

State Board of Administration of Florida
Florida Retirement System (FRS) Investment Plan Trust Fund

Fiscal Years Ended June 30, 2021 and 2020

FINANCIAL STATEMENTS, NOTES TO THE FINANCIAL STATEMENTS,
AND MANAGEMENT'S DISCUSSION AND ANALYSIS

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
State Board of Administration of Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida Retirement System ("FRS") Investment Plan Trust Fund (the "Trust") administered by the State Board of Administration ("SBA") of Florida, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust administered by the SBA as of June 30, 2021 and 2020, and the changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

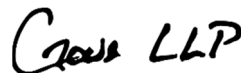
As discussed in Note 1, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the State Board of Administration of Florida or the Florida Retirement System as of June 30, 2021 and 2020, their changes in financial position, or, where applicable, their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 3 – 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 of America, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2021 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 effectiveness of the Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.



Crowe LLP

Tampa, Florida
November 8, 2021

Management's Discussion and Analysis

Introduction

This section of the financial statements of the Florida Retirement System (FRS) Investment Plan Trust Fund (the Trust) presents management's discussion and analysis of the Trust's financial position for the fiscal years ended June 30, 2021 and 2020. 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 FRS Investment Plan (the Plan) is a defined contribution plan for eligible members of the FRS who have not elected to participate in the FRS Pension Plan, a defined benefit plan, or who are mandated to participate in the Plan as a condition of renewed membership in the FRS.

The Florida Legislature is responsible for establishing Plan structure, benefit levels and contribution rates, and providing statutory authority for the administration of the Plan. The Plan is administered by the State Board of Administration of Florida (the SBA). The SBA has defined the roles and responsibilities of affected employers, the Division of Retirement within the Department of Management Services (DMS) and other service providers pertaining to the Plan.

Contributions to the Plan are collected by DMS and transmitted to the SBA, which deposits them in the Trust. Alight Solutions, the Plan Administrator contracted by the SBA, is responsible for the placement of member-directed trades among investment options offered by the Plan and maintaining records of individual member accounts. Alight Solutions records in each member's account all relevant contributions, withdrawals, fees, and the investment performance of the funds selected by the member. The benefits each member receives from the Plan vary based on the member's individual account balance.

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 assets, liabilities, and net position of the Trust are reported in the annual comprehensive financial reports published by the State of Florida and the DMS.

The Trust's basic financial statements include two-year comparative statements of net position and statements of changes in net position. The statements of net position provide a measurement of the financial position of the Trust as of the end of the fiscal year. The statements of changes in net position present the results of Trust activities during the fiscal years presented in this report. The accompanying notes to the financial statements offer additional discussion that is essential for a full understanding of the data presented in the financial statements, and provide additional information regarding the Trust, such as accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

Management's Discussion and Analysis

Statements of Net Position

The statements of net position present the assets, liabilities, and net position (total assets in excess of total liabilities) of the Trust as of the end of the fiscal year and are point-in-time financial statements. The assets in the Trust are comprised of the members' investment accounts. The following table represents condensed financial information.

	As of June 30		
	2021	2020	2019
	<i>(In Millions)</i>		
Assets			
Investments	\$ 14,835	\$ 11,544	\$ 11,275
Receivables	62	54	51
Investments sold, but not settled	31	54	28
Total assets	<u>14,928</u>	<u>11,652</u>	<u>11,354</u>
Liabilities			
Payables	3	3	2
Investments purchased, but not settled	63	99	57
Total liabilities	<u>66</u>	<u>102</u>	<u>59</u>
Net position held in trust	<u>\$ 14,862</u>	<u>\$ 11,550</u>	<u>\$ 11,295</u>

Management's Discussion and Analysis

Statements of Changes in Net Position

The statements of changes in net position show the net investment income earned by the Trust, the contributions from employers and employees, and the deductions for members and beneficiaries that occurred during the fiscal year. The following table represents condensed financial information.

	Fiscal Years Ended June 30		
	2021	2020	2019
	<i>(In Millions)</i>		
Additions			
Net investment income	\$ 3,332	\$ 282	\$ 547
Contributions:			
Employer/employee contributions received from DMS	605	552	487
Member-directed benefits received from the FRS Trust Fund	668	560	565
Member-directed rollover deposits	70	69	65
Total contributions	1,343	1,181	1,117
Total additions	4,675	1,463	1,664
Deductions			
Benefit payments to members	1,217	1,112	1,151
Member-directed benefits sent to the FRS Trust Fund	140	90	84
Administrative expenses	6	6	5
Total deductions	1,363	1,208	1,240
Change in net position	3,312	255	424
Net position held in trust			
Beginning of year	11,550	11,295	10,871
End of year	\$ 14,862	\$ 11,550	\$ 11,295

Management's Discussion and Analysis

Analysis

The Trust's net position increased by \$3.3 billion (28.7%) and increased by \$255 million (2.3%) during fiscal years 2021 and 2020, respectively. For both fiscal years 2021 and 2020, the growth in net position was due primarily to positive investment performance. Despite the impacts of the Coronavirus-19 pandemic (COVID-19) during fiscal year 2021, equity markets significantly rebounded generating positive returns. As well, an increase in overall contributions provided additional funds for investment in the Trust.

Trust investments generated net income of approximately \$3.3 billion in fiscal year 2021 and \$282 million in fiscal year 2020. The overall Trust return remained positive, exceeding its benchmark, and provided continued growth in Trust income and overall net position. Equity markets improved significantly as the economy continued to recover from the pandemic. During fiscal year 2021, domestic equities returned 45.9% and international equities returned 38.8%. In contrast, domestic equities returned 4.0% and international equities returned -2.0% during fiscal year 2020. The equity markets were volatile during fiscal year 2020, as the pandemic and related government intervention produced varying results in this asset class. Additionally, returns for the Retirement Date Funds and real assets improved during fiscal year 2021. The Retirement Date Funds returned 27.3% and 2.3%, and real assets returned 18.1% and 0.1%, for fiscal years 2021 and 2020, respectively. Real assets invest in a variety of investments including real estate, infrastructure, natural resources, and fixed income. The underlying investment managers allocated investments based on market conditions, which increased returns. Fixed income performance declined in fiscal year 2021, returning 2.9%, versus 7.3% in fiscal year 2020.

Additional analysis of Trust investments can be found in the "Asset Allocation" and "Investment Returns" sections of Management's Discussion and Analysis.

Deductions from the Trust in both fiscal years consist mainly of benefit payments to members. Benefit payments increased by \$105 million (9.4%) and decreased by \$39 million (-3.4%) during fiscal years 2021 and 2020, respectively. Benefits payments from the Plan vary from year to year based on the number of retirees, their account balances, and the related benefits due during the fiscal year.

