increased benefits, and increased contractual services, including information technology services. SBA investment management costs, such as fees paid to third party investment managers, increased 2.0% (\$15.1 million) for major investment funds during the review period.

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 performance and budget for major investment funds from July 1, 2022, through June 30, 2024.

¹ *Major SBA Funds Generally Met or Exceeded Market-Based Investment Benchmarks*, OPPAGA Report [23-03](#), February 2023.

BACKGROUND

Organization

The State Board of Administration (SBA) is a constitutional entity that acts as the state's principal independent investment management organization. The SBA invests funds contributed by state agencies, state universities and colleges, and local governments. The SBA is governed by a three-member Board of Trustees: the Governor as chair, the Chief Financial Officer, and the Attorney General. The trustees delegate authority to the SBA's executive director to carry out the trustees' strategic direction in day-to-day agency operations. In addition, the trustees appoint individuals who have specific knowledge and expertise to several councils, advisory boards, and commissions, including the Investment Advisory Council (IAC) and the Audit Committee.² The IAC provides independent oversight of the SBA's general objectives, policies, and strategies. The Audit Committee monitors the SBA's audits and processes, such as financial reporting and risk assessment.

Since OPPAGA's 2023 review, the SBA instituted several organizational changes intended to increase operational efficiency. For example, the board separated the roles of executive director and chief investment officer. Under the new structure, the executive director oversees all SBA operations while the chief investment officer directly manages the board's investment functions. The SBA reported that this change allows the executive director to concentrate on the organization's operations, including oversight of investment functions, while the chief investment officer focuses on managing the SBA's core investment responsibilities.

Additionally, the SBA, in consultation with the Audit Committee, eliminated the board's inspector general position. The inspector general's duties are now performed by the general counsel and the chief audit executive. The general counsel is responsible for determining the SBA's statutory and ethical guidelines, and the chief audit executive is responsible for investigating allegations of improper or unethical conduct. In conjunction with these changes, the SBA's chief audit executive obtained an inspector general certification.

Assets Under Management

As of June 30, 2024, the SBA managed 29 investment funds with a total market value of \$257.5 billion.³ (See Appendix A for a list of these funds as of June 30, 2024.) The SBA's major investment responsibilities include the Florida Retirement System (FRS) Pension Plan, the FRS Investment Plan, the Local Government Surplus Funds Trust Fund (Florida PRIME), and the Florida Hurricane Catastrophe Fund (CAT Fund). (See Exhibit 1.)

The SBA's largest managed fund is the FRS Pension Plan, which is the fifth largest public pension plan in the United States with over 459,000 retirees and over 428,000 active non-retired participants. As of June 30, 2024, the FRS Pension Plan had net assets of \$198.2 billion and comprised 77.0% of the SBA's total assets.

² Additional groups include the Florida Hurricane Catastrophe Fund Advisory Council and the Florida Commission on Hurricane Loss Projection Methodology.

³ Chapter 2021-43, *Laws of Florida*, directed the SBA to liquidate the assets of the Lawton Chiles Endowment Fund by June 30, 2022. Residual funds from dividends, tax reclaims, and other settlements are received periodically by the SBA on behalf of the endowment fund mandate and transferred quarterly to the Division of Treasury Budget Stabilization Fund.

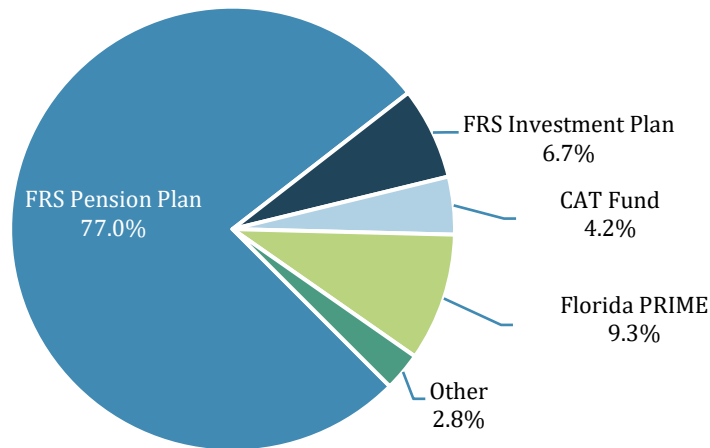
The Legislature established the FRS Investment Plan to provide Florida’s public employees with an alternative to the FRS Pension Plan. As of June 30, 2024, there were over 351,000 participants in the investment plan, which includes over 237,000 active participants. The SBA manages more than \$17.2 billion of investments in the FRS Investment Plan, which represents 6.7% of the board’s total assets.

