



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

State Board of Administration of Florida  
Florida Retirement System Trust Fund  
Years Ended June 30, 2013 and 2012  
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

Years Ended June 30, 2013 and 2012

**Contents**

Report of Independent Certified Public Accountants .....	1
Management’s Discussion and Analysis .....	3
Financial Statements	
Statements of Net Position .....	11
Statements of Changes in Net Position .....	12
Notes to Financial Statements .....	13
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 <i>Government Auditing Standards</i> .....	52

## Report of Independent Certified Public Accountants

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 Trust Fund (the Trust) managed by the State Board of Administration (SBA) of Florida, as of and for the years ended June 30, 2013 and 2012, 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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 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.

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 managed by the SBA as of June 30, 2013 and 2012, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

### ***Basis of Presentation***

As discussed in Note 1 to the financial statements, 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, 2013 and 2012, or their changes in financial position, for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 10 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, which 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued our report dated November 7, 2013 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* in considering the Trust's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

November 7, 2013

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

**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, 2013 and 2012. 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 position and statements of changes in net position and the notes to financial statements.

The statements of net position and the statements of changes in net position report information about the net position (total assets plus deferred outflows in excess of total liabilities plus deferred inflows) of the Trust as of the end of the fiscal year and the changes in the net position 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

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2013 and 2012

recognized when earned and deductions (expenses) are recognized when incurred, regardless of when the cash is received or paid. The statements of net position provide a measurement of the financial status of the Trust as of the end of the fiscal year. The statements of changes in net position 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 Position and Statements of Changes in Net Position**

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

The statements of changes in net position 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.

**Net Position**

	2013	June 30 2012	2011
	<i>(In Millions)</i>		
<b>Assets</b>			
Cash and cash equivalents	\$ 227	\$ 201	\$ 225
Invested security lending collateral	3,245	4,938	4,453
Investments	136,999	126,870	133,764
Receivables and prepaid expenses	3,515	2,354	3,569
Total assets	143,986	134,363	142,011
<b>Liabilities</b>			
Total liabilities	11,224	11,756	13,178
Net position held in trust	\$ 132,762	\$ 122,607	\$ 128,833

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2013 and 2012

**Changes in Net Position**

	Year Ended June 30		
	2013	2012	2011
	<i>(In Millions)</i>		
<b>Additions</b>			
Investment income	\$ 16,722	\$ 199	\$ 24,520
Investment expenses	(437)	(377)	(357)
Net security lending income	49	44	36
Total net investment income (loss)	<u>16,334</u>	<u>(134)</u>	<u>24,199</u>
Contributions:			
Transfers from DMS related to employer/employee contributions <sup>1</sup>	2,049	1,791	3,084
Member-directed transfers from the FRS Investment Plan Trust Fund	44	33	33
Total contributions	<u>2,093</u>	<u>1,824</u>	<u>3,117</u>
Total additions	<u>18,427</u>	<u>1,690</u>	<u>27,316</u>
<b>Deductions</b>			
Transfers for benefit payments	7,478	6,949	6,474
Member-directed transfers to the FRS Investment Plan Trust Fund	794	967	1,183
Total deductions	<u>8,272</u>	<u>7,916</u>	<u>7,657</u>
Changes in net position	<u>\$ 10,155</u>	<u>\$ (6,226)</u>	<u>\$ 19,659</u>

<sup>1</sup> Employee Contributions to the Plan were mandated effective July 1, 2011.

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2013 and 2012

**Analysis**

The Trust's net position increased by \$10.2 billion (8.3%) and decreased by \$6.2 billion (4.8%) during fiscal years 2013 and 2012, respectively. The fiscal year 2013 increase is due primarily to the net appreciation of Trust investments. By contrast, the decrease in net position in fiscal year 2012 was a result of overall weaker market performance. For all three fiscal years, benefit payments exceeded contributions to the Trust, reducing the net position accordingly.

