



FINANCIAL STATEMENTS, MANAGEMENT'S
DISCUSSION AND ANALYSIS, AND
OTHER REPORT

State Board of Administration of Florida
Florida Retirement System Trust Fund
June 30, 2012 and 2011
With Report of Independent Certified Public Accountants

Ernst & Young LLP

 **ERNST & YOUNG**

State Board of Administration
Florida Retirement System Trust Fund

Financial Statements, Management’s Discussion and Analysis
and Other Reports

June 30, 2012 and 2011

Contents

Report of Independent Certified Public Accountants1
Management’s Discussion and Analysis3

Basic Financial Statements

Statements of Net Assets12
Statements of Changes in Net Assets.....13
Notes to Financial Statements.....14

Other Report

Report of Independent Certified Public Accountants on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on
an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards.....55

Report of Independent Certified Public Accountants

The Board of Trustees
State Board of Administration of Florida

We have audited the accompanying statements of net assets of the Florida Retirement System Trust Fund (the Trust) managed by the State Board of Administration (SBA) of Florida as of June 30, 2012 and 2011, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the SBA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the SBA's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the State Board of Administration of Florida or the Florida Retirement System as of June 30, 2012 and 2011, and the changes in its financial position for the years then ended, in conformity with the accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust managed by the SBA as of June 30, 2012 and 2011, and the changes in its financial position of the for the years than ended in conformity with US generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

November 5, 2012

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis

Years Ended June 30, 2012 and 2011

Introduction

This section of the financial statements of the Florida Retirement System Trust Fund (the Trust) presents management's discussion and analysis of the Trust's financial position for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the basic financial statements and the accompanying notes, which follow this section.

As further described in Note 1 to the financial statements, the Florida Retirement System (FRS) Pension Plan (the Plan) is a cost-sharing, multiple-employer defined benefit pension plan for eligible members of the Florida Retirement System who have not elected to participate in the Florida Retirement System Investment Plan (FRS Investment Plan), a defined contribution plan.

The State Legislature is responsible for setting Plan structure, benefit levels, contribution rates and providing statutory authority for administering the Plan. The Plan is administered by the Division of Retirement within the Department of Management Services (DMS) and affected employers. DMS's responsibilities include directing actuarial studies, collecting contributions to the Plan, transmitting contributions to the State Board of Administration of Florida (the SBA) for deposit in the Trust, and making benefit payments. The SBA is responsible for managing Trust assets consistent with statutory authority.

Overview of the Financial Statements

The financial reporting entity represented in the basic financial statements and accompanying notes is the Trust, which consists of the assets held in trust by the SBA for the payment of retirement benefits and reasonable administrative expenses of the Plan. The financial statements of the Trust do not include the pension liabilities of the participating employers. The assets, liabilities, and funded status of the Plan are reported in the Comprehensive Annual Financial Report (CAFR) of the State of Florida.

The Trust's basic financial statements consist of two-year comparative statements of net assets and statements of changes in net assets and the notes to financial statements.

The statements of net assets and the statements of changes in net assets report information about the net assets (total assets in excess of total liabilities) of the Trust as of the end of the fiscal year and the changes in those net assets during the fiscal year. These statements present assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's additions (revenues) are recognized when earned and deductions (expenses) are recognized when incurred, regardless of when the cash is received or paid. The difference

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2012 and 2011

between the total assets and total liabilities, or net assets, on the statements of net assets provides a measurement of the financial position of the Trust as of the end of the fiscal year. The statements of changes in net assets provide information on the activities that caused the financial position to change during the fiscal year.

The notes to financial statements also are important to the reader's understanding of the financial statements and provide additional information regarding the Trust, such as information about accounting policies, significant account balances and activities, material risks, obligations, contingencies and subsequent events, if any.

Statements of Net Assets and Statements of Changes in Net Assets

The statements of net assets present the assets, liabilities and net assets (assets minus liabilities) of the Trust as of the end of the fiscal year and are point-in-time financial statements.

The statements of changes in net assets show the net investment income earned by the Trust, the contributions from employers and employees and the withdrawals for members and beneficiaries that occurred during the fiscal year.

Summaries of the Trust statements are presented below for each of the last three fiscal years.

Statements of Net Assets (in millions)

	June 30		
	2012	2011	2010
Assets			
Cash and cash equivalents	\$ 201	\$ 225	\$ 134
Invested security lending collateral	4,938	4,453	5,145
Investments	126,870	133,764	112,784
Receivables and prepaid expenses	2,354	3,569	3,794
Total assets	134,363	142,011	121,857
Liabilities			
Total liabilities	11,756	13,178	12,683
Net assets held in trust	\$ 122,607	\$ 128,833	\$ 109,174

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2012 and 2011

Statements of Changes in Net Assets (in millions)

	Year Ended June 30		
	2012	2011	2010
Additions			
Net investment income (loss)	\$ (134)	\$ 24,199	\$ 14,641
Contributions:			
Transfers from DMS related to employer/employee contributions ¹	1,791	3,084	2,733
Member-directed transfers from the FRS Investment Plan Trust Fund	33	33	21
Total contributions	<u>1,824</u>	<u>3,117</u>	<u>2,754</u>
Total additions	<u>1,690</u>	<u>27,316</u>	<u>17,395</u>
Deductions			
Transfers for benefit payments	6,949	6,474	6,197
Member-directed transfers to the FRS Investment Plan Trust Fund	967	1,183	675
Total deductions	<u>7,916</u>	<u>7,657</u>	<u>6,872</u>
Net increase (decrease) in net assets	<u>\$ (6,226)</u>	<u>\$ 19,659</u>	<u>\$ 10,523</u>

¹ Employee Contributions to the Plan were mandated effective July 1, 2011.

Analysis

- The Trust's net assets (total assets in excess of total liabilities) decreased by \$6.2 billion (5%) and increased by \$19.6 billion (18%) during fiscal years 2012 and 2011, respectively.
- The decline in net assets in fiscal year 2012 reflects investment performance during the fiscal year. By contrast, the net asset increase in fiscal year 2011 was primarily the result of the overall net appreciation in investment values as the economy continued to recover from the economic recession that began in late 2007. In all three fiscal years presented, benefit payments exceeded contributions to the Trust.

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2012 and 2011

- Net investment income decreased by \$24.3 billion during fiscal year 2012, compared with an increase of \$9.6 billion during fiscal year 2011. This was largely due to the negative returns for global equities, which comprised nearly half of the Trust's assets.
- Contributions to the Trust for fiscal year 2012 totaled \$1.8 billion, a decrease of 41% compared with fiscal year 2011 contributions of \$3.1 billion. This followed an increase of \$363 million (13%) during fiscal year 2011. Contributions consisted of both employer and employee contributions to the Plan transferred from DMS, but also included member-directed transfers from FRS Investment Plan. Effective July 1, 2011, the Florida Legislature reduced the retirement contribution rates for all member classes, and required all employees to contribute 3% of their gross salaries into the Trust.

The contribution rates presented in the following table were in effect for fiscal years 2010, 2011 and 2012.

FRS Pension Plan Contribution Rates

Membership Class	Year Ended June 30			
	2012	2011		2010
	Employee Rate	Employer Rate	Employer Rate	Employer Rate
Regular	3.00%	4.91%	10.77%	9.85%
DROP	0.00	4.42	12.25	10.91
Special risk administrative support	3.00	6.04	13.24	12.55
Senior management service	3.00	6.27	14.57	13.12
Legislators	3.00	9.04	16.34	14.48
Governor, Lt. Governor and cabinet officers	3.00	9.04	16.34	14.48
State Attorney, public defenders	3.00	9.04	16.34	14.48
County elected officers	3.00	11.14	18.64	16.53
Justices, judges	3.00	11.69	21.79	19.56
Special risk	3.00	14.10	23.25	20.92

- Total deductions from the Trust for fiscal year 2012 were \$7.9 billion, an increase of 3% over fiscal year 2011 deductions of \$7.7 billion. This followed an increase of \$785 million (11%) during fiscal year 2011. Transfers from the Trust to the DMS for benefit payments increased 7% to \$6.9 billion and 4.5% to \$6.5 billion, during fiscal years 2012 and 2011, respectively. Member-directed transfers to the FRS Investment Plan Trust Fund reflect second elections by the FRS members to transfer their membership from the Plan to the FRS Investment Plan.

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2012 and 2011

These transfers decreased 18% to \$967 million for fiscal year 2012 following an increase of 75% to \$1.2 billion during fiscal year 2011.

- Comments below relate to certain assets, liabilities, additions and deductions that appear in the more detailed two-year comparative financial statements that follow this MD&A section of the report:
 - In fiscal year 2011, changes were made to the Trust's asset allocation policy as publicly held domestic and international stocks and commingled equity funds were combined into a single asset class – global equity. Total equity exposure increased, and the Trust shifted a significant share of its equity portfolios from domestic stocks to foreign stocks during the fiscal year. The proportion of the Trust that was invested in fixed income investments was reduced. During fiscal year 2012, global equities and fixed income portfolios were called upon to provide significant amounts of cash to meet the funding needs for benefit payments and the increased allocation to alternative investments, resulting in the liquidation of domestic and international stocks and commingled equity funds. The decline in the global equity investment value also reflects market performance. Due to the ongoing financial crisis in Europe and credit rating concerns, fixed income investments changed composition. The changes included increases in certificates of deposits, money market funds, repurchase agreements and U.S. government guaranteed bonds/notes and decreases in commercial paper, federal agencies and corporate bonds and notes.
 - During fiscal year 2012, the value of invested security lending collateral and the related liability obligations under security lending agreements each increased by approximately 10%. Security lending income of \$50 million increased by \$4.3 million (9%) while security lending expenses of \$6.5 million decreased by \$3.4 million (34%). The reduction in lending expenses for fiscal year 2012 was due to greater lending rebate income offsetting broker fees. The lending program continues to focus on maximizing earnings while managing risk, principally utilizing the intrinsic lending model. (See Note 4E for additional information on the securities lending program.)
 - Forward contracts to buy and sell currency increased in value in fiscal year 2012 from fiscal year 2011 values by approximately \$82 million and 80 million, respectively. In fiscal year 2012, the Trust hired a new manager that actively utilizes forward currency contracts as a component of their investment process. By contrast, for fiscal year 2011, forward contracts decreased by \$372 million, from 2010, as the Trust terminated several Fixed Income Active Core Plus managers during that year.

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2012 and 2011

- Short sell obligations decreased \$997 million, or 72%, in fiscal year 2012 over fiscal year 2011. The change reflects the Global Equity asset class defunding its shorting component of certain long/short strategies which made up the majority of the 2011 liability. Short sell obligations increased \$652 million, or 90%, during fiscal year 2011. This change was due, in part, to growth in the aggregate prime broker equity portfolio account values for the fiscal year. As the market value of equities increased, the short positions also increased.
- The transfers due from DMS at June 30, 2012 decreased \$151 million, or about 42%, over the amounts due the previous fiscal year. Transfers due to DMS at June 30, 2011 increased \$91.9 million, or about 35%, during fiscal year 2011. DMS collected three pay periods from employers in June 2011 versus two pay periods in June 2012, as employers made efforts to send payments prior to July 1, 2011, when employees became obligated to contribute 3% of their salaries into the FRS. DMS transferred these payments to the SBA in July 2011.
- Investment expenses increased approximately \$19 million, or 5%, during fiscal year 2012 and \$39 million, or 12%, during fiscal year 2011. These increases were due in large part to the addition of several new private equity, strategic and real estate investments, as well as, changes in the market value of investments (and related fees calculated as a percentage of market value) during those fiscal years.