Florida PRIME provides units of local government (e.g., municipal and county agencies and organizations and schools districts) across the state a cost-effective alternative to invest surplus funds. As of June 30, 2024, Florida PRIME had a market value of \$25.5 billion (9.3% of the SBA’s total assets) comprising assets held in 1,490 investor accounts on behalf of 809 participants.

The CAT Fund is a tax-exempt trust fund created to reimburse residential property insurers for a portion of hurricane losses and to advance the interest in maintaining insurance capacity in the state. As of June 30, 2024, the CAT Fund had a market value of \$10.8 billion (4.2% of the SBA’s total assets), with a projected year-end fund balance of \$6.91 billion.

Exhibit 1

As of June 30, 2024, the FRS Pension Plan Comprised 77.0% of the SBA’s Total Assets



Source: State Board of Administration.

The SBA is self-supporting and funds expenses through various administrative fees charged on assets under the board’s management. The SBA charges a 3.25 basis point (0.0325%) management fee for administrative overhead on most funds under management.⁴ For Florida PRIME, the board charges a 1 basis point (0.01%) management fee, and management of the CAT Fund is funded by reimbursement premiums charged to participating insurers, investment earnings on unspent funds, and emergency assessments on most property and casualty lines of business. The SBA allocated \$108.4 million and 248 full-time equivalent authorized positions to manage investment activities in Fiscal Year 2023-24.⁵

Investment Strategy and Management

The SBA strategically invests in various asset types to achieve investment objectives.⁶ Investment policy statements are established at the plan level for funds the SBA manages, and the statements define investment objectives including return objectives, target asset allocation across the major asset types, and benchmarks for each of the major asset classes.⁷ For example, the investment policy

⁴ A basis point is one one-hundredth (0.01) of a percentage point.

⁵ The SBA also administratively supports the Division of Bond Finance and the Florida Prepaid College Board, which are not included in this total.

⁶ Asset types include stocks, bonds, private equity, strategic investments, active credit, real estate, and cash equivalents.

⁷ The FRS Pension Plan portfolio is divided into seven asset classes: global equity, fixed income, active credit, real estate, private equity, strategic investments, and cash. Asset class performance is measured against a broad market index appropriate to the asset class.

objective for the FRS Pension Plan portfolio is to earn a compounded annualized return of 4.8% plus the rate of inflation, which will provide investment returns to ensure the timely payment of promised benefits to current and future participants and to keep costs at a reasonable level.

The SBA reports using strategies such as diversification to address a variety of risks. For example, unexpected market fluctuations are a form of risk that may result in investment losses.⁸ The SBA formulates its investment policies and selects individual investments with the intent of maximizing diversification benefits and minimizing risk.

To maintain desired diversification levels, the SBA sets target asset allocations for each portfolio. (See Exhibit 2.) For example, in Fiscal Year 2023-24, the global equity asset class comprised 48.5% of FRS Pension Plan assets. 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 periodically adjusts target asset allocations by formally evaluating capital market assumptions, fund liabilities, and investment objectives; the board also contracts with a third-party consultant, Aon, to perform asset liability studies.⁹

Exhibit 2

For Fiscal Years 2021-22 Through 2023-24, About Half of FRS Pension Plan Assets Were in the Global Equity Asset Class

Asset Class	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24
Global Equity	48.4%	50.6%	48.5%
Fixed Income	17.7%	16.1%	20.4%
Real Estate	11.3%	11.2%	9.5%
Private Equity	10.2%	9.4%	9.3%
Strategic Investments	11.2%	11.4%	6.3%
Active Credit ¹	--	--	4.8%
Cash Equivalents	1.3%	1.3%	1.2%

¹ This asset class became effective on April 1, 2024.

Source: State Board of Administration.

Considering changing interest rates, inflation, and supply chain issues, SBA staff and Aon conducted an asset allocation exercise in 2022 that led to the creation of a new active credit asset class within the FRS Pension Plan, effective on April 1, 2024.¹⁰ The SBA's Investment Advisory Council stated that this action was warranted, because the SBA's last full asset allocation exercise was conducted in 2014. SBA staff and Aon conducted another asset allocation exercise in 2023 to reassess the FRS Pension Plan's investment policy and asset allocation. This analysis resulted in changes to target allocations in each asset class as well as the representative benchmarks assigned to each of the asset classes.

The SBA utilizes two primary approaches to investment management—active and passive investing. Under *active investing*, managers select specific investments and build portfolios with the goal of exceeding the return of a benchmark index. Active investing tends to be more costly, so the SBA uses this strategy where the probability of being paid for assuming the increased cost and risk of active investing is greatest. Under *passive investing*, managers construct investment portfolios to closely approximate the performance of well-recognized market indices. The SBA uses passive investing

⁸ 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, and systemic risk.

⁹ Aon is a third-party investment advisor that provides the SBA with annual asset allocation and asset liability studies. Aon also provides quarterly performance reviews of the SBA's major investment funds.

