1983

Session Law 83-270

Florida Senate & House of Representatives

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LEGISLATIVE SUPPLEMENT "B" - SESSION LAW ABSTRACT

<table>
<thead>
<tr>
<th>Sess. Law #</th>
<th>83-270</th>
<th>Sec. #</th>
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<tbody>
<tr>
<td>Prime Bill #</td>
<td>HB 1169</td>
<td>Comp./Sim. Bills</td>
<td>SB 1095</td>
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<thead>
<tr>
<th>JLMC Hist. Cites</th>
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**COMMITTEE RECORDS**

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<tr>
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[continued on reverse]

**Senate/House Journals**

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**Committee/Floor Tapes**

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**Other Documentation**

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NOTES
Florida Legislature

History of Legislation
1983 Regular Session
1983 Special Sessions A, B, C
1982 Special Session H

prepared by:

Joint Legislative Management Committee
Legislative Information Division
Capitol Building, Room 826—488-4371
04/21/83 SERVICES; APPROPRIATIONS — SJ 00315
05/04/83 SENATE UN COMMITTEE AGENCIES — MRS, 05/04/83, 1:00 PM, RM. A.
05/04/83 SENATE COMM. REPORT: CJS BY HEALTH AND REHABILITATIVE SERVICES — CJS READ FIRST TIME 05/10/83 — SJ 00460
05/06/83 SENATE NOW IN APPROPRIATIONS — SJ 00249
05/16/83 SENATE EXTENSION OF TIME GRANTED COMMITTEE APPROPRIATIONS
05/27/83 SENATE WITHDRAW FROM APPROPRIATIONS — SJ CONS, PLACED ON CALENDAR
06/03/83 SENATE INDEF. POSTPONED & W/D (SCR 9209); WAS ON CALL; ISL BILL PASSED, 6th CS/8 700 (CH. 83-224)

1091 GENERAL BILL BY REHM (SIMILAR H 1057)
STATE CORRECTIONAL SYSTEM: PROVIDES THAT IT IS UNLAWFUL WHILE UPON UNDUE TO ANY STATE CORRECTIONAL INSTITUTION TO ATTEMPT TO SEND CONTRABAND THROUGHOUT EXCEPT AS AUTHORIZED BY OFFICER IN CHARGE OF SUCH INSTITUTIONS; SPECIFIES ARTICLES THAT CONSTITUTE CONTRABAND; PROVIDES PENALTIES. AMENDS 94-47. EFFECTIVE DATE: 10/01/83.
04/21/83 SENATE FILED
04/21/83 SENATE INCREASED REFINERY TAXES, 1ST SID, 1ST ADD'L 15%.
05/17/83 SENATE COMM. REPORT: FAVORABLE, PLACED ON CALENDAR BY JUDICIARY-CRIMINAL — SJ 00303
06/03/83 SENATE INDEFINITE POSTPONED & W/D (SCR 9209); WAS ON CALL

1092 GENERAL BILL BY FRANK (COMPARE ENG/S 00411)
LAND RECLAMATION EXPANSIONS AUTHORIZED USES OF NONMUNICIPAL LAND MEDITATION TRUST FUNDS REQUIRES CERTAIN LAND ACQUISITIONS TO BE CONSISTENT WITH MASTER RECLAMATION PLAN. AMENDS 378.031. EFFECTIVE DATE: 10/01/83.
04/19/83 SENATE FILED
04/21/83 SENATE INCREASED REFINERY TAXES, 1ST SID, 1ST ADD'L 15%.
05/17/83 SENATE COMM. REPORT: FAVORABLE, PLACED ON CALENDAR BY JUDICIARY-CRIMINAL — SJ 00303
05/18/83 SENATE INDEFINITE POSTPONED & W/D (SCR 9209); WAS ON CALL

1093 GENERAL BILL/CS BY TRANSPORTATION; NICHOLSON (SIMILAR S 1171)
DELIVERED LICENSABLE REVISED ADDS DEFINITIONS TO PROVIDE FOR ISSUANCE OF A "DRIVER'S LICENSE" IN ONE OF SEVERAL CLASSIFICATIONS, RATHER THAN A "CHAUFFEUR'S" "OPERATOR'S" "RESTRICTED OPERATOR'S" LICENSE; MODIFIES EXEMPTIONS FROM LICENSE REQUIREMENTS, ETC. AMENDS CH. 322 CREATES 322.143. EFFECTIVE DATE: 10/01/85.
04/19/83 SENATE FILED
04/21/83 SENATE INCREASED REFINERY TAXES, 1ST SID, 1ST ADD'L 15%.
05/18/83 SENATE COMM. REPORT: CJS BY TRANSPORTATION — SJ 00330 CJS READ FIRST TIME 05/24/83 — SJ 00332
05/24/83 SENATE NOW IN APPROPRIATIONS — SJ 00330
05/20/83 SENATE COMM. REPORT: CJS BY TRANSPORTATION — SJ 00330
05/20/83 SENATE COMM. REPORT: FAVORABLE, PLACED ON CALENDAR BY JUDICIARY-CRIMINAL — SJ 00303
05/30/83 SENATE COMM. REPORT: FAVORABLE, PLACED ON CALENDAR BY JUDICIARY-CRIMINAL — SJ 00303
06/02/83 SENATE INDEFINITE POSTPONED & W/D (SCR 12091); WAS ON CALL

1094 GENERAL BILL/CS BY APPROPRIATIONS; JOHNSTON (COMPARE H 1242, H 1137, H 1200, S 0228, CS/S 1155)
FINANCING PREREQUISITE TO STATE AGENCY CAN ACCEPT CREDIT CARDS IN PAYMENT FOR CERTAIN GOODS & SERVICES UNDER SPECIFIC CIRCUMSTANCES; CONTINUED ON NEXT PAGE

1095 GENERAL BILL BY CARLUCCI
CONTROLLABLE SUBSTANCES: PROHIBITS A PERSON FROM WITHOUT CERTAIN INFORMATION FROM A PHARMACIST; PROHIBITS POSSESSION OF CERTAIN PRESCRIPTION FORMS BY ANY PERSON WHO IS NOT A PHARMACIST; PROVIDES PENALTIES. AMENDS 893.123. EFFECTIVE DATE: 10/01/83.
04/19/83 SENATE FILED
04/21/83 SENATE INCREASED REFINERY TAXES, 1ST SID, 1ST ADD'L 15%.
05/03/83 SENATE COMM. REPORT: CJS BY TRANSPORTATION — SJ 00421 LAID ON TABLE UNDER RULE: 893.123
05/03/83 SENATE COMM. REPORT: FAVORABLE, PLACED ON CALENDAR BY JUDICIARY-CRIMINAL — SJ 00421
05/03/83 SENATE INDEFINITE POSTPONED & W/D (SCR 12091); WAS ON CALL

1096 GENERAL BILL/CS BY HEALTH AND REHABILITATIVE SERVICES; FOR (SIMILAR H 1310)
HABITUAL TRAUMA; DEFINES TERM "TO BE HABITUALLY TRAUMA"; REQUIRES COMPLETENESS OF REPORT OR COMPLAINT ON TRAUMA TO BE GOVERNED BY SUCH DEFINITION; REQUIRES SPECIFIC ACTIONS PRIOR TO FILING OF PETITION FOR CONTINUED ON NEXT PAGE
I. SUMMARY:

A. Present Situation:

The State Board of Administration (SBA) has responsibility for investing the funds of the Florida Retirement System. Approximately $6.0 billion is currently invested. The following restrictions, among others, are currently placed on the SBA's investment authority:

1) Not more than 40% of any fund may be invested in common stock.

2) Common stock investments must be in corporations listed on one or more of the recognized national stock exchanges in the United States.

3) The aggregate investment in the common stock of any one corporation cannot exceed 3 percent of the outstanding capital stock of that corporation.

4) The SBA has no specific authority to retain investment advisors or managers external to inhouse staff.

