



Florida PRIME™ Best Practices Review

Florida State Board of Administration (SBA)

June 2024

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Executive Summary

Aon Investments (Aon) conducts a Best Practices Review of Florida PRIME on an annual basis. In this report, we review the 2024 Participant Survey responses, provide an update on newly approved 2a-7 Reforms, discuss potential risk control and transparency enhancements and review the Investment Policy Statement.

Based on our review, we continue to believe that Florida PRIME is being managed in a manner consistent with best practices and in consideration of participants' best interests. We do not have any recommendations as a result of this review.

2024 Participant Survey Highlights

On a regular basis, the SBA conducts a survey of Florida PRIME participants to gain a better understanding of the participant base, current usage of available services, and overall satisfaction. The survey also seeks to gauge interest across several factors and to ensure awareness of participant needs and preferences. The 2024 survey attracted 64 respondents which is in line with the normal rate of response.

A diversified group of governmental units responded to the survey, primarily representing counties, special districts, municipalities, and school boards, with respondents roughly evenly split between investment decision-makers and personnel in account operations and a few back up account operations. Of the respondents, 50% have one account with Florida PRIME and 16% have 2 accounts. The survey indicated that approximately 63% of respondents have a balance of over \$10 million with Florida PRIME, and another 20% indicated having between \$1 million and \$10 million with the pool. These numbers are generally in line with previous surveys.

The survey includes questions that relate to how and why participants utilize other competing and complementary liquidity vehicles. Of the respondents, about 52% indicated that their organization has a policy that dictates a maximum allowable allocation to a single investment pool or money market fund. Of those with a policy limit, approximately 69% are restricted to allocating 50% or less to any single governmental investment pool or money market fund. Relatedly, when asked what prevents an organization from using Florida PRIME as the primary source of cash management, about 22% indicated that investment policy restrictions are a major reason and another 10% indicated it is a moderate reason. The greatest response was 40% of respondents who indicated that diversification needs of the cash portfolio was a major or moderate reason. The aggregated responses did suggest that an unattractive current yield was not much of a reason, which is similar to last year's survey. Inadequate participant disclosures, costs, functionality/operational features, and lack of additional investment product offerings were all highly selected as not reasons at all for not using Florida PRIME as a primary source of cash management.

When asked about other investment vehicles used in the past 12 months for cash management, respondents indicated the most used vehicle aside from Florida PRIME is the Florida Cooperative Liquid Assets Securities System at 44%. The next most common vehicles were peer fund, the Florida Public Assets for Liquidity Management, and SEC-Registered money market funds both at 34% of respondents. These results are different from previous years. The survey also asked respondents to rank how competing investment services have added value to the respondent organizations' investment goals. Slightly different from last year, respondents indicated that risk, defined as perceived risk levels adjusted for the level of return, was the most appealing feature, followed by yield. Ease of use and client service were ranked the lowest in terms of value add from competing investment services, followed closely by cost and available funds.

The survey questions surrounding current services related to Florida PRIME continue to receive strong feedback. Related to the Florida PRIME website, 84% of respondents indicated that they visit the site at least once a month and 97% responded that they find the website functionality as very easy to use. The survey also indicated that the majority of participants continue to utilize the website primarily to access account balances/statements and transactions, and approximately 39% of respondents utilize the website to access the Monthly Summary Reports. When asked about the usefulness of multiple communication pieces, the responses also continue to be favorable. The survey indicated that respondents rated the following communications as very useful: monthly account statements (97%), e-mail notifications of withdrawals (84%) and changes to bank instructions (83%). Further, respondents found the following to be at least somewhat useful: Periodic eNotices (49%), Monthly Summary Reports (32%), and Weekly Market Commentary (53%). Lastly, respondents indicated great satisfaction with the Florida PRIME representatives, with over 88% of respondents indicating the representatives were very courteous, very knowledgeable and very responsive.

Overall, the survey results continue to be positive from both operational and service-related perspectives. Responses related to the use of competing investment vehicles continue to indicate Florida Cooperative Liquid Assets Securities System (FL CLASS) as the primary vehicle, with indications of risk and yield being top of mind, but notably, that a large percentage of respondents' organizations have investment policies limiting available funds to invest in a single entity and/or seek diversification from a single cash management source. Generally, the survey indicates a strong level of satisfaction with the management of the Florida PRIME portfolio. The large majority (92%) of respondents indicated that they are very likely or extremely likely to recommend Florida PRIME to a colleague or other governmental investor. We continue to believe the survey is a great mechanism to obtain feedback from Florida PRIME participants, as well as to express the SBA's awareness and receptiveness to the participant's needs and wants.