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2012 and 2011

Investment Returns

For the fiscal years ended June 30, 2012 and 2011, the Trust's investment returns, by major asset class, were as follows:

Asset Class	2012		2011	
	Return	Benchmark	Return	Benchmark
Global Equity	-5.11%	-6.79%	31.04%	29.99%
Fixed Income	7.84%	7.47%	6.09%	3.90%
Private Equity ¹	7.22%	7.46%	18.11%	34.96%
Real Estate	12.75%	12.62%	18.43%	20.63%
Strategic investments	3.72%	3.27%	19.17%	12.29%
Cash	0.25%	0.06%	0.38%	8.00%
Total fund	0.29%	-0.49%	22.09%	21.59%

¹ Per industry convention, Private Equity returns are presented on a dollar-weighted basis. All other returns (including Total fund) are on a time-weighted basis. Time-weighted returns show the value of one dollar invested in a portfolio for the entire period while dollar-weighted returns show an average return of all dollars in the portfolio for the period.

² The above investment performance information as of June 30, 2012 is the official investment return data as of that date supplied by the SBA's master custodian and performance measurement service provider, BNY Mellon Performance Reporting and Analytics Services. These rates of returns do not necessarily reflect the same information and accounting treatments as included in the Trust's Statements of Changes in Net Assets, due to the latter's inclusion of subsequent updates to private market investment valuations, timing differences in the recognition of receivables and other items, and differences in GASB accounting rules and SBA performance measurement policies.

The Trust earned an overall investment return of 0.29% for fiscal year 2012, compared with a return of 22.1% for fiscal year 2011.

The Trust has outperformed its performance benchmark over the trailing one-, three-, five-, ten- and fifteen-year periods. The 2012 total fund return was 0.78% above the performance benchmark while the 2011 total fund return exceeded its benchmark by 0.50%.

More detailed information and analysis of the Trust's performance can be obtained from the SBA's Annual Investment Report, which can be found at www.sbafla.com.

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2012 and 2011

Economic Factors

The U.S. economy got off to a slow start in fiscal year 2011-12 as the after-effects of Japan's natural disaster caused supply-chain problems for many businesses and also hurt export demand. Real GDP growth softened to 1.3 percent in the third quarter of 2011 stoking fears of a lapse back into recession. Those fears were compounded by a political impasse in Washington triggered by reluctance to increase the U.S. debt ceiling. As concern grew that a government shut-down might occur, financial markets shuddered. The Russell 3000 index began the fiscal year at 790, but it plunged over the next few months to a 2011 low of 644.

By the fourth quarter of 2011 it had become apparent that angst over the economy was likely overdone. Although much economic data had softened, it had generally not reached excessively low levels. A case in point was the Institute for Supply Management's index of manufacturing activity. That index slipped from the high 50's in early 2011 to the low 50's at mid-year, but it never dipped below its inflection point of 50. In recessionary periods it is typically in the low 40's. Similarly, retail sales had a few months of sluggish growth in the summer of 2011, but recovered nicely later in the year. With relieved consumers leading the way, the U.S. economy grew 4.1 percent in the fourth quarter and gave signs that strength might continue. Chief among these were sharply higher job counts as monthly payroll gains exceeded 200,000 from December 2011 to February 2012. The stock market reacted positively to the improved economic outlook and the Russell 3000 rallied to finish 2011 well above its low for the year.

Unfortunately, hopes for sustained growth were quickly hit by a deteriorating European economic situation. With some Eurozone countries enacting austerity measures, Eurozone real GDP fell 0.7 percent in the fourth quarter of 2011, was unchanged in the first quarter of 2012, and was down 0.5 percent in second quarter of 2012. Contracting European activity meant lower exports for its trading partners, shaving real GDP growth. Another damper on the economy in early 2012 was a sizeable run-up in oil prices. Given these headwinds, real GDP growth in the U.S. slipped to 2.0 percent in the first quarter of 2012 and 1.5 percent in the second. Given solid profits, U.S. stocks took this softening in stride and the Russell 3000 continued to rise throughout the first half of 2012. That said, it was essentially lifting itself out of the hole dug by the debt-ceiling meltdown and finished the fiscal year only 1.7 percent above where it started. As meager as that gain was, it was distinctly superior to Europe where continued uncertainty as to the future of the common currency and weak economic conditions conspired to drive down an MSCI index of European Union markets 20.5 percent over the fiscal year.

Despite the lackluster U.S. economy during the second-half of the fiscal year, a few bright spots emerged. Notable among these was the housing sector. After years of softness, most measures of

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2012 and 2011

housing activity strengthened throughout the year. Importantly, home prices began to trend upward during the second quarter of 2012 after several years of decline.

On the policy front, the Federal Reserve continued to maintain an exceptionally easy stance throughout the year and assured markets that it would keep rates low for an extended period. It also engaged in extensive bond market activity in an effort to stimulate certain sectors of the economy – particularly real estate. The European Central Bank was also aggressive in attempting to mitigate the effects of debt reduction efforts and stabilize the European banking system. Part of the justification for extended easy money continues to be the drag from fiscal policy. That drag has become palpable in those Eurozone countries that are slashing budgets, but it is also being felt in the U.S. This is especially the case for some state and local governments that are still experiencing revenue shortfalls. For local governments weak property tax receipts have been a persistent problem.

Contacting the Trust's Financial Management

This financial report is designed to provide citizens, taxpayers, plan members, and other interested parties with an overview of the Trust's finances and the prudent exercise of the SBA's oversight. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Operating Officer, State Board of Administration of Florida, P.O. Box 13300, Tallahassee, Florida 32317-3300.

State Board of Administration
Florida Retirement System Trust Fund

Statements of Net Assets

	June 30	
	2012	2011
	<i>(in thousands)</i>	
Assets		
Cash and cash equivalents	\$ 201,055	\$ 224,754
Security lending collateral	4,938,460	4,453,438
Investments, at fair value:		
Short-term	6,609,206	8,368,030
Fixed income:		
Domestic	27,945,188	27,160,978
International	3,353,042	3,202,165
Equities:		
Domestic	33,407,723	34,781,173
International	36,144,447	43,529,514
Alternative		
Domestic	7,832,316	6,747,655
International	3,400,754	2,685,796
Real estate	8,176,282	7,285,791
Other	1,151	2,713
Total investments	126,870,109	133,763,815
Receivables:		
Transfers due from DMS	205,777	357,170
Accrued interest and dividends	363,034	369,480
Futures trade equity	20,006	8,348
Forward currency contracts	270,859	190,592
Investments sold, but not settled	1,487,379	2,635,730
Total receivables	2,347,055	3,561,320
Prepaid manager fees	6,399	8,144
Total assets	134,363,078	142,011,471
Liabilities		
Transfers due to DMS	281,522	301,274
Accounts payable and accrued liabilities	72,499	68,966
Futures trade equity payable	12,802	6,888
Forward currency contracts payable	272,261	190,879
Investments purchased, but not settled	5,695,371	6,667,392
Options sold	257	16
Short sell obligations	380,076	1,377,134
Obligations under security lending agreements	5,041,087	4,565,862
Total liabilities	11,755,875	13,178,411
Net assets held in trust	\$ 122,607,203	\$ 128,833,060

See accompanying notes to financial statements.

State Board of Administration
Florida Retirement System Trust Fund

Statements of Changes in Net Assets

	June 30	
	2012	2011
	<i>(in thousands)</i>	
Additions:		
Investment income:		
Interest income	\$ 1,140,642	\$ 1,184,165
Dividend income	1,783,693	1,779,620
Real estate income, net	437,865	387,446
Fines, forfeits and securities litigation proceeds	40,569	12,548
Other investment income	83,134	58,237
Net increase (decrease) in fair value of investments	(3,286,665)	21,098,311
Total investment income	199,238	24,520,327
Investment expenses:		
Bank fees	(4,089)	(4,203)
Investment management fees	(345,315)	(321,399)
SBA investment service charges	(18,343)	(18,476)
Other fees and expenses	(8,974)	(13,267)
Total investment expenses	(376,721)	(357,345)
Net investment income (loss)	(177,483)	24,162,982
Security lending income	49,982	45,669
Security lending expenses	(6,543)	(9,987)
Net income from security lending	43,439	35,682
Net investment income (loss)	(134,044)	24,198,664
Transfers:		
Transfers from DMS related to employer/employee contributions	1,790,848	3,083,840
Transfers from members of the FRS Investment Plan Trust	33,681	33,494
Total transfers	1,824,529	3,117,334
Total additions	1,690,485	27,315,998
Deductions:		
Member transfers to the FRS Investment Plan Trust	967,164	1,183,161
Transfers to DMS for benefit payments	6,949,178	6,473,773
Total deductions	7,916,342	7,656,934
Increase (decrease) in net assets	(6,225,857)	19,659,064
Net assets held in trust:		
Beginning of year	128,833,060	109,173,996
End of year	\$ 122,607,203	\$ 128,833,060

See accompanying notes to financial statements.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements

Years Ended June 30, 2012

1. Financial Reporting Entity

The State Board of Administration of Florida (the SBA) was established on June 21, 1929, pursuant to Chapter 14486, Laws of Florida (1929). The SBA was subsequently created as a constitutional body corporate on January 1, 1943, by Article IX, Section 16 of the State Constitution of 1885, as amended. The SBA was subsequently continued as a body corporate by Article IV, Section 4(e) of the State Constitution (1968), as amended. The SBA is governed by a three-member board of trustees consisting of: the Governor, as Chairman; the Chief Financial Officer, as Treasurer; and the Attorney General, as Secretary.

The Department of Management Services (DMS), Division of Retirement is responsible for administering the Florida Retirement System (FRS) Pension Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan, established by the Legislature of the State of Florida in accordance with Chapter 121, Florida Statutes, to provide for retirement benefits for eligible employees of the State and all participating county, district school board, community college and university employees. Under the FRS, employers and, as of July 1, 2011, employees make contributions to the DMS, Division of Retirement which are initially deposited into the Florida Retirement System Contributions Clearing Fund (Clearing Fund) which holds all contributions for all plans of the FRS. The DMS, as the administrative agency of the Plan, provides full accounting and administration of benefit payments and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the Plan.

Chapter 121, Florida Statutes established the Florida Retirement System Trust Fund (the Trust) and empowers and mandates the SBA to receive, invest and hold the assets of the FRS in the Trust for the exclusive benefit of the FRS members and for the payment of reasonable costs of the Plan. The DMS transfers member government and employee contributions from the Clearing Fund to the Trust for investment by the SBA. The Trust holds the assets of the FRS in trust for the exclusive benefits of FRS members and beneficiaries and for the payment of reasonable administrative expenses of the Plan.

The Trust is not a separate legal entity within the State of Florida. These financial statements and notes thereto include only the net assets and change in net assets of the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the SBA or the FRS as of June 30, 2012 and 2011, and the changes in their financial position for the years then ended, in conformity with accounting principles generally accepted in the United States (GAAP).

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements were prepared in conformity with GAAP for governments as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. The Trust is accounted for as an investment trust fund pursuant to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB 31) and GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* (GASB 34). As such, the Trust presents statements of net assets and statements of changes in net assets.

Measurement Focus and Basis of Accounting

The financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues (additions) are recognized when earned and expenses (deductions) are recognized when incurred, regardless of when the related cash flow takes place.

New Accounting Standards

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). This statement specifically identifies and consolidates the private sector accounting and financial reporting provisions that apply to state and local governments. GASB 62 became effective for financial statements for reporting periods beginning after December 15, 2011. This standard will be applied to the Trust’s statements beginning in fiscal year 2013. The adoption of this standard is not expected to have a material impact on the statement of net assets or the statement of changes in net assets.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

2. Summary of Significant Accounting Policies (continued)

Valuation of Investments

Investment transactions are accounted for on a trade (investment) date basis. Gains and losses from investment transactions are determined using the average cost method. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date.

Section 215.47, Florida Statutes, gives the SBA the authority to invest in a range of instruments, including security lending agreements. All of the Trust's investments are reported at fair value in accordance with GASB 31. Realized and unrealized gains and losses are reflected in the statements of changes in net assets as "net increase (decrease) in fair value of investments."