¹⁰ An asset allocation exercise is an analysis of the FRS Pension Plan's portfolio, assets and liabilities, and liquidity. These exercises are used to recommend ways to reduce risk while maintaining investment returns.

where there is the least likelihood to outperform market indices. As of June 30, 2024, the SBA actively managed 65.2% of investments for the FRS Pension Plan. (See Exhibit 3.)

Exhibit 3

As of June 30, 2024, FRS Pension Plan Investment Management Approach Varied by Asset Class

Asset Class	Active	Passive	Internal	External
Cash	84.0%	16.0%	100.0%	0.0%
Fixed Income	60.6%	39.4%	67.9%	32.1%
Global Equity	45.2%	54.8%	58.1%	41.9%
Private Equity	100.0%	0.0%	0.0%	100.0%
Real Estate	100.0%	0.0%	73.1%	26.9%
Strategic Investments	100.0%	0.0%	0.1%	99.9%
Active Credit	100.0%	0.0%	0.0%	100.0%
Overall Percentage	65.2%	34.8%	50.1%	49.9%

Source: State Board of Administration.

Additionally, funds may be managed internally by SBA staff or externally through contracted investment managers who administer investments in accordance with restrictions set forth by the SBA.¹¹ While savings may be realized when funds are managed internally, the SBA reported that external managers have access to certain international and specialized markets or sectors that the SBA does not have internally. As external managers charge investment management fees and net brokerage commissions, the SBA reported using external managers when it believes the overall net returns and benefits will exceed the increased cost over internal management. FRS Pension Plan external investment management fees for Fiscal Year 2023-24 were 0.6% of the average monthly net asset value of externally managed portfolios.¹² The SBA's investment management approaches to the FRS Pension Plan differ by asset class. As of June 30, 2024, 50.1% of FRS Pension Plan funds were managed internally by SBA staff. However, the percentage that the SBA managed internally varied by asset class.

Statutory Changes

Since OPPAGA's 2023 review, the Legislature enacted several laws affecting the SBA's operations and investments. These changes include

- requiring that the SBA's investment decisions for all funds be driven solely by pecuniary factors and not sacrifice investment returns to promote non-pecuniary factors;¹³
- requiring the SBA to sell, redeem, divest, or withdraw from companies that boycott Israel;
- prohibiting the acquisition of direct holdings in Chinese companies;¹⁴ and
- expanding the list of sectors from which a company is prohibited from doing business with Iran and providing a report about the Scrutinized Companies with Activities in Iran Terrorism List to the SBA's board of trustees and the Legislature.

¹¹ The SBA hires external managers to invest a significant portion of investment assets. External investment management fees are based on individually negotiated investment management agreements. The fees, usually paid quarterly, may be based on a sliding scale of the portfolio's net asset value at quarter end, calculated by multiplying each level of net position by a specified basis point charge, or may be performance related, typically associated with exceeding a market benchmark.

¹² The external investment management fees dollar amount for Fiscal Year 2023-24 was \$677.4 million.

¹³ A pecuniary factor is a factor that is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objectives and funding policy. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

¹⁴ Section [215.4735\(1\)](#), F.S., provides that a Chinese company is a company that is publicly known to be majority owned by the government of the People's Republic of China, the Chinese Communist Party, the Chinese military, or any instrumentality thereof, or any combination thereof.

FINDINGS

The State Board of Administration uses several methods to evaluate short-term and long-term investment performance. These methods include comparing investment returns to internal investment objectives and to market-based industry benchmarks. The SBA also maintains relationships with external consultants that provide evaluation services to assist in measuring the effectiveness of various components of the board's investment programs. In addition to reviewing fund performance, OPPAGA analyzed the SBA's operating and investment management costs for Fiscal Years 2021-22 through 2023-24.

Major funds met most investment benchmarks and objectives

The SBA evaluates financial performance against accepted industry benchmarks.¹⁵ Most major investment fund benchmarks are either set or recommended by external consultants that provide advice and recommendations for setting benchmarks. Benchmark recommendations are then evaluated by SBA staff and reviewed by the Investment Advisory Council. After the IAC's review, the trustees review and approve benchmarks.¹⁶ As of June 30, 2024, the four major investment funds met long-term investment benchmarks but did not meet some short-term investment benchmarks. In addition, while the Florida Retirement System Pension Plan exceeded long-term SBA investment objectives in four of the five review periods, the plan did not meet the 25-year long-term objective.

Major investment funds met long-term investment benchmarks but did not meet some short-term investment benchmarks.¹⁷ The SBA sets investment objectives to achieve or exceed the returns on performance benchmarks over time. The board noted that benchmarks are primarily established to represent a combination of assets that are expected to earn returns over long periods. As such, measurements against the plans' benchmarks are ideally interpreted over at least five to seven years. However, the SBA noted that shorter-term comparisons may still be appropriate, such as when assessing how effectively the board is implementing target portfolios both at the total fund level and at the asset class level.