Additional Plan highlights and trends follow.

Management's Discussion and Analysis

Plan Participation and Membership

The number of employers participating in the Plan increased slightly over the last three fiscal years. Overall Plan membership increased significantly over that same time period due to the Plan default change, which applied January 2018 (see the “Plan Choice” section of Management's Discussion and Analysis).

	As of June 30		
	2021	2020	2019
Participating employers	985	980	976
Plan membership:			
Active members ¹	180,836	172,317	148,161
Inactive members ²	80,549	69,550	65,052
Total Plan members	261,385	241,867	213,213

¹ Active members are those employees currently receiving contributions into their retirement account.

² Inactive accounts are held on behalf of members who are no longer employed by an eligible employer, so their accounts are not receiving contributions at this time. This includes retirees with a remaining balance, plan beneficiaries and alternate payees as a result of a Qualified Domestic Relations Order.

Active Plan Membership by Class

While membership varies across classes, total active Plan membership has continued to increase over the last three fiscal years.

	As of June 30						
	Regular	Senior Management	Special Risk Admin	Elected Officers	Special Risk	Other	Total
2021	162,296	2,305	25	589	11,654	3,967	180,836
2020	153,382	2,307	22	614	11,877	4,115	172,317
2019	131,035	2,228	22	534	12,057	2,285	148,161

Management's Discussion and Analysis

Plan Choice¹

Chapter 2017-88, Laws of Florida amended Chapter 121, *Florida Statutes*. The amendment provided that all new hires whose employment in a regularly established position commenced on or after January 1, 2018, or who did not complete an election window before January 1, 2018, will have until the last business day of the 8th month after hire to make a choice between the FRS Pension Plan and FRS Investment Plan. If a new hire does not make an active election by the deadline date, the new hire will default into the FRS Investment Plan, except those who are enrolled in the Special Risk Class (who will continue to default to the FRS Pension Plan). The first group of new hires defaulted into the FRS Investment Plan effective October 1, 2018. For fiscal year ended June 30, 2021, 49% of all new hires defaulted to the FRS Investment Plan and 17% made an active election to enroll in the FRS Investment Plan. The SBA's Office of Defined Contribution Programs continues to monitor trend information and projections as to the effect the plan choice amendment may have on the Trust.

The number of new employees eligible to make an initial plan choice declined by 11,984 (-20.6%) during fiscal year 2021, possibly due to the effects of the pandemic on the labor market. The number of employees making active elections to the FRS Investment Plan also declined during fiscal year 2021, although the percentage remained the same over the last two fiscal years. Additionally, the number of employees joining the FRS Investment Plan through a Second Election increased for fiscal year 2021.

	Fiscal Years Ended June 30		
	2021	2020	2019
New employees making initial Plan Choice	46,219	58,203	47,852
New employees joining FRS Investment Plan:	30,642	39,542	33,418
Active election	17%	17%	19%
Plan default	49%	51%	51%
Employee Second Elections ² :			
To the FRS Investment Plan	3,258	2,638	3,270
To the FRS Pension Plan	1,442	1,171	1,067

¹ Plan Choice data is based on unaudited statistics received from Alight Solutions, the Plan Administrator.

² FRS members are granted a one-time option to transfer from one retirement plan (Pension or Investment) to the other during their FRS-covered employment. This is considered a Second Election.

Management's Discussion and Analysis

Benefit Payments

Benefit payments reflect withdrawals from the Trust in the form of lump sum distributions, partial distributions, rollovers to other qualified retirement plans, and periodic payments to members. The number of members requesting benefit payments during the year decreased by 4,908 (-8.2%) and decreased by 485 (-0.8%) for fiscal years 2021 and 2020, respectively. The annual amount of benefits disbursed to Plan members varies from year to year due to the number of retirees and the benefit payment amounts due. Benefit payments increased by \$105 million (9.4%) in fiscal year 2021, compared to a \$39 million (-3.4%) decrease in fiscal year 2020. This increase was primarily attributed to market increases in member balances which were rolled over to other qualified retirement plans.

	Fiscal Years Ended June 30		
	2021	2020	2019
Members requesting benefits	55,207	60,115	60,600
Benefit payments <i>(In Millions)</i>			
Rollovers	\$ 745	\$ 628	\$ 655
All other	472	484	496
Total benefit payments	<u>\$ 1,217</u>	<u>\$ 1,112</u>	<u>\$ 1,151</u>

Contribution Rates

The Florida Legislature is responsible for establishing employer and employee contribution rates. Employer contribution rates vary by membership class and have remained stable as a percentage of compensation for the last three fiscal years.

Membership Class	Employee Rate	Employer Rate ¹
	FYs 2019-21	FYs 2019-21
Regular	3.00 %	3.30 %
Special risk	3.00	11.00
Special risk: administrative support	3.00	4.95
Legislators	3.00	6.38
Governor, Lt. Governor, and cabinet officers	3.00	6.38
State Attorney and public defenders	3.00	6.38
Justices and judges	3.00	10.23
County and local elected officers	3.00	8.34
Senior management service	3.00	4.67

¹ Employer rates presented in this table do not include employer contributions for the Health Insurance Subsidy (1.66% for FYs 2019-2021), plan administrative/educational expense (.06% for FYs 2019-2021) or the disability and in line-of-duty death programs (varies by membership class) as these amounts are not deposited into the Trust.