The fair value of the Trust's assets are obtained or estimated in accordance with the Global Pricing Guidelines established with the SBA's custodian BNY Mellon. BNY Mellon uses a variety of independent pricing sources and designates certain vendors as the primary source based on asset type, class or issue. BNY Mellon monitors fair value information supplied by these primary sources and may use a supplemental pricing source or change the primary pricing source if any of the following occurs:

- The fair value of a security is not received from the primary pricing source.
- The primary pricing source no longer provides fair values for a particular asset type, class or issue.
- The SBA or its portfolio investment manager challenges a fair value and BNY Mellon reviews the fair value with the vendor, who agrees that the fair value information provided by that vendor may not be appropriate.
- The fair value from the primary source exceeds BNY Mellon's price tolerance checkpoints and results in a vendor comparison review where another source is deemed to be more appropriate by BNY Mellon.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

2. Summary of Significant Accounting Policies (continued)

When a portfolio includes securities or instruments for which the custodial bank does not receive fair value information from its vendor pricing source, the custodial bank uses a “non-vendor pricing source.” Examples include, but are not limited to, limited partnerships or similar private investment vehicles that do not actively trade through established exchange mechanisms; other private placements where there is limited or no information in the market place; and unique fixed income and equity instruments. The SBA does not provide direction regarding the substitution of prices in such instances where securities or instruments are in the portfolio of an investment manager appointed by the SBA. In such cases where the SBA directed the purchase of such securities or instruments, BNY Mellon may obtain the non-vendor fair values by contacting the SBA only if it is not commercially reasonable to directly obtain the non-vendor fair value information from the broker of record, as identified by the SBA.

For alternative investments, where no readily ascertainable market value exists (including limited partnerships and real estate pooled funds), management has determined fair values for the individual investments based on the net asset value (capital account balance) at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions and distributions. The valuation techniques vary based upon investment type and involve a certain degree of judgment. The most significant input into the net asset value of an entity is the value of its investment holdings. The net asset value is provided by the general partner and/or investment manager and reviewed by management. Annually, the financial statements of the partnerships are audited by independent auditors.

All real estate direct-owned properties are required to be valued by independent, licensed appraisers selected by an appraisal management company retained by the SBA. Appraisals on debt associated with direct-owned properties are also required. These external appraisals are prepared as of each property’s respective fiscal year end (March 31, June 30, September 30, or December 31). The annual appraised value is adjusted for subsequent events (capital calls and capital distributions; operating income and expenses; and realized gains and losses) to derive the monthly market value. Direct-owned properties are held within title holding companies whose financial statements are subject to annual audit by an auditing firm retained by the SBA.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

2. Summary of Significant Accounting Policies (continued)

Real Estate pooled funds, per contractual arrangements, are valued by the fund manager or designee. The fund manager's market value is adjusted for subsequent events (capital calls and capital distributions; operating income and expenses; and realized gains and losses) to derive the monthly market value.

All derivative financial instruments are reported at fair value in the statements of net assets. The instruments are adjusted to fair value at least monthly, with valuation changes recognized in investment earnings. Gains and losses are recorded in the statements of changes in net assets as "net increase (decrease) in fair value of investments" during the period. The nature and use of derivative instruments is discussed in Note 4.

Because of the inherent uncertainty of the valuation using pricing methodologies other than the quoted market prices, the estimated fair values may differ from the values that would have been used had a ready market existed.

Cash and Cash Equivalents

The Trust reports all cash on hand and on deposit in banks, including demand deposits, time deposits, and non-negotiable certificates of deposit as cash and cash equivalents. Cash equivalents are short-term, highly liquid investments with an original maturity of ninety days or less when purchased.

Transfers from and to DMS and FRS Investment Plan Trust Fund

The DMS transfers FRS employer and employee contributions, and FRS Investment Plan Trust Fund sends member-directed transfers to the Trust for investment purposes. Transfers may occur daily. Likewise, both DMS and FRS Investment Plan Trust Fund may request transfers from the Trust to meet normal benefit obligations of the FRS, or to fulfill member-directed transfer requests. To ensure timely payment, the Trust estimates such obligations at the first of each month and allocates them to the Trust's public market asset classes (excluding the Cash asset class). The allocations constitute liquidity assessments, which the asset classes are required to provide in cash in a prudent, but reasonably expeditious fashion.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

2. Summary of Significant Accounting Policies (continued)

At fiscal year-end, the Trust accrues a receivable due from DMS for contributions that are due for the month of June, but that DMS will not transfer to the Trust until the following fiscal year. The Trust also accrues a payable due to DMS at fiscal year-end for the amount of expected transfers to be requested by DMS to fund Deferred Retirement Option Program (DROP) payouts as of June 30. The DMS maintains records for all employer and employee contributions to the Plan.

Management Fees and Administrative Expenses

The SBA hires external investment managers to invest a significant portion of the Trust's investment assets. The Trust typically pays investment management fees based on individually negotiated investment management agreements. The fees, which are usually paid quarterly, may be based on a sliding scale of the portfolio's net asset value at quarter-end, calculated by multiplying each level of net assets by a specified basis point charge or performance-related, typically associated with exceeding a market benchmark or hurdle rate. Fees are paid from the appropriate investment portfolio and are recognized as an expense over the time period for which the fees are applicable. Certain investment management fees, usually in private equity portfolios, are paid at the beginning of the period. These fees are recorded as prepaid manager fee assets on the statements of net assets and are expensed over their applicable time period.

Pursuant to Section 215.515, Florida Statutes, the SBA charges the Trust a monthly SBA investment service charge based on the month-end net asset value of the total Trust. The service charge is calculated and deducted from the Trust after each month's total net asset value of the Trust is determined. These charges are reported on the statements of changes in net assets as part of the Trust's investment expenses. During the fiscal years 2011 and 2012, the SBA investment service charge was 1.5 basis points (annualized).

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues (additions) and expenses (deductions) during the reporting period. Actual results could differ from those estimates.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

2. Summary of Significant Accounting Policies (continued)

Reclassifications

In the financial statements and notes, certain prior year amounts have been reclassified to conform to the current year presentation, which was changed to provide more consistent information by asset class.

3. Deposits

As of June 30, 2012, the recorded carrying amount of deposits totaled \$201.0 million, and consisted of U.S. dollars and foreign currencies (U.S. value) in the amounts of \$0.1 million and \$200.9 million, respectively.

As of June 30, 2011, the recorded carrying amount of deposits totaled \$224.8 million. The total deposits consisted of U.S. dollars and foreign currencies (U.S. value) in the amounts of \$42.5 million and \$182.3 million, respectively.

Certain deposits, totaling \$5.7 million at June 30, 2012, and \$5.0 million in foreign currency at June 30, 2011, were held as initial margin at the SBA's futures clearing broker. All other deposits were held in one of the financial institutions utilized by the SBA.

A. Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Trust will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Bank deposits was \$212.4 million and \$226.3 million as of June 30, 2012 and 2011, respectively. A portion of the deposits, totaling \$0.1 million and \$37.1 million as of June 30, 2012 and 2011, respectively, was covered by federal depository insurance. Uninsured and uncollateralized amounts of \$17.0 million and \$6.5 million as of June 30, 2012 and 2011, respectively, in foreign currency were held by the Trust's futures clearing broker.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

3. Deposits (continued)

All deposits of U.S. dollars at the Trust's custodian banks were covered by federal depository insurance as of June 30, 2012. The uninsured and uncollateralized deposits of U.S. dollars at the Trust's custodian banks in excess of the federal depository insurance totaled \$5.4 million as of June 30, 2011. The remaining uninsured and uncollateralized deposits, totaling \$195.2 million and \$177.3 million as of June 30, 2012 and 2011, respectively, were held in foreign currencies in SBA's custodian's nominee name.

B. Foreign Currency Risk for Deposits

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Under Section 215.47, Florida Statutes, and subject to the limitation and conditions of the State Constitution or of the trust agreement relating to a trust fund, moneys available for investments by the Trust may be invested in fixed income obligations or stocks denominated in foreign currency. The SBA has developed for the Trust an Investment Policy Statement that sets ranges on investments by asset class. All asset classes may hold non-U.S. securities, depending on portfolio guidelines. Florida law limits the exposure to foreign securities held outside of commingled trusts to 35% of the total trust.

Investment activity in foreign investments resulted in deposits in foreign currency as of June 30, 2012 and 2011, as illustrated in the following schedule.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

3. Deposits (continued)

Foreign currency as of June 30, 2012 and 2011

<u>Currency</u>	<u>2012</u>	<u>2011</u>
	<i>(in thousands)</i>	
Australian dollar	\$ 8,878	\$ 3,610
Botswana pula	57	67
Brazilian real	3,114	7,548
British pound sterling	26,732	16,346
Canadian dollar	15,740	8,934
Czech koruna	18	2,006
Danish krone	2,027	863
Egyptian pound	258	619
Euro currency unit	30,977	20,345
Hong Kong dollar	17,721	19,041
Indian rupee	397	7,549
Indonesian rupiah	1,437	748
Israeli shekel	918	572
Japanese yen	35,818	38,296
Kenyan shilling	240	178
Malaysian ringgit	645	2,034
Mexican new peso	499	694
Moroccan dirham	18	320
New Zealand dollar	248	316
Norwegian krone	1,925	1,643
Philippines peso	526	360
Qatari riyal	–	562
Singapore dollar	4,368	1,701
South African rand	1,151	2,028
South Korean won	705	1,813
Swedish krona	3,288	2,583
Swiss franc	21,029	10,490
Taiwan new dollar	15,526	26,487
Thailand baht	274	1,857
Turkish new lira	5,846	2,514
UAE dirham	205	–
Other	339	179
Total deposits subject to foreign currency risk	<u>\$ 200,924</u>	<u>\$ 182,303</u>

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments

The SBA has the authority and responsibility for the investment of the Trust assets pursuant to Section 215.47, Florida Statutes, in a range of instruments including, but not limited to: federally guaranteed obligations, certain state bonds, corporate bonds, commercial paper, banker's acceptances, short-term obligations purchased individually or in pooled accounts, interests in certain open-end and closed-end management type investment companies or investment trusts, common and preferred stock, repurchase and reverse repurchase agreements and real estate. The SBA may also buy and sell futures contracts, option contracts and domestic or foreign notional principal contracts. The following are the major asset classes invested in by the Trust.

Short-Term

Short-term investments consist primarily of U.S. Treasury and Government sponsored securities, Money Market funds, Commercial Paper, Certificates of Deposit, Repurchase Agreements and other similar instruments. These investments are available to meet cash needs as they arise.

Fixed Income

The fixed income investments are comprised of both domestic and international securities and consist primarily of negotiable obligations of the U.S. Government and U.S. Government sponsored agencies, corporate bonds, and securitized offerings such as mortgage backed securities (MBS), collateralized mortgage obligations (CMO), asset backed securities (ABS) and commercial mortgage backed securities (CMBS).

Equities

Equity investments represent both domestic and international stocks traded on the major stock exchanges. Also included as equities are preferred stock, commingled funds, Real Estate Investment Trusts (REITS) and Equity Linked Notes. REITS are securities that sell like a stock on the major exchanges and invest in real estate directly. Equity Linked Notes are instruments whose return is determined by the performance of a single equity security, a basket of equity securities, or an equity index.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

Alternative

The Trust invests in various funds and investment vehicles which employ specific strategies and co-investments often outside the traditional asset classes. The most common investment categories for these funds include domestic and international private equity, private debt/credit opportunities, and hedge funds. The structure of these investments is generally a limited partnership or limited liability company and tend to be long term and illiquid in nature. Due to this type of structure, private debt/credit opportunities do not typically have established ratings or durations associated with these investments.

Real Estate

Types of real estate investments can include ownership of office, multifamily, retail, agricultural and industrial properties, as well as, value-added and opportunistic investments such as hotels, senior housing and international real estate. These assets can be held directly, a part of a joint venture or through ownership in pooled funds and partnerships.