The SBA is currently audited annually by the Auditor General's Office.

B. Effect of Proposed Changes:

The SBA's investment authority would be expanded by:

1) Increasing the proportion of any fund that can be invested in common stock from 40% to 60%.

2) Removing language limiting stock investments to corporations listed on one or more of the recognized national stock exchanges in the United States.

3) Removing language limiting the aggregate investment in any one corporation to not more than 3% of that corporation's capital stock.

4) Specifically allowing the retention of investment advisors or managers external to inhouse staff.

The bill also provides that the SBA is to be audited each year by one of the top eight certified public accounting firms in the United States.

II. ECONOMIC IMPACT AND FISCAL NOTE:

A. Public:
This bill does two things. First, it allows the SBA to significantly expand its position in common stock. Measured over the long term, the return on stock is approximately 4 to 5 percentage points higher than that on bonds. Many investment advisory firms recommend common stock positions at between 50 and 60% of the total portfolio for pension funds.

Second, this bill allows the SBA to more greatly diversify its stock investments. Thirty percent of the U.S. equity market is currently not listed on a national securities exchange, including many corporations in banking and other regulated industries. This bill would allow the SBA to invest in these corporations. Also by allowing investments in more than 3% of a corporation's stock, the SBA should be able to increase its investments in small and medium sized firms.

It is difficult to estimate the fiscal impact of the expanded investment authority which would be allowed by this bill. Generally, however, greater diversity will yield higher returns over the long term.

Specifically in reference to the increased authority to invest in common stock, this increased authority should increase investment income estimates for the actuarial determination of Florida Retirement System contributions. Based on the long term differential in the return on common stock investments versus the return on bonds, an increase in the proportion of common stock from 35% (it is approximately 37% at present) to 55% would yield estimated additional revenues of $52 million in 1983-84. Contributions aimed at achieving any given level of benefits could be reduced by this amount per year and still provide the desired benefit level.

III. COMMENTS:

This act would take effect upon becoming a law.

IV. AMENDMENTS:

None
SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

ANALYST: Begg
STAFF DIRECTOR: Begg
REFERENCE: FT&C
ACTION: Fav/1 amend.

SUBJECT: Investment of State Funds
BILL NO. AND SPONSOR: SB 1095 by Senator Maxwell

I. SUMMARY:

A. Present Situation:

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B. Government:

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III. COMMENTS:

This act would take effect upon becoming a law.

IV. AMENDMENTS:

#1 by Finance, Taxation & Claims:
This amendment limits to no more than 40% the portion of the fund that can be invested in internally managed common stock.
The Committee on FT&C recommended the following amendment which was moved by Senator and adopted: and failed:

Amendment

On page 2, after line 4, insert:

(c) Not more than 40 percent of the fund can be in internally managed common stock.
**BILL ACTION REPORT**

(C3-75: File with Secretary of Senate)  

**COMMITTEE ON FINANCE, TAXATION & CLAIMS**  

**DATE**  May 12, 1983  

**COPY**  

12:30 - 2:00  

**PLACE**  room 10  

**COMMITTEE REFERENCES**  

**DATE REPORTED**  May 13, 1983  

**FINAL ACTION**

- Favorably with 1 amendments  
- Favorably with Committee Substitute  
- Unfavorably  
- Temporarily Passed  
- Reconsidered  
- Not Considered

**THE VOTE WAS**

**FINAL BILL VOTE**  

<table>
<thead>
<tr>
<th>Aye</th>
<th>Nay</th>
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<tbody>
<tr>
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**SENEATORS**  

- Senator Carlucci  
- Senator Dunn  
- Senator Frank  
- Senator Henderson  
- Senator Jennings  
- Senator McPherson  
- Senator Myers  
- Senator Weinstein  
- Senator Maxwell  
- VICE CHAIRMAN absent

**TOTAL**  

<table>
<thead>
<tr>
<th>Aye</th>
<th>Nay</th>
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Please Complete:  

- The key sponsor appeared  
- A Senator appeared  
- Sponsor's aide appeared  
- Other appearance  

(Attach additional page if necessary)
<table>
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<th>Period</th>
<th>Value (Billions)</th>
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<tr>
<td>December 31, 1982</td>
<td>$5.4</td>
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<tr>
<td>December 31, 1983</td>
<td>6.3</td>
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<tr>
<td>December 31, 1984</td>
<td>7.2</td>
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<td>December 31, 1985</td>
<td>8.3</td>
</tr>
<tr>
<td>December 31, 1986</td>
<td>9.5</td>
</tr>
<tr>
<td>December 31, 1987</td>
<td>10.8</td>
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</table>
1. Commercial and Industrial Real Estate - Three real estate advisers have been selected and are actively seeking deals.
   - Equitable Life Assurance - Atlanta
   - First Capital Financial Corporation - Miami
   - La Salle Partners - Chicago

We have also hired a real estate portfolio manager and have developed our real estate investment procedures.

2. Commercial Paper Authority - Current Holdings
   - Local Government Investment Pool - 46.9% as of 2/28/83
   - Florida Retirement System Cash - 24% as of 2/28/83

3. Banker's Acceptance of Banks with over $400 million in deposits - Current Holdings:
   - Local Government Investment Pool - 36.3% as of 2/28/83
   - Florida Retirement System Cash - 22% as of 2/28/83

4. Increased equity authority from 25% to 40%
   - From January 1, 1982 to December 31, 1982 our FRS equity portfolio grew from 17.5% to approximately 33% currently

5. Authority to purchase foreign corporations listed on one or more of the recognized national stock exchanges in the United States that conform with the reporting requirements under the Securities Exchange Act of 1934.
   - Portfolio Additions: Sony Corporation (Japan)
   - Seagram's (Canada)
   - Novo Industries (Denmark)
   Novo is the world leader in biotechnology.
   - McDermott (Panama)
   A leading oil service company.
6. Increase from 3% to 10% the maximum amount of any fund that can be invested in the equity assets of any one issuing company (only when it comprises such a proportion of the S&P 500 or a broader index.)

   - This authority has allowed us to move toward a market weighting in ATT. The market value of our ATT holdings is 5.0% of the portfolio compared to comprising 5.5% of the S&P 500.

7. Add specific repurchase and reverse repurchase agreement authority - Current Holdings

   - Local Government Investment Pool - 3.8% as of 2/28/83
   - Florida Retirement System Cash - 24% as of 2/28/83

8. Authorize the State Treasurer to register securities in a third party nominee name to facilitate the lending and option writing programs without personal liability

   - Currently working on necessary legal arrangements. The move to Depository Trust Company was originally scheduled for July 1983. Because of TEFRA and SEC Rule 387 requirements we should move to DTC as soon as possible.

9. Authority to lend certain securities held by the SBA

   - Currently working out the necessary legal arrangements. Dependent on move to Depository Trust Company.

10. Authority to sell listed options

    - Currently working out the necessary legal arrangements. Dependent on move to Depository Trust Company.
Main Features of Proposed Bill

1.Eliminates the specific list of authorized investments and substitutes the "prudent expert" concept. The "prudent expert" rule is the standard of responsibility regulating private pension plans under the ERISA of 1974.

2. Authorizes the Board to retain outside investment advisors or managers in carrying out its investment responsibilities. This is important because it provides a means to immediately acquire investment expertise that may not exist inhouse.

