



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

LOCATION: Zoom
DATE: January 26, 2023
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 Spivey, Secretary
Christine Cajuste, CPA, MBA, Advisory Council Liaison

OTHER ATTENDEES: 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, FL SAFE Custodian
Lori Ragus, Esq., PMA Counsel
Michele Wiberg, PMA, Chief Sales and Marketing Officer
Lisa Nusko, PMA, AVP, Investment Services
Zach Falconer, PMA, Coordinator, Sales and Relationship Mgmt.
Matt Orseske, PMA, VP, Marketing
Nathan Nissen, PMA, AVP, Investment Services
Brian Hextell, SVP, PMA, FL SAFE Portfolio Manager
Greg Kubitz, PMA, SVP
Chris Reeder, City of Auburndale, Finance Director

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 January 26, 2023. Nicole Larson Sydney called roll. Quorum requirements are met.

2. Participant and Guest Introductions

Linda asked for introductions via Zoom.

3. Results of Board Seat Elections

Nicole presented the results of the Board Seat Elections. She stated that as of December 19th, one hundred percent of the votes received were for Bill Spivey. Bill's term will be for three years. Linda and all Board members congratulated Bill on his election. Bill Spivey stated that he looked forward to serving again as a FL SAFE Board member.

4. Nomination of Board Officers

Jeff Larson asked for nominations. Bill Spivey nominated Linda Senne for Chair, Christine seconded, passed 4-0. Bill Spivey nominated Jerry Boop for Vice Chair, Christine seconded, passed 4-0. Christine nominated Mark Mason for Treasurer, Jerry Boop seconded, passed 4-0. Christine nominated Bill Spivey for Secretary, Jerry Boop seconded, passed 4-0. Christine was asked to serve as the Advisory Council Liaison.

5. Public Comments

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

6. Approval of Prior Board Meeting Minutes

Linda asked for a motion to approve the prior Board Meeting Minutes from October 27th, 2022. Nicole stated that there were changes made regarding a few typos. Jerry Boop made a motion to approve, with typo changes, Bill Spivey seconded. Approved 4-0.

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 that markets were extremely challenging in 2022 and unlike any period in modern history, virtually all asset classes lost value. We would have to go back to the late 70s to find a remotely comparable return environment, however the structure and complexity of today's market is quite different in many respects. Market corrections can prove healthy in the longer term for investors. On the bright side, asset valuations are cheaper and income levels are higher for savers. Expected returns look much better for 2023, especially within the cash and fixed income markets. The volatility and negative returns were primarily driven by the Federal Reserve's response to elevated inflation. Inflation peaked in June of 2022 with CPI at 9.1% on a YOY basis before decreasing to 7.1% in November. This lower inflation level is still well above the Fed's target of 2%. While consumer spending remains moderately strong, inflation is beginning to erode buying power and consumer confidence is waning. Personal spending decreased in the fourth quarter from 12.0% at the start of 2022 to 7.7% on a year over year basis in November. The Fed continued its historic rate move in the fourth quarter raising rates by 125 basis points between two meetings. On November 2nd, the Fed moved 75 basis points, increasing the Fed Funds rate to 3.75%-4.00%. In December, the Fed moderated the hike to 50 basis points, bringing the rate to 4.25%-4.50% to end the year. A terminal Fed Funds rate near 5% is anchored into the capital markets and largely in line with our expectations. History tends to show that rates peak around four months prior to the last hike in the cycle. Given a more tempered message from Fed Chairman Powell in late November, the fixed income market has already priced in a Fed policy pivot sometime later this year. That said, Fed officials continue

to state there is more work to do to tame inflation and repeat a message of rates “higher for longer.” Easing tight employment conditions and thereby reducing wage growth will be a focus of the Fed in 2023. While growth is expected to be much softer in the year ahead, our base case estimate is for the economy to experience a bumpy landing and exhibit flat to slight growth. The short end of the U.S. Treasury yield curve continued to move higher by 68-109 basis points during the three months ended December 31st in anticipation of further rate hikes. Treasuries ended the period with 3-, 6-, and 12-month T-bills at 4.42%, 4.76%, and 4.73% respectively. Longer-maturity yields also pushed higher with yields on the 10- and 30-year bonds ending December at 3.88% and 3.97%, respectively.