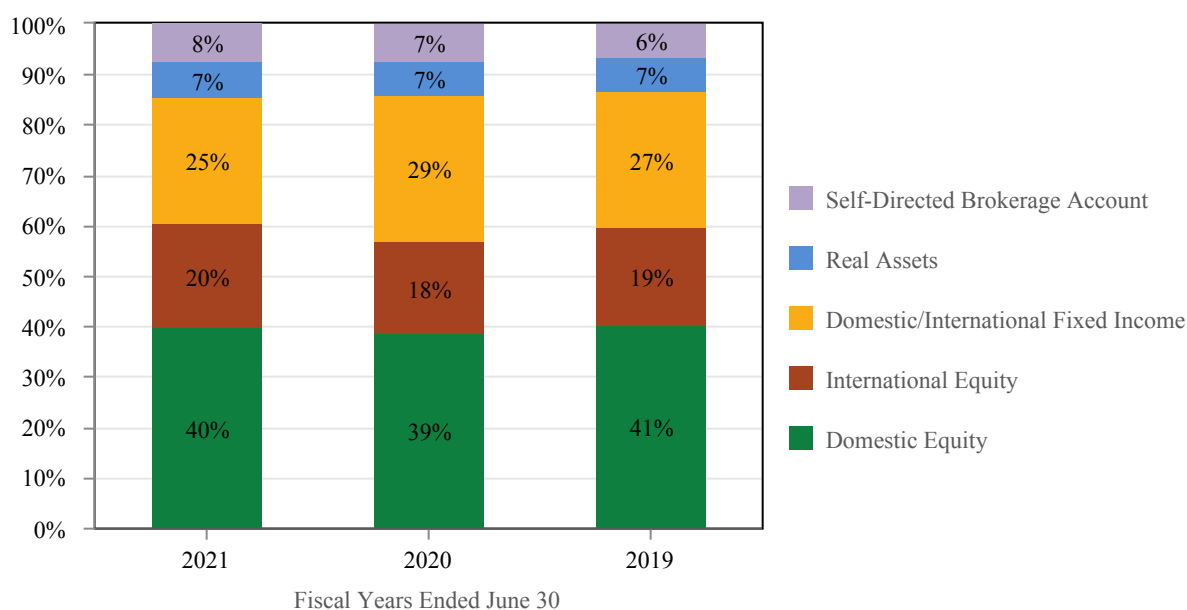
Management's Discussion and Analysis

Asset Allocation

The asset allocation of the Trust is a function of the members' investment decisions across the various investment options offered. The effects of COVID-19 impacted both member asset allocations and the market performance for fiscal year 2021. Equity investments (domestic and international combined) remained the largest allocation, as members looked to capitalize on the long-term growth prospects of these assets. Allocations to fixed income investments declined due in part to performance expectations relative to other investment options.

Despite the pandemic, domestic and international equity markets generated positive performance for fiscal year 2021. Strong equity performance was driven by the effects of U.S. government policy intervention and earnings growth. In contrast, international equity experienced a negative return for fiscal year 2020, as international equity markets struggled to recover from the economic downturn. Fixed income returns declined in fiscal year 2021, due to a rise in bond yields globally. Lastly, members continued their allocations to the Self-Directed Brokerage Account, which allows for additional investment flexibility. Note 3 to the financial statements describes the Plan's Investment Policy Statement (IPS) and oversight of the Trust's investments.

By Percentage of Invested Assets¹



¹ International fixed income represents a small fraction (less than 1%) of the overall Trust investments and is combined with domestic fixed income for charting purposes.

Management's Discussion and Analysis

Investment Returns

The Trust's performance is a function of the members' decisions about their asset allocations and the investment options' performance. The SBA does not influence asset mix decisions; however, investment performance affects the Trust's net position.

The Trust's total return for fiscal year 2021 was 28.4%. As of June 30, 2021, the Trust outperformed its trailing one-, three-, five-, and ten-year period aggregate benchmark. The Trust's overall performance compared with its benchmark reflects the weighted performance for the underlying fund options in which members are investing.

The Trust's investment returns¹ were as follows:

Investment Type	Fiscal Years Ended June 30		
	2021	2020	2019
Retirement Date Funds ²	27.3 %	2.3 %	5.4 %
Short-term	0.2	1.7	2.5
Real assets	18.1	0.1	2.6
Fixed income	2.9	7.3	8.1
Domestic equity	45.9	4.0	6.8
International equity	38.8	(2.0)	1.6
Total Trust return	28.4 %	2.6 %	5.2 %
Total Trust aggregate benchmark	27.3	2.0	5.2
Over (under) benchmark	1.1 %	0.6 %	— %

¹ The above investment performance information for each fiscal year is the official investment return data supplied by the SBA's master custodian and performance measurement service provider, BNY Mellon Performance Reporting and Analytics Services.

² Retirement Date Funds consist of Plan investments in various proportions.

Performance for the Self-Directed Brokerage Account is not included since there is no comparable benchmark. Members assume the full risk and responsibility for the investments they have selected in the Self-Directed Brokerage Account and for monitoring the performance of these investments.

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.

Management's Discussion and Analysis

Economic Factors

Throughout the fiscal year, the prevailing story continued to be the impact of and recovery from COVID-19. Despite unprecedented economic and market conditions, the 2021 fiscal year was nothing short of remarkable. Driven primarily by good news on the development and rollout of multiple COVID-19 vaccines and significant monetary and fiscal policy support, the economy re-opened and continued to recover. Many institutional portfolios posted record investment earnings as capital markets continued to reach new highs.

The market growth story was the substantial amount of fiscal stimulus and accommodative monetary policy that has supported the economy throughout this crisis. Through June 2021, the U.S. signed into law approximately \$6 trillion of economic stimulus, which was over three times the level of stimulus deployed after the Great Recession in 2009. From a monetary policy perspective, central banks around the globe generally remained accommodative throughout the year. Since reducing benchmark interest rates in early 2020 to near 0% at the beginning of the pandemic, the U.S. Federal Reserve (Fed) has left interest rates unchanged. Additionally, at the start of the year the Fed introduced its flexible average inflation targeting mechanism, which allows inflation to exceed the previously set 2% target to make up for years of underestimating and to prioritize maximum employment. The Fed also maintained its current rate of over \$100 billion in asset purchases per month. Together, the fiscal and monetary support served not only to prevent economic devastation, but encouraged investor confidence and risk appetite throughout the year.

Despite the continued presence of COVID-19 and new variants, risk assets moved higher throughout the fiscal year. Global equities, as defined by the MSCI All Country World Investable Market Index (ACWI IMI), returned 40.9% for the one-year period. There were notable reversals throughout the year between growth and value stocks. Coming into the fiscal year, value stocks made a strong comeback due to the reflation trade and economic recovery. Though, towards the end of the year, the trend reversed over renewed COVID-19 concerns and growth stocks ended up modestly outpacing value stocks for the one-year period.

The bond markets were mostly uneventful aside from the first quarter of 2021 when a substantial rise in bond yields occurred globally. The long-dated government bond yields of the U.S. and Eurozone increased sharply mid-quarter due to higher reflation expectations and continued to climb throughout March, although at a slower pace. To end the year, the U.S. bond market posted a negative 0.3% return, as measured by the Bloomberg Barclays Aggregate Bond Index. Credit markets continued to show resilience, as high yield spreads over U.S. Treasuries tightened over the period.

Overall, for the fiscal year ended June 30, 2021, markets posted remarkable returns for diversified investors, many of whom posted annual returns that exceeded all-time highs for a one-year period. However, inflation has moved higher due to continued supply chain disruptions and increasing demand, and though inflation data continues to show a large dispersion across different goods and services, U.S. headline inflation increased by 5% year-over-year through May 2021. This has raised questions about how long supply chain disruptions may persist and whether inflationary pressures will be transitory or persistent. Accordingly, the long-term economic and market impact of the COVID-19 pandemic is yet to be determined.

Management's Discussion and Analysis

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. If you have any questions regarding this report or need additional information, please contact the Chief of Defined Contribution Programs, State Board of Administration of Florida, P.O. Box 13300, Tallahassee, FL 32317.