Other

Included in this asset type are investments such as derivative instruments consisting of futures, options, forward currency contracts, and swaps (see Note 4 section F (Derivatives) for additional disclosure).

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

The following schedule discloses the Trust's investments, by type, at June 30, 2012 and 2011.

	Fair Value	
	2012	2011
	<i>(in thousands)</i>	
Investment type:		
Short-term:		
Certificates of deposit	\$ 899,769	\$ 415,029
Commercial paper	3,638,373	6,948,138
Money market funds	16,064	4,863
Repurchase agreements	2,055,000	1,000,000
Fixed income – domestic:		
U.S. guaranteed obligations	9,430,834	7,962,850
Federal agencies	9,699,691	10,133,810
Domestic corporate and municipal bonds and notes ¹	8,814,663	9,064,318
Fixed income – international:		
International bonds and notes ¹	3,353,042	3,202,165
Equities – domestic ¹	33,407,723	34,781,173
Equities – international ¹ :		
International equities	30,177,809	35,455,575
International equity commingled funds	5,966,638	8,073,939
Alternative – domestic:		
Private equity	5,212,675	4,720,640
Private debt/credit opportunities	2,200,780	1,710,675
Hedge funds	418,861	316,340
Alternative – international:		
Private equity	1,413,455	1,153,004
Private debt/credit opportunities	1,104,023	1,093,249
Hedge funds	883,276	439,543
Real estate:	8,176,282	7,285,791
Other investments		
Option contracts purchased	59	1,017
Swap contracts (debt related)	1,092	1,696
Total investments excluding securities lending collateral	126,870,109	133,763,815
Securities lending collateral investments:		
Repurchase agreements	\$ 4,668,171	\$ 3,936,077
Domestic corporate bonds and notes ¹	209,977	414,588
International bonds and notes ¹	60,312	102,773
Total securities lending collateral investments	4,938,460	4,453,438
Total investments	\$ 131,808,569	\$ 138,217,253
Investments sold short:		
Federal agencies	\$ (380,076)	\$ (562,711)
Domestic stocks ¹	–	(587,496)
International stocks ¹	–	(226,927)
Option contracts	(257)	(16)
Total investments sold short ²	\$ (380,333)	\$ (1,377,150)

¹ Bonds and notes were categorized as “Domestic” or “International” based on the country of issue. Equities were categorized as “Domestic” or “International” based on the country of risk provided by the SBA’s custodian bank. Any bond or note with a country of issue, or stock with a country of risk, other than the United States of America, was reported as “International”.

² Investments sold short are classified as liabilities on the statements of net assets.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

Certain investments included in the above schedule were pledged as collateral with the SBA's futures clearing broker. These investments are presented below:

Securities Pledged as Collateral for Futures Contracts

	Fair Value	
	2012	2011
	<i>(in thousands)</i>	
Investment type:		
U.S. guaranteed obligations	\$ 1,445	\$ 1,994
Federal agencies	36,111	36,711
Domestic stocks	22,780	203,450
Total	\$ 60,336	\$ 242,155

Investment Risks

The Trust invests in a broad range of financial investments. Financial investments, in general, are exposed to various risks, including overall market volatility. Due to the level of risk associated with certain financial investments, it is reasonably possible that changes in the values of financial investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires that certain risks be discussed in the financial statements. These risks include custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Each of these risks is discussed in more detail below.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

A. Custodial Credit Risk

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the counterparty to a transaction, the Trust will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Trust's custodial credit risk policy states that custodial credit risk will be minimized through the use of trust accounts maintained at top tier third-party custodian banks. To the extent possible, negotiated trust and custody contracts shall require that all deposits, investments and collateral be held in accounts in the SBA's name, or in the case of certain foreign investments, in an omnibus client account, but separate and apart from the assets of the custodian banks. This policy applies to investments evidenced by cash or securities, and does not apply to investments evidenced by contractual agreements such as private equity or real estate investments.

As required by negotiated trust and custody contracts, many of the Trust's investments were held in the SBA's name (or, in the case of certain foreign investments, in an omnibus client account) by the custodial financial institutions. Presented below are investments that were uninsured and unregistered, with securities held by the counterparty, or by its trust department.

Custodial Credit Risk

	Fair Value	
	2012	2011
	<i>(in thousands)</i>	
Invested security lending collateral:		
Repurchase agreements	\$ 2,329,827	\$ 2,059,570
Domestic bonds and notes	204,559	365,216
International bonds and notes	27,829	58,899
Total investments exposed to custodial credit risk	<u>\$ 2,562,215</u>	<u>\$ 2,483,685</u>

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

B. Credit Risk and Concentration of Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of issuers and debt instruments is evaluated by nationally recognized statistical rating agencies such as Standard & Poor's Corporation (S&P), Moody's Investors Service, Inc. (Moody's), and Fitch Ratings (Fitch). Concentration of credit risk is the risk of loss attributed to the magnitude of the Trust's investment in a single issuer.

The SBA, in compliance with Section 215.47, Florida Statutes, has adopted certain investment policies with regard to credit risk of debt securities. Investment policies vary by portfolio. Below are the investment policies and credit risk disclosures for the Trust. Investments generally are managed through individual portfolios with various asset classes, as listed below. Some of the individual portfolios have slightly different restrictions on credit quality.

Short-Term Portfolio

Securities must be high quality at the time of purchase. For short-term investment ratings, this is defined as the highest applicable rating from one of the three Nationally Recognized Statistical Rating Organizations (NRSRO) – S&P A-1; Moody's P-1; Fitch F1. For long-term investment ratings, this is defined as a minimum mid-single A rating from one of the three NRSROs – S&P A, Moody's A2, Fitch A. Securities of a single issuer (excluding U.S. Treasuries and Agencies) should not represent more than 5% of portfolio amortized cost.

Mortgage Index Portfolio

Securities generally are limited to those issued by the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC). No specific credit rating criteria are listed.

Aggregate Less MBS Index Portfolio

Securities should be rated investment grade by at least one of the three NRSROs at the time of purchase. Minimum ratings include S&P BBB-, Moody's Baa3, and Fitch BBB-. This portfolio primarily contains U.S. Treasuries, Government Agencies, and Corporates.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

Core Portfolios

Securities should be rated investment grade by one of the three NRSROs at the time of purchase. Minimum ratings include S&P BBB-, Moody's Baa3, and Fitch BBB-. Securities of a single issuer are generally limited to 5% of the market value of the portfolio (excluding U.S. Treasuries and Agencies). The Trust may own notes secured by first mortgages on Florida real property, insured or guaranteed by the Federal Housing Administration or the U.S. Department of Veterans Affairs, but exposure is limited to 10% of portfolio market value.

High Yield Portfolios

The majority of the securities should be rated below investment grade (minimum of S&P, Moody's and Fitch C and maximum of S&P BB+, Moody's Ba1, and Fitch BB+) by one of the NRSROs at the time of purchase and must be U.S. dollar denominated. No more than 10% of market value shall be invested in investment grade securities (S&P BBB-, Moody's Baa3 and Fitch BBB-) or higher by two of the three NRSROs. Securities of a single issuer should not exceed 5% of portfolio market value. No more than 35% of market value may be in any one industry.

Lending Portfolios

Under investment policy guidelines, in effect for the fiscal years ended June 30, 2012 and 2011, eligible investments must be tri-party Qualified Repurchase Agreement transactions in which the subject securities thereunder will be repurchased by the seller thereof no later than one business day from the purchase date, and such repurchase obligations are collateralized by U.S. Government Securities having a market value of at least 100% of the market value of securities subject to being repurchased. "U.S. Government Securities" means any security issued or guaranteed as to principal or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States, or any certificate of deposit for any of the foregoing, including without limitation notes, bonds and other debt securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). In addition to tri-party repurchase agreements, investments purchased prior to the effective date of the new investment policy guidelines are being held to maturity in existing lending portfolios. The previous investment policy guidelines contained short-term

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

rating requirements that were similar to the current short-term portfolio rating requirements. Repurchase agreements were required to be fully collateralized. The Trust was allowed to hold up to the greater of \$5 million or 5% of its assets in securities by a single issuer (excluding U.S. Government guaranteed investments, its agencies or instrumentalities). For all lending programs, up to an additional 5% of the book value of the portfolio was allowed to be invested in the obligations of any single issuer, guarantor, or repo counterparty that matured on the next business day, that were redeemable upon demand, or that contained an unconditional put feature.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

The Trust did not hold any investments with a single issuer representing 5% or more of the Trust's fair value at June 30, 2012 or 2011. The following schedules disclose credit quality ratings on investments held in the Trust.

**Credit Quality Ratings
As of June 30, 2012**

S&P ¹	Moody ¹	Total ²	Certificates of Deposit	Commercial Paper	Money Market Funds	Federal Agencies	Domestic Bonds and Notes	International Bonds and Notes
<i>(dollars in thousands)</i>								
A-1 / AAAm		\$ 3,654,437	\$ -	\$ 3,638,373	\$ 16,064	\$ -	\$ -	\$ -
AAA		1,516,879	-	-	-	-	1,049,664	467,215
AA		3,142,141	100,006	-	-	1,879,927	834,535	327,673
A		4,010,210	-	-	-	54,143	3,151,837	804,230
BBB		3,265,838	-	-	-	-	2,517,930	747,908
BB		302,703	-	-	-	-	266,807	35,896
B		83,908	-	-	-	-	82,929	979
CCC		72,420	-	-	-	-	71,589	831
CC		6,877	-	-	-	-	6,877	-
D		3,569	-	-	-	-	3,569	-
Not rated	Aaa	561,177	-	-	-	2,762	415,832	142,583
Not rated	Aa	77,545	49,985	-	-	-	27,560	-
Not rated	A	93,711	-	-	-	-	52,721	40,990
Not rated	Baa	90,630	-	-	-	-	48,998	41,632
Not rated	Ba	4,378	-	-	-	-	4,378	-
Not rated	B	1,493	-	-	-	-	1,493	-
Not rated	Not rated	9,803,975	749,778	-	-	7,762,859	487,921	803,417
		26,691,891	\$ 899,769	\$ 3,638,373	\$ 16,064	\$ 9,699,691	\$ 9,024,640	\$ 3,413,354
Not rated	Not rated	6,723,171	Repurchase agreements					
Not rated	Not rated	9,430,834	U.S. guaranteed obligations					
Not rated	Not rated	33,407,723	Domestic equities					
Not rated	Not rated	30,177,809	International equities					
Not rated	Not rated	5,966,638	International equity commingled funds					
Not rated	Not rated	7,832,316	Alternative investments –domestic					
Not rated	Not rated	3,400,754	Alternative investments –international					
Not rated	Not rated	8,176,282	Real estate investments					
Not rated ³	Not rated ³	59	Options purchased					
Not rated ³	Not rated ³	1,092	Swaps ³					
		\$ 131,808,569	Total investments					

¹ S&P Ratings were primarily used. If S&P did not rate a security, then Moody's ratings were used. If neither rating agency issued a rating, the security was listed as "Not rated." Long-term ratings are presented except for "A-1," which is a top tier short-term rating for S&P, and "AAAm," the top money market fund rating for S&P.

² All investments are included in this table, including security lending collateral investments.

