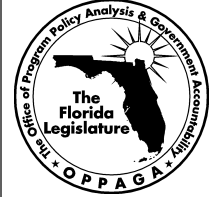




Office of Program Policy Analysis And Government Accountability



John W. Turcotte, Director

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Follow-Up Report on the State Board of Administration's 1994-95 Investment Performance

Abstract

- The State Board of Administration has implemented our recommendations to compare asset class performance to the newly adopted broad market indexes. The Board has monitored the Domestic Asset Class performance and aggregates individual portfolio benchmarks and returns to determine if they meet the asset class benchmark.

Purpose

In accordance with s. 11.45(7)(f), F.S., this follow-up report informs the Legislature of actions taken by the State Board of Administration in response to our Report No. 96-09, which we issued September 25, 1996. This report presents our assessment of the extent to which the Department has addressed the findings and recommendations included in our report.

Background

The State Board of Administration is a constitutional board charged with investing certain of the state's financial assets. One of the board's major responsibilities is investing the assets of the

Florida Retirement System, which is the fourth largest among state retirement plans, with a value of \$44.7 billion as of June 30, 1995.

Prior Findings

The State Board of Administration's investment performance for the domestic equity and foreign equity asset classes presented in the Annual Report was not compared to newly adopted broad market indexes.

Investment returns for most asset classes were close to their objectives over periods of three and five years. However, the domestic equity asset class under-performed its objective in Fiscal Year 1994-95 and needs to be closely monitored.

Thirteen of the State Board of Administration's domestic equity portfolio managers had individual customized objectives below either of the overall asset class objectives (Wilshire 2500 Index or the S&P 500 Index) addressed in the 1994-95 Investment Report. This makes it unlikely that the overall return rate on domestic equities would reach the asset class objective.

Current Status

As our office recommended, the State Board of Administration compared the performance of various asset classes to their appropriate indexes in the 1995-96 and 1996-97 annual investment reports.

The State Board of Administration also adopted a policy for retaining and terminating external equity managers. This policy sets forth what is expected from external equity managers and the State Board of Administration's options if these expectations are not met. This policy establishes qualitative and quantitative criteria for State Board of Administration staff to use in assessing each manager's performance and the SBA's options if these expectations are not met. This policy was designed to ensure that managers meet their customized objectives and that their combined returns would meet or exceed the SBA's overall asset class objective. SBA staff are currently analyzing each manager's performance against customized benchmarks and the overall asset class's performance against its benchmark.

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Project supervised by: Thomas Roth (850/488-1024)

Project conducted by: A. B. Verhine (850/487-9276)