During the quarter ended December 31, 2022, the FL SAFE Stable NAV Fund’s gross yield increased 170 basis points from 2.52% in September to 4.22% in December. The net yield increased from 2.37% in September to 4.08% in December. Sector allocation and weighted average maturity (WAM) was relatively steady for the quarter. Our team of portfolio managers was active in analyzing investment opportunities across sectors to identify attractive reinvestment opportunities. One such opportunity was growing floating rate CD’s which we believe will enhance yield for participants. The growth in securities resetting in 0-7 days and a small increase in the WAM to Final both reflect these investments. For the FL SAFE Variable NAV Fund, the Net Market Yield increased 63 basis points to 4.59% at the end of December from 3.96% at the end of September. The 30-Day Net Yield of 2.06% as of September 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. FL SAFE VNAV generated a strong gross return of 0.76% for the quarter compared to the benchmark return of 0.64%. We believe higher yields position VNAV to perform well in the quarters ahead. 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.

Tighter policy globally slowed economic growth. Inflation peaked, though elements may persist. Fed is approaching the end of their rate hiking cycle. Fed is increasingly data dependent and the markets remained volatile. Geopolitical risks remained elevated. Returns are expected to improve for Cash, Bonds and Equities in 2023.

Bill Spivey asked what the risk of interest rates changes has on the Portfolios. Brian explained that when interest rates rise, bond prices go down. Therefore, the SNAV Fund is less volatile because of the short term nature of the investments. Brian stated that the VNAV Fund is more impacted by the interest rate changes.

Investing in FL SAFE VNAV:

- Net Market Yield of 4.59% indicates strong expected returns over the next 12 Months
- Reinvesting at near 5% is quickly growing income
- Income provides cushion against rising rates
- The net return of FL SAFE VNAV was 0.73% for the quarter ending 12/31/22
- Higher income should support higher returns in the years ahead
- Portfolio diversified by security type and maturity
- High quality, income producing sectors improve portfolio yield

- Maintaining an investment portfolio with 0-2 year investments will produce attractive returns through market cycles
- VNAV is a strategic part of participants' long-term investment portfolios

Jerry Boop asked if there is a risk to the participants with some investments being with California in the portfolio. Brian explained that California remains to be a high quality issuer for the time being, but PMA will continue to monitor all approved issuers. Jerry Boop also asked a question regarding the portfolio distribution and composition. Brian reviewed the WAM and PMA's focus to stay short until the Fed makes more moves. He reviewed that currently only 4% of funds are invested in six-to-twelve-month investments. Jerry asked if there should be concern around the Portfolio being invested in Automobile ABS's of 51%. Brian explained that the 51% is spread across different companies diversifying the risk and that they historically perform very well and are over collateralized as a security reducing the risk even more. Brian stated that there are no investments purchased from sub prime borrowers and PMA remains very cognizant to retain high quality investments.

Bill Spivey asked Brian to review how PMA identify which CD's are variable rate versus fixed, Brian stated that most are floating rate. Bill asked if there could be a slide in the future that is a more detailed list of the asset levels for the SNAV Fund instead of being a broader quarterly chart.