³ Although swap contracts do not have specific credit quality ratings, counterparty credit ratings are available and are disclosed in separate schedules.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

		Credit Quality Ratings As of June 30, 2011								
S&P ¹	Moody ¹	Total ²	Certificates of Deposit	Commercial Paper	Money Market Funds	Federal Agencies	Domestic Bonds and Notes	International Bonds and Notes		
<i>(dollars in thousands)</i>										
A-1 / AAAm		\$ 6,953,001	\$ -	\$ 6,948,138	\$ 4,863	\$ -	\$ -	\$ -	\$ -	
AAA		3,738,031	-	-	-	1,594,750	1,613,001	530,280		
AA		1,052,280	-	-	-	8,277	706,859	337,144		
A		4,202,984	-	-	-	49,671	3,391,117	762,196		
BBB		3,116,151	-	-	-	-	2,423,887	692,264		
BB		231,339	-	-	-	-	227,005	4,334		
B		112,059	-	-	-	-	105,012	7,047		
CCC		70,272	-	-	-	-	70,272	-		
CC		845	-	-	-	-	845	-		
D		1,213	-	-	-	-	1,213	-		
Not rated	Aaa	310,008	-	-	-	1,729	266,134	42,145		
Not rated	Aa	208,769	49,997	-	-	-	6,586	152,186		
Not rated	A	68,985	-	-	-	-	38,987	29,998		
Not rated	Baa	56,121	-	-	-	-	22,566	33,555		
Not rated	Not rated	10,163,626	365,032	-	-	8,479,383	605,422	713,789		
		<u>30,285,684</u>	<u>\$ 415,029</u>	<u>\$ 6,948,138</u>	<u>\$ 4,863</u>	<u>\$ 10,133,810</u>	<u>\$ 9,478,906</u>	<u>\$ 3,304,938</u>		
Not rated	Not rated	4,936,077	Repurchase agreements							
Not rated	Not rated	7,962,851	U.S. guaranteed obligations							
Not rated	Not rated	34,781,173	Domestic stocks							
Not rated	Not rated	35,455,575	International stocks							
Not rated	Not rated	8,073,939	International equity commingled funds							
Not rated	Not rated	6,747,655	Alternative investments – domestic							
Not rated	Not rated	2,685,795	Alternative investments – international							
Not rated	Not rated	7,285,791	Real estate investments							
Not rated ³	Not rated ³	1,017	Options purchased							
Not rated ³	Not rated ³	1,696	Swap contracts							
		<u>\$ 138,217,253</u>	Total Investments							

¹. S&P Ratings were primarily used. If S&P did not rate a security, then Moody's ratings were used. If neither rating agency issued a rating, the security was listed as "Not rated". Long-term ratings are presented except for "A-1", which is a top tier short-term rating for S&P, and "AAAm", the top money market fund rating for S&P.

². All investments are included in this table, including security lending collateral investments.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

All futures and options contracts held by the Trust at June 30, 2012 and 2011 were exchange traded, therefore minimizing counterparty credit risk through the use of a futures clearing merchant and a clearing house.

Counterparty credit ratings for swaps held at June 30, 2012 and 2011, are presented in the following tables.

June 30, 2012

Counterparty Credit Rating (Long/Short)¹			Fair Value
S&P	Moody	Fitch	Fair Value
			<i>(in thousands)</i>
A/A-1	Aa/P-1	A/F1	\$ 713
A/A-1	A/P-2	A/F1	379
Total swaps			\$ 1,092

June 30, 2011

Counterparty Credit Rating (Long/Short)¹			2011
S&P	Moody	Fitch	Fair Value
			<i>(in thousands)</i>
AA/A-1	Aa/P-1	NR/F1	\$ 183
A/A-1	A/P-1	NR/F1	356
NR/NR	NR/P-1	NR/NR	1,157
Total swaps			\$ 1,696

¹If no rating exists, "NR" is reported.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

Counterparty credit ratings for forward currency contracts held at June 30, 2012 and 2011 are presented in the following tables

June 30, 2012

Counterparty Credit Rating (Long/Short) ¹			Receivable	Payable	Net Unrealized
S&P	Moody	Fitch	Fair Value	Fair Value	Gain/(Loss)
			<i>(in thousands)</i>	<i>(in thousands)</i>	<i>(in thousands)</i>
AA/A-1	Aaa/P-1	AA/F1	\$ 138,960	\$ (140,048)	\$ (1,088)
AA/A-1	Aa/P-1	AA/F1	60,604	(60,624)	(20)
A/A-1	Aa/P-1	A/F1	3,249	(3,286)	(37)
A/A-1	A/P-1	AA/F1	178	(178)	-
A/A-1	A/P-2	A/F1	3,397	(3,418)	(21)
A/A-1	NR/P-1	A/F1	22,622	(22,599)	23
A/A-1	NR/P-2	A/F1	2,244	(2,251)	(7)
NR/NR	NR/P-1	NR/NR	12,074	(12,106)	(32)
NR/NR	NR/NR	A/F1	17,033	(17,301)	(268)
NR/NR	NR/NR	NR/NR	10,498	(10,450)	48
			<u>\$ 270,859</u>	<u>\$ (272,261)</u>	<u>\$ (1,402)</u>

June 30, 2011

Counterparty Credit Rating (Long/Short) ¹			Receivable	Payable	Net Unrealized
S&P	Moody	Fitch	Fair Value	Fair Value	Gain/(Loss)
			<i>(in thousands)</i>	<i>(in thousands)</i>	<i>(in thousands)</i>
AA/A-1	Aaa/P-1	NR/F1	\$ 74,707	\$ (74,761)	\$ (54)
AA/A-1	Aa/P-1	NR/F1	586	(583)	3
AA/A-1	Aa/P-1	NR/NR	3,697	(3,688)	9
AA/A-1	A/P-1	NR/F1	1,553	(1,555)	(2)
AA/A-1	NR/P-1	NR/F1	2,008	(1,995)	13
A/A-1	Aa/P-1	NR/F1	8,915	(8,913)	2
A/A-1	A/P-1	NR/F1	6,694	(6,699)	(5)
A/A-1	NR/P-1	NR/NR	23,642	(23,641)	1
NR/NR	NR/P-1	NR/NR	20,694	(21,018)	(324)
NR/NR	NR/NR	NR/F1	21,569	(21,575)	(6)
NR/NR	NR/NR	NR/NR	26,527	(26,451)	76
			<u>\$ 190,592</u>	<u>\$ (190,879)</u>	<u>\$ (287)</u>

¹. If no rating exists, "NR" is reported.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments.

The Trust manages its exposure to interest rate risk through various investment policies. Policies and interest rate risk disclosures for debt investments of the Trust are presented below. Investments authorized by Section 215.47, Florida Statutes, are managed through individual portfolios with various asset classes. The individual portfolios may have different policies regarding interest rate risk. Major types of debt portfolios are listed below.

Short-Term Portfolios

Weighted-average maturity to final maturity date (WAL) is limited to 120 days in the internally managed FRS Short-term Investment Pool (STIPFRS) portfolio and weighted-average time to coupon reset (WAM) is limited to 60 days. For securities without a fixed interest rate, the next coupon reset date is used as the maturity for the reset WAM calculation. In STIPFRS, no individual security shall have a final maturity date longer than one year except for U.S. Treasury and Agency securities, which shall not exceed five years.

Mortgage Index Portfolio

Portfolio duration should be similar to the duration of the mortgage-related fixed income market and should remain within plus or minus 0.25 years of index duration. The index is the Barclays Capital U.S. MBS Index component of the Barclays Capital U.S. Aggregate Bond Index. Swaps and/or Agency debentures may contribute no more than 25% to duration.

Aggregate Less MBS Index Portfolio

Portfolio duration should remain within plus or minus 0.25 years of the Barclays Capital U.S. Aggregate Bond Index less the MBS Index component.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

Core Portfolios

Portfolio duration should remain within plus or minus 0.50 – 1.25 years of the Barclays Capital U.S. Aggregate Bond Index duration.

High Yield Portfolios

Portfolio duration should remain within 2.5 years of the Barclays Capital U.S. Corporate High-Yield 2% Issuer Capped Index duration.

Security Lending Portfolios

The new investment policy guidelines in effect for the fiscal years ended June 30, 2012 and 2011 allow investment only in overnight repurchase agreements that are fully collateralized by U.S. government and/or agency securities. Investments that were purchased prior to the latest investment policy guidelines are still held in the lending programs, but are slowly paying down. Previous guidelines included a maximum WAM for a portfolio of 60 to 90 days, depending on the lending program. For investments that had floating interest rates, interest rate reset dates were used to calculate WAM.

The interest rate risk tables for the Trust as of June 30, 2012 and 2011 follow. Investment types related to debt portfolios are presented using effective weighted duration. Investment types related to short-term, as well as and security lending collateral portfolios, are presented using weighted-average maturity.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

Investment Type	June 30, 2012			
	Fair Value (Duration)	Effective Weighted Duration	Fair Value (WAM)	Weighted-Average Maturity
	<i>(in thousands)</i>	<i>(in years)</i>	<i>(in thousands)</i>	<i>(in days)</i>
Certificates of deposit	\$ -	NA	\$ 899,769	\$ 44
Commercial paper	-	NA	3,638,373	31
Money market funds	-	NA	16,064	2
Repurchase agreements	-	NA	6,723,171	2
U.S. guaranteed obligations:				
U.S. Treasury bonds and notes	7,359,530	5.33	-	NA
U.S. Treasury strips	15,345	9.85	-	NA
Index linked government bonds	238,267	6.33	-	NA
U.S. government guaranteed	80,826	3.34	-	NA
GNMA mortgage backed	724,263	1.90	-	NA
GNMA commitments to purchase (TBAs)	1,000,099	1.85	-	NA
GNMA collateralized mortgage obligations (CMOs)	10,066	(1.12)	-	NA
GNMA Interest-only CMOs	1,645	(21.22)	-	NA
GNMA interest-only inverse floating CMOs	793	(29.34)	-	NA
Federal agencies				
Discount notes	185,226	0.17	-	NA
Unsecured bonds and notes	1,950,141	3.19	-	NA
Agency strips	2,762	5.35	-	NA
Mortgage backed (FNMA, FHLMC)	4,118,122	2.35	-	NA
FNMA, FHLMC commitments to purchase (TBAs)	3,309,494	2.07	-	NA
Mortgage backed CMOs	98,935	1.64	-	NA
Interest-only CMOs	8,810	(14.92)	-	NA
Interest-only inverse floating CMOs	23,180	10.68	-	NA
Inverse floating CMOs	2,392	5.91	-	NA
Principal-only CMOs	629	3.27	-	NA
Domestic bond and notes:				
Corporate	6,262,489	6.01	-	NA
Non-government asset and mortgage backed	838,051	2.81	102,542	31
Non-government backed CMOs and CMBS	1,443,904	2.83	83,767	19
Municipal/provincial	281,254	11.46	-	NA
Real estate mortgage loans	12,633	6.68	-	NA
International bonds and notes:				
Government and regional	667,626	5.26	-	NA
Government agency	284,521	3.99	-	NA
Corporate	2,362,264	3.99	-	NA
Non-government asset and mortgage backed	21,012	0.07	-	NA
Non-government backed CMOs and CMBS	17,620	(0.36)	60,312	32
Futures contracts-long ¹	-	4.97	-	NA
Futures contracts-short ¹	-	4.82	-	NA
Options purchased ²	59	(955.42)	-	NA
Swap contracts ¹	1,092	0.29	-	NA
Total fixed income investments	<u>\$ 31,323,050</u>		<u>\$ 11,523,998</u>	

¹ The futures and swap contracts effective weighted duration was calculated using notional values rather than fair values. For foreign futures, local notional value was converted to a U.S. \$ value based on foreign exchange rates at June 30, 2012.