3. Requires the Board to maintain a written investment policy pursuant to Chapter 120.
STOCKS, BONDS, BILLS AND INFLATION: HISTORICAL RETURNS

Roger G. Ibbotson and Rex A. Sinquefield
The Financial Analysts Research Foundation

<table>
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<th>Annual Compound Real Rates of Return</th>
<th>1955-1980</th>
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<td>Common Stocks (S&amp;P 500)</td>
<td>3.61%</td>
<td>6.4%</td>
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<tr>
<td>Long Term Government Bonds</td>
<td>(2.28)</td>
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<td>Long Term Corporate Bonds</td>
<td>(1.84)</td>
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<td>U. S. Treasury Bills</td>
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### RECOMMENDED ASSET MIX
(Percent)

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<th>Bonds</th>
<th>Cash</th>
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<td>70</td>
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<tr>
<td>Goldman Sachs</td>
<td>65</td>
<td>30</td>
<td>5</td>
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<tr>
<td>Drexel Burnham</td>
<td>60</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Merrill Lynch</td>
<td>60</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Shearson/American Express</td>
<td>60</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>Mitchell Hutchins</td>
<td>55</td>
<td>40</td>
<td>5</td>
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<tr>
<td>Kidder Peabody</td>
<td>53</td>
<td>32</td>
<td>15</td>
</tr>
<tr>
<td>Smith Barney</td>
<td>50</td>
<td>45</td>
<td>5</td>
</tr>
<tr>
<td>Solomon Brothers</td>
<td>50</td>
<td>50</td>
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<tr>
<td><strong>Average</strong></td>
<td>58</td>
<td>36</td>
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### PROJECTED TOTAL RETURNS
(Percent)

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<th>Cash</th>
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<td>27</td>
<td>8.5</td>
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<tr>
<td>First Boston</td>
<td>25</td>
<td>13</td>
<td>8.5</td>
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<tr>
<td>Merrill Lynch</td>
<td>25</td>
<td>20</td>
<td>8.5</td>
</tr>
<tr>
<td>Kidder Peabody</td>
<td>24</td>
<td>29</td>
<td>8.5</td>
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<tr>
<td>Goldman Sachs</td>
<td>20</td>
<td>12</td>
<td>8</td>
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<tr>
<td>Smith Barney</td>
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<tr>
<td>Solomon Brothers</td>
<td>18</td>
<td>10</td>
<td>8.3</td>
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<tr>
<td>Mitchell Hutchins</td>
<td>14</td>
<td>11</td>
<td>8.7</td>
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<tr>
<td>Shearson/American Express</td>
<td>?</td>
<td>?</td>
<td>8.5</td>
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<tr>
<td><strong>Average</strong></td>
<td>23</td>
<td>19</td>
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SBA Survey Taken 4/1/83
# TOP FIFTEEN PRIVATE PENSION FUNDS

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<th>Rank</th>
<th>Company</th>
<th>Percent Equities</th>
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<tr>
<td>1.</td>
<td>AT&amp;T</td>
<td>48</td>
</tr>
<tr>
<td>2.</td>
<td>General Motor Corp.</td>
<td>52</td>
</tr>
<tr>
<td>3.</td>
<td>General Electric Corp.</td>
<td>47</td>
</tr>
<tr>
<td>4.</td>
<td>IBM</td>
<td>64</td>
</tr>
<tr>
<td>5.</td>
<td>Ford Motor Co.</td>
<td>59</td>
</tr>
<tr>
<td>6.</td>
<td>DuPont</td>
<td>47</td>
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<tr>
<td>7.</td>
<td>U. S. Steel</td>
<td>N.A.*</td>
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<tr>
<td>8.</td>
<td>Exxon</td>
<td>48</td>
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<tr>
<td>9.</td>
<td>GTE Corp.</td>
<td>60</td>
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<tr>
<td>10.</td>
<td>Teamsters, West</td>
<td>14</td>
</tr>
<tr>
<td>11.</td>
<td>Teamsters, Central States</td>
<td>34</td>
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<tr>
<td>12.</td>
<td>Eastman Kodak</td>
<td>52</td>
</tr>
<tr>
<td>13.</td>
<td>Mobil</td>
<td>55</td>
</tr>
<tr>
<td>14.</td>
<td>Rockwell</td>
<td>N.A.*</td>
</tr>
<tr>
<td>15.</td>
<td>United Technologies</td>
<td>37</td>
</tr>
</tbody>
</table>

*Not Available.*
## State Retirement Systems

*Interstate Comparison

### Statutory Equity Limitations

<table>
<thead>
<tr>
<th>0-24%</th>
<th>25-49%</th>
<th>50-100%</th>
<th>No Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>California Public and Teachers</td>
<td>Arizona</td>
<td>Missouri</td>
</tr>
<tr>
<td>Louisiana Teachers</td>
<td>Florida</td>
<td>Colorado</td>
<td>New Jersey</td>
</tr>
<tr>
<td>Mississippi</td>
<td>Hawaii</td>
<td>Connecticut</td>
<td>Texas Teachers</td>
</tr>
<tr>
<td>South Carolina</td>
<td>Illinois Municipal</td>
<td>Georgia</td>
<td>Washington</td>
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<tr>
<td>West Virginia</td>
<td>Illinois State</td>
<td>Kansas</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Illinois Teachers</td>
<td>Maryland</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Iowa</td>
<td>Minnesota</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Massachusetts State and Teachers</td>
<td>Montana</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Michigan</td>
<td>Tennessee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New York State Common</td>
<td>Texas Employees</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New York State Teachers</td>
<td>Virginia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>North Carolina</td>
<td>Wisconsin</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ohio Public</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Ohio Teachers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oregon</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pennsylvania Public School</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pennsylvania State</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13.2% of Total 44.7% of Total 31.6% of Total 10.5% of Total

*Source: Peat, Marwick, Mitchell and Company - 39 State Retirement System with $1 billion or more under management July 1961*
REASONS IN SUPPORT OF
THE PRUDENT EXPERT CONCEPT

1. Provides the necessary flexibility to respond to today's rapidly changing markets and to allow for the timely diversification of the FRS portfolio.

<table>
<thead>
<tr>
<th>INVESTMENT INSTRUMENT</th>
<th>ESTABLISHED</th>
<th>SBA AUTHORIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock</td>
<td>N.A.</td>
<td>1973</td>
</tr>
<tr>
<td>Federal Farm Credit Banks Obligations</td>
<td>1977</td>
<td>1979</td>
</tr>
<tr>
<td>Federal Home Loan Mortgage Corp. Obligations</td>
<td>1970</td>
<td>1979</td>
</tr>
<tr>
<td>GNMA Obligations</td>
<td>1970</td>
<td>1979</td>
</tr>
<tr>
<td>Private Mortgage Pass Thru Certificates</td>
<td>1977</td>
<td>1980</td>
</tr>
<tr>
<td>FNMA Obligations</td>
<td>1968</td>
<td>1980</td>
</tr>
<tr>
<td>Commercial Real Estate</td>
<td>N.A.</td>
<td>1982</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>Late 1800's rapid growth, post WWII</td>
<td>1982</td>
</tr>
<tr>
<td>Bankers Acceptances</td>
<td>1915</td>
<td>1982</td>
</tr>
<tr>
<td>Covered Options</td>
<td>1973</td>
<td>1982</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>1917</td>
<td>1982</td>
</tr>
<tr>
<td>Lending Securities</td>
<td>??</td>
<td>1982</td>
</tr>
</tbody>
</table>

2. Enhances the potential for greater long term returns at reduced levels of risk. Both of our equity advisors, Fourteen Research and Provident National Bank, recommend equity holdings in the 50-65 percent range. Removal of the 40 percent equity cap would allow us to move toward this more optimum portfolio mix. This would increase earnings potential while reducing risk.

3. It places a greater responsibility for the fund's performance on staff by removing the shield afforded by a "legal list."