- Investment income increased by \$16.5 billion during fiscal year 2013, compared with a decrease of \$24.3 billion during fiscal year 2012. During fiscal year 2012, there was a decline in the value of the global equity investments, primarily due to weakness in foreign markets. Fixed income, private equity and real estate portfolios continued to perform well during that same time period, adding positive performance to the Trust. In fiscal year 2013, increased interest rates contributed to lower fixed income portfolio returns. However global equity, private equity and strategic investments experienced substantial return improvements, leading to the considerable increase in the Trust's overall investment income. Additional information is provided in the Investment Returns section below.
- Investment expenses increased approximately \$60.2 million (16.0%) and \$19.4 million (5.4%) during fiscal years 2013 and 2012, respectively. 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.
- Net security lending income increased by approximately \$5.1 million (11.8%) and \$7.8 million (21.7%) for fiscal years 2013 and 2012, respectively. These increases in net security lending income are due to the higher premiums being paid to the Trust for securities loaned. 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.)

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2013 and 2012

- Contributions to the Trust for fiscal year 2013 totaled \$2.1 billion, an increase of 14.7% compared with fiscal year 2012 contributions of \$1.8 billion. This followed a decrease of \$1.3 billion (41.5%) during fiscal year 2012, due to a reduction in employer pension plan contribution rates. 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 2011, 2012 and 2013.

**FRS Pension Plan Contribution Rates**

Membership Class	2013		2012		2011
	Employee Rate	Employer Rate <sup>1</sup>	Employee Rate	Employer Rate <sup>1</sup>	Employer Rate <sup>1</sup>
Regular	3.00%	5.18%	3.00%	4.91%	10.77%
DROP	–	5.44	–	4.42	12.25
Special risk administrative support	3.00	5.91	3.00	6.04	13.24
Senior management service	3.00	6.30	3.00	6.27	14.57
Legislators	3.00	8.53	3.00	9.04	16.34
Governor, Lt. Governor, and cabinet officers	3.00	8.53	3.00	9.04	16.34
State Attorney, public defenders	3.00	8.53	3.00	9.04	16.34
County elected officers	3.00	10.23	3.00	11.14	18.64
Justices, judges	3.00	11.93	3.00	11.69	21.79
Special risk	3.00	14.90	3.00	14.10	23.25

<sup>1</sup> Employer rate includes additional contributions for a Health Insurance Subsidy benefit (1.11%) and plan administrative and educational expenses (0.03%)

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2013 and 2012

- Total deductions from the Trust for fiscal year 2013 were \$8.3 billion, an increase of \$356 million (4.5%) over fiscal year 2012 deductions of \$7.9 billion. This followed an increase of \$259 million (3.4%) during fiscal year 2012. Transfers from the Trust to the DMS for benefit payments increased to \$7.5 billion (7.6%) and \$6.9 billion (7.3%) fiscal years 2013 and 2012, 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. These transfers decreased by 17.9% to \$794 million and 18.3% to 967 million for fiscal years 2013 and 2012, respectively.

**Investment Returns**

For the fiscal years ended June 30, 2013 and 2012, the Trust's investment returns, by major asset class, were as follows:

Asset Class	2013		2012	
	Return	Benchmark	Return	Benchmark
Global Equity	<b>18.56%</b>	<b>17.23%</b>	(5.11)%	(6.79)%
Fixed Income	<b>0.38</b>	<b>(0.69)</b>	7.84	7.47
Private Equity <sup>1</sup>	<b>10.41</b>	<b>24.55</b>	7.22	7.46
Real Estate	<b>14.92</b>	<b>10.12</b>	12.75	12.62
Strategic investments	<b>16.16</b>	<b>9.83</b>	3.72	3.27
Cash	<b>0.29</b>	<b>0.05</b>	0.25	0.06
Total fund	<b>13.12</b>	<b>12.01</b>	0.29	(0.49)

<sup>1</sup> 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.

<sup>2</sup> The above investment performance information as of June 30, 2013 and 2012, is the official investment return data as of those dates 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 Position, 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.

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2013 and 2012

The Trust earned an overall investment return of 13.12% for fiscal year 2013, compared with a return of 0.29% for fiscal year 2012. The Trust has outperformed its performance benchmark over the trailing one-, three-, five-, ten- and fifteen-year periods. The 2013 total fund return was 1.11% above the performance benchmark while the 2012 total fund return exceeded its benchmark by 0.78%.

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](http://www.sbafla.com).