² Options' effective weighted duration measures the rate of change of price with respect to yield.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

Investment Type	June 30, 2011			
	Fair Value (Duration)	Effective Weighted Duration	Fair Value (WAM)	Weighted-Average Maturity
	<i>(in thousands)</i>	<i>(in years)</i>	<i>(in thousands)</i>	<i>(in days)</i>
Certificates of deposit	\$ —	NA	\$ 415,029	\$ 77
Commercial paper	—	NA	6,948,139	24
Money market funds	—	NA	4,863	1
Repurchase agreements	—	NA	4,936,077	1
U.S. guaranteed obligations:				
U.S. Treasury bonds and notes	5,766,575	5.29	—	NA
Index linked government bonds	251,773	5.53	—	NA
U.S. government guaranteed	182,483	2.95	—	NA
GNMA mortgage backed	723,973	3.03	—	NA
GNMA commitments to purchase (TBAs)	1,022,916	2.72	—	NA
GNMA collateralized mortgage obligations (CMOs)	13,929	7.44	—	NA
GNMA interest-only inverse floating CMOs	1,202	11.70	—	NA
Federal agencies				
Discount notes	510,825	0.20	—	NA
Unsecured bonds and notes	1,659,952	3.51	—	NA
Agency strips	2,659	5.83	—	NA
Mortgage backed (FNMA, FHLMC)	4,439,993	3.66	—	NA
FNMA, FHLMC commitments to purchase (TBAs)	3,475,248	3.34	—	NA
Mortgage backed CMOs	17,556	2.51	—	NA
Interest-only CMOs	7,286	(7.86)	—	NA
Interest-only inverse floating CMOs	16,275	13.49	—	NA
Inverse floating CMOs	3,322	7.72	—	NA
Principal-only CMOs	694	3.80	—	NA
Domestic bond and notes:				
Corporate	6,156,520	5.61	—	NA
Non-government asset and mortgage backed	939,614	3.52	182,921	28
Non-government backed CMOs and CMBS	1,815,001	2.94	192,595	18
Municipal/provincial	174,516	10.89	—	NA
Real estate mortgage loans	17,739	6.16	—	NA
International bonds and notes:				
Government and regional	602,684	5.20	—	NA
Government agency	301,320	4.18	—	NA
Corporate	2,272,669	3.46	—	NA
Non-government backed CMOs and CMBS	25,492	2.00	102,773	42
Futures contracts-long ¹	—	2.73	—	NA
Futures contracts-short ¹	—	4.79	—	NA
Options purchased ²	1,017	(294.70)	—	NA
Swap contracts ¹	1,696	0.80	—	NA
Total fixed income investments	<u>\$ 30,404,929</u>		<u>\$ 12,782,397</u>	

¹. The futures and swap contracts effective weighted duration was calculated using notional values rather than fair values. For foreign futures, local notional value was converted to a U.S. \$ value based on foreign exchange rates at June 30, 2011.

². Options' effective weighted duration measures the rate of change of price with respect to yield.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

Interest rate risk information for debt investments sold short is presented below for June 30, 2012 and 2011:

Investment Type	June 30, 2012		June 30, 2011	
	Fair Value	Effective Weighted Duration	Fair Value	Effective Weighted Duration
	<i>(in thousands)</i>	<i>(in years)</i>	<i>(in thousands)</i>	<i>(in years)</i>
FNMA, FHLMC commitments to sell (TBAs)	\$ (380,076)	2.01	\$ (562,711)	4.65
Options sold ²	<u>(257)</u>	<u>127.57</u>	<u>(16)</u>	-128.08
Total debt investments sold short ¹	<u>\$ (380,333)</u>		<u>\$ (562,727)</u>	

¹ Investments sold short are reported as liabilities on the Statement of Net Assets.

² Options effective weighted duration measures the rate of change of price with respect to yield.

D. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Trust may have exposure to foreign currency risk to the extent its investments contain non-U.S. dollar denominated holdings in foreign countries. All asset classes may hold non-U.S. securities, depending on portfolio guidelines. Florida law limits the total exposure to foreign securities held outside of commingled trusts to 35% of the total Trust. There is no requirement that this exposure to foreign currency be hedged through forward currency contracts, although the managers use them in many cases.

Following are the Trust's investments, by currency at fair value, (in U.S. dollars) exposed to foreign currency risk as of June 30, 2012 and 2011.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

Currency	June 30, 2012		
	Investment Type		
	Equity	Alternative Investments ¹	Fixed Income
	<i>(in thousands)</i>	<i>(in thousands)</i>	<i>(in thousands)</i>
Australian dollar	\$ 1,452,126	\$ -	\$ -
Brazilian real	520,000	-	101
British pound sterling	5,033,317	-	-
Canadian dollar	1,653,040	-	-
Danish krone	247,943	-	-
Egyptian pound	16,386	-	-
Euro currency unit	5,758,242	382,628	-
Hong Kong dollar	1,922,254	-	-
Hungarian forint	19,161	-	-
Indian rupee	383,222	-	-
Indonesian rupiah	170,230	-	-
Israeli shekel	69,224	-	-
Japanese yen	4,326,052	-	-
Malaysian ringgit	102,244	-	-
Mexican peso	175,188	-	-
New Zealand dollar	24,061	-	-
Nigerian naira	41,647	-	-
Norwegian krone	169,631	-	-
Phillippines peso	59,176	-	-
Polish zloty	73,699	-	-
Qatari riyal	29,548	-	-
Singapore dollar	553,701	-	-
South African rand	436,117	-	-
South Korean won	735,704	-	-
Swedish krona	551,520	-	-
Swiss franc	1,845,305	-	-
Taiwan new dollar	445,268	-	-
Thailand baht	276,402	-	-
Turkish lira	262,509	-	-
Other	142,277	-	-
Equity linked notes (various currencies) ²	7,144	-	-
International equity commingled funds ¹	5,966,638	-	-
Alternative investments-International ¹	-	3,018,126	-
Total investments subject to foreign currency risk	\$ 33,468,976	\$ 3,400,754	\$ 101

¹ International equity commingled funds and international alternative investments are commingled investments where the Trust owns units or interests in commingled funds with other investors and, therefore, only a portion of the overall investment in the funds. The overall investment in the funds is reported in U.S. dollars, but the underlying investments owned by the commingled funds are exposed to foreign currency risk in various currencies. If the alternative investments manager provided financial statements in Euro currency units, it was reported above as having foreign currency risk in Euro currency units.

² Equity linked notes are participatory notes that allow the holder to participate in certain foreign equity markets where direct participation is not possible due to local government regulations, tax policies, or other reasons. The notes themselves may be valued in U.S. dollars, but the underlying assets are subject to currency risk.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

Currency	June 30, 2011		
	Investment Type		
	Equity	Alternative Investments ¹	Short-Sells Equity ²
	<i>(in thousands)</i>	<i>(in thousands)</i>	<i>(in thousands)</i>
Australian dollar	\$ 1,677,792	–	\$ (2,933)
Brazilian real	574,736	–	–
British pound sterling	5,473,401	–	(14,679)
Canadian dollar	1,987,141	–	(25,114)
Danish krone	259,932	–	(5,807)
Egyptian pound	23,340	–	–
Euro currency unit	7,479,542	330,088	(70,815)
Hong Kong dollar	2,379,018	–	–
Hungarian forint	26,295	–	–
Indian rupee	450,725	–	–
Indonesian rupiah	163,278	–	–
Israeli shekel	120,120	–	–
Japanese yen	4,867,649	–	(38,481)
Malaysian ringgit	122,475	–	–
Mexican peso	198,944	–	–
New Zealand dollar	29,229	–	–
Nigerian naira	34,968	–	–
Norwegian krone	180,230	–	(1,046)
Phillippines peso	47,264	–	–
Polish zloty	114,768	–	–
Qatari riyal	27,891	–	–
Singapore dollar	602,582	–	(1,773)
South African rand	470,851	–	–
South Korean won	814,327	–	–
Swedish krona	690,350	–	(2,921)
Swiss franc	2,277,264	–	(9,845)
Taiwan new dollar	625,572	–	–
Thailand baht	247,253	–	–
Turkish lira	242,921	–	–
Other	137,833	–	–
Equity linked notes (various currencies) ³	8,013	–	–
International equity commingled funds ¹	8,073,939	–	–
Alternative investments-international ¹	–	2,355,707	–
Total investments subject to foreign currency risk	<u>\$ 40,429,643</u>	<u>\$ 2,685,795</u>	<u>\$ (173,414)</u>

¹ International equity commingled funds and international alternative investments are commingled investments where the Trust owns units or interests in commingled funds with other investors and, therefore, only a portion of the overall investment in the funds. The overall investment in the funds is reported in U.S. dollars, but the underlying investments owned by the commingled funds are exposed to foreign currency risk in various currencies. If the alternative investments manager provided financial statements in Euro currency units, it was reported above as having foreign currency risk in Euro currency units.

² Equity securities sold short are reported as liabilities on the statements of net assets. They are included here since they do have exposure to foreign currency risk.

³ Equity linked notes are participatory notes that allow the holder to participate in certain foreign equity markets where direct participation is not possible due to local government regulations, tax policies, or other reasons. The notes themselves may be valued in U.S. dollars, but the underlying assets are subject to currency risk.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

In addition to the investments presented above, the Trust holds positions in futures contracts (see Note 4 Section F Derivatives) that are subject to foreign currency risk. The margin payments are exposed to foreign currency risk. The Trust's futures contract positions at June 30, 2012 and 2011 that were exposed to foreign currency risk are presented below:

	Currency	Number of Contracts ¹	In Local Currency		Unrealized Gain/(Loss) ²	Unrealized Gain/(Loss) (in U.S. \$)
			Notional Traded Exposure	Notional Market Exposure		
<i>(in thousands)</i>						
As of June 30, 2012						
Stock Index Futures:						
GBP FTSE 100 Index	British pound sterling	325	17,623	17,950	327	\$ 513
Canada S&P/TSE 60 Index	Canadian dollar	126	16,274	16,667	393	385
DJ Euro STOXX 50	Euro currency unit	1,021	21,878	23,024	1,146	1,454
TOPIX Index Future	Japanese yen	224	1,591,825	1,722,560	130,735	1,638
As of June 30, 2011						
Stock Index Futures:						
GBP FTSE 100 Index	British pound sterling	217	12,497	12,808	311	\$ 500
Canada S&P/TSE 60 Index	Canadian dollar	77	11,430	11,738	308	319
DJ Euro STOXX 50	Euro currency unit	567	15,594	16,148	554	804
TOPIX Index Future	Japanese yen	139	1,129,723	1,180,805	51,082	633

¹ Long positions are positive and short positions are negative.

² Margin receipts or payments are settled periodically in the respective local currency and are subject to foreign currency risk.

The Trust also holds positions in interest rate swap agreements that are subject to foreign currency risk. The Trust either receives or pays a fixed interest rate and also pays or receives a variable three- or six-month LIBOR (London Inter-Bank Offered Rate) in each currency. No interest rate swaps with currency exposure were held at June 30, 2012. A summary of interest rate swaps with currency exposure held as of June 30, 2011 is presented in the following table.

Currency	Notional Amount (Local Currency)	Receive ¹	Pay ¹	Maturity Dates	Fair Value in Local Currency	Fair Value in U.S. Dollars
June 30, 2011						
Euro Currency unit	113,000	2.737%	EURIBOR 6-month	4/29/2013	1,210	\$ 1,754
					1,210	\$ 1,754

¹ The ERIBOR (Euro Interbank Offered Rate) is the rate at which euro wholesale money market (or interbank market) term deposits within the euro zone are offered by one prime bank to another prime bank.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

The Trust also enters into forward foreign currency exchange contracts. Forward foreign currency exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts are subject to foreign currency risk. The contracts are recorded as receivables and payables on the statements of net assets. Schedules of all forward foreign currency exchange contracts outstanding at June 30, 2012 and 2011 are presented below, by currency.

