



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

LOCATION: Via Zoom
DATE: October 28, 2021
TIME: 1:00 p.m.
RE: FL SAFE Board Meeting Minutes

MEMBERS IN ATTENDANCE

BOARD OF TRUSTEES: Linda Senne, CPA, Chair
Jerry Boop, CPA, Vice Chair
Bill Kleinsorge, CPA, Treasurer
Bill Spivey, Secretary
Christine Josephs Cajuste, CPA, Board Member

ADVISORY COUNCIL: Faye Henry, City of Port St. Lucie
Mark Ryan, City of Indian Harbour Beach
Dan Carpenter, City of Indian Rocks Beach

OTHER ATTENDEES: Mark Mason, Finance Director, City of Cape Coral
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
Jeff Kern, VP, Florida, PMA
Fenil Patel, SVP, Marketing, PMA
Hank Gay, BMO Harris Bank, Custodian
Lori Ragus, Esq., PMA Counsel

A. BUSINESS ITEMS

1. Call to Order/ Roll Call

Linda Senne calls to order the meeting of the Board of Directors for the Florida Surplus Asset Fund Trust for October 28, 2021. Nicole Larson Sydney calls roll. Quorum requirements are met.

2. Public Comments

Linda asks if there are any public comments. Jeff Larson states that there are no public comments online, present in person, or via Zoom.

3. Approval Prior Board Meeting Minutes

Linda asks for a motion to approve the prior Board Meeting Minutes from July 22nd and September 30th. Jerry makes a motion, Christine seconds. Approved 5-0.

4. Participant and Guest Introductions

Linda asks for introductions via Zoom.

5. Proposed Budget 2022

Jeff Larson presents the FL SAFE Budget. He reviews that the Funds have been broken out by subset as requested by the Board. The new fee structures and pricing have been implemented. He states that the Audit fees were previously negotiated with CLA. Jeff reviews the insurance fees for the Board. The Budget is similar as in the past. He proposes the 2021 Budget. Linda asks for questions. Bill Spivey asks how the fee implementation was calculated on a gross or net basis as well as how Surety Bonds are covered. Jeff and Brian responded. Linda asks for additional comments and asks for a motion. Jerry Boop makes a motion, Bill Kleinsorge seconds, Budget passes 5-0.

6. Proposed Changes to Investment Policies and Information Statement – “GIC’s”

Jeff Larson reviews the Investment Policies for the separate SNAV, VNAV Funds, and Term Series. The Indenture of Trust covers these three Funds that are part of the Audit. Brian Hextell reviews the proposed changes. He explains that the Indenture is written very broadly to allow for flexibility and the Information Statement is more specific, as are the individual Investment Policies. He reviews the proposed GIC’s or Funding Agreements. Brian states that GIC’s are a security. Brian states the risks have been disclosed. There is an advantage with the products for their additional yield as PMA is working directly with the insurance companies. PMA feels it is safe from a credit perspective. Brian mentions that these funding agreements could have a place inside the Term Series, but PMA is cautious to monitor each participant’s individual exposure and concentration and will develop guidelines.

Bill Spivey states that he appreciates Brian’s overview and asks how these GIC’s are specifically referenced in the Investment Policies. Brian states that they are referenced in the Information Statement under the Investment section. Jeff suggests that the language that is included in the Term Series referring to these Funding Agreements be consistent among each of the Investment Policies. Brian agrees to add the language, so it is the same in all three individual Investment Policies. David Rosen states that he has reviewed the documents and has no further comments. Christine Cajuste asks why the Term Series is not rated by S&P. Brian reviews how S&P reviews the SNAV and VNAV Funds and why the Term Series is not part of that process. Bill Spivey asks if the FIIP and Term Series Programs are part of the Trust. Brian and Jeff confirm FIIP is not audited like the SNAV, VNAV, and each Term Series. Linda asks for further comments or questions and asks for a motion to approve the Information Statement and Investment Policies with the additional consistent language included. Jerry Boop makes a motion, Christine Cajuste seconds. Board passes 5-0.

B. Staff Reports

1. Investment Advisor/Operations Manager Update - PMA

a. Economic and Market Update

Brian Hextell presents the Economic and Market Update. He states that there is strong growth expected through year end. He reviews the FOMC September 2021 Economic Projections. Brian reviews the reopening of the economy, CPI, wage inflation, and the U.S. job openings and quits rate. He states that due to COVID-19's impact, most workers prefer fully remote or fully in-office work. He states that the higher e-commerce penetration is here to stay. Jerry Boop asks a question regarding U.S. statistics and economic impacts. Brian states that some individuals are taking retirement early contributing to labor tightness.

