



**FLORIDA SURPLUS ASSET FUND TRUST  
10151 University Blvd., #227, Orlando, Florida 32817**

**LOCATION:** Akerman LLP.  
420 S. Orange Avenue Orlando, FL Suite 1200

**DATE:** July 28, 2022

**TIME:** 12:00 p.m.

**RE:** FL SAFE Board Meeting Minutes

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**MEMBERS IN ATTENDANCE**

**BOARD OF TRUSTEES:** Linda Senne, CPA, Chair  
Jerry Boop, CPA, Vice Chair  
Mark Mason, CPA, Board Member

**ADVISORY COUNCIL:**

**OTHER ATTENDEES:** Jim Davis, CEO, PMA  
Rene' O'Day, SVP, Florida, PMA  
Brian Hextell, SVP, PMA, FL SAFE Portfolio Manager  
Jeff Larson, President, FMAS, FL SAFE Administrator  
Nicole Larson Sydney, VP, FMAS, FL SAFE Administrator  
Larry Aubrecht, SVP, FMAS, FL SAFE Administrator  
David Rosen, Esq., Akerman LLP, FL SAFE Counsel  
Paula Cooper, SVP Operations, PMA  
Hank Gay, BMO Harris Bank, Custodian  
Lori Ragus, Esq., PMA Counsel  
Michele Wiberg, PMA, Chief Sales and Marketing Officer  
Lisa Nusko, PMA, AVP, Investment Services  
Bill Spivey  
Zach Falconer, PMA, Coordinator, Sales and Relationship Mgmt.

**A. BUSINESS ITEMS**

**1. Call to Order/ Roll Call**

Linda Senne called to order the meeting of the Board of Directors for the Florida Surplus Asset Fund Trust for July 28, 2022. Nicole Larson Sydney called roll. Quorum requirements are met.

**2. Participant and Guest Introductions**

Linda asked for introductions via Zoom.

### **3. Public Comments**

Linda asked if there were any public comments. Jeff Larson stated that there are no public comments online, present, or via Zoom.

### **3. Approval of Prior Board Meeting Minutes**

Linda asked for a motion to approve the prior Board Meeting Minutes from April 29<sup>th</sup>, 2022. Jerry made a motion to approve, Mark Mason seconded. Approved 3-0.

## **B. Staff Reports**

### **1. Investment Advisor/Operations Manager Update - PMA**

#### **a. Economic and Market Update**

Brian Hextell presented the Economic and Market Update. He reviewed while the market is increasingly attractive on an absolute and relative basis, it has been an extremely challenging performance environment so far this year. A confluence of negative economic, policy, geopolitical and pandemic risks has pushed bond and equity values materially lower given corresponding inflation increases. Following the Fed's decision to flip their monetary stance at their November 2021 meeting, interest rates have risen at the fastest pace in history, hurting global returns across virtually all asset classes. While interest rates have been the primary culprit in lowering asset values thus far in 2022, tight labor markets and ongoing supply chain problems, along with higher input costs, have weighed on projected economic growth and forward earnings projections. Through the first half of 2022, the S&P 500 and Bloomberg Aggregate Bond indexes were down 20.6% and 10.7% respectively. Overall, the market correction has been orderly despite the significant market value loss. We believe this could change if financial conditions tighten significantly further. Real GDP contracted by 1.6% in Q1 as growth has struggled to maintain the pace of inflation. Total GDP was weighted down by high Net Imports, while Personal Consumption Expenditures and Business Fixed Investment were both positive for the quarter. The current inflation challenges and tight labor conditions are reflected in economic measures. The Consumer Price Index rose to 8.6% in May. The unemployment rate was steady at 3.6% for the months of March through May. During this period, the U.S. economy added an average of over 400,000 jobs per month. Continuing jobless claims decreased to 1.3 million in May. We have an increasingly positive outlook on the fixed income market, given more attractive valuation levels on rates and spreads despite the challenging environment. The Fed has continued tightening monetary policy in response to persistent inflationary pressures. Expected returns are higher than at any point over the past several years. U.S. Treasuries rates have increased as the market is pricing in a terminal Fed Funds rate of 3.25% - 3.50%, peaking in early 2023. The median projection from the Federal Reserve shows rates peaking near 4% in 2023.