June 30, 2012						
Currency to Buy	Amount to Buy (in Local Currency) <i>(in thousands)</i>	Currency to Sell	Amount to Sell (in Local Currency) <i>(in thousands)</i>	Receivable Fair Value (in U.S. \$) <i>(in thousands)</i>	Payable Fair Value (In U.S. \$) <i>(in thousands)</i>	Net Unrealized Gain/(Loss) (In U.S. \$) <i>(in thousands)</i>
Australian dollar	5,710	U.S. dollar	(5,723)	\$ 5,843	\$ (5,723)	\$ 120
Brazilian real	481	U.S. dollar	(232)	239	(232)	7
British pound sterling	4,081	U.S. dollar	(6,347)	6,401	(6,347)	54
Canadian dollar	2,970	U.S. dollar	(2,893)	2,913	(2,893)	20
Chilean peso	70,114	U.S. dollar	(142)	140	(142)	(2)
Danish krone	1,757	Singapore dollar	(376)	300	(297)	3
Danish krone	1,365	U.S. dollar	(229)	233	(229)	4
Euro currency unit	5,380	U.S. dollar	(6,727)	6,827	(6,727)	100
Hong Kong dollar	1,412	Japanese yen	(14,452)	182	(181)	1
Hong Kong dollar	277,936	U.S. dollar	(35,836)	35,839	(35,836)	3
Indonesian rupiah	12,968,300	U.S. dollar	(1,371)	1,380	(1,371)	9
Israeli shekel	44	U.S. dollar	(11)	11	(11)	-
Japanese yen	1,339,724	U.S. dollar	(16,895)	16,806	(16,895)	(89)
Malaysian ringgit	134	U.S. dollar	(42)	42	(42)	-
New Zealand dollar	1,193	U.S. dollar	(941)	957	(941)	16
Nigerian naira	15,295	U.S. dollar	(94)	94	(94)	-
Norwegian krone	21,069	U.S. dollar	(3,508)	3,544	(3,508)	36
Philippines peso	6,395	U.S. dollar	(151)	152	(151)	1
Qatari riyal	954	U.S. dollar	(262)	262	(262)	-
S. African rand	4,113	U.S. dollar	(536)	503	(536)	(33)
Singapore dollar	2,655	U.S. dollar	(2,081)	2,096	(2,081)	15
Swedish krona	15,582	U.S. dollar	(2,210)	2,254	(2,210)	44
Swiss franc	6,753	U.S. dollar	(7,051)	7,134	(7,051)	83
Thailand baht	21,814	U.S. dollar	(687)	687	(687)	-
U.S. dollar	29,366	Australian dollar	(29,173)	29,366	(29,777)	(411)
U.S. dollar	2,314	Brazilian real	(4,763)	2,314	(2,360)	(46)

Continued on next page.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

June 30, 2012						
Currency to Buy	Amount to Buy (in Local Currency) <i>(in thousands)</i>	Currency to Sell <i>(in thousands)</i>	Amount to Sell (in Local Currency) <i>(in thousands)</i>	Receivable Fair Value (in U.S. \$) <i>(in thousands)</i>	Payable Fair Value (In U.S. \$) <i>(in thousands)</i>	Net Unrealized Gain/(Loss) (In U.S. \$) <i>(in thousands)</i>
		British pound				
U.S. dollar	12,817	sterling	(8,255)	\$ 12,817	\$ (12,946)	\$ (129)
U.S. dollar	41,904	Canadian dollar	(43,150)	41,904	(42,262)	(358)
U.S. dollar	46,392	Euro currency unit	(36,953)	46,392	(46,920)	(528)
U.S. dollar	8,904	Hong Kong dollar	(69,079)	8,904	(8,906)	(2)
U.S. dollar	1,737	Indonesian rupiah	(16,394,041)	1,737	(1,745)	(8)
U.S. dollar	3,742	Japanese yen	(297,402)	3,742	(3,727)	15
U.S. dollar	513	Malaysian ringgit	(1,632)	513	(514)	(1)
U.S. dollar	35	New Taiwan dollar	(1,048)	35	(35)	-
U.S. dollar	7,389	New Zealand dollar	(9,144)	7,389	(7,336)	53
U.S. dollar	835	Norwegian krone	(5,075)	835	(854)	(19)
U.S. dollar	880	Philippines peso	(37,323)	880	(886)	(6)
U.S. dollar	173	Qatari riyal	(629)	173	(173)	-
U.S. dollar	1,458	Singapore dollar	(1,861)	1,458	(1,469)	(11)
U.S. dollar	6	South Korean won	(7,042)	6	(6)	-
U.S. dollar	2,190	Swedish krona	(15,458)	2,190	(2,239)	(49)
U.S. dollar	15,365	Swiss franc	(14,817)	15,365	(15,659)	(294)
Total				\$ 270,859	\$ (272,261)	\$ (1,402)

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

June 30, 2011						
Currency to Buy	Amount to Buy (in Local Currency)	Currency to Sell	Amount to Sell (in Local Currency)	Receivable Fair Value (in U.S. \$)	Payable Fair Value (In U.S. \$)	Net Unrealized Gain/(Loss) (In U.S. \$)
	<i>(in thousands)</i>		<i>(in thousands)</i>	<i>(in thousands)</i>	<i>(in thousands)</i>	<i>(in thousands)</i>
Australian dollar	2,758	U.S. dollar	(2,919)	\$ 2,952	\$ (2,919)	\$ 33
Brazilian real	884	U.S. dollar	(564)	566	(564)	2
British pound sterling	70	Euro currency unit	(78)	112	(113)	(1)
British pound sterling	3,267	Swedish krona	(33,096)	5,246	(5,245)	1
British pound sterling	6,242	U.S. dollar	(9,995)	10,022	(9,995)	27
Canadian dollar	515	Japanese yen	(43,007)	534	(533)	1
Canadian dollar	3,491	U.S. dollar	(3,617)	3,617	(3,617)	-
Danish krone	3,125	U.S. dollar	(604)	607	(604)	3
Euro currency unit	1,245	Japanese yen	(145,623)	1,805	(1,803)	2
Euro currency unit	18,340	U.S. dollar	(26,441)	26,590	(26,441)	149
Euro currency unit	20	U.S. dollar	settled ¹	29	settled ¹	29
Hong Kong dollar	530	Japanese yen	(5,492)	68	(68)	-
Hong Kong dollar	17,795	U.S. dollar	(2,287)	2,287	(2,287)	-
Indian rupee	79,389	U.S. dollar	(1,782)	1,776	(1,782)	(6)
Indonesian rupiah	26,922,599	U.S. dollar	(3,144)	3,139	(3,143)	(4)
Israeli shekel	693	U.S. dollar	(204)	204	(204)	-
Japanese yen	1,341,876	U.S. dollar	(16,618)	16,616	(16,618)	(2)
Kenyan shilling	6,027	U.S. dollar	(68)	67	(68)	(1)
New Zealand dollars	settled ¹	U.S. dollar	(277)	settled ¹	(277)	(277)
Nigerian naira	1,213	U.S. dollar	(8)	8	(8)	-
Philippines peso	5,259	U.S. dollar	(121)	121	(121)	-
Qatari rial	872	U.S. dollar	(240)	239	(240)	(1)
S. African rand	4,750	Hong Kong dollar	(5,465)	700	(702)	(2)
S. African rand	12,276	U.S. dollar	(1,800)	1,811	(1,800)	11
Singapore dollar	4,009	U.S. dollar	(3,254)	3,266	(3,254)	12
South Korean won	3,501,946	U.S. dollar	(3,286)	3,280	(3,286)	(6)
Swedish krona	2,233	U.S. dollar	(350)	354	(350)	4
Swiss franc	10,815	U.S. dollar	(12,954)	12,844	(12,954)	(110)
Thailand baht	4,004	U.S. dollar	(130)	130	(130)	-
U.S. dollar	15,402	Australian dollar	(14,488)	15,402	(15,464)	(62)
U.S. dollar	2,038	Brazil real	(3,209)	2,038	(2,054)	(16)

Continued on next page.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

June 30, 2011

Currency to Buy	Amount to Buy (in Local Currency) <i>(in thousands)</i>	Currency to Sell	Amount to Sell (in Local Currency) <i>(in thousands)</i>	Receivable Fair Value (in U.S. \$) <i>(in thousands)</i>	Payable Fair Value (in U.S. \$) <i>(in thousands)</i>	Net Unrealized Gain/(Loss) (in U.S. \$) <i>(in thousands)</i>
		British pound				
U.S. dollar	4,501	sterling	(2,802)	\$ 4,501	\$ (4,498)	\$ 3
U.S. dollar	3,623	Canadian dollar	(3,504)	3,623	(3,631)	(8)
U.S. dollar	89	Egyptian pound	(529)	89	(89)	-
U.S. dollar	13,442	Euro currency unit	(9,305)	13,442	(13,491)	(49)
U.S. dollar	1,271	Hong Kong dollar	(9,889)	1,270	(1,270)	-
U.S. dollar	333	Hungarian forint	(61,284)	333	(335)	(2)
U.S. dollar	4,909	Indian rupee	(219,166)	4,909	(4,903)	6
U.S. dollar	1,036	Indonesian rupiah	(8,909,500)	1,036	(1,038)	(2)
U.S. dollar	172	Israeli shekel	(609)	172	(179)	(7)
U.S. dollar	27,742	Japanese yen	(2,239,939)	27,742	(27,742)	-
U.S. dollar	165	Kenyan shilling	(14,917)	165	(167)	(2)
U.S. dollar	1,428	Mexican new peso	(16,805)	1,428	(1,433)	(5)
U.S. dollar	83	Nigerian naira	(12,623)	83	(83)	-
U.S. dollar	313	Norwegian krone	(1,684)	313	(314)	(1)
U.S. dollar	425	Pakistan rupee	(36,605)	425	(426)	(1)
U.S. dollar	61	Philippines peso	(2,679)	61	(62)	(1)
U.S. dollar	395	Polish zloty	(1,105)	395	(402)	(7)
U.S. dollar	1,061	Qatari rial	(3,865)	1,061	(1,061)	-
U.S. dollar	712	Singapore dollar	(876)	712	(714)	(2)
U.S. dollar	3,567	South Korean won	(3,822,788)	3,567	(3,581)	(14)
U.S. dollar	424	Swedish krona	(2,680)	424	(425)	(1)
U.S. dollar	6,109	Swiss franc	(5,121)	6,109	(6,082)	27
U.S. dollar	1,334	Taiwan new dollar	(38,565)	1,334	(1,343)	(9)
U.S. dollar	496	Thailand baht	(15,170)	496	(494)	2
U.S. dollar	472	Turkish new lira	(767)	472	(472)	-
Total				\$ 190,592	\$ (190,879)	\$ (287)

¹ As of June 30, 2011, there were two forward contracts that should have settled in June 2011 but had only partially settled by month-end. The first, to buy New Zealand dollars and pay U.S. dollars, was outstanding on the payable side for \$277,340 after the U.S. dollars were returned to the SBA's custodian due to a lack of forwarding information. The second, to buy Euro-currency units and pay U.S. dollars, was outstanding on the receivable side for \$19,782. Both contracts were settled in July 2011 without loss to the SBA.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

E. Security Lending

The Trust participates in security lending programs. Initial collateral requirements for securities on loan range from 100% to 105%, depending on the lending agent, the type of security lent and the type of collateral received. The Trust had received and invested approximately \$5 billion in cash and \$5 million in U.S. government securities as collateral for the lending programs as of June 30, 2012. At June 30, 2012, the collateral held for the security lending transactions exceeded the fair value of the securities underlying the agreement (including accrued interest). The SBA does not have the ability to pledge or sell the non-cash collateral securities, so the non-cash portion is not reported on the statements of net assets, in accordance with GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*. All security lending programs have indemnity clauses requiring the lending agent to assume borrower's risk from default. Maturities of investments made with cash collateral generally are not matched to maturities of the securities loaned, because security loan agreements generally are open-ended with no fixed expiration date. As such, investments made with cash collateral are primarily in short-term investments. However, investments purchased for some security lending programs included investments with final maturities of six months or more representing a range of approximately 6% or less of total collateral invested at June 30, 2012. There are no restrictions on the amount of securities that can be loaned at one time to one borrower.

In July 2009, following a third-party study of current practices in securities lending, the SBA began transitioning from a general collateral/cash reinvestment program to an intrinsic lending model. The latter model recognizes and monetizes only the demand driven lending value of securities held in the portfolio and avoids the credit and liquidity risk of a credit-oriented reinvestment portfolio.

