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Executive Director's Report Fiscal Year 2004-2005

Dear FRS member:

For the State Board of Administration, investing for Florida's future is serious business. More than 920,000 members and beneficiaries of the Florida Retirement System depend on us to manage costs, vigorously safeguard assets and produce good investment returns. I am proud to report that we succeeded on all counts for fiscal year 2004-2005.

I am particularly proud of the fact that the Florida Retirement System (FRS) Pension Plan has the highest actuarial valuation of assets to liabilities, or "funded ratio," among state pension systems. This number one national ranking is based on an updated 2005 Wilshire Associates study entitled "State Retirement Systems: Funding Levels and Asset Allocation." The Trustees' strong leadership, the Florida Legislature's good public policy, and solid investment performance are the basis for this exemplary accomplishment.

As we invest for Florida's future, the SBA is committed to providing top-tier investment and trust services while adhering to the highest ethical, fiduciary and professional standards. You can trust that we are working hard to ensure that the FRS delivers on its promise to help provide a secure retirement for its members and beneficiaries. You can also be assured that the SBA is highly regarded as one of the nation's leading public sector investment organizations.

FRS Pension Plan

The net asset value of the FRS Pension Plan rose to a near record \$109.9 billion by the end of the fiscal year, just under an all-time high of \$110.5 billion in August 2000. Today's net asset value is particularly significant because there has been a net benefit payment outflow of \$8.5 billion since the August 2000 high.

The SBA's investment return on FRS Pension Plan assets was 10.18% for the year, beating the investment benchmark by 90 basis points, adding an impressive \$952 million in value. The positive return reflected a combination of factors, including measured growth in the U.S. economy, a generally favorable investment climate for equities (stocks) and the SBA's professional execution of its investment objectives. As a result – and this is extremely important to FRS members – the investment return helped support an actuarial surplus of \$9.0 billion in the FRS Pension Plan at the end of the fiscal year, after paying out \$4.6 billion in pension benefits to Plan members and beneficiaries.

FRS Investment Plan

Three years ago, pursuant to Florida law, the SBA introduced a voluntary alternative to the FRS Pension Plan for eligible FRS members: the FRS Investment Plan. This optional defined contribution plan has become increasingly popular since its introduction. A principal appeal of the plan is that it provides retirement benefits comparable to what more mobile members of the labor force typically find in the private sector.

In the fiscal year ended June 30, 2005, the number of FRS members with Investment Plan accounts rose 46% to more than 56,000, reflecting higher enrollments, particularly by eligible new hires. By year's end, 8% of all FRS-covered employees were enrolled in this plan, up from 6% a year earlier.

Total assets of the FRS Investment Plan doubled in the fiscal year to \$1.4 billion because of rising member enrollments, payroll contributions, benefit transfers from the FRS Pension Plan and financial market gains.

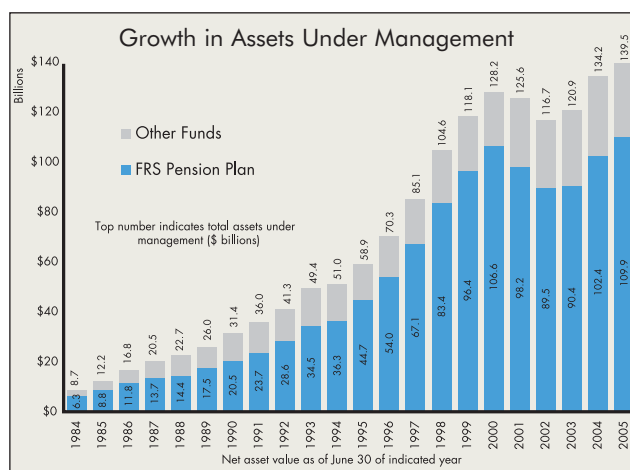
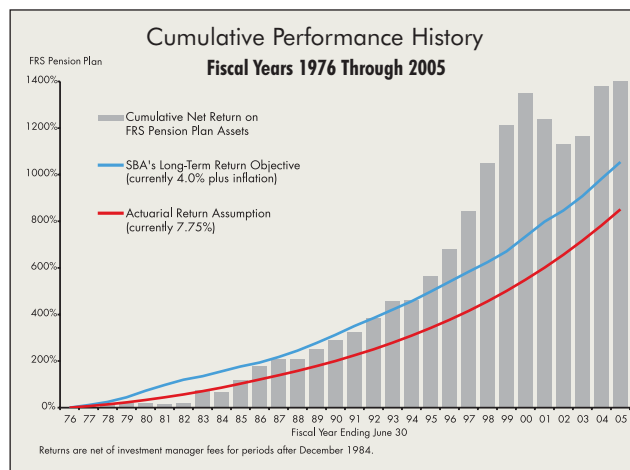
One notable statistic: FRS Investment Plan members between the ages of 35 and 55 accounted for more than 61% of total plan assets. Clearly, the FRS Investment Plan, which is modeled after private sector 401(k) plans, is attracting an increasingly diverse group of members who like the Plan's faster vesting and lump-sum payment option.

Non-FRS Investment Funds

In addition to the two FRS retirement plans, the SBA managed 23 other funds during the fiscal year, including the Local Government Surplus

Funds Trust Fund, the largest local government investment pool in the country. These non-FRS mandates account for \$28.2 billion, or approximately 20% of the \$139.5 billion in assets under SBA management. The funds include:

- The Florida Hurricane Catastrophe Trust Fund;
- The Lawton Chiles Endowment Fund;
- The Local Government Surplus Funds Trust Fund;
- Debt service accounts for state bonds; and
- Other smaller trust funds and accounts.



The Florida Hurricane Catastrophe Trust Fund (the CAT Fund) deserves specific mention. The Florida Legislature created the CAT Fund to provide a stable and ongoing source of reimbursement to insurers for a portion of their catastrophic losses. During a year that was marked by a series of devastating storms in our state, the CAT Fund was exemplary in fulfilling its mission by reimbursing 120 companies a total of \$2.84 billion. In addition, the CAT Fund developed a new examination program to ensure proper and accurate reporting of claims.

In closing, I want to thank the Trustees for their outstanding leadership and support during this fiscal year. I also want to thank the SBA staff for their dedication to high principles and standards

that make our public sector money management organization one of the best in the nation. I am extremely proud to be part of the SBA team.

For a full copy of the investment report, go to www.SBAFLA.com and click 2004-2005 SBA Investment Report on the home page.

Coleman Stipanovich

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Executive Director