Statements of Net Position

	As of June 30	
	2021	2020
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 31	\$ —
Investments:		
Fixed income	3,707,862	3,329,396
Equity	8,864,335	6,628,047
Real assets	1,044,057	769,608
Self-Directed Brokerage Account	1,219,127	817,186
Total investments	<u>14,835,381</u>	<u>11,544,237</u>
Receivables:		
Accounts receivable	70	116
Interest and dividends	1,822	2,554
Due from DMS	60,226	51,486
Investments sold, but not settled	30,834	53,589
Total receivables	<u>92,952</u>	<u>107,745</u>
Total assets	<u>14,928,364</u>	<u>11,651,982</u>
Liabilities		
Payables:		
Accounts payable and accrued liabilities	2,968	3,595
Due to DMS	—	31
Investments purchased, but not settled	63,267	98,691
Total liabilities	<u>66,235</u>	<u>102,317</u>
Net position held in trust	<u>\$ 14,862,129</u>	<u>\$ 11,549,665</u>

See accompanying notes to the financial statements.

Statements of Changes in Net Position

	Fiscal Years Ended June 30	
	2021	2020
	<i>(In Thousands)</i>	
Additions		
Investment income:		
Dividend income	\$ 14,638	\$ 37,722
Interest and other investment income	7,207	10,394
Fines, forfeits, and securities litigation proceeds	12	6
Net increase/(decrease) in fair value of investments	3,315,661	239,084
Total investment income	<u>3,337,518</u>	<u>287,206</u>
Investment expenses:		
Bank fees	(400)	(489)
Other fees	(3)	(3)
Investment management fees	(5,211)	(4,691)
Total investment expenses	<u>(5,614)</u>	<u>(5,183)</u>
Net income from investments	<u>3,331,904</u>	<u>282,023</u>
Contributions:		
Employer/employee contributions received from DMS	605,023	551,938
Member-directed benefits received from the FRS Trust Fund	668,695	560,218
Member-directed rollover deposits	70,087	68,920
Total contributions	<u>1,343,805</u>	<u>1,181,076</u>
Total additions	<u>4,675,709</u>	<u>1,463,099</u>
Deductions		
Benefit payments to members	1,216,495	1,112,355
Member-directed benefits sent to the FRS Trust Fund	140,432	89,900
Administrative expenses	6,318	6,176
Total deductions	<u>1,363,245</u>	<u>1,208,431</u>
Change in net position	<u>3,312,464</u>	<u>254,668</u>
Net position held in trust		
Beginning of year	11,549,665	11,294,997
End of year	<u>\$ 14,862,129</u>	<u>\$ 11,549,665</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

1. Financial Reporting Entity

The Florida Retirement System (FRS) Investment Plan (the Plan), a defined contribution pension plan, qualified under Internal Revenue Code Section 401(a), was established pursuant to Section 121.4501, *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 as an alternative to the FRS Pension Plan or other optional retirement plans. Additionally, certain retirees of the FRS who return to employment with a participating employer are mandatory participants of the Plan. Under the Plan, employers and employees make contributions to an account, set up in the member's name, and the member directs the investments in the account, choosing from a number of diverse investment options selected and monitored by the State Board of Administration of Florida (the SBA). The Plan was first offered to public sector employees in fiscal year 2003, and was modeled after private sector 401(k) plans. The Plan's and the SBA's financial activities are reported in the annual comprehensive financial report of the State of Florida. The SBA is governed by a Board of Trustees, comprised of the Governor, as Chair, the Attorney General, and the Chief Financial Officer of the State of Florida.

The FRS Investment Plan Trust Fund (the Trust) was established pursuant to Section 121.4502, *Florida Statutes*, to hold the assets of the Plan in trust for the exclusive benefit of the Plan's members.

The Trust is a separate legal entity within the State of Florida. These financial statements and notes include only the net position and changes in net position 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 Plan as of June 30, 2021 and 2020, and the changes in their financial position for the years then ended, in conformity with accounting principles generally accepted in the United States (GAAP).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements were prepared in conformity with GAAP 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), GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). As such, the Trust's financial statements include statements of net position and statements of changes in net position.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting

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

Cash and Cash Equivalents

The Trust reports all cash on hand and deposits in banks as cash and cash equivalents. See also Deposits and Investments.

Investment Valuation

Investments are reported in accordance with GASB reporting standards as follows:

- Money market funds at amortized cost.
- Commingled funds at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments as reported by the external investment manager.
- Other investments at the most recent market price as of the close of the markets on June 30, or the most recent market close of each fiscal year, if the markets are closed on June 30. If a market price is not readily determinable, alternative pricing methodologies may be used to determine fair value. Alternative pricing may include methodologies such as matrix-pricing, stale pricing, broker bids, or cost/book value.

Income Recognition

Investment transactions are accounted for on a trade (investment) date basis. Interest, dividend, and other investment income are recorded on the accrual basis, with dividends accruing on the ex-dividend date.

Administrative Expenses

Pursuant to Section 121.4502, *Florida Statutes*, and in accordance with Internal Revenue Service Revenue Ruling 84-156, reasonable administrative expenses of the Plan may be paid from the Trust. These expenses may include the activities of the Plan administrator, Plan custodian, investment and administrative consulting, and other services rendered for the benefit of Plan members.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Investment Management Fees

The SBA hires external investment managers to invest the Trust's investment assets. The Trust typically pays investment management fees based on individually negotiated investment management agreements. The fees, 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 position by a specified basis point charge, or may be performance-related, typically associated with exceeding a market benchmark or hurdle rate. Fees are paid from the appropriate manager's portfolio and are recognized as an expense over the time period for which the fees are applicable.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect 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.

Additionally, the ongoing COVID-19 pandemic and restrictions on non-essential businesses have caused disruption in the U.S. and global economies. Despite significant market rebounds across many asset classes in fiscal year 2021, the uncertainty regarding continued economic recovery precludes any prediction as to the ultimate impact of COVID-19 on financial market and economic conditions. The estimates and assumptions underlying these financial statements are based on the information available as of June 30, 2021, including judgments about the financial market and economic conditions, which may change over time.

New Accounting Standards

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (GASB 93)*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). Some governments have entered into agreements in which variable payments made or received depend on an IBOR most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. The replacement of an IBOR upon which variable payments depend in lease contracts is effective for fiscal year periods beginning after June 15, 2021, and reporting periods thereafter. All other requirements of GASB 93 are effective for reporting periods beginning after June 15, 2020. We continue to review the applicability of this Statement as it pertains to the Trust.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61 (GASB 90)*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. For purposes of applying this Statement, an equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measurable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measurable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. The requirements of GASB 90 are effective for reporting periods beginning after December 15, 2019. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 90, as the Trust is a fiduciary fund and reports investments in accordance with GASB 72.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities (GASB 84)*. The principal objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Additionally, this Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The statements of net position and the statement of changes in net position are not affected by the adoption of GASB 84, as the Trust is accounted for separately as an investment trust fund, and holds the assets of the Plan for the exclusive benefit of the Plan's members and does not have the ability to direct the use, exchange, or employ the investment of assets. Rather, the plan members control the investment of assets through individual member accounts.