As of June 30, 2012, approximately 80% of the securities on loan were lent out at an intrinsic value, and 94% of the collateral reinvestment portfolio was reinvested in overnight repurchase agreements (repos) in order to maximize earnings and reduce risk.

The collateral re-investment portfolio contains some legacy non-repo securities that will remain until they are either sold or mature. All new lending is done using one-day repos of U.S. Government guaranteed securities as reinvestment. At June 30, 2012, there were two lending agents, including the Trust's custodian and one third-party agent.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

The schedules below disclose the fair value and carrying value of investments on loan at June 30, 2012 and 2011.

<u>Securities on Loan for Cash Collateral, by Security Type</u>	Fair Value of Securities on Loan¹	
	<u>2012</u>	<u>2011</u>
	<i>(in thousands)</i>	<i>(in thousands)</i>
U.S. guaranteed obligations	\$ 821,654	\$ 1,011,744
Federal agencies	298,133	298,149
Domestic corporate bonds and notes	263,805	227,208
International bonds and notes	201,008	24,851
Domestic equities	1,588,580	1,123,437
International equities	1,765,694	1,666,055
Total securities on loan for cash collateral	<u>\$ 4,938,874</u>	<u>\$ 4,351,444</u>
 <u>Securities on Loan for Non-Cash Collateral, by Security Type</u>		
Domestic equities	1,758	1,007
International equities	1,133	4,024
Total securities on loan for non-cash collateral	<u>2,891</u>	<u>5,031</u>
Total securities on loan	<u><u>\$ 4,941,765</u></u>	<u><u>\$ 4,356,475</u></u>

¹ Fair value includes accrued interest on debt securities.

F. Derivatives

The Trust accounts for derivatives in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). Per GASB 53, a derivative instrument is defined as a financial instrument or other contract that has all of the following characteristics:

- a. Settlement factors. It has (1) one or more reference rates and (2) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements and, in some cases, whether or not a settlement is required.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

- b. Leverage. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- c. Net settlement. Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Derivative instruments in the Trust as of June 30, 2012 and 2011 consisted of futures, options, forward currency contracts, and swaps.

The SBA has established investment policy guidelines for each investment portfolio. Pursuant to these guidelines, derivative investment instruments are authorized to be used as tools for managing risk or executing investment strategies more efficiently than could otherwise be done in cash markets. Derivative instruments shall only be used as part of a prudent investment process. Various derivative investment instruments are used as part of the investment strategy to hedge against interest rate risk, currency risk in foreign markets, default risk, and mortgage-backed security prepayment risk, as well as to cost effectively manage exposure to domestic and international equities and bond and real estate markets.

A futures contract is an agreement between two parties, a buyer and a seller, to exchange a particular good for a particular price at a particular date in the future, all of which are specified in a contract common to all members in a market on an organized futures exchange. Upon entering into a futures contract, collateral is deposited with the broker, in SBA's name, in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily by the board of trade or exchange on which they are traded. The resulting gain/loss is received/paid the following day until the contract expires. The frequency of cash flows depends upon specified collateral and margin limits mutually agreed upon by the SBA and third-party broker. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed in the statements of net assets. Losses may arise from future changes in the value of the underlying instrument.

An option gives the buyer a stipulated privilege of buying or selling a stated property, security, or commodity at a given price (strike price) within a specified time (for an American-style option, at any time prior to or on the expiration date). A securities option is a negotiable contract

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

in which the seller (writer), for a certain sum of money called the option premium, gives the buyer the right to demand within a specified time the purchase (call) from or sale (put) to the option seller of a specified number of bonds, currency units, index units, or shares of stock, at a fixed price or rate, called the strike price.

A forward contract is a contractual obligation, typically over-the-counter, traded between two parties to exchange a particular good or instrument at a set price on a future date. The buyer of the forward agrees to pay the price and take delivery of the good or instrument and is said to be “long” the forward contract, while the seller of the forward, or “short,” agrees to deliver the good or instrument at the agreed price on the agreed date.

A swap is a contractual agreement to exchange a stream of periodic payments with a counterparty. Swaps are available in and between all active financial markets. Examples include:

Interest rate swap – an agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps often exchange a fixed payment for a floating payment that is linked to an interest rate.

Credit default swap – an agreement that allows one party to “buy” protection from another party for losses that might be incurred as a result of default by a specified reference credit (or credits). The “buyer” of protection pays a premium for the protection, and the “seller” of protection agrees to make a payment to compensate the buyer for losses incurred if a defined credit event occurs.

Total return swap – an agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. In total return swaps, the underlying asset (reference asset) is usually an equity index, loans, or bonds.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

A summary of investment derivatives traded in the Trust during the fiscal year ended June 30, 2012 is presented in the following table.

Investment Derivatives	Increase/(Decrease) in Fair Value		Fair Value at June 30, 2012		Notional (in US \$) <i>(in thousands)</i>
	Classification	Amount (in US \$) <i>(in thousands)</i>	Classification	Amount (in US \$) <i>(in thousands)</i>	
Futures ¹	Investment Income	\$ 220,255	Receivable/Payable	\$ (4,218)	\$ 2,393,120
Options	Investment Income	1,197	Investment/Liability ²	(198)	376,400
Forward currency exchange contracts	Investment Income	(3,443)	Receivable/Payable ³	(1,402)	(1,402)
Interest rate swaps	Investment Income	(128)	Investment	462	41,500
Credit default swaps	Investment Income	(2,528)	Investment	630	105,000
Total return swaps	Investment Income	4,534	Not applicable ⁴	–	–

¹ The total unrealized loss for open futures contracts at June 30, 2012 was -\$4,217,942. However, this loss has been settled with cash payments sent to the futures clearing broker on or before June 30, 2012. Outstanding remaining net futures trade equity at June 30, 2012 totaled \$7,204,605, which is reported on the statements of net assets as “Futures trade equity receivable” and “Futures trade equity payable”. The total notional values on long and short futures positions were \$3,171,119,908 and -\$778,000,000, respectively.

² Purchased options are reported as investments and short sales of options are reported as liabilities on the statements of net assets. This schedule includes both long and short positions.

³ The total Receivable and Payable notional and fair values (in U.S. \$) for forward currency exchange contracts were \$270,858,693 and -\$272,260,524 as of June 30, 2012. These amounts are reported as “Forward currency contracts receivable” and “Forward currency contracts payable” on the statements of net assets.

⁴ The total return swaps were closed prior to the end of the fiscal year.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

A summary of investment derivatives traded in the Trust during the fiscal year ended June 30, 2011 is presented in the following table.

Investment Derivatives	Increase/(Decrease) in Fair Value		Fair Value at June 30, 2011		
	Classification	Amount (in US \$) <i>(in thousands)</i>	Classification	Amount (in US \$) <i>(in thousands)</i>	Notional (in US \$) <i>(in thousands)</i>
Futures ¹	Investment Income	\$ 109,977	Receivable/Payable	\$ 5,594	\$ 4,852,959
Options	Investment Income	236	Investment/Liability ²	1,001	468,800
Forward currency exchange contracts	Investment Income	14,536	Receivable/Payable ³	(287)	(287)
Interest rate swaps	Investment Income	6,706	Investment	1,593	357,833
Credit default swaps	Investment Income	2,598	Investment	103	110,434
Total return swaps	Investment Income	6,896	Not applicable ⁴	—	—

¹ The total unrealized gain for open futures contracts at June 30, 2011 was \$5,593,791. However, the majority of this gain has been settled with cash received from the futures clearing broker on or before June 30, 2011. Outstanding remaining net futures trade equity at June 30, 2011 totaled \$1,460,000, which is reported on the statements of net assets as “Futures trade equity receivable” and “Futures trade equity payable”. The total notional values on long and short futures positions were \$5,689,458,648 and -\$836,500,000, respectively.

² Purchased options are reported as investments and short sales of options are reported as liabilities on the statements of net assets. This schedule includes both long and short positions.

³ The total Receivable and Payable notional and fair values (in U.S. \$) for forward currency exchange contracts were \$190,592,000 and -\$190,879,194 as of June 30, 2011. These amounts are reported as “Forward currency contracts receivable” and “Forward currency contracts payable” on the statements of net assets.

⁴ The total return swaps were closed prior to the end of the fiscal year.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

4. Investments (continued)

G. Commitments

Each year, the Trust enters into a number of agreements that commit the Trust, upon request, to make additional investment purchases (i.e., capital commitments) up to predetermined amounts. The unfunded capital commitments that are not reported on the Trust's statements of net assets totaled \$8.62 billion and \$6.55 billion as of June 30, 2012 and 2011, respectively.

5. Litigation

During the ordinary course of its operations, the SBA on behalf of the Trust may be party to various claims, legal actions, and class action lawsuits. The SBA's General Counsel Office handles these matters either directly or with assistance of outside legal counsel. In the opinion of the SBA's management and legal counsel, these matters are not anticipated to have a material financial impact on the Trust.

The Trustees of the SBA and the Secretary of the Department of Management Services have been served complaints challenging the constitutionality of Senate Bill 2100 (SB2100), codified as Chapter 2011-68, Laws of Florida, [the legislation mandating the deduction of 3% of employees' salaries for contribution into the Florida Retirement System (FRS)], which became effective July 1, 2011. On March 6, 2012, the trial court ruled the law unconstitutional as to its application to employees who were members of the FRS prior to July 1, 2011, and ordered return of the funds to employees (with interest). The Appellants appealed, and the case was certified to the Florida Supreme Court, which accepted the case. The Court heard oral argument on September 7, 2012. The SBA cannot speculate regarding whether the Florida Supreme Court will affirm the order of the trial court and whether such a conclusion will have a material financial impact on the Trust.

6. Related Parties

The DMS, the FRS Investment Plan Trust and the SBA are considered to be related parties for the purpose of the Trust's financial statements. The Trust has a variety of transactions with the DMS, FRS Investment Plan Trust and SBA. The DMS administers the Plan, including collecting employer and employee contributions, remitting those contributions to SBA for investment in the Trust, requesting withdrawals from the Trust for benefit payments, and then paying those benefit

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2012

6. Related Parties (continued)

payments to members. The SBA administers the FRS Investment Plan Trust, including working with DMS to collect employer and employee contributions and processing member-directed transfers between the Trust and the FRS Investment Plan Trust. The SBA provides investment services to the Trust and charges a management fee on the Trust's net asset value each month-end. For the fiscal years ending June 30, 2012 and 2011, the management fee was 1.5 basis points (annualized).

Significant transactions between the Trust, the DMS, FRS Investment Plan Trust and the SBA in fiscal years 2012 and 2011 were as follows:

	2012	2011
	<i>(in thousands)</i>	
Transfers from the DMS:		
Related to employer and employee contributions	\$ 1,790,848	\$ 3,083,841
Transfers from the FRS Investment Plan Trust:		
Related to member directed transfers	\$ 33,681	\$ 33,494
Transfers to the DMS:		
Related to member benefits and other transfers	\$ 6,949,178	\$ 6,473,773
Transfers to the FRS Investment Plan Trust:		
Related to member directed transfers	\$ 967,164	\$ 1,183,161
Investment service charges to the SBA:		
Based on month-end net asset values	\$ 18,343	\$ 18,476
Receivables:		
Due from the DMS	\$ 205,777	\$ 357,170
Payables:		
Due to the DMS	\$ 281,522	\$ 301,274
Due to the SBA for investment service charges	1,509	3,244
Total payables	\$ 283,031	\$ 304,518

Other Report

Report of Independent Certified Public Accountants on Internal Control over
Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards*

Board of Trustees
State Board of Administration of Florida

We have audited the financial statements of the Florida Retirement System Trust Fund (the Trust) managed by the State Board of Administration (SBA) of Florida as of and for the year ended June 30, 2012, and have issued our report thereon dated November 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

Management of the SBA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the SBA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SBA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of the SBA's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees of the State Board of Administration of Florida, the State of Florida and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

November 5, 2012.

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