4. Eliminates repeated trips to the legislature.
AMENDMENT TO SB 1095

On page 2 after line 4 insert the following:

(c) Not more than 40 percent of the fund can be in internally managed common stock.
ILLUSTRATION OF IMPACT OF HB 1169 OR SB 1095 ON PROPOSED FRS ACTURIAL INVESTMENT INCOME ASSUMPTION

Current Law

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>% of Portfolio</th>
<th>Estimated Return</th>
<th>Weighted Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock</td>
<td>35</td>
<td>9%</td>
<td>3.15%</td>
</tr>
<tr>
<td>Equity Real Estate</td>
<td>5</td>
<td>9</td>
<td>.45</td>
</tr>
<tr>
<td>Bonds &amp; Other Fixed Income</td>
<td>55</td>
<td>5</td>
<td>2.75</td>
</tr>
<tr>
<td>Cash</td>
<td>5</td>
<td>4</td>
<td>.20</td>
</tr>
<tr>
<td>Total Portfolio</td>
<td></td>
<td></td>
<td>6.55%</td>
</tr>
</tbody>
</table>

Under HB 1169 or SB 1095

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>% of Portfolio</th>
<th>Estimated Return</th>
<th>Weighted Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stock</td>
<td>55</td>
<td>9%</td>
<td>4.95%</td>
</tr>
<tr>
<td>Equity Real Estate</td>
<td>5</td>
<td>9</td>
<td>.45</td>
</tr>
<tr>
<td>Bonds &amp; Other Fixed Income</td>
<td>35</td>
<td>5</td>
<td>1.75</td>
</tr>
<tr>
<td>Cash</td>
<td>5</td>
<td>4</td>
<td>.20</td>
</tr>
<tr>
<td>Total Portfolio</td>
<td></td>
<td></td>
<td>7.35%</td>
</tr>
</tbody>
</table>

*Assume 4% long-term inflation

Estimated Annual Earnings Increment

<table>
<thead>
<tr>
<th></th>
<th>1983-84</th>
<th>1984-85</th>
<th>1985-86</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS</td>
<td>$52 Million</td>
<td>$60 Million</td>
<td>$68 Million</td>
</tr>
</tbody>
</table>
MEMORANDUM

TO: Senator Clark Maxwell, Jr.

FROM: E. J. Yelton

Senate Bill 1055 expands the investment authority for funds in the Florida Retirement System (FRS). Specifically the bill provides for the following:

A. Increase the equity maximum from 40% to 60% of portfolio.

B. Allows purchase of more than 3% of the outstanding stock of a corporation.

C. Allows purchase of unlisted securities.

D. Authorizes use of outside investment managers and advisors.

E. Requires an annual audit by a nationally recognized CPA firm.

(A) The increase in the equity maximum to 60% is recommended because a broadly diversified common stock portfolio can be expected to earn 4.0%-5.0%/year more than bonds over long periods of time (see Attachment A). Balanced pension funds generally maintain a 60%/40% stock/bond mix. This is true for private pension funds (see September 30, 1982 experience of top 15 private funds in Attachment B) and is possible for many large state funds (see Attachment C). Our advisors are currently recommending a 50-65% common stock position as optimum as are most major brokerage firms (see Attachment D).

A 60% stock position would still leave sufficient portfolio wealth to cover the retirement payroll and provide a fixed income portfolio for active management.
(B) The ability to buy more than 3% of the outstanding stock of a corporation gives the FRS portfolio better access to the medium capitalization corporations (see Attachment E for higher return on medium caps). We define medium capitalization as $40-$400 million. Therefore, the current 3% maximum confines us to positions of $1.2-$12.0 million in these corporations.

If we acquire more than 5% of the stock of a corporation, under SEC regulations we must file a statement of our reason for purchasing that many shares. We will simply file that we own for investment reasons only.

(C) The authority to buy unlisted securities would allow the FRS to take a position in many medium and small capitalization companies. This full access to companies that represent 30% of the total U. S. equity market would allow broader portfolio diversification, thereby reducing overall portfolio risk.

Listing on a national exchange is no indication of quality. Historically many corporations in regulated industries traded over the counter. Typical of these are:

<table>
<thead>
<tr>
<th>Stock</th>
<th>Current Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Florida Banks</td>
<td>$ 177 million</td>
</tr>
<tr>
<td>Flagship Banks</td>
<td>194 million</td>
</tr>
<tr>
<td>Florida National Banks</td>
<td>271 million</td>
</tr>
<tr>
<td>Trust Co. of Georgia</td>
<td>464 million</td>
</tr>
<tr>
<td>Amer. Nat'l. Ins.</td>
<td>561 million</td>
</tr>
<tr>
<td>Nationwide Corp.</td>
<td>429 million</td>
</tr>
<tr>
<td>Farmers Group</td>
<td>1,434 million</td>
</tr>
<tr>
<td>Coors</td>
<td>534 million</td>
</tr>
<tr>
<td>Intel Corp.</td>
<td>2,170 million</td>
</tr>
<tr>
<td>Safeco Corp.</td>
<td>1,014 million</td>
</tr>
</tbody>
</table>

(D) The authority to use outside investment managers is needed for several reasons. With the growth of FRS balances expected to reach $10 billion (see Attachment F) in 1987, access to outside managers is needed to get that many dollars efficiently into the market, to diversify among investment philosophies, and to utilize the expertise of others in general and specific investment areas.

Staffing problems in the equity area require relationships with and access to outside managers so funds can be properly managed during periods of staff turnover and vacancy. The
efficiency of in-house staff and their use during turnover of outside managers suggests a mix of in-house staff and outside managers is the optimum organization.

(1) The requirement for an annual audit by a nationally recognized CPA firm is suggested by the several new investment operations going into effect. In the near future most FRS securities will be at Depository Trust Company (DTC) registered in the name of a third party nominee. These securities will be loaned from time to time and have options written against them. The FRS is also entering the commercial and industrial real estate field. Investments will begin in the State of Florida, spread to the Sunbelt, and ultimately nationwide. These investments will be both sole ownership and joint ventures.

:dr
Attachments

cc: Senator Harry A. Johnston, II
336 Senate Office Building
Tallahassee, Florida 32301

Senator Patrick K. Neal
210 Senate Office Building
Tallahassee, Florida 32301

Mr. Handy Miller
Executive Director
Department of Revenue
102 Carlton Building
Tallahassee, Florida 32301
STOCKS, BONDS, BILLS AND INFLATION: HISTORICAL RETURNS

Roger G. Ibbotson and Rex A. Sinquefield
The Financial Analysts Research Foundation

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>1955-1980</th>
<th>1926-1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Stocks (S&amp;P 500)</td>
<td>3.61%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Long Term Government Bonds</td>
<td>(2.28)</td>
<td>.7</td>
</tr>
<tr>
<td>Long Term Corporate Bonds</td>
<td>(1.84)</td>
<td>1.5</td>
</tr>
<tr>
<td>U. S. Treasury Bills</td>
<td>.15</td>
<td>0</td>
</tr>
<tr>
<td>Rank</td>
<td>Company</td>
<td>Equity %</td>
</tr>
<tr>
<td>------</td>
<td>---------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>1</td>
<td>AT&amp;T</td>
<td>48</td>
</tr>
<tr>
<td>2</td>
<td>General Motor Corp.</td>
<td>52</td>
</tr>
<tr>
<td>3</td>
<td>General Electric Corp.</td>
<td>47</td>
</tr>
<tr>
<td>4</td>
<td>IBM</td>
<td>64</td>
</tr>
<tr>
<td>5</td>
<td>Ford Motor Co.</td>
<td>59</td>
</tr>
<tr>
<td>6</td>
<td>DuPont</td>
<td>47</td>
</tr>
<tr>
<td>7</td>
<td>U.S. Steel</td>
<td>N.A.*</td>
</tr>
<tr>
<td>8</td>
<td>Exxon</td>
<td>48</td>
</tr>
<tr>
<td>9</td>
<td>GTE Corp.</td>
<td>60</td>
</tr>
<tr>
<td>10</td>
<td>Teamsters, West</td>
<td>14</td>
</tr>
<tr>
<td>11</td>
<td>Teamsters, Central States</td>
<td>34</td>
</tr>
<tr>
<td>12</td>
<td>Eastman Kodak</td>
<td>52</td>
</tr>
<tr>
<td>13</td>
<td>Mobil</td>
<td>55</td>
</tr>
<tr>
<td>14</td>
<td>Rockwell</td>
<td>N.A.*</td>
</tr>
<tr>
<td>15</td>
<td>United Technologies</td>
<td>37</td>
</tr>
</tbody>
</table>