Money Market Reforms

Background

As a result of the global financial crisis and the run on money market funds in 2008, there have been much debated reforms to the Securities and Exchange Commission's (SEC) Rule 2a-7, which is the principal rule covering registered U.S. money market funds. The SEC announced reforms that were approved in 2010 and 2014, and most recently newly approved reforms in July of 2023. The goal of these reforms is to provide additional protection and transparency to industry participants and ultimately avoid another 2008 event.

The SBA manages the Florida PRIME portfolio in accordance with guidelines set forth by the Governmental Accounting Standards Board (GASB), which is the source of generally accepted accounting principles used by state and local governments. The money market reforms are relevant to the Florida PRIME portfolio as the pool has historically been managed as a "2a-7 like" pool, defined by GASB as an external pool that satisfies the requirements of SEC Rule 2a-7, without actually being registered with the SEC. The SBA has been diligent with maintaining the guidelines of Florida PRIME aligned with best practices as communicated by GASB. The most recent guidance from GASB was in December 2015, when it released guidance (GASB 79) for local government investment pools (LGIPs) related to the 2014 reforms. Most notably the guidance removed the direct reference to "2a-7-like" pools in an effort to recognize differences between LGIPs and money market funds and the appropriateness of certain reforms on these investment pools.

July 2023 SEC Money Market Reforms

The most recent reforms announced in July 2023¹ have a similar goal of improving resiliency and transparency of money market funds. Below we provide a high-level overview of the notable approved reforms.

- Increase of the minimum daily liquidity requirements to 25%, up from 10%
- Increase of the minimum weekly liquidity requirements to 50%, up from 30%
- Removal of temporary redemption gates and the tie between the weekly liquid asset threshold and liquidity fees
- Liquidity fee requirement when daily net redemptions exceed 5 percent of net assets, unless the fund's liquidity costs are de minimis
- Modification to certain reporting forms to reflect amendments to the regulatory framework for money market funds

Impact on Florida PRIME

As noted above, Florida PRIME as a local government investment pool (LGIP) follows closely the guidance of GASB and is not legally required to follow SEC Rule 2a-7 requirements. Importantly, the SBA, Federated and Aon have monitored and updated Florida PRIME's investment policies and

¹ [SEC.gov | SEC Adopts Money Market Fund Reforms and Amendments to Form PF Reporting Requirements for Large Liquidity Fund Advisers](#)

procedures to maintain compliance with the GASB guidance and best practices for external government investment pools over the course of the past 10+ years and through multiple periods of money market fund reforms. At present, there has been no indication that GASB will announce corresponding guidance for LGIPs which would impact Florida PRIME. Additionally, FL PRIME is governed by a comprehensive investment policy statement (IPS) that is reviewed, at a minimum, annually. FL PRIME has rigorous risk management controls in place, including, among other controls, daily monitoring and monthly IPS compliance testing. Lastly, Florida PRIME is rated as a “AAAm” fund by Standard & Poor’s (S&P), which requires weekly portfolio surveillance and several requirements on various portfolio characteristics. Thus, we do not believe any corresponding guideline changes are needed as a result of the most recent SEC money market reforms. We will continue to monitor the implementation of the reforms as well as guidance from GASB and provide material updates as warranted.