Brian states that the 2021 U.S. economic recovery is unlike any in recent history. The nation's Gross Domestic Product (GDP) grew at an annual rate of 6.3% and 6.7% during the first quarter (Q1) and Q2, respectively. The strong growth was powered by consumer spending, significant fiscal policy support and rising vaccination rates. Economists surveyed by Bloomberg expect continued growth of 5.0% and 5.1% during the Q3 and Q4. Incoming economic data in July and August were weaker than expected. The highly contagious delta variant of the Covid-19 virus continues to spread impacting supply chains and consumer spending behaviors. The labor market recovery slowed in September. The economy added 194K jobs, short of market expectations (+500K). The unemployment rate dropped to 4.8% in September from 5.9% in June. Over time, as the impact from the delta variant fades PMA expects the unemployment rate to continue to fall as more pandemic-related constraints on work ease and economic activity normalizes.

Brian states that the speed of the economic recovery has triggered price pressures. Inflation soared largely due to supply constraints and shortages associated with the reopening of the economy. In September, the Consumer Price Index (CPI) rose 5.4% and CPI ex food and energy rose 4.0% year-over-year. The Fed's preferred inflation gauge, the PCE Core Deflator Index, rose 3.6% year-over-year, the highest increase since 1991. All inflation measures remain well above the Fed's inflation target of 2.0%. While the Fed continues to believe the current inflation pressures are transitory, near-term inflationary pressures could be more pervasive than consensus expectations.

Brian reviews the recent September 22nd Federal Open Market Committee (FOMC) meeting, and states that they made no changes to their interest rate and balance sheet policies. In their statement, the FOMC noted "if progress continues broadly as expected, the committee judges that a moderation in the pace of asset purchases may soon be warranted". Markets expect the Fed to announce a reduction in asset purchases at its November meeting. The updated median dot plot now suggests a rate hike by end of 2022 and three rate hikes in both 2023 and 2024. As we approach year-end, we see risks around fiscal stimulus, the debt ceiling extension, higher inflation and anticipated changes to Fed policy as potential catalysts for increased market volatility.

Brian reviews PMA's overall Market Outlook. He states that inflationary pressure have shifted the Fed's tone. There are growing risks for fiscal stimulus and debt ceiling. The stimulus has resulted in elevated asset prices. Corporate credit earnings fundamentals remain strong. There

are downside risks in Fixed Income and Equity Markets through 2021. He states that research and security selection should aid performance.

b. FL SAFE LGIP Portfolio Update; Comparative Market Review

Brian Hextell reviews the SNAV and VNAV Funds. During the quarter ended September 30th, FL SAFE's gross yield declined slightly from 16 basis points (0.16%) in June to 15 basis points (0.15%) in September. PMA believes money market fund yields are near a floor as the Fed has re-established a floor on short-term yields. Net yields for FL SAFE remained flat at 6 basis points (0.06%). Fee waivers continue to support Fund net yields in this very low-rate environment. He states that for the FL SAFE Variable NAV Fund, the 7-Day Net Market Yield decreased from 14 basis points (0.14%) at end of June 2021 to 11 basis points (0.11%) at end of September 2021. The 7-Day Net Yield of 0.39% as of September 30th is an income-based measure of yield and is currently higher than Net Market Yield due to higher yielding, previously purchased investments. Over time, total return is the best measure of performance, and the FL SAFE Variable NAV Fund generated a total net return of -0.01% for the year ending September 30, 2021. Brian states that given PMA's outlook for continued low short term interest rates and periods of higher volatility, PMA's strategy continues to focus on high quality investments that provide safety of principal and strong liquidity while generating competitive returns.

Brian reviews other Florida Funds and states that overall, they have some differences in duration and exposure. Bill Spivey asks a question regarding where the portfolio characteristics are noted under the insurance category. Brian states that he will provide more commentary moving forward on the variances in the SNAV and VNAV Funds and Investment allocations moving forward. Brian reviews the strategic move into treasuries.

c. Operations Manager Report

Fenil Patel reviews the Operations Manager Report. He states that there is nothing unusual to report and reviews the Fund's summaries and Financial Statements. He states that the SNAV Fund is performing well. Fenil reviews the update to the Fee Waivers and their impact on the Fund's earnings and statements. He reviews the SNAV and VNAV Fund's holdings. Fenil reviews the FL SAFE Performance Evaluation and Monthly Assets. Jerry Boop asks a question regarding a historical dip that occurs and if this year is different because of various government stimulus that clients have received. Rene states that many governments have been dipping into reserves until their taxes come in, however some of the new PMA products should help capture more revenues in the near future with Ad Valorem and Term Series offerings. Fenil states that the money within the FL SAFE Funds have shifted into the SNAV and out of the FIIP due to the economy. Linda asks if there will be an upcoming Term Series. Rene states that yes, there will be more Term Series offerings before year end with a larger capacity. Rene states that due to the economy there is less capacity available than there has been in that past and that there is a very small marketing window. Bill Spivey asks a question regarding FIIP and FL SAFE assets regarding being a part of the Trust. Fenil states it is part of the FIIP Program but not the Trust. Brian reviews how the detail aligns with the legal structure of FL SAFE. Jeff Larson states that the offered FIIP Programs are also reviewed by FMAS. Fenil stated that the Board approved the Program and fee structure. Bill Spivey asks for more in depth reviews so that is better informed at future meetings regarding FIIP trades and additional activity, and Jeff said FMAS will provide.