Notes to the Financial Statements

3. Deposits and Investments

Deposits

The reported carrying amount of deposits totaled \$31 thousand at June 30, 2021. There were no cash deposits held at fiscal year end June 30, 2020. All deposits were held in U.S. dollars. See also Custodial Credit Risk.

Investments

The Plan has an Investment Policy Statement (IPS) that includes, among other items, the investment objectives of the Plan, manager selection, monitoring guidelines, and performance measurement criteria. The IPS is reviewed no less than annually to ensure the structure and guidelines are appropriate, taking into consideration the Plan's goals and objectives.

The primary investment objectives of the Plan are to: (1) offer a diversified mix of low-cost investment options that span the risk-return spectrum and give members the opportunity to accumulate retirement benefits; (2) offer investment options that avoid excessive risk, have a prudent degree of diversification relative to broad market indices and provide a long-term rate of return, net of all expenses and fees, that seek to achieve or exceed the returns on comparable market benchmark indices; and (3) offer members meaningful, independent control over the assets in their account.

The SBA's Executive Director & Chief Investment Officer is responsible for selecting, evaluating, and monitoring performance of the investment options, with a focus on maximizing return within appropriate risk constraints outlined in the Plan's IPS. The Plan offers a number of low-cost institutional investment funds that invest in various short-term, fixed income, and equity securities.

The Plan offers ten customized Retirement Date Funds that consist of mixtures of various asset classes. At the end of fiscal year 2021, 87% of the Plan's members had allocated at least some of their assets to one or more of the available Retirement Date Funds. Approximately 46% of total Trust assets were held in the Retirement Date Funds, which are constructed using the various investment funds offered in the Plan.

The SBA follows the *Florida Statutes'* fiduciary standards of care in managing the Plan's investment options. The SBA Trustees appoint members to serve on the Investment Advisory Council, which makes recommendations on the Trust's investment policy, strategy, and procedures.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Self-Directed Brokerage Account

Beginning in January 2014, a Self-Directed Brokerage Account (SDBA) was added as an option available to Plan members. The SDBA allows Plan members to invest in thousands of different investments in addition to the Plan's primary investment funds. It is offered through Alight Financial Solutions (AFS), a subsidiary of Alight Solutions, the Plan Administrator.

The SDBA is for experienced investors who want the flexibility to invest in a variety of options beyond those available in the Plan's primary investment funds. It is not suitable for all members.

The SDBA provides access to the following investment instruments:

- Stocks listed on a Securities Exchange Commission (SEC) regulated national exchange;
- Exchange Traded Funds (except for leveraged Exchange Traded Funds); and
- Mutual Funds (except for any of the Plan's primary investment funds).

The SDBA accessibility does not include any of the following as investment alternatives:

- Illiquid investments;
- Over the Counter Bulletin Board (OTCBB) securities;
- Pink Sheet® (PS) securities;
- Leveraged Exchange Traded Funds;
- Direct Ownership of Foreign Securities;
- Derivatives, including, but not limited to futures and options contracts on securities, market indexes, and commodities;
- Buying/Trading on Margin;
- Limited Partnership Interests;
- FRS Investment Plan products; or
- Any investment that would jeopardize the FRS Investment Plan's tax qualified status.

A Plan member may participate in the SDBA if the member:

- Maintains a minimum balance of \$5,000 in the primary investment options offered under the FRS Investment Plan;
- Makes a minimum initial transfer of funds into the SDBA of \$1,000;
- Makes subsequent transfers of funds into the SDBA in amounts of \$1,000 or greater;
- Pays all trading fees, commissions, administrative fees and any other expenses associated with participating in the SDBA; and
- Does not violate any trading restrictions established by the provider, the FRS Investment Plan, or state or federal law.

The SBA is not responsible for managing the SDBA beyond administrative requirements as established between the SBA and AFS. As such, investment alternatives available through the SDBA have not been subjected to any selection process, are not monitored by the SBA, require the member's investment expertise to prudently buy, manage and/or dispose of, and have a risk of substantial loss.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Fund Lineup Changes

Effective July 1, 2020, the Plan's overall investment fund lineup changed. The changes, approved by the SBA's Investment Advisory Council (IAC) and Board of Trustees, were made to simplify the existing lineup.

The FRS Large Cap Stock Fund and FRS Small Mid-Cap Stock Fund were combined to form the FRS US Stock Fund. The investment mix was gradually adjusted during Fiscal Year 2021 to match the Russell 3000 index and one small/mid cap investment manager was terminated. The FRS Intermediate Bond Fund was removed as a separate investment option and both the investment manager and assets were placed in the FRS Core Plus Bond Fund. The name of the FRS Inflation Adjusted Multi-Assets Fund was changed to the FRS Inflation Sensitive Fund to better indicate the funds objective. Additionally, private real estate was integrated and the (Treasury Inflation-Protected Securities) TIPS allocation was increased to enhance the fund's risk/return profile. The asset allocation mix for the FRS 2015 Retirement Date Fund became the same as the FRS Retirement Fund and, as a result, was closed and became part of that fund. Some underlying managers in all the Retirement Date Funds were also changed.

Investment Performance

The SBA staff, consultants, and Trustees review the Trust's performance quarterly. The long-term performance of each actively-managed investment option is expected to exceed the returns on its performance benchmark, net of all fees and charges, while avoiding large year-to-year deviations from the returns of the performance benchmark. The long-term performance of each passively-managed investment option is expected to closely approximate returns of the performance benchmark, net of all fees and charges. At the total Trust level, performance is evaluated by asset class and is measured on an absolute basis and relative to appropriate market benchmarks for each investment option. Performance data is aggregated for the total Trust and for each product type or asset class, using member allocations as weighting factors. Performance for the SDBA is not included since there is no comparable benchmark. The member assumes the full risk and responsibility for the investments selected in the SDBA and for monitoring the performance of these investments. More detailed information can be obtained by visiting the Florida Retirement System website at MyFRS.com.

Notes to the Financial Statements

3. Deposits and Investments (continued)

The following schedule discloses the Trust's investments, by type, at June 30, 2021 and 2020.