The short end of the U.S. Treasury yield curve continued to move higher by 66-108 basis points during the three months ended June 30<sup>th</sup> in anticipation of further rate hikes. Treasuries ended the period with 3-, 6-, and 12-month T-bills at 1.74%, 2.49% and 2.69%, respectively. Longer-maturity yields also pushed higher with yields on the 10- and 30-year bonds ending June at 3.02% and 3.19%, respectively.

#### **b. FL SAFE LGIP Portfolio Update**

Brian Hextell reviewed the SNAV Fund. During the quarter ended June 30, 2022, the FL SAFE Stable NAV Fund's gross yield increased 93 basis points from 0.29% in March to 1.22% in

June. The net yield increased from 0.16% in March to 1.08% in June with continued support from fee waivers.

While short-term interest rates rose significantly during the quarter, the FL SAFE SNAV market NAV remained stable, close to \$1.00. We have positioned the portfolio to perform well in a rising rate environment with a larger allocation to repurchase agreements. Our overall strategy includes maintaining a short WAM, purchasing overnight repurchase agreements and selectively buying high-quality securities such as bank CD's, commercial paper, corporates, and municipal bonds. These strategies should enhance portfolio yield while maintaining minimal credit risk.

For the FL SAFE Variable NAV Fund, the Net Market Yield increased 114 basis points to 2.62% at the end of June from 1.47% at the end of March. The 30-Day Net Yield of 0.87% as of June 30 is an income-based measure of yield. This measure lags changes in market yield, but has grown as funds are reinvested at higher yields. Price pressure has continued to outweigh income and the FL SAFE Variable NAV Fund generated a total net return of -0.31% for the 3-month period ending June 30, 2022.

Bill Spivey asked if a client pulled out of the VNAV, how does it impact the remaining VNAV portfolio. Brian explained that because of the redemption timing and portfolio maturities, PMA is able to offset any impacts by buying securities.

Given our outlook for continued market volatility, our resources are fully dedicated to risk management, robust research, and due diligence. We remain focused on meeting Fund investment objectives which include safety of principal, maintaining appropriate levels of liquidity, and generating income.

Brian stated that persistent Inflation with Limits on what the Fed Can Impact, the Economy and Markets are increasingly sensitive to higher rates, slowing economic growth and rising recession risk, higher volatility continues, market valuations are becoming more attractive, healthy bank, corporate and consumer balance sheets have limited impact.

#### FL SAFE VNAV 12-Month Forward Price Model

##### Assumptions

- Utilizes actual portfolio data
- Rate shocks are immediate (July 5), affecting NAV and reinvestment
- Portfolio maturities reinvested at new market rates
- All unrealized losses accrete to par at maturity
- Key Takeaways
- NAV rising, except for periods of rate & price shocks
- Reinvesting at higher yields benefits income and returns
- Rising rates cause weaker performance in near term, but better performance over the next 12 months on higher income
- Declining rates improve near-term performance, but reduce returns over the next 12 months

#### FL SAFE VNAV in the Current Market

- Over time, higher rates lead to higher returns
- FL SAFE VNAV portfolio reinvestment currently above 3%

- Dynamic interest rates in the market
- Rates have risen exceptionally fast in 2022
- Current interest rate markets are volatile
- Rising rates are boosting VNAV's yield, which has increased income
- Higher market yields represent greater return expectations
- Expect variability in monthly returns
- Positive returns can be achieved with rising rates
- Higher yields provide more cushion against lower prices
- Returns can recover quickly
- The purpose of VNAV: Match longer term assets with longer term liabilities
- VNAV is a strategic part of Participant longer term portfolios
- VNAV will add value through market cycles

### **c. Operations Manager Report**

Paula Cooper reviewed the Report. She reviewed the Summary of the Fund, Metrics, and Fund Balances. Paula reviewed the Financial Statements for the SNAV and VNAV Funds. Jeff reviewed the liability insurance for the Board for both Funds.