d. PMA Update on Term Series

Rene O'Day states that PMA is still working on the sales and marketing side to present a new Term Series.

e. PMA Update on New FIIP Product

Rene reviewed that a Bank has offered a new product for participants offering different rates depending on client capacity. If this specific Bank has an existing relationship, they have been offering FL SAFE Clients additional points on their rates. Rene states that it has been a positive experience for Clients and PMA's Bank Funding Group has been working hard. She reviews the structure and potential net rates. It is a fully collateralized Bank deposit purchase. Rene also states that Treasuries have been appealing for some clients to assist with diversification.

f. Sales Update

Rene reviews Fund growth over the last quarter. There were 3 new accounts opened. Fund balance as of 9-30-21 was \$830 million. YOY total balance increase of \$40 million. She states that face-to-face visits continue though some pulled back in Q3 due to COVID Delta Variant and summer vacation schedules. Rene states that she is starting to see some in person conferences rescheduling and while our budget has been cut pretty tight, we are making those decisions to sponsor and/or attend based on client/prospect attendance and partnerships with the Associations. Rene and Jeff Kern are continuing to make efforts to reach out to current and new bank partners to find FIIP opportunities that fit our clients and prospects needs to add to our product suite and capitalize on laddering positions for our clients.

Rene states that banking market continues to be challenged with the influx of cash and costs associated with QPD funds but are hopeful to capitalize on fund growth as incoming ad valorem revenues come in for Q4. Q3 is the low point for our clients in their cash flow cycles. FL SAFE YOY total fund balance was up as of 9/30/2021, we anticipate balances will likely pull back moving into Q4 but will pick up prior to year-end as tax revenues come in. The SNAV remained competitive for Q3 with rate comparisons which has helped with dollar run off but is still somewhat of a challenge for new money as banks shift and require increased balances to offset analysis fees as Earnings Credit Rates decrease and banks look for additional areas for fee revenues. The VNAV has been an option for some of the larger participants and prospects for longer term dollars. PMA will continue marketing and education efforts around the VNAV as the market shifts due to rates increasing slightly. Competition continues in the variable fund area as competitors' market multiple variable funds to help clients ladder out longer term funds. Q4 brings opportunities for Term Series and bank products which bring solid collateralized options to the market for clients and prospects that shy away from marked to market investments and/or are risk sensitive.

Linda Senne asks that she and the Board receive the participant balances prior to the next meeting. Bill Spivey asks if the new FIIP Product has been offered already. Rene states that it has been offered to a couple of the new Participants as a money market account. Fenil states that the new product offering is still within the FIIP Program umbrella. Fenil states that this offering was approved by the Board under the FIIP umbrella, but PMA will continue to inform that Board moving forward. Bill Spivey states that he is concerned this new product could potentially compete with the SNAV Fund. Rene states that this is not intended to compete with the SNAV Fund, and more as a marketing tool to be attractive to prospect clients. Jeff Larson states this new product is a good tool to potentially capture seasonal client money. Jim Davis states this product is a bank deposit just like FIIP but has a daily liquid rate due to being a

money market account. Jerry Boop states that he appreciates the creativity of this product to help market and expand FL SAFE.

g. PMA Comments

PMA has no further comments.

2. Administrator Update-FMAS

a. Marketing Update, Presentations, FGFOA Annual Conference

Jeff Larson reviews upcoming presentations and conferences.

b. Upcoming Board Elections

Jeff Larson states there is an upcoming open Board seat that he will be sending out Ballots and information for prior to the next Board Meeting. Jeff states that Jerry Boop's seat is coming up for election.

c. FMAS Comments

There are no additional comments.

C. Other Items

1. FL SAFE Counsel's Comments

David Rosen has 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 virtual via Zoom on January 27, 2022. Meeting is adjourned.

Signature Page

APPROVED THIS 27th DAY OF JANUARY 2022.

FLORIDA SURPLUS ASSET FUND TRUST



**Linda Senne
FL SAFE Chair**

ATTEST:

**Jeffrey T. Larson
FL SAFE Administrator**