As of June 30, 2024, all of the major funds met 5-year and 10-year benchmarks. However, the FRS Pension Plan and FRS Investment Plan did not meet 1-year benchmarks. Additionally, the FRS Investment Plan did not meet the 3-year benchmark. (See Exhibit 4.) The SBA attributes the FRS Pension Plan's underperformance to the relative underperformance of the private equity and strategic investment asset classes. The SBA stated that timing and measurement issues for the private equity asset class are unavoidable due to reporting delays in private market evaluations and that the short-term performance of this asset class consistently lags public market benchmarks. Additionally, the SBA stated that although the strategic investment asset class produced a robust nominal return, it could not keep up with an unusually high benchmark caused by high short-term interest rates. For these reasons, the SBA asserted that the causes of short-term plan underperformance do not warrant specific action, the private equity and strategic investment asset classes are still delivering positive nominal

¹⁵ A benchmark is a standard investment index used to measure the overall performance of a particular investment type or category and is used for comparative purposes in assessing performance of a portfolio or mutual fund.

¹⁶ For the Hurricane Catastrophe Fund, SBA staff establish benchmarks and monitor performance in accordance with the fund's investment policies.

¹⁷ 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 Bloomberg U.S. Aggregate Bond Index.

returns, and plan performance is not a concern when measured over longer periods (e.g., 5-year and 10-year benchmarks).

Exhibit 4

As of June 30, 2024, Major Investment Funds Met Long-Term Investment Benchmarks but Did Not Meet Some Short-Term Investment Benchmarks

Major Investment Fund	Actual Returns Versus Benchmarks			
	1-Year	3-Year	5-Year	10-Year
FRS Pension Plan	10.5%	3.7%	8.2%	7.4%
Percentage Over (Under) Benchmark	-0.6%	0.0%	0.6%	0.7%
FRS Investment Plan	13.1%	3.2%	7.7%	6.8%
Percentage Over (Under) Benchmark	-0.4%	-0.5%	0.0%	0.2%
Florida PRIME	5.6%	3.3%	2.4%	1.7%
Percentage Over (Under) Benchmark	0.3%	0.3%	0.2%	0.2%
Florida Hurricane Catastrophe Fund	5.4%	1.6%	1.7%	1.5%
Percentage Over (Under) Benchmark	0.0%	0.1%	0.1%	0.1%

Source: State Board of Administration.

According to the SBA, the FRS Investment Plan did not meet 1-year and 3-year benchmarks due to active bets against large U.S. tech companies, struggling real estate sectors, and rising interest rates causing stable value managers to underperform.¹⁸ The SBA expects plan performance to improve as index exposure to the large U.S. tech companies normalize, the real estate market stabilizes, and interest rates decline.

In addition to the SBA's internal investment reporting, Aon conducts quarterly reviews to provide performance overviews and investment advice for major SBA funds. For the quarter ending June 30, 2024, Aon reported that each of the major investment funds produced favorable returns relative to the respective benchmarks. Although the FRS Pension Plan did not meet its benchmark over Fiscal Year 2023-24, it was ranked favorably among similar-sized peers. Aon also found that the FRS Investment Plan outperformed the benchmark over long-term periods, the Florida Hurricane Catastrophe Fund's performance is strong over long-term periods, and that Florida PRIME has continued to outperform its benchmark over both short- and long-term time periods.

The FRS Pension Plan exceeded long-term SBA investment objectives in four of five periods. In addition to using market-based investment benchmarks, the SBA's specific long-term investment objective for the FRS Pension Plan is to earn a compounded rate of return of 4.8% plus inflation per annum. This objective provides investment returns sufficient to ensure timely payment of promised benefits to current and future participants and to keep costs at a reasonable level. As of June 30, 2024, the FRS Pension Plan met its investment objective in four of the five periods: 10-year, 15-year, 20-year, and 30-year. (See Exhibit 5.)