*Not Available.*
<table>
<thead>
<tr>
<th>Alabama</th>
<th>California Public and Teachers</th>
<th>Arizona</th>
<th>Missouri</th>
</tr>
</thead>
<tbody>
<tr>
<td>Louisiana Teachers</td>
<td>Florida</td>
<td>Colorado</td>
<td>New Jersey</td>
</tr>
<tr>
<td>Mississippi</td>
<td>Hawaii</td>
<td>Connecticut</td>
<td>Texas Teachers</td>
</tr>
<tr>
<td>South Carolina</td>
<td>Illinois Municipal</td>
<td>Georgia</td>
<td>Washington</td>
</tr>
<tr>
<td>West Virginia</td>
<td>Illinois State</td>
<td>Kansas</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Illinois Teachers</td>
<td>Maryland</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Iowa</td>
<td>Minnesota</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Massachusetts State and Teachers</td>
<td>Montana</td>
<td></td>
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<tr>
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<td></td>
<td>North Carolina</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Ohio Public</td>
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</tr>
<tr>
<td></td>
<td>Ohio Teachers</td>
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<td>Oregon</td>
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</tr>
<tr>
<td></td>
<td>Pennsylvania Public School</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pennsylvania State</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

0-24% 44.7% of Total 31.6% of Total 10.5% of Total

*Source: Peat, Marwick, Mitchell and Company - 38
- Earnings System with $1 billion

ATTACHMENT C
### RECOMMENDED ASSET MIX
(Percent)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Equity</th>
<th>Bonds</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Boston</td>
<td>70</td>
<td>30</td>
<td>0.0</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>65</td>
<td>30</td>
<td>5.0</td>
</tr>
<tr>
<td>Drexel Burnham</td>
<td>60</td>
<td>30</td>
<td>10.0</td>
</tr>
<tr>
<td>Merrill Lynch</td>
<td>60</td>
<td>30</td>
<td>10.0</td>
</tr>
<tr>
<td>Shearson/American Express</td>
<td>60</td>
<td>40</td>
<td>0.0</td>
</tr>
<tr>
<td>Mitchell Hutchins</td>
<td>55</td>
<td>40</td>
<td>1.5</td>
</tr>
<tr>
<td>Kidder Peabody</td>
<td>53</td>
<td>32</td>
<td>1.5</td>
</tr>
<tr>
<td>Smith Barney</td>
<td>50</td>
<td>45</td>
<td>0.5</td>
</tr>
<tr>
<td>Solomon Brothers</td>
<td>50</td>
<td>50</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>58.8</td>
<td>36.2</td>
<td>6.6</td>
</tr>
</tbody>
</table>

### PROJECTED TOTAL RETURNS
(Percent)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Equity</th>
<th>Bonds</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drexel Burnham</td>
<td>35</td>
<td>27</td>
<td>8.5</td>
</tr>
<tr>
<td>First Boston</td>
<td>25</td>
<td>13</td>
<td>8.5</td>
</tr>
<tr>
<td>Merrill Lynch</td>
<td>25</td>
<td>20</td>
<td>8.5</td>
</tr>
<tr>
<td>Kidder Peabody</td>
<td>24</td>
<td>29</td>
<td>8.5</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>20</td>
<td>12</td>
<td>8.0</td>
</tr>
<tr>
<td>Smith Barney</td>
<td>20</td>
<td>20</td>
<td>8.5</td>
</tr>
<tr>
<td>Solomon Brothers</td>
<td>18</td>
<td>18</td>
<td>8.3</td>
</tr>
<tr>
<td>Mitchell Hutchins</td>
<td>14</td>
<td>11</td>
<td>8.7</td>
</tr>
<tr>
<td>Shearson/American Express</td>
<td>?</td>
<td>?</td>
<td>8.5</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>23</td>
<td>19</td>
<td>8.4</td>
</tr>
</tbody>
</table>
MEMORANDUM

TO: E. J. Yelton
FROM: John Dorian
DATE: April 14, 1983
SUBJECT: Supporting Evidence for the Medium Cap Effect

The following study reveals the superior performance of Medium Capitalization stocks versus Large Caps.

Twelve year total return results: December 31, 1970 through December 31, 1982

<table>
<thead>
<tr>
<th>Year</th>
<th>S&amp;P 500</th>
<th>S&amp;P Lowest 100 MV</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 Dec. 81 - 31 Dec. 82</td>
<td>21.6%</td>
<td>44.0 %</td>
</tr>
<tr>
<td>80</td>
<td>81</td>
<td>-5.0</td>
</tr>
<tr>
<td>79</td>
<td>80</td>
<td>32.5</td>
</tr>
<tr>
<td>78</td>
<td>79</td>
<td>18.6</td>
</tr>
<tr>
<td>77</td>
<td>78</td>
<td>6.4</td>
</tr>
<tr>
<td>76</td>
<td>77</td>
<td>-7.3</td>
</tr>
<tr>
<td>75</td>
<td>76</td>
<td>24.0</td>
</tr>
<tr>
<td>74</td>
<td>75</td>
<td>37.3</td>
</tr>
<tr>
<td>73</td>
<td>74</td>
<td>-26.5</td>
</tr>
<tr>
<td>72</td>
<td>73</td>
<td>-14.7</td>
</tr>
<tr>
<td>71</td>
<td>72</td>
<td>19.0</td>
</tr>
<tr>
<td>70</td>
<td>71</td>
<td>14.4</td>
</tr>
</tbody>
</table>

Average Annual Compound Rate: 8.3 \% 24.7 \%
Cumulative Total: +161 \% +1,318 \%

Source of Data: E. F. Hutton & First Boston

*Medium Caps Underperformed in 1980

As of December 31, 1982, the 'S&P Lowest 100 MV' had a market value (MV) range of $20 million - $380 million.
<table>
<thead>
<tr>
<th>Date</th>
<th>Value (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 1982</td>
<td>$5.4</td>
</tr>
<tr>
<td>December 31, 1983</td>
<td>6.3</td>
</tr>
<tr>
<td>December 31, 1984</td>
<td>7.2</td>
</tr>
<tr>
<td>December 31, 1985</td>
<td>8.3</td>
</tr>
<tr>
<td>December 31, 1986</td>
<td>9.5</td>
</tr>
<tr>
<td>December 31, 1987</td>
<td>10.8</td>
</tr>
</tbody>
</table>
A bill to be entitled
An act relating to the investment of state
funds; amending s. 215.47, Florida Statutes,
1982 Supplement; establishing the "prudent
expert rule" as the standard of judgment and
care regarding investments made by the State
Board of Administration on behalf of the
Florida Retirement System, and eliminating
certain limitations on such investments;
requiring the Board to adopt and maintain an
investment policy; authorizing the use of
outside investment advisors and managers;
providing intent; requiring annual independent
audits; requiring annual performance reports;
providing an effective date.

Be It Enacted by the Legislature of the State of Florida:

Section 1. Section 215.47, Florida Statutes, 1982
Supplement, is amended to read:

215.47 Investments--authorized-securities.--Subject to
the limitations and conditions of the State Constitution or of
the trust agreement relating to a trust fund, moneys available
for investments under ss. 215.44-215.53 may be invested as
follows:

(1) Without limitation in:

(a) Bonds, notes, or other obligations of the United
States or those guaranteed by the United States or for which
the credit of the United States is pledged for the payment of
the principal and interest or dividends thereof.
(b) State bonds pledging the full faith and credit of the state and revenue bonds additionally secured by the full faith and credit of the state.

(c) Bonds of the several counties or districts in the state containing a pledge of the full faith and credit of the county or district involved.