Investment Type ¹	As of June 30	
	2021	2020
	<i>(In Thousands)</i>	
Fixed income		
Money market funds	\$ 1,077,854	\$ 1,116,372
U.S. guaranteed obligations	141,344	89,924
Federal agencies	83,883	123,899
Domestic bonds and notes	122,071	131,935
International bonds and notes	19,184	25,927
Domestic commingled funds	2,263,526	1,841,339
Total fixed income	3,707,862	3,329,396
Equity		
Domestic	385,011	521,096
International	16,131	24,356
Domestic commingled/mutual funds	5,587,535	3,965,621
International commingled/mutual funds	2,875,658	2,116,974
Total equity	8,864,335	6,628,047
Commingled real asset funds	1,044,057	769,608
Self-Directed Brokerage Account	1,219,127	817,186
Total investments	\$ 14,835,381	\$ 11,544,237

¹ Retirement Date Funds are comprised of portions of the investments shown in this table.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Fair Value Hierarchy

The Trust's investments are measured and reported at fair value and classified according to the following hierarchy:

Level 1 - Investments reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Investments reflect prices based on significant observable inputs (including, but not limited to, quoted prices for similar investments, interest rates, foreign exchange rates, volatility and credit spreads), either directly or indirectly. These inputs may be derived principally from, or corroborated by, observable market data through correlation or by other means.

Level 3 - Investments reflect prices based upon unobservable inputs, including situations where there is little market activity, if any, for assets or liabilities.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Fixed income and equity securities classified as Level 1 of the fair value hierarchy are valued using quoted prices at June 30 (or the most recent market close date if the markets are closed on June 30) in active markets from the custodian bank's external pricing vendors, which utilize primary exchanges.

Fixed income securities classified as Level 2 are valued using evaluated prices from the custodian bank's external pricing vendors. The pricing methodology involves the use of evaluation models such as matrix pricing, which is based on the securities' relationship to benchmark quoted prices. Other evaluation models use actual trade data, collateral attributes, broker bids, new issue pricings, and other observable market information.

Fixed income securities classified as Level 3 are valued using prices from the custodian bank's external pricing vendors or an alternative pricing source, utilizing inputs such as stale prices, cash flow models, or broker bids.

The SDBA is classified as Level 2, since the individual, underlying assets are priced by observable inputs. The SDBA Administrator uses an external pricing source to value the underlying investments and aggregates the overall investment values into a total account fair value for reporting purposes.

Certain investments, such as money market funds, are carried at amortized cost, and not priced at fair value. Mutual funds are valued at the quoted price traded on the exchanges. Commingled investments are measured at the net asset value (NAV) per share (or its equivalent) as provided by the investment manager.

Notes to the Financial Statements

3. Deposits and Investments (continued)

The Trust has the following fair value measurements as of June 30, 2021 and June 30, 2020.

Investments by Fair Value Level	Total	As of June 30, 2021		
		Fair Value Measurements Using		
		(Level 1)	(Level 2)	(Level 3)
		(In Thousands)		
Fixed income				
U.S. guaranteed obligations	\$ 141,344	\$ —	\$ 141,344	\$ —
Federal agencies	83,883	—	83,883	—
Domestic bonds and notes	122,071	—	121,352	719
International bonds and notes	19,184	—	19,184	—
Total fixed income	366,482	—	365,763	719
Equity				
Domestic	385,011	385,011	—	—
International	16,131	16,131	—	—
Domestic equity mutual funds	119,325	119,325	—	—
International equity mutual funds	623,003	623,003	—	—
Total equity	1,143,470	1,143,470	—	—
Self-Directed Brokerage Account	1,219,127	—	1,219,127	—
Total investments by fair value level	\$ 2,729,079	\$ 1,143,470	\$ 1,584,890	\$ 719
		Redemption Frequency (If Currently Eligible)	Redemption Notice Period	
Investments measured at the net asset value (NAV)				
Commingled fixed income funds ¹	\$ 2,263,526	Daily	2 - 15 Days	
Commingled domestic equity funds ²	5,468,210	Daily	2 - 5 Days	
Commingled international equity funds ³	2,252,655	Daily	2 Days	
Commingled real asset funds ⁴	1,044,057	Daily	1 - 15 Days	
Total investments measured at the NAV	11,028,448			
Other investments carried at amortized cost				
Money market funds	1,077,854			
Total investments	\$ 14,835,381			

- Commingled Fixed Income Funds:** One Treasury Inflation Protected Securities (TIPS) fund and five fixed income funds are considered to be commingled in nature. The TIPS fund seeks long-term real total return and is designed to keep pace with inflation. The five commingled fixed income funds utilize various investment strategies such as short/intermediate duration, index/benchmark tracking, high-yield, and corporate/government investment grade debt. Each fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.
- Commingled Domestic Equity Funds:** Seven domestic equity funds are considered to be commingled in nature. These commingled domestic equity funds utilize various investment strategies such as index/benchmark tracking, small/mid cap, and large cap growth/value seeking appreciation and income. Each fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.
- Commingled International Equity Funds:** One international equity fund is considered to be commingled in nature. This fund invests in a portfolio of international equity securities whose total rates of return will approximate as closely practicable the capitalization weighted total rates of return of the markets in certain countries for equity securities traded outside the United States. The fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.
- Commingled Real Asset Funds:** These two funds consist of various investments such as real estate, commodities, floating rate loans, energy industry Master Limited Partnerships, global infrastructure, and agriculture. The funds are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investments by Fair Value Level	Total	As of June 30, 2020		
		Fair Value Measurements Using		
		(Level 1)	(Level 2)	(Level 3)
		(In Thousands)		
Fixed income				
U.S. guaranteed obligations	\$ 89,924	\$ —	\$ 89,924	\$ —
Federal agencies	123,899	—	122,903	996
Domestic bonds and notes	131,935	—	131,935	—
International bonds and notes	25,927	—	25,927	—
Total fixed income	371,685	—	370,689	996
Equity				
Domestic	521,096	521,096	—	—
International	24,356	24,356	—	—
Domestic equity mutual funds	468,976	468,976	—	—
International equity mutual funds	431,937	431,937	—	—
Total equity	1,446,365	1,446,365	—	—
Self-Directed Brokerage Account	817,186	—	817,186	—
Total investments by fair value level	\$ 2,635,236	\$ 1,446,365	\$ 1,187,875	\$ 996
		Redemption Frequency (If Currently Eligible)	Redemption Notice Period	
Investments measured at the net asset value (NAV)				
Commingled fixed income funds ¹	\$ 1,841,339	Daily	2 - 15 Days	
Commingled domestic equity funds ²	3,496,645	Daily	2 - 5 Days	
Commingled international equity funds ³	1,685,037	Daily	2 Days	
Commingled real asset funds ⁴	769,608	Daily	1 - 15 Days	
Total investments measured at the NAV	7,792,629			
Other investments carried at amortized cost				
Money market funds	1,116,372			
Total investments	\$ 11,544,237			