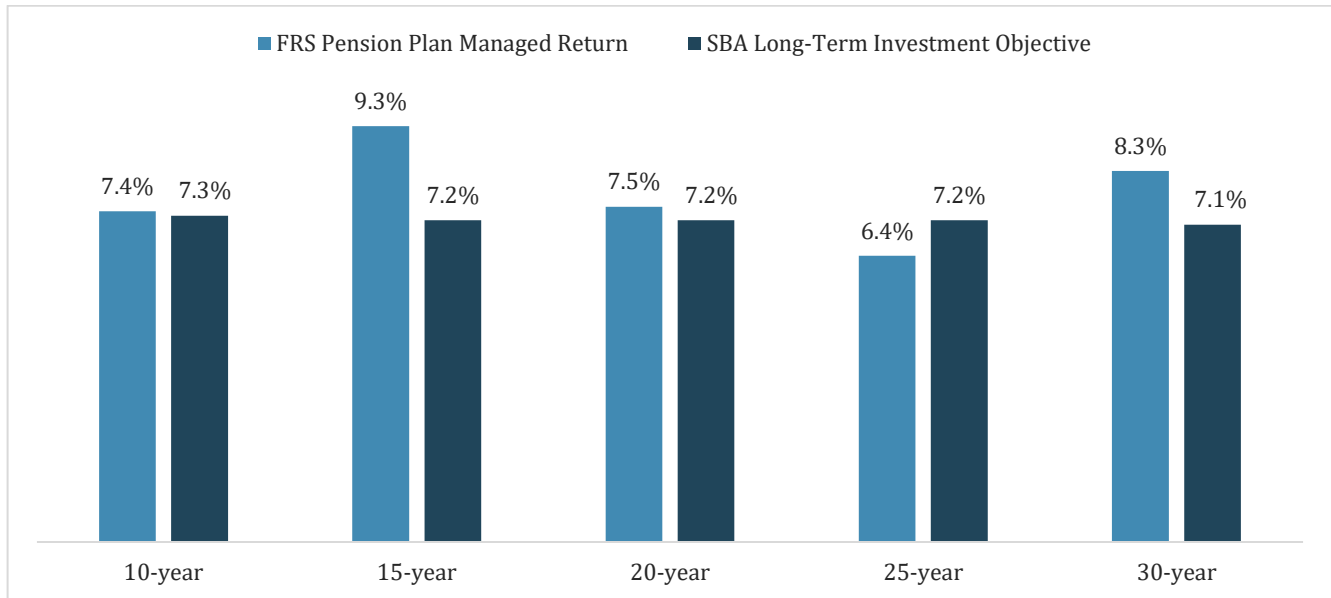
However, the SBA did not meet the 25-year long-term investment objective. SBA representatives attributed failure to meet this goal to two economic events during the first decade of the 2000s. The stock market crisis in the early 2000s caused by speculation in internet-based businesses led to a significant drawdown in U.S. equity markets, which negatively impacted SBA investment funds. Further, the financial crisis in 2008 and 2009 resulted in an even more pronounced drawdown in the total fund. Both events were associated with two years of negative returns in 2001-02 and 2008-09. The SBA reported that any year that results in negative market performance for the pension plan will

¹⁸ The SBA reported that benchmarks had high returns as the risk of recession faded, inflation moderated, and growth and labor markets continued to be resilient.

negatively impact returns compared to the long-term investment objective and that the 25-year period includes these two significant events.

Exhibit 5

As of June 30, 2024, FRS Pension Plan Returns Exceeded the SBA's Long-Term Investment Objective in Four of Five Periods



Source: State Board of Administration.

The SBA's major investment funds gained \$27.2 billion in market value as of June 30, 2024

Three of the four major funds gained value since OPPAGA's 2023 review. The majority of gains, \$18.3 billion, were in the FRS Pension Plan and were attributable to positive investment returns. Florida PRIME's net income from investing activity increased due to higher average participant balances and higher investment yields. The FRS Investment Plan's market value increased from \$12.8 billion to \$17.2 billion, representing a 34.4% increase.¹⁹ (See Exhibit 6.)

Exhibit 6

The Market Value for Major Investment Funds Increased by 12.8% as of June 30, 2024

Fund Name	Market Value June 30, 2022	Market Value June 30, 2024	Difference (\$)	Change (%)
FRS Pension Plan	\$179,954,710,565	\$198,228,790,282	\$18,274,079,717	10.2%
Florida PRIME ¹	\$17,704,792,482	\$23,814,987,262	\$6,110,194,780	34.5%
FRS Investment Plan	\$12,811,826,722	\$17,223,420,920	\$4,411,594,198	34.4%
CAT Fund	\$12,422,873,240	\$10,784,521,410	-\$1,638,351,830	-13.2%
Total	\$222,894,203,009	\$250,051,719,874	\$27,157,516,865	12.2%

¹ The \$23.8 billion market value reported for Florida PRIME excludes approximately \$1.7 billion of Florida PRIME holdings in funds managed by the SBA. The SBA excluded this amount to avoid double counting values reported in other funds managed by the SBA that are invested in Florida PRIME.

Source: OPPAGA analysis of State Board of Administration data.