Bill Spivey asked why there were no FIIP fees for the Quarter. Jeff stated there were FIIP earnings, listed on page 44 of the Report.

### **d. Marketing & Sales Update**

- Client/Prospect Visits: 15
- Quarterly Face-to-Face Visit Goal of 52
- Calls: 92
- Quarterly Phone Call Goal of 120
- New Participants for 2022: 1
- New Accounts: 1
- Existing Client New money: \$ 83.5M
- Annual Goal of \$225M
- New Client New Money: \$5M
- Annual Goal of \$150M
- Fund Balance as of 6/30/22: \$879,117,872.97
- SNAV \$644,412,236.17; FIIP/Term Series \$148,327,484.36; VNAV \$66,378,152.44
- Annual Goal of \$1.15B
- YOY total balance increase of \$84,328,040
- VNAV YOY balance decrease of \$6,275,847

Zach Falconer reviewed his face-to-face visits and stated that they ramped up in Quarter 2. In April, teams were deployed from Naperville to check in with clients in person. Michele Wiberg and Brian Hextell visited current clients and prospects around the state. Lisa Nusko and Nate Nissen met with FL SAFE clients in office and for lunch. Lisa attended the FASD Quarterly Meeting in Tampa checking in with current clients and prospects. Zach Falconer was onboarded in May and spent the majority of June representing FL SAFE at conferences. The week of June 20th, he and Sara Schnoor traveled to South Florida for client and prospecting meetings. Many calls, emails and marketing pieces generated due to ARPA funds, volatility in U.S. Economy, and conference follow ups. FLSAFE SNAV has been able to outperform the competition in Q2. Banks are continuing to hold off on QPD funds as they are still flush from

stimulus and the low-rate environment. Continued efforts to reach out to current and new bank partners to find opportunities wherever possible.

Bill Spivey asked a question regarding the increase in assets. Brian Hextell stated that some clients moved money to the Fund from their Bank accounts to pick up the extra yield.

**e. Update on Fee Waivers**

Jeff stated that PMA and FMAS are still waiving fees and more so on the VNAV Fund. Both Firms want FL SAFE to remain competitive.

**e. PMA Comments**

PMA had no further comments.

**2. Administrator Update-FMAS**

**a. Marketing Plan Comments, Presentations, Annual FGFOA & FCCMA Conferences, FGFOA School**

Jeff stated that he enjoyed having Zach join the team. He stated the conferences went well.

**b. Open Board Seat**

Jeff Larson reviewed the open Board Seat. He mentioned some candidates and prior Board Members that would be available in the future so serve.

**c. Update: FL SAFE Board E&O Policy Renewal**

Jeff stated that the E&O Policy was renewed within the Fund guidelines.

**d. LGIP's Overview**

Jeff Larson reviewed the current competitive LGIP environment and Fund Comparison.

**e. FMAS Comments**

There were no additional comments.

**C. Other Items**

**1. FL SAFE Counsel's Comments**

David Rosen had no comments.

**2. Participants Comments**

No comments.

**3. Advisory Council Member Comments**

No comments.

**4. Board Member's Comments**

No comments.

**D. Set Next Meeting Date/Adjournment**

Setting the future dates for the next FL SAFE Board Meetings. Normal meeting date will be October 27, 2022, and January 26, 2023. Meeting is adjourned.

**Signature Page**

**APPROVED THIS 27th DAY OF OCTOBER 2022.**

**FLORIDA SURPLUS ASSET FUND TRUST**



10/31/2022

**Linda Senne, CPA  
FL SAFE Chair**

**ATTEST:**



**Jeffrey T. Larson  
FL SAFE Administrator**

10/31/22