- Commingled Fixed Income Funds:* One Treasury Inflation Protected Securities (TIPS) fund and five fixed income funds are considered to be commingled in nature. The TIPS fund seeks long-term real total return and is designed to keep pace with inflation. The five commingled fixed income funds utilize various investment strategies such as short/intermediate duration, index/benchmark tracking, high-yield, and corporate/government investment grade debt. Each fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.
- Commingled Domestic Equity Funds:* Six domestic equity funds are considered to be commingled in nature. These commingled domestic equity funds utilize various investment strategies such as index/benchmark tracking, small/mid cap, and large cap growth/value seeking appreciation and income. Each fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.
- Commingled International Equity Funds:* One international equity fund is considered to be commingled in nature. This fund invests in a portfolio of international equity securities whose total rates of return will approximate as closely practicable the capitalization weighted total rates of return of the markets in certain countries for equity securities traded outside the United States. The fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.
- Commingled Real Asset Funds:* These two funds consist of various investments such as real estate, commodities, floating rate loans, energy industry Master Limited Partnerships, global infrastructure, and agriculture. The funds are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Deposit and Investment Risk

The Trust has deposits and a broad range of financial investments 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.

The Plan's IPS provides a statement of objectives for the Plan, general guidelines for each asset class and the Retirement Date Funds, as well as educational services to help members manage the level of risk associated with the choices they make with their individual investment accounts.

Investments available through the Plan's SDBA are not selected or monitored by the SBA. The SDBA investments are subject to Alight Financial Solutions' Self-Directed Brokerage Account guidelines and the risks inherent in the types of investments selected by participating Plan members.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires that certain risks be discussed in the financial statements. These risks include credit risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Each of these risks is managed by the Trust's investment advisors, subject to guidelines set forth in prospectuses, Statements of Additional Information, and other governing documents.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings are used as an assessment of creditworthiness and are assigned by Nationally Recognized Statistical Rating Organizations (NRSROs). These ratings are disclosed in aggregate by investment type for the securities held as of the financial statement date.

The mutual funds and commingled trust funds in the Trust are institutional funds and, as such, are not rated by the NSRSOs.

Notes to the Financial Statements

3. Deposits and Investments (continued)

The following tables disclose credit quality ratings related to credit risk on investments held in the Trust as of June 30, 2021 and 2020.

		As of June 30, 2021					
Credit Quality Ratings ¹			Money Market Funds	Federal Agencies ³	Domestic Bonds and Notes	Commingled Fixed Income	International Bonds and Notes
S&P	Moody's	Total					
(In Thousands)							
AAA		\$ 21,119	\$ —	\$ —	\$ 21,119	\$ —	\$ —
AA		6,403	—	—	5,739	—	664
A		22,976	—	—	19,926	—	3,050
BBB		55,202	—	—	43,967	—	11,235
BB		6,363	—	—	4,880	—	1,483
B		1,266	—	—	1,266	—	—
	Aaa	11,867	—	—	11,867	—	—
	Aa	1,378	—	—	443	—	935
	A	3,433	—	—	3,113	—	320
	Baa	7,312	—	—	5,815	—	1,497
	Ba	2,699	—	—	2,699	—	—
NR	NR	3,426,500	1,077,854	83,883	1,237	2,263,526	—
		<u>\$ 3,566,518</u>	<u>\$ 1,077,854</u>	<u>\$ 83,883</u>	<u>\$ 122,071</u>	<u>\$ 2,263,526</u>	<u>\$ 19,184</u>

Ratings not applicable:

U.S. guaranteed obligations ² 141,344

Total fixed income

investments \$ 3,707,862

¹ S&P ratings were primarily used. If S&P did not provide a rating or did not provide the rating with the greatest degree of risk, then Moody's ratings were used. If neither rating agency issued a rating, the security was listed as "NR" (not rated). Long-term ratings are presented.

² U.S. guaranteed obligations, which are explicitly guaranteed by the U.S. Government, do not require disclosure of credit quality.

³ Federal Agency TBAs and mortgage-backed securities are classified as "NR" because they do not have explicit credit ratings on individual securities.

Notes to the Financial Statements

3. Deposits and Investments (continued)

		As of June 30, 2020						
Credit Quality Ratings ¹			Money Market Funds	Federal Agencies ³	Domestic Bonds and Notes	Commingled Fixed Income	International Bonds and Notes	
S&P	Moody's	Total						
(In Thousands)								
AAA		\$ 29,351	\$ —	\$ —	\$ 27,458	\$ —	\$ 1,893	
AA		11,743	—	—	9,435	—	2,308	
A		26,257	—	—	23,511	—	2,746	
BBB		64,266	—	—	49,560	—	14,706	
BB		1,217	—	—	—	—	1,217	
B		626	—	—	626	—	—	
	Aaa	9,757	—	—	9,757	—	—	
	Aa	869	—	—	602	—	267	
	A	2,801	—	—	2,559	—	242	
	Baa	8,282	—	—	6,444	—	1,838	
	Ba	1,239	—	—	1,108	—	131	
NR	NR	3,083,064	1,116,372	123,899	875	1,841,339	579	
		\$ 3,239,472	\$ 1,116,372	\$ 123,899	\$ 131,935	\$ 1,841,339	\$ 25,927	

Ratings not applicable:

U.S. guaranteed obligations ² 89,924

Total fixed income investments

\$ 3,329,396

¹ S&P ratings were primarily used. If S&P did not provide a rating or did not provide the rating with the greatest degree of risk, then Moody's ratings were used. If neither rating agency issued a rating, the security was listed as "NR" (not rated). Long-term ratings are presented.

² U.S. guaranteed obligations, which are explicitly guaranteed by the U.S. Government, do not require disclosure of credit quality.

³ Federal Agency TBAs and mortgage-backed securities are classified as "NR" because they do not have explicit credit ratings on individual securities.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Custodial Credit Risk

Custodial credit risk is the risk that if a depository institution or counterparty fails, the Trust will not be able to recover the value of its deposits, investments or collateral securities in the possession of an outside party.

As stated in SBA's custodial credit policy, the SBA seeks to minimize custodial credit risk through the use of trust accounts maintained at top tier third-party custodian banks, whose creditworthiness is monitored by the SBA. To the extent possible, the SBA's negotiated custody contract requires that deposits and investments be held in accounts in the SBA's name, separate and apart from the assets of the custodian bank. In addition, un-invested cash for all portfolios/funds under SBA management is generally swept nightly into overnight investments, thereby reducing the Trust's exposure to custodial credit risk. On occasion, however, the Trust's cash balances can exceed federally-insured limits.