The CAT Fund was the only major fund to lose value (-\$1.6 billion) since OPPAGA's 2023 review; this loss is attributable to substantial fund withdrawals of \$2.5 billion despite investment gains of \$824.0

¹⁹ The number of participants in the FRS Investment Plan, as of June 30, 2024, increased by 36,358 (11.5%) participants during the fiscal year.

million. These withdrawals were in response to several hurricane events, including Hurricane Michael in October 2018 and Hurricane Ian in September 2022. The SBA anticipates further reimbursements in the future for more recent hurricane events.²⁰ For example, Hurricane Idalia in August 2023 is estimated to result in \$10.0 million in reimbursements through 2029. Hurricane Milton, which made land fall in October 2024, is also expected to affect the CAT Fund’s net position, although the extent has not yet been determined by the SBA.

The SBA has taken several steps to implement recent legislation

The SBA undertook several actions in response to legislative changes during OPPAGA’s review period. (See Exhibit 7.) For example, Ch. 2023-111, *Laws of Florida*, required the SBA to sell, redeem, divest, or withdraw all publicly traded securities of companies that boycott Israel. As of June 2024, 17 companies were on the SBA’s list of Scrutinized Companies that Boycott Israel. The SBA had fully divested in 15 of these companies and scheduled full divestment of the final 2 companies by October 25, 2024. Two companies were under review in June 2024 for possible addition to the list. In another example, Ch. 2024-187, *Laws of Florida*, prohibited the SBA from acquiring direct holdings in Chinese companies. In response, the SBA identified 547 companies that were determined to be majority-owned by China. The SBA’s long-term exposure to China as of July 2024 was approximately 1.4%, and the board reported that the September 2025 divestiture deadline should provide sufficient time to comply with the legislation.

Exhibit 7

The SBA Undertook Several Actions to Address Recent Legislation

Laws of Florida	New Legislative Requirements	Actions Taken by the SBA
Chapter 2023-28	<ul style="list-style-type: none"> Required SBA investment decisions to be driven solely by pecuniary factors Defined pecuniary factor as a factor expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objectives and funding policy and that does not include the consideration of the furtherance of any social, political, or ideological interests 	<ul style="list-style-type: none"> Reviewed agreement forms, documented selection of investments, updated policies and guidelines, and filed comprehensive report requirements
Chapter 2023-111	<ul style="list-style-type: none"> Expanded the list of circumstances under which a company may be added to the list of scrutinized companies that boycott Israel Required the SBA to sell, redeem, divest, or withdraw all publicly traded securities of companies that boycott Israel 	<ul style="list-style-type: none"> Updated monitoring practices, reporting forms, and procedures with respect to the Scrutinized Companies that Boycott Israel List to conform to new statutory requirements
Chapter 2023-351	<ul style="list-style-type: none"> Expanded the list of sectors from which a company is prohibited from doing business with Iran to include energy, petrochemical, financial, construction, manufacturing, textile, mining, metals, shipping, shipbuilding, and ports Required the SBA to file a report with the Board of Trustees and the Legislature within a specified timeframe after the list is created or updated 	<ul style="list-style-type: none"> Reported in June 2024 that 13 companies have been added to the Continued Examination List with activities in Iran related to legislative changes¹ Working with external research providers to capture scrutinized business operations in the expanded sector list for Iran

²⁰ The fund provides a stable and ongoing source of timely reimbursement to Florida’s residential property insurers for a portion of companies’ catastrophic hurricane losses.

Laws of Florida	New Legislative Requirements	Actions Taken by the SBA
Chapter 2024-187	<ul style="list-style-type: none"> Prohibited the SBA from acquiring direct holdings in Chinese companies Required the SBA to initiate a review of all current direct holdings no later than June 1, 2024, to determine if any investments include prohibited companies Required the SBA to develop a divestment plan no later than September 1, 2024, and divest of any exposure in these companies no later than September 1, 2025 	<ul style="list-style-type: none"> Reviewed direct holdings of Chinese securities and identified 547 companies that were majority-owned and controlled by China and subsequently placed on the Prohibited Investments in China List Updated guidelines and policies as required by state law and notified its external managers of the required divestiture of investments within the statutorily prescribed time

¹ Companies placed on the Continued Examination List are under review to determine whether the companies meet the criteria for scrutinized business activities.

Source: *Laws of Florida* and State Board of Administration.

SBA operating budgets and investment management costs increased during the review period

Since OPPAGA’s 2023 review, the SBA’s budget and staffing increased. The SBA reported that budget increases were attributed to a need for additional positions and increased salaries, increased benefits, and increased contractual services, including information technology services. SBA investment management costs, such as fees paid to third-party investment managers, also increased for major investment funds during the review period.

Since OPPAGA’s last review, the SBA’s operating budget increased by \$14.9 million. From Fiscal Year 2021-22 to Fiscal Year 2023-24, the SBA’s budget for major investment funds increased 15.9%, with 15 additional full-time positions created. During this period, the total operating budget for the board’s major funds increased from \$93.5 million to \$108.4 million. (See Exhibit 8.) This increase was driven by a \$9.5 million increase in salaries and benefits and a \$7.1 million increase in other personal services.