(d) Bonds issued or administered by the State Board of Administration secured solely by a pledge of all or part of the 2-cent second gas tax accruing under the provisions of s. 16, Art. IX of the State Constitution of 1885, as amended, or of s. 9, Art. XII of the 1968 revised State Constitution.

(e) Bonds issued by the State Board of Education pursuant to ss. 18 and 19, Art. XII of the State Constitution of 1885, as amended, or to s. 9, Art. XII of the 1968 revised State Constitution, as amended.

(f) Bonds issued by the Florida Outdoor Recreational Development Council pursuant to s. 17, Art. IX of the State Constitution of 1885, as amended.

(g) Bonds issued by the Florida State Improvement Commission, Florida Development Commission, or Division of Bond Finance of the Department of General Services.

(h) Savings accounts in, or certificates of deposit of, any bank incorporated under the laws of this state or any national bank organized under the laws of the United States doing business and situated in this state, to the extent that such savings accounts are insured by the Federal Government or an agency thereof, and if the certificates of deposit are secured in the manner prescribed in chapter 18.

(i) Obligations of the Federal Farm Credit Banks and obligations of the Federal Home Loan Bank and its district banks.
(j) Obligations of the Federal Home Loan Mortgage Corporation, including participation certificates.


(l) Commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service.

(m) Time drafts or bills of exchange drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, which are accepted by a member bank of the Federal Reserve System having total deposits of not less than $400 million.

(2) For investments purchased for the Florida Retirement System, the Board shall have full power to invest, reinvest, manage, contract, or sell or exchange investments acquired. In acquiring, investing, reinvesting, exchanging, retaining, selling, and managing property for the benefit of the Florida Retirement System, the Board shall discharge its duties for the exclusive purpose of providing benefits to participants of the Florida Retirement System and their beneficiaries and defraying reasonable expenses of administering the plan; and in so doing shall use the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. Within the limitations of the foregoing standard, the Board is authorized to acquire and retain every kind of property, real, personal, or mixed, and
every kind of investment, specifically including, but not by
way of limitation, bonds, debentures and other corporate
obligations, and stocks, preferred or common, and may retain
property properly acquired, without limitation as to time and
without regard to its suitability for original purchase. Not
more than 25 percent of any fund shall:

(a) Bonds, notes, or obligations of any municipality
or political subdivision or any agency or authority of this
State, if such obligations are rated by at least two
nationally recognized rating services in any one of the three
highest classifications approved by the Comptroller of the
Currency for the investment of the funds of national banks.
However, if only one nationally recognized rating service
shall rate such obligations, then such rating service must
have rated such obligations in any one of the two highest
classifications heretofore mentioned.

(b) Savings accounts of any savings and loan
association or bank incorporated under the laws of this State
or in savings accounts of any federal savings and loan
association or national bank domiciled in this State to the
extent that such investments are insured by the Federal
Government or any agency thereof, and additional sums not to
exceed 15 percent of the net worth of the institution, the
amount to be determined by the Governor, Comptroller, and
Treasurer as the State Board of Administration.

(c) Notes secured by first mortgages on Florida real
property insured or guaranteed by the Federal Housing
Administration or the Veterans Administration.

(d) Interest-bearing obligations of the International
Bank for Reconstruction and Development or the Inter-American
Development Bank.
(e) Deferred payment-tax certificates-offered-for-sale
by-a-county-pursuant-to-sr-197-016842

(f) Investments-collateralized-by-first-mortgages
covering-single-family-Florida-residences-provided-such
mortgages-do-not-exceed-560,000-do-not-exceed-80-percent-of
value, are-not-delinquent, and are-originated-by-a-lender
regulated-by-the-state-or-Federal-Government-and-the-aggregate
of-the-collateral-furnished-is-at-least-150-percent-of-the
aggregate-investment-under-this-subsection.--The-mortgages
used-for-collateral-shall-be-segregated-by-the-lending
institution-so-that-said-segregation-may-be-confirmed-by
independent-audit.-In-the-event-any-such-mortgage-used-as
collateral-becomes-more-than-3-months-delinquent-the-lender
shall-immediately-substitute-therefor-a-mortgage-of-equal-or
greater-value.

(g) Mortgage-pass-through-certificate, meaning
certificates-evidencing-ownership-of-an-undivided-interest-in
pools-of-conventional-mortgages-on-real-property-which-is
improved-by-a-building-or-buildings-used-for-residential
purposes-for-one-to-four-families-when:

1. Such-real-property-is-located-in-this-state;

2. Such-mortgages-are-originated-by-one-or-more-banks
or-savings-and-loan-associations-organized-under-the-laws-of
this-state, by-national-banks, or federal-savings-and-loan
associations-having-their-principal-place-of-business-in-this
state, or by-a-lender-that-is-approved-by-the-Secretary-of
Housing-and-Urban-Development-for-the-participation-in-any
mortgage-insurance-program-under-the-National-Housing-Act-and
has-its-principal-place-of-business-in-this-state, or by-any
combination-thereof, and
3. Such mortgages are transferred or assigned to a corporate trustee acting for the benefit of the holders of such certificates.


(f) Group-annuity-contracts-of-the-pension-investment type-with-insurers-licensed-to-do-business-in-this-state,


2. For purposes of taxation of property owned by any fund, the provisions of sec. 196199(2)(b) shall not apply.


(3) The Board shall adopt and maintain an investment policy pursuant to chapter 120. Not-more-than-40-percent-of any-fund-in-common-stock, preferred stock, and interest-bearing-obligations-of-a-corporation-having-an-option-to convert-into-common-stock—provided.
(a) The corporation is listed on any one or more of
the recognized national stock exchanges in the United States
and is organized under the laws of the United States, any
State or organized territory of the United States, or the
District of Columbia, or
(b) The corporation is listed on any one or more of
the recognized national stock exchanges in the United States
and conforms with the periodic reporting requirements under
the Securities Exchange Act of 1934;

The board shall not invest more than 10 percent of the equity
assets of any fund in the common stock, preferred stock, and
interest-bearing obligations having an option to convert into
common stock of any one issuing corporation, and the board
shall not invest more than 3 percent of the equity assets of
any fund in such securities of any one issuing corporation
except to the extent a higher percentage of the same issue is
included in a nationally recognized market index, based on
market values, at least as broad as the Standard and Poor's
Composite Index of 500 Companies, or except upon a specific
finding by the board that such higher percentage is in the
best interest of the fund. The aggregate investment of any
fund in any one issuing corporation shall not exceed 3 percent
of the outstanding capital stock of that corporation;

The board may only sell listed options to reduce investment risk,
to improve cash flow, or to provide alternative means for the
purchase and sale of underlying investment securities.
Reversing transactions may be made to close out existing
option positions.

(4) In exercising the investment authority of this
section, the Board is authorized to retain investment advisors
or managers, or both, external to inhouse staff to assist the
Board in carrying out the powers specified in s. 215.44(2).
Not-more-than-80-percent-of-any-fund-in-interest-bearing
obligations-with-a-fixed-maturity-of-any-corporation-within
the-United-States, if such obligations are rated by at least
two-nationally-recognized-rating-services-in-any-one-of-the
three-highest-classifications-approved-by-the-Comptroller-of
the-Currency-for-the-investment-of-the-funds-of-national
banks. However, if only one nationally-recognized rating
service shall rate such obligations, then such rating service
must have rated such obligations in any one of the two highest
classifications heretofore-mentioned.

(5) For the purpose of determining the above
investment-limitations, the value of bonds shall be the par
value thereof, and the value of evidences of ownership and
interest-bearing obligations having an option to convert to
ownership shall be the cost thereof.

(5)(6) Investments in any securities authorized by
this section may be under repurchase agreements or reverse
repurchase agreements.

(6)(7) Investments made by the State Board of
Administration shall be designed to maximize the financial
return to the fund consistent with the risks incumbent in each
investment and shall be designed to preserve an appropriate
diversification of the portfolio.