Risk Management Enhancements

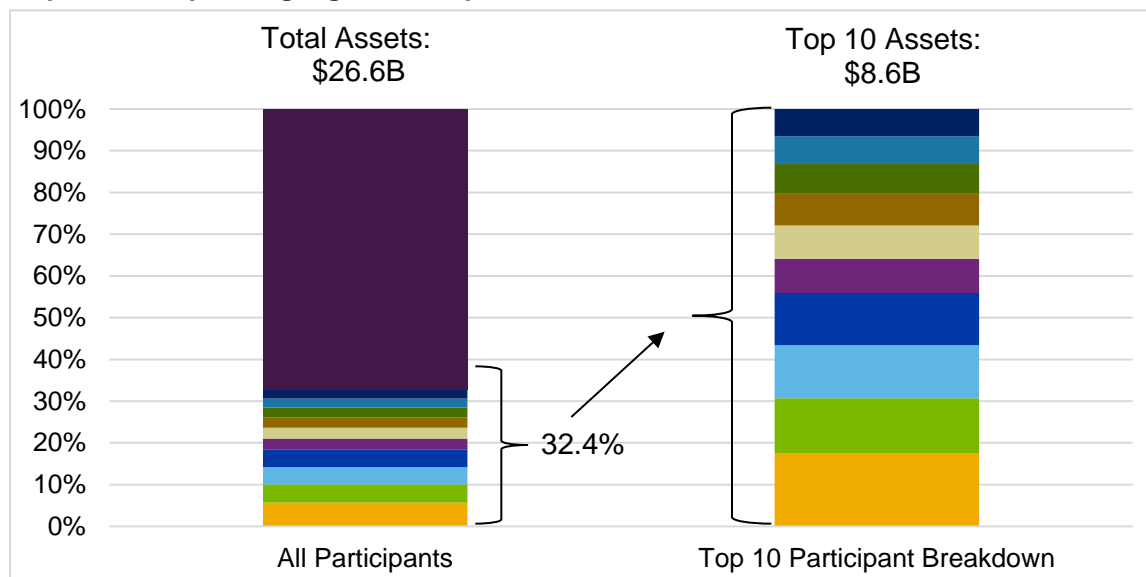
The management of Florida PRIME includes several risk mitigating tools and procedures to ensure the safety of participant assets and prudent investment management of portfolio assets. The compliance policies that govern the Florida PRIME investment pool and corresponding compliance procedures represent a robust, multilayered approach to ensuring the portfolio remains in compliance with the criteria contained in the Investment Policy Statement and applicable industry guidelines and regulations.

The Florida PRIME management and governance processes have been continually updated and improved over time, as the portfolio and industry continue to evolve. The SBA, Federated, Aon and other independent parties have periodically reviewed the entire compliance process to ensure that the procedures and communications remain effective, relevant, and efficient. Most recently, the SBA has begun to evaluate additional risk management considerations as highlighted below.

Participant Concentration

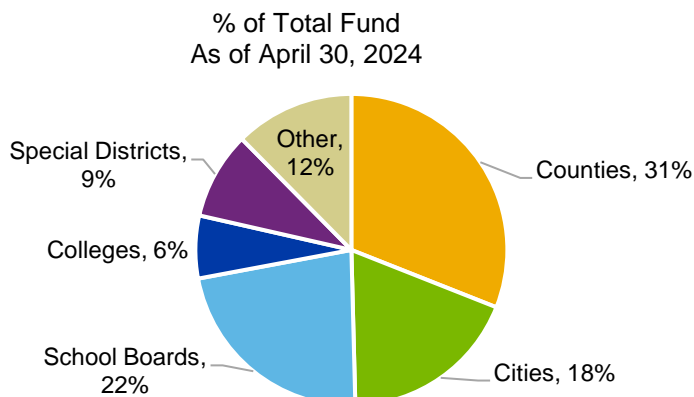
FL PRIME currently has 1,476 accounts across 798 participants. The participant base is diversified across primarily counties, municipalities, school boards, colleges, universities, constitutional officers and special districts. Currently², the top 10 participants represent 32.4% of the \$26.6B in total participant assets invested in Florida PRIME. As shown below, the largest participant represents 5.7% of the total fund and the 10th largest participant represents 2.1% of the fund. Not only is the pool diversified across participants, it is also diversified across participant type. The concentration of the Top 10 Participants and the diversification of participant type are included in the Monthly Summary Report that is on the Florida PRIME website and is available to the public.

Top 10 Participant Highlight as of April 2024



² As of April 30, 2024

Participant Type Diversification



Awareness of participant concentration is important to prevent a single participant (or a similar type of participant) from impacting the pool's ability to manage the portfolio according to its investment guidelines, or negatively impacting the other participants by redeeming from the fund. To this point, FL PRIME has tools to monitor and manage this risk. In addition to the regular monitoring of participant concentration, Federated runs monthly stress tests on the portfolio. One of the stresses evaluated is a 40% redemption from the pool. That scenario is further tested by combining the redemption scenario with other market stress factors, such as interest rate changes, credit events and spread movements. In each of these scenarios and a combined scenario, the tests indicate that the portfolio would be able to absorb the redemptions, maintain a \$1 NAV per unit and maintain sufficient liquidity. Additionally, the SBA and Federated are in regular communication with the participant base of FL PRIME. The strong relationships with the participants result in ongoing communication, which is particularly helpful when there are known meaningful deposits or redemptions. This level of communication assists Federated in optimizing the management of these cash flows.