Budget increases were attributed to a need for additional positions and increased salaries, increased benefits, and increased contractual services, including information technology services. For example, an increase in the net asset value of the real estate asset class necessitated additional investment management staff. The SBA reported that board units such as risk management and compliance, general counsel, and information technology had increased workloads and the need for specialized skills. Overall, the SBA reported that these roles were essential for managing increased workloads, reducing risks, and supporting the organization’s growth and efficiency.

Exhibit 8

The SBA’s Operating Budget Increased 15.9% During the Review Period¹

Expenses and Staffing	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24	Change
Full-Time Positions	232	239	248	6.5%
Salaries and Benefits	\$40,186,045	\$43,458,973	\$49,667,580	23.6%
Other Personal Services	\$45,228,764	\$45,938,790	\$52,371,161	15.8%
Expenses	\$7,553,889	\$8,032,416	\$6,054,974	-19.8%
Capital Outlay	\$528,002	\$1,276,000	\$270,350	-48.8%
Total	\$93,496,700	\$98,706,179	\$108,364,065	15.9%

¹ These totals do not include the SBA’s budget for the board’s administrative support of the Division of Bond Finance.

Source: OPPAGA analysis of State Board of Administration data.

SBA investment management costs increased 2.0% for major investment funds during the review period. From Fiscal Year 2021-22 to Fiscal Year 2023-24, the board’s investment management costs increased by \$15.1 million, from \$771.2 million to \$786.3 million. (See Exhibit 9.) Investment expenses include items such as bank fees and investment management fees.²¹ The SBA reported that several factors affected the increase in investment management costs. For example, Florida PRIME’s total investment expenses increased by approximately \$2.1 million (36.4%) during the review period due to an increase in investment management fees, SBA service charges, and bank fees and overdraft charges.

Exhibit 9

The SBA’s Investment Management Costs Increased 2.0% During the Review Period

Fund	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24	Change
FRS Pension Plan	\$752,370,000	\$740,854,000	\$764,412,000	1.6%
FRS Investment Plan	\$7,736,000	\$6,810,000	\$9,125,000	18.0%
Florida PRIME ¹	\$5,778,000	\$6,563,000	\$7,880,000	36.4%
CAT Fund	\$5,284,000	\$5,183,000	\$4,871,000	-7.8%
Total	\$771,168,000	\$759,410,000	\$786,288,000	2.0%

¹ Florida PRIME costs are based on the investment trust as a whole and not at a participant level.

Source: OPPAGA analysis of State Board of Administration data.

To reduce investment management costs, the SBA reported increasing the percentage of internally managed funds, which increased from 44.8% to 50.1% during the review period. Because external managers charge additional fees and commissions, it is generally financially beneficial to manage funds internally where feasible.²² The SBA also reported negotiating lower rates and fees with external fund managers. For example, in response to a proposed SBA plan to replace an externally managed FRS Investment Plan fund with an equivalent passive option that the board would manage internally, the external manager reduced its fee by 50%, effective January 1, 2024. Considering the reduction, the SBA determined that the proposal to manage the funds internally would no longer result in appreciable savings. Approximate annual cost savings to FRS Investment Plan participants due to the fee reduction was reported to be \$518,538.

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.

²¹ Investment management fees are paid to third party investment managers who are responsible for managing the portions of the major investment funds not managed internally by the SBA.

²² FRS Pension Plan external investment management fees for Fiscal Year 2023-24 were \$677.4 million, and net brokerage commissions were \$27.2 million.

APPENDIX A

All State Board of Administration Funds, Investment Gains, and Market Values

As of June 30, 2024, the State Board of Administration (SBA) managed the investments of 29 mandates and trusts. (See Exhibit A-1.) Mandates are investment responsibilities established as a direct requirement of Florida law. Trusts are investment responsibilities allowed under law and established pursuant to a trust agreement with a client.