As of December 31, 2022 Balances:

FL SAFE Stable NAV Fund: \$782,495,144
 FL SAFE Variable NAV Fund: \$64,952,111
 Term Series: \$0
 Total FLS Assets: \$847,447,255
 FIIP: \$211,566,166
 Total Combined Assets: \$1,059,013,421

b. Operations Manager Report

Greg Kubitz reviewed the Report. He reviewed the summary of account balances and financial statements for the SNAV and VNAV Funds. Bill Spivey asked how a recent sale impacted the portfolio. Brian explained that because PMA goes to market everyday and it has a longer duration, there was very little impact. Greg reviewed the budget and expenses. He stated that the cash management fees have increased due to portfolio size.

c. Board Ratification of Term Series

There were no Term Series in the last quarter.

d. Marketing Update

Zach presented new logos to review with the Board as requested from the last Board Meeting. Matt Orseske from PMA's Marketing team presented the new FL SAFE logo options, updated branding, and implementation of the updated website. The Board unanimously selected a new lighthouse image logo for FL SAFE. Bill stated that he appreciates the updates to the website and stated the importance of transparency and keeping all minutes and information up to date. Bill also asked that the marketing materials for FL SAFE clearly state FL SAFE and less PMA so that the marketing is more clear. Christine agreed that she likes the new logo with the

lighthouse image. Jerry stated that he likes the new logo and would like to vote for approval to change the logo, Christine seconded, approved 4-0.

Highlights Overview:

Zach stated that his in-person meetings increased from the prior quarter as Zach now has his Series 7 license. He visited a mix of small to mid-sized cities and several county clerk offices. In October, he and Jeff identified potential investment advisory council members and reached out to gauge their interest and explain the role.

In early November, Brian, Sara, and Zach presented a 100-minute liquidity management session during the FGFOA School of Government Finance Virtual Conference. Nate, Zach, and Kendra Shelland (PMA Institutional Portfolio Manager) also held a half-hour webinar in early December, which included a market update and strategies for investing Ad Valorem. During the second week of December, Zach discussed investment risks and opportunities in the current market at the start of Jeff's Hillsborough County FGFOA Chapter investment training. Several Ad Valorem-focused Treasury rate indication emails were sent out late November through December. PMA also administered a client satisfaction survey, which garnered positive results.

Accounts were opened for the City of Davenport, the City of South Miami, the Immokalee Water & Sewer District, and the Seminole County Port Authority. After a hiatus, both Clay County and the City of Delray Beach came back into the FL SAFE fold, making allocations to the SNAV in December. The City of Florida City and the City of Pinellas Park are currently reviewing FL SAFE membership documents. For the first time in its history, FL SAFE surpassed \$1B in assets and maintained that position at the end of the quarter.

Linda stated her appreciation for Zach and PMA's efforts.

e. PMA Comments

PMA had no further comments.

2. Administrator Update-FMAS

a. Presentations, General Comments, FIIP Overview 4th Quarter

Jeff presented the redlined Information Statement and updates. Brian presented the addition of "Term Series Flex" and the change in days from 30 to 7 for withdrawal of funds. It is still a fixed term that rolls with a shorter duration and weekly redemption. Linda asked if that option has been offered yet, Brian stated that it has not been offered yet, but PMA would like to be ready if the opportunity arises. Brian stated there were some minor administrative updates. Jerry Boop stated that this new option could be a great use of AARPA Funds. Bill Spivey expressed his concern to ensure that this would be marketed to all participants and asked if there were capacities like Term Series have had in the past. Brian stated that this 7-day option would be first come first serve with an option to redeem shares every 7 days. Linda asked for a motion to approve the updated Information Statement, Jerry made a motion, Christine seconded, approved 3-1.

b. FMAS Comments

Jeff reviewed the past presentations from the quarter and the upcoming conferences and presentations.

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.

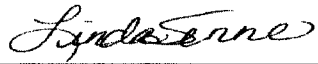
D. Set Next Meeting Date/Adjournment

Setting the future dates for the next FL SAFE Board Meetings. Normal meeting date will be April 27, 2023, and July 27, 2023. Meeting is adjourned.

Signature Page

APPROVED THIS 27th DAY OF APRIL 2023.

FLORIDA SURPLUS ASSET FUND TRUST



**Linda Senne, CPA
FL SAFE Chair**

ATTEST:



**Jeffrey T. Larson
FL SAFE Administrator**