(7) It is the intent of the Legislature that the
investment authority granted in subsections (2) and (4) of
this section be broadly interpreted to include current
business and investment practices related to the investment
activities of the Board.
(8) The Board shall cause to be conducted an annual independent audit of its entire operation by a nationally recognized certified public accountant in accordance with the standards of the Accounting Standards Board of the American Institute of Certified Public Accountants. A copy of each such audit shall be provided to the Legislature.

(9) On March 1 of each year, the Board shall provide to the Legislature a report which includes an analysis of fund performance, annual beginning and ending portfolio distribution, changes in investment policy, compliance with investment strategy, and an analysis of the cost, return, and risk of each portfolio under internal or external fund management.

Section 2. This act shall take effect upon becoming a law.
BILL SUMMARY AND ANALYSIS

Since the Division of Retirement's expertise is not in investments, we have used the analysis provided by the House Committee on Retirement, Personnel and Collective Bargaining.

I. SUMMARY

A. Present Situation

The State Board of Administration is responsible for the investment of the $5.4 billion Florida Retirement System Trust Fund. Section 215.47, Florida Statutes, specifies both the "legal list" (the list of authorized investments) and the percentage of the fund authorized for investment. While the Board may invest without limitation in certain types of bonds, federal obligations, commercial paper, bankers acceptances and certificates of deposit, there are limitations on the percentage of the fund that may be invested in municipal bonds, mortgage pass-through certificates, real estate, commercial paper and equities.

B. Probable Effect of Proposed Changes

The bill replaces the restrictions of the legal list in section 215.47 with the Prudent Expert Rule of Investment. This rule would require the Board to:

1) discharge its duties for the exclusive purpose of providing benefits to the participants of the Florida Retirement System and their beneficiaries;

2) defray reasonable expenses of administering the plan;

3) use the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; and

4) diversify the investments of the plan so as to minimize the risk of large losses.

The bill further provides that:

1) The Investment Advisory Committee currently provided for by rule is now a statutorily authorized Investment Advisory Council with a continuous review and advisory role with respect to the activities of the Board's staff;
2) The Board shall adopt an investment policy pursuant to Chapter 120, The Florida Administrative Procedures Act;

3) The Board is authorized to employ outside investment advisors and managers;

4) In addition to the annual audit by the Auditor General, the Board shall contract with a certified public accounting firm to conduct an annual independent audit; and

5) The Board is to provide the Legislature with a copy of the annual audit and an annual report of the Board’s activities.

6) Certain statutory cross references relating to the investment of public funds for the Florida School for the Deaf and Blind, the Local Government Surplus Trust Fund and the purchase of deferred tax payment certificates are conformed to the changes in 215.47.

II. FISCAL IMPACT

A. Investment Advisory Council members receive no compensation but are reimbursed for travel as authorized for state employees. Since this section of the bill is merely an enactment of current practice, there are no increased costs associated with this provision.

B. The fees of the outside fund advisors/managers are negotiable, so the costs of this change cannot be accurately determined. Fund advisors are retained to assist in the development of investment strategy and frequently share in the commissions paid by the Board when making investments. Fund managers are frequently paid a fee that represents a percentage of the total assets under management. Although a fee represents a cost to the system, if the manager’s efforts increase the rate of return to the portfolio, that fee is negligible.

C. The cost of an annual independent audit by a CPA firm is estimated to be from $200,000 to $300,000.

D. The positive fiscal impact on the System is indeterminable; however, it is felt that the prudence standard will increase the Board’s ability to maximize the financial return of the System Trust Fund. The benefit of improved investment performance in terms of state budget impact is demonstrated by the fact that, generally a one percent increase in long term investment performance will generate savings equivalent to about 20 percent of employer costs.

E. Board staff have projected these estimates for fund growth:

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The current statutory legal list limits the Board's ability to achieve the maximum investment return in two ways.

A. The Board may only invest funds in the specific legal list authorized by statute. This procedure significantly reduces the Board's ability to maximize investment performance by taking advantage of sound investments as they arise. If an exceptional investment vehicle should emerge which is not contained on the statutory list, the Board must wait until the Legislature has amended the list before it can participate in the increased earning opportunity.

The following chart illustrates this time lag:

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B. Secondly, the percentage limitations on investment media diminish the Board's ability to track successful periods in variable markets, particularly the equities market. Since there is no limitation on fixed income investments, the Board may transfer a larger percentage of the fund into fixed incomes when they are experiencing high rates of return. However, the Board is unable to take advantage of similar peaks in the equities market because of the 40% equities limitation.

In addition to reducing the Board's ability to transfer funds in response to market conditions, the equities limitation is below what many investment advisors believe to be the optimum equity/bond portfolio mix, as illustrated in this chart:
### RECOMMENDED ASSET MIX

(Percent)

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<td>53</td>
<td>32</td>
<td>15</td>
</tr>
<tr>
<td>Smith Barney</td>
<td>50</td>
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<td>58</td>
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**Technical Problems**

**Actuarial Impact Statement**

No direct fiscal impact.

**History:**

<table>
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<tr>
<th></th>
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<td>Filed in Previous Years</td>
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COMMITTEE ASSIGNMENTS:

(1) ____________________  (2) ____________________  (3) ____________________
Sub________________________ __________________________
Reported____________________ __________________________
Amendments___________________ __________________________

Doug Mann, Administrator
Research, Education & Policy
5-13-83
Date

A. J. McMillian III, Director
Division of Retirement
5-13-83
Date
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<td>Kidder Peabody</td>
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offered the following amendment:

Amendment On page, line 10-14, strike all of said lines

and insert:

the board, and shall be subject to confirmation by the Senate.
Initially, the board shall appoint two members for terms of 3
years, two members for terms of 2 years, and two members for
terms of 1 year. Thereafter, members shall be appointed for 3-
year terms. A vacancy shall be filled for the remainder of the
unexpired term. No member shall serve for more than one 3-year

term.

Mr. moved the adoption of the amendment,

which was adopted.

which failed of adoption.

Form H-29 (1979)
Amendment

all of said lines

and insert:

Section 1. Subsection (2) of section 215.44, Florida Statutes, is amended, and subsection (5) is added to said section, to read:

215.44 Board of Administration; powers and duties in relation to investment of retirement trust funds.—

(2) The board shall have the power to make purchases, sales, exchanges, investments, and reinvestments for and on behalf of the funds referred to in subsection (1), and it shall be the duty of the board to see that moneys invested under the provisions of ss. 215.44-215.53 are at all times handled in the best interests of the state. The Department of Legal Affairs shall be responsible for providing all legal services required by the board.
Amendment 1s text of other bill or bills, insert. HB

Representatives [please print] offered the following amendment

On page 11, line 21, renumber Sections 6 and 7, and insert a new Section 6, to read:

Section 6. Legal services being provided to the State Board of Administration on the effective date of this act by private attorneys may be continued, subject to the approval of the Department of Legal Affairs, for as long as necessary to effect substitution of the department as legal representative to the board as is required by Section 1 of this act. All drafts, memoranda, documents, working papers, and other material prepared by private counsel on behalf of the board shall be made available to the department upon request.

Senate Action: House Action

House Amendment
If amendment is text of another bill, insert
Bill No. or Draft No.  

Representatives offered the following Title amendment:

Amendment On page, line s 3-4, strike all of said lines

and insert:

1 funds; amending s. 215.44(2), Florida Statutes, and adding a subsection; providing for legal representation of the State Board of Administration by the Department of Legal Affairs, and providing for transition of legal service from private attorneys to the department; creating a 6-member advisory

Mr. moved the adoption of the amendment, which was adopted.

which failed of adoption.

Form H-29 (1979)
Committee Information Record

Committee on Retirement, Personnel & Collective Bargaining

Date of meeting: 4/20/83

Time: 1:00 p.m.