Exhibit A-1

SBA Assets Under Management as of June 30, 2024¹

Fund Name	Market Value June 30, 2022	Investment Gain (Loss)	Net Contributions (Withdrawals)	Market Value June 30, 2024	Change in Market Value
Florida Retirement System Pension Plan	\$179,954,710,565	\$32,300,094,209	-\$14,026,014,493	\$198,228,790,282	10.2%
Florida PRIME ²	\$17,704,792,482	\$2,077,400,104	\$4,032,794,676	\$23,814,987,262	34.5%
Florida Retirement System Investment Plan	\$12,811,826,722	\$3,413,766,103	\$997,828,094	\$17,223,420,920	34.4%
Florida Hurricane Catastrophe Fund	\$12,422,873,240	\$824,015,149	-\$2,462,366,979	\$10,784,521,410	-13.2%
SBA Finance Corporation	\$3,432,788,833	\$270,084,827	\$939,609,990	\$4,642,483,650	35.2%
Debt Service ³	\$475,337,597	\$91,682,235	\$325,834,113	\$892,853,944	87.8%
Retiree Health Insurance Subsidy Trust Fund	\$475,191,864	\$59,884,741	\$142,654,748	\$677,731,353	42.6%
Police and Firefighters' Premium Tax Trust Fund	\$299,395,053	\$21,205,968	\$113,040,673	\$433,641,693	44.8%
Department of the Lottery Fund	\$253,376,682	-\$3,355,980	-\$35,218,469	\$214,802,234	-15.2%
Florida Optional Reinsurance Assistance Program Claims	\$0	\$8,203,338	\$146,993,522	\$155,196,859	N/A
Florida College Investment Plan	\$78,599,437	\$8,976,681	\$31,278,048	\$118,854,166	51.2%
SBA Administrative Fund	\$79,523,665	\$9,479,551	\$24,169,134	\$113,172,349	42.3%
Reinsurance Assistance Policy Program	\$0	\$23,563,870	\$87,284,932	\$110,848,802	N/A
SBA Defined Contribution Administrative Fund	\$14,728,048	\$1,664,135	\$5,824,473	\$22,216,656	50.8%
Florida ABLE, Inc.	\$8,277,056	\$1,004,485	\$3,152,864	\$12,434,405	50.2%
Florida Division of Blind Services	\$7,459,870	\$2,547,411	\$0	\$10,007,282	34.1%
Bond Proceeds Trust Fund ³	\$513,878	\$170,390	\$5,517,985	\$6,202,253	1,107.0%
Bond Fee Trust Fund	\$6,744,533	\$577,722	-\$1,488,211	\$5,834,045	-13.5%
Florida ABLE, Inc. Administrative Expense	\$2,778,865	\$259,857	-\$504,133	\$2,534,589	-8.8%
Arbitrage Compliance Trust Fund	\$2,452,100	\$223,593	-\$391,668	\$2,284,024	-6.9%
Florida Optional Reinsurance Assistance Program Admin	\$0	\$164,988	\$1,946,623	\$2,111,611	N/A

Fund Name	Market Value June 30, 2022	Investment Gain (Loss)	Net Contributions (Withdrawals)	Market Value June 30, 2024	% Change in Market Value
Insurance Capital Build-up Program	\$2,364,069	\$156,530	-\$612,173	\$1,908,427	-19.3%
Florida Department of Transportation Financing Corporation	\$22,062	\$2,110,255	-\$778,758	\$1,353,558	6,035.2%
Florida Prepaid College Plan Administrative Expense	\$2,353,048	\$137,806	-\$1,149,810	\$1,341,045	-43.0%
Florida College Investment Plan Administrative Expense	\$402,363	\$40,156	\$0	\$442,519	10.0%
Florida Prepaid College Plan	\$1,389	\$23,854	\$297,545	\$322,787	23,138.8%
Lawton Chiles Endowment Fund	\$460,108	\$122,979	-\$296,000	\$287,087	-37.6%
Inland Protection Financing Corporation	\$1,649	\$165	\$0	\$1,813	9.9%
Gas Tax Clearing Fund ³	\$1	\$1,047,647	-\$1,047,640	\$8	700.0%
Total Assets Under Management	\$228,036,975,179	\$39,115,252,768	-\$9,671,640,914	\$257,480,587,033	12.9%

¹ Totals may not sum due to rounding.

² The \$23.8 billion market value reported for Florida PRIME excludes approximately \$1.7 billion of Florida PRIME holdings in funds managed by the SBA. The SBA excluded this amount to avoid double counting values reported in other funds managed by the SBA that are invested in Florida PRIME.

³ These portfolios contain assets of state government programs temporarily available for investment. Transactions are executed by the SBA's investment staff upon instruction from the program specifying the terms of the investment.

Source: OPPAGA analysis of State Board of Administration data.

APPENDIX B

Agency Response



STATE BOARD OF ADMINISTRATION
OF FLORIDA

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JAMES UTHMEIER
ATTORNEY GENERAL

CHRIS SPENCER
EXECUTIVE DIRECTOR

April 1, 2025

Kara Collins-Gomez
Coordinator
Office of Program Policy Analysis and Government Accountability
111 West Madison Street, Suite 312
Tallahassee, Florida 32399

Dear Kara:

We have reviewed the preliminary and tentative OPPAGA report titled: *State Board of Administration Management of Major Investment Funds: 2025*. We have no objections 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 "Chris Spencer".

Chris Spencer
Executive Director



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) provides descriptive information on Florida state agencies, including funding, contact information, and references to other sources of agency information.
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Project supervised by Alex Regalado (850/717-0506)
Project conducted by Chris Hilliard and Kyle Rose
Kara Collins-Gomez, Coordinator