The SBA has always been at the forefront of risk mitigation. Further enhancements to mitigate participant concentration risks could include:

- Disclosing additional detail on concentration of Top 10 largest participants, for example, reporting the weight of the top 3 participants accounts of 5.7%, 4.3% and 4.2% of the pool.
- Additional outreach with top 3 to 5 participants, gaining a better understanding of their investment plans, anticipated cash flow activity and ensuring they are aware of their position within the Florida PRIME pool. This type of engagement is in the spirit of the Know Your Client reporting that seeks to verify customers and their risk and financial profiles.
- Setting maximum allocation percentage or dollar limits on individual participants to mitigate concentration risk without negatively impacting participants cash investment needs.

Overall, the FL PRIME portfolio has a diversified set of participants and appropriate reporting, stress testing and open communication lines to monitor participant concentration. The consideration of

reasonable participant concentration limits or additional monitoring towards a specified level could offer an additional layer of risk mitigation that any one participant's decisions could impact the remaining investors. Additionally, enhancing the participant concentration disclosures would offer existing and prospective participants additional transparency into the risks of participant concentration. Aon supports consideration of participant concentration monitoring and reporting, with a goal of enhancing risk controls and transparency without negatively impacting existing or prospective participants ability to invest their surplus funds.

Investment Disclosures

Disclosing relevant risks related to investing is a best practice and a risk control for participant decision making. Currently, FL PRIME has several avenues where investment risk disclosures are made. For example, the Monthly Summary Reports and fact sheets posted on the Florida PRIME website include the necessary disclosures related to not being insured and risk of investment losses. In addition, FL PRIME includes several information documents for participants prior to enrolling, including the Information Statement & Operating Procedures documents which houses a wealth of information on investing in FL PRIME.

Currently, the Information Statement highlights the following three principal investment risks related to investing in Florida PRIME:

1. Risk that Florida PRIME will not maintain a Stable Net Asset Value
2. Interest Rate Risks
3. Credit Risks

While FL PRIME is a conservative strategy investing in high-quality, liquid, short-term securities with a Standard & Poor's rating of AAAM, there are still investment risks that exist that investors should be aware of and there may be value in building out additional risk disclosures for participants to understand. Greater disclosures further the transparency of the pool and Florida PRIME has always sought full transparency as it relates to portfolio management, holdings and compliance testing. The addition of investment risk disclosures would add another layer of transparency and education for existing and potential participants.

Sample Investment Risk Disclosures

- Issuer Risk
- Management Risk
- Yield Curve Risk
- Political Risk
- Liquidity Risk
- Regulatory Risk

Investment Policy Review

As part of Aon's Best Practices Review we conduct a review of the Florida PRIME Investment Policy Statement (IPS). The objective of the IPS is to set forth the objectives, strategy, guidelines, and overall responsibilities for the oversight and prudent investment of Florida PRIME assets. The purpose of the periodic review is to ensure the document reflects the evolving investment portfolio, current legal and regulatory developments, and best practices. A well-written and unambiguous document is critical to the success of any investment program.

Following the 2024 review, Aon continues to find the IPS to be comprehensive and appropriate for the management and oversight of Florida PRIME. The topics covered continue to be relevant and critical to the success of the management of the pool's assets. The investment objective of the pool and the roles and responsibilities are clearly defined. The IPS provides the necessary specifics and supplemental guidelines for a clear understanding of the investment strategy, making direct and clear reference to the appropriate GASB guidelines for appropriate fiduciaries to follow and understand. We believe the IPS thoroughly defines the risks that are associated with investing in Florida PRIME and find the detailed control procedures provide the comfort of prudent safe-keeping and oversight of assets. The SBA has been diligent with staying current with overall best practices in managing the Florida PRIME assets and has consistently ensured the IPS is up to date with the current regulatory, legal, and investment environments.

Overall, we continue to believe the Florida PRIME IPS is robust and in line with the goals and objectives of the investment pool and continue to find the Policy to be an effective guiding document for the management of Florida PRIME.