U.S. dollar deposits held at SBA's custodian bank are covered by the Federal Deposit Insurance Corporation (FDIC) up to the maximum available limits. Cash deposits totaling \$31 thousand were held at June 30, 2021, which were fully insured by the FDIC. There were no cash deposits held at June 30, 2020.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Trust did not hold any investments with a single issuer representing 5% or more of the Trust's fair value at June 30, 2021 or 2020.

Interest Rate Risk

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

The Plan's IPS provides that money market funds will offer high-quality, liquid, short-term instruments to control interest rate sensitivity. The other fixed income funds may be passively or actively managed. In both cases, the funds' sensitivity to interest rate changes generally will closely approximate that of the performance benchmark.

Notes to the Financial Statements

3. Deposits and Investments (continued)

The interest rate risk tables for the Trust as of June 30, 2021 and 2020, are presented below. Investment types, related to fixed come portfolios, are presented using effective weighted duration.

Investment Type	As of June 30, 2021	
	Total	Effective Weighted Duration
	(In Thousands)	(In Years)
Money market funds	\$ 1,077,854	0.08
Fixed income commingled funds	2,263,526	6.24
U.S. guaranteed obligations:		
Treasury bonds and notes	125,839	6.93
Bonds and notes	511	4.40
GNMA mortgage-backed	12,260	4.03
GNMA commitments to purchase (TBAs)	1,035	5.04
Mortgage-backed CMOs and CMBS	1,699	3.97
Federal agencies:		
Mortgage-backed	42,147	3.80
FNMA, FHLMC commitments to purchase (TBAs)	30,351	5.67
Mortgage-backed CMOs and CMBS	11,385	4.40
Domestic:		
Corporate bonds and notes	79,728	8.45
Asset and mortgage-backed	28,028	2.54
Mortgage-backed CMOs and CMBS	13,106	2.12
Municipal/provincial	1,209	17.42
International:		
Corporate bonds and notes	14,059	7.44
Government and agency obligations	5,125	10.64
Total fixed income investments	\$ 3,707,862	

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investment Type	As of June 30, 2020	
	Total	Effective Weighted Duration
	(In Thousands)	(In Years)
Money market funds	\$ 1,116,372	0.08
Fixed income commingled funds	1,841,339	5.29
U.S. guaranteed obligations:		
Treasury bonds and notes	68,919	9.22
Bonds and notes	607	4.82
GNMA mortgage-backed	16,400	1.30
GNMA commitments to purchase (TBAs)	2,726	2.94
Mortgage-backed CMOs and CMBS	1,272	2.44
Federal agencies:		
Mortgage-backed	65,144	1.61
FNMA, FHLMC commitments to purchase (TBAs)	45,709	1.97
Mortgage-backed CMOs and CMBS	13,046	3.27
Domestic:		
Corporate bonds and notes	85,102	8.05
Asset and mortgage-backed	31,066	2.70
Mortgage-backed CMOs and CMBS	13,977	2.05
Municipal/provincial	1,790	16.92
International:		
Corporate bonds and notes	17,872	5.90
Government and agency obligations	8,055	7.46
Total fixed income investments	\$ 3,329,396	

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's actively managed fixed income and equity portfolios are prohibited from holding any non-U.S. dollar denominated securities.

Although the Trust's commingled funds are denominated in U.S. dollars, the international equity and real asset funds may have underlying investments exposed to foreign currency risk in various currencies. The fair value of the equity international commingled/mutual funds was \$2.9 billion and \$2.1 billion as of June 30, 2021 and 2020, respectively. The fair value of the commingled real asset funds was \$1.0 billion and \$770 million as of June 30, 2021 and 2020, respectively.

Notes to the Financial Statements

4. Contingencies and Litigation

In 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's 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.

5. Related-Party Transactions

The Trust considers the State of Florida and its Department of Management Services (DMS), Division of Retirement, and the Florida Retirement System Trust Fund (FRS Trust Fund) to be related parties for the purpose of the financial statements.

The DMS is responsible for the receipt of member demographic data and for collecting employer and employee contributions and remitting those contributions to the SBA for deposit into the Trust for the benefit of the Plan members. In addition, the DMS provides administrative services to the Trust and charges an administrative fee based on membership in the FRS Investment Plan each quarter-end. The FRS Trust Fund is the source of funding for a member's accumulated benefit obligation (ABO) when a member in the FRS Pension Plan elects to join the FRS Investment Plan. The FRS Trust Fund is also a recipient of certain benefits returned to the Trust.

The table below discloses significant transactions between the Trust, the DMS, and the FRS Trust Fund.

	As of June 30	
	2021	2020
	<i>(In Thousands)</i>	
Receivables:		
Due from DMS	\$ 60,226	\$ 51,486
Payables:		
Due to DMS	\$ —	\$ 31
	Fiscal Years Ended June 30	
	2021	2020
	<i>(In Thousands)</i>	
Additions:		
Employer/employee contributions received from DMS	605,023	551,938
Member-directed benefits received from the FRS Trust Fund	668,695	560,218
Total additions	\$ 1,273,718	\$ 1,112,156
Deductions:		
Member-directed benefits sent to the FRS Trust Fund	140,432	89,900
Administrative fees to DMS	182	134
Total deductions	\$ 140,614	\$ 90,034

Notes to the Financial Statements

6. Subsequent Events

Events or transactions sometimes occur subsequent to the statement of net position date but prior to the issuance of the financial statements and, therefore, require adjustment or disclosure in the financial statements. These subsequent events are classified into two types, one (“type one” recognized events) requiring adjustment to the financial statements and the second (“type two” non-recognized events) requiring only note disclosure.

Effective July 1, 2021, the Plan’s investment fund lineup changed whereby the FRS Money Market Fund was replaced with the FRS Stable Value Fund. The changes, approved by the SBA’s IAC and Board of Trustees, were made with the objective of providing greater returns for members going forward.

While generally offering higher returns and valued at net asset value, stable value funds have similar deposit and investment risks to that of money market funds in that they are conservative investment options, which focus on the preservation of capital by retaining the value of investments with limited volatility. Stable value funds invest in high quality fixed income securities and utilize wrap contracts offered by banks and insurance companies for principal stability.

This subsequent event is considered a type two, non-recognized event for reporting purposes, requiring no adjustment to the financial statements. Related fund close-outs and reallocations transacted with a zero-sum overall effect. Accordingly, the Trust’s net position was unaffected.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
State Board of Administration of Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Florida Retirement System Investment Plan Trust Fund (the "Trust") administered by the State Board of Administration ("SBA") of Florida, as of and for the year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2021. 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 SBA of Florida or the Florida Retirement System, their changes in financial position, or, where applicable, their cash flows, in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Crowe LLP

Tampa, Florida
November 8, 2021