Place: 317 C

Final Action: X Favorable

Favorable with Amendments

Favorable with Substitute

Unfavorable

Vote:

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<th>Nay</th>
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Total Yea: 13
Total Nay: 1

Committee Appearance Record

The following persons (other than legislators) appeared before the committee during the consideration of this bill:

Name       Representing               Address
Dr. E. J. Yelton    State Board of Administration    Tallahassee, Fla.

NOTE: Please indicate by an "X" any State employee appearing at the request of Committee Chairman.

(If additional persons, enter on reverse side and check here)

File 2 copies with Clerk
THIS IS THE LAST, I HOPE, IN A LONG LINE OF BILLS DEALING WITH THE INVESTMENT PRACTICES OF THE STATE BOARD OF ADMINISTRATION, ESPECIALLY AS THEY RELATE TO THE INVESTMENT OF THE FLORIDA RETIREMENT SYSTEM TRUST FUND.

AS ALL OF YOU KNOW, THIS AREA HAS BEEN ONE OF MY GREATEST CONCERNS OVER THE PAST FEW YEARS. WHILE I BELIEVE THAT OUR CONTRIBUTION RATE FOR RETIREMENT BENEFITS IS EXTREMELY REASONABLE, ESPECIALLY IN COMPARISON WITH THOSE OF OTHER STATES AND MANY CITIES IN OUR OWN STATE, I KNOW THAT THE GREATER OUR RETURN ON THE INVESTMENT OF OUR RETIREMENT DOLLARS, THEN THE LESS WE'LL HAVE TO SET ASIDE TO FUND OUR FRS BENEFITS.

IN FACT, IT HAS BEEN ESTIMATED THAT A ONE PERCENT INCREASE IN LONG TERM INVESTMENT PERFORMANCE WILL GENERATE SAVINGS EQUIVALENT TO ABOUT 20 PERCENT OF EMPLOYER COSTS.
NOW, I CAN'T GUARANTEE THAT THIS BILL WILL ACCOMPLISH THAT GOAL. BUT EVERY YEAR THAT WE HAVE MODERNIZED OUR LAW RELATING TO THESE INVESTMENTS, WE HAVE IMPROVED OUR RATE OF RETURN AND THIS BILL, THIS YEAR, I BELIEVE WILL MAKE THE GREATEST DIFFERENCE YET.

THERE ARE BASICALLY TWO WAYS OF AUTHORIZING THE INVESTMENT OF PENSION FUNDS. ONE IS CALLED A "LEGAL LIST." THAT'S WHAT WE CURRENTLY HAVE IN FLORIDA. THE "LEGAL LIST" ESTABLISHES A STATUTORY LIST FROM WHICH INVESTMENTS CAN BE MADE. THIS IS WHAT WE HAVE ADDED TO, EXPANDED, AND MODERNIZED FOR THE PAST THREE YEARS.

THIS PROCEDURE, HOWEVER, HAS ITS DISADVANTAGES. THERE IS OBVIOUSLY A SUBSTANTIAL TIME LAG INVOLVED IN HAVING TO WAIT FOR THE LEGISLATURE TO AMEND THIS LIST BEFORE THE BOARD CAN PARTICIPATE IN AN INCREASED EARNING OPPORTUNITY. PAGE 3 OF YOUR BILL SUMMARY HAS A CHART WHICH ILLUSTRATES THIS TIME LAG.
THE ADDITIONAL PROBLEM WITH OUR "LEGAL LIST" IS THE LIMITATION ON SOME INVESTMENTS. THIS SITUATION DIMINISHES THE BOARD'S ABILITY TO TRACK SUCCESSFUL PERIODS IN VARIABLE MARKETS, PARTICULARLY THE EQUITIES MARKET.

SO WHAT WE ARE RECOMMENDING FOR THE STATE IS THE STANDARD OF PENSION INVESTMENT USED BY AT LEAST 10 OTHER STATES AND ESTABLISHED FOR PRIVATE PENSION SYSTEMS IN THE FEDERAL ERISA ACT (EMPLOYEE RETIREMENT INCOME SECURITY ACT).

THIS STANDARD OF INVESTMENT IS WHAT IS CALLED THE "PRUDENT EXPERT" STANDARD. THIS STANDARD IS WELL ESTABLISHED IN CASE LAW AND THE PENSION INVESTMENT FIELD.

THIS PROPOSAL HAS BEEN RECOMMENDED BY THE INVESTMENT ADVISORY COMMITTEE OF THE STATE BOARD, AND ENDORSED BY THE BOARD: THE GOVERNOR, COMPTROLLER AND TREASURER. IN FACT, THIS IS THEIR ONLY LEGISLATIVE RECOMMENDATION IN THIS AREA.
IF PASSED, THIS BILL WOULD REQUIRE THE BOARD TO:

1) DISCHARGE ITS DUTIES FOR THE EXCLUSIVE PURPOSE OF PROVIDING BENEFITS TO THE PARTICIPANTS OF THE FLORIDA RETIREMENT SYSTEM AND THEIR BENEFICIARIES;

2) USE THE CARE, SKILL, PRUDENCE AND DILIGENCE UNDER THE CIRCUMSTANCES THEN PREVAILING THAT A PRUDENT MAN ACTING IN A LIKE CAPACITY AND FAMILIAR WITH SUCH MATTERS WOULD USE IN THE CONDUCT OF AN ENTERPRISE OF A LIKE CHARACTER AND WITH LIKE AIMS.

THIS RULE WOULD PUT THE BOARD UNDER A DUTY TO INVEST TO OBTAIN THE HIGHEST LEGAL RATE OF INTEREST CONSISTENT WITH THE SAFETY OF THE PRINCIPAL.

WE HAVE INCLUDED SEVERAL OTHER PROVISIONS IN THE BILL WHICH WE THINK WILL FACILITATE THE OPERATIONS OF THE BOARD AND PROVIDE ADDITIONAL ACCOUNTABILITY TO THE LEGISLATURE.
1) THE INVESTMENT ADVISORY COMMITTEE WILL BECOME AN INVESTMENT ADVISORY COUNCIL WITH A CONTINUOUS REVIEW AND ADVISORY ROLE WITH RESPECT TO THE BOARD'S INVESTMENT ACTIVITIES;

2) THE BOARD IS REQUIRED TO ADOPT AN INVESTMENT POLICY BY RULE;

3) THE BOARD MAY HIRE OUTSIDE INVESTMENT ADVISORS AND MANAGERS;

4) THE BOARD SHALL HIRE A CPA TO PERFORM AN ANNUAL INDEPENDENT AUDIT (THIS IS ESPECIALLY IMPORTANT TO AUDIT THE SECURITIES LENDING OPERATIONS, REAL ESTATE INVESTMENTS AND, MOST IMPORTANTLY, THE OUTSIDE MANAGEMENT ACTIVITIES -- THE AUDITOR GENERAL SIMPLY DOES NOT HAVE THE CAPABILITY TO HANDLE THIS TYPE OF AUDIT);

5) THE BOARD IS REQUIRED TO PROVIDE THE LEGISLATURE WITH A COPY OF THIS AUDIT AND A SEPARATE REPORT THAT DETAILS THE ANALYSIS OF FUND PERFORMANCE, PORTFOLIO DISTRIBUTION, CHANGES IN INVESTMENT POLICY, COMPLIANCE WITH INVESTMENT STRATEGY AND AN ANALYSIS OF THE COST, RETURN AND RISK OF EACH PORTFOLIO UNDER INTERNAL OR EXTERNAL FUND MANAGEMENT.
THIS IS THE BILL, I BELIEVE IT'S THE RIGHT WAY TO GO AT THIS TIME, AND I KNOW IT WILL HAVE A MAJOR POSITIVE IMPACT ON OUR RETIREMENT TRUST FUND.

DR. E. J. YELTON, WHO IS THE EXECUTIVE DIRECTOR OF THE BOARD, CAN ANSWER ANY SPECIFIC QUESTIONS YOU MAY HAVE.