**Economic Factors**

The U.S. economy continued to grow in fiscal 2012-13, but the pace of expansion was uneven throughout the year. U.S. equity markets were mixed during the first half of the fiscal year, rising from July to September, but giving back most of those gains in the run-up to November's presidential election. Once the smoke cleared and Washington looked much the same as it had prior to the election, markets rose over the rest of the year. The Russell 3000 Index began the fiscal year at 803.63, and after the post-election bounce, its total return for the first half of the fiscal year was 6.4%. Global stocks were supported by continued central bank easing. The U.S. Fed maintained an \$85.0 billion monthly purchase plan for mortgage-backed securities and government bonds while the European Central Bank kept interest rates extremely low. The global flood of liquidity – coupled with a lack of yield on fixed income assets – made equities attractive, and leverage to buy them cheap. The SBA measures the performance of its Global Equity asset class against a combined index of U.S. and non-U.S. stocks (the Morgan Stanley Capital International All-Country World Investable Market Index), and it returned 10.0% during the first six months of fiscal 2012-13.

In early 2013, the U.S. economy showed a little more vigor than had been the case during the prior three months, with real GDP expanding at a 1.1% annual rate. However, much of this improvement was due to an inventory correction, and domestic spending remained mixed. Federal spending continued to be a drag as sequestration came online. Also, consumer spending felt the downdraft of a payroll tax hike which many feared could have a major effect. Those fears proved overblown. The economy improved in the second quarter of 2013 with real GDP advancing 2.5%. Business spending rebounded, and slightly lower Federal spending put a much smaller dent in overall activity.

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Years Ended June 30, 2013 and 2012

However, in May 2013, the Fed raised the possibility that it could soon begin to unwind its sizeable monthly purchases of securities. Markets reacted negatively, and Fed Chairman Bernanke was quick to point out that any so-called 'tapering' of bond purchases would depend on the economy, particularly jobs and inflation. Both of these areas had become problematic. The economy needs roughly 125,000 jobs a month to accommodate new entrants to the labor force. During fiscal 2012-13, monthly job gains averaged 187,583, so progress in reducing the backlog of long-term unemployed was modest. The Fed also remained concerned with inflation. Its long-term inflation target is 2% per annum, but inflation measures dipped close to 1% in the second half of the fiscal year. This increased the possibility of deflation – something the Fed fears greatly.

Given the soft job market and low inflation, expectations are for the Fed to keep its policy stance accommodative for the foreseeable future helped U.S. stock markets recover from the negative initial impact of the Fed's taper talk and post a 14.1% total return for the second half of the fiscal year (as measured by the Russell 3000 Index). Unfortunately, foreign stocks made little headway during the first half of 2013. Nonetheless, the strong U.S. showing allowed the Global Equity asset class's aforementioned benchmark to rise 6.5% from January to June, and 17.2% over the entire fiscal year. The benchmark for the SBA's other public market asset class – Fixed Income – fared less well as a sharp run-up in interest rates late in the fiscal year led to a -0.7% return for the entire year.

**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 Position

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 226,944	\$ 201,055
Security lending collateral	3,245,417	4,938,460
Investments, at fair value:		
Short-term	7,859,866	6,609,206
Fixed Income:		
Domestic	25,424,553	27,945,188
International	2,451,499	3,353,042
Equities:		
Domestic	38,428,785	33,407,723
International	40,238,228	36,144,447
Alternative	13,555,756	11,233,070
Real estate	9,040,776	8,176,282
Other	(604)	1,151
Total investments	<u>136,998,859</u>	<u>126,870,109</u>
Receivables:		
Transfers due from DMS	198,456	205,777
Accrued interest and dividends	362,504	363,034
Futures trade equity	8,280	20,006
Foreign currency contracts	532,042	270,859
Investments sold, but not settled	2,407,947	1,487,379
Total receivables	<u>3,509,229</u>	<u>2,347,055</u>
Prepaid manager fees	6,137	6,399
Total assets	<u>143,986,586</u>	<u>134,363,078</u>
<b>Liabilities</b>		
Transfers due to DMS	263,900	281,522
Accounts payable and accrued liabilities	68,330	72,499
Futures trade equity payable	905	12,802
Foreign currency contracts payable	526,766	272,261
Investments purchased, but not settled	6,678,151	5,695,371
Options sold	1,468	257
Short sell obligations	367,076	380,076
Obligations under security lending agreements	3,317,787	5,041,087
Total liabilities	<u>11,224,383</u>	<u>11,755,875</u>
Net position held in trust	<u>\$ 132,762,203</u>	<u>\$ 122,607,203</u>

*See accompanying notes to financial statements.*

State Board of Administration  
Florida Retirement System Trust Fund

Statements of Changes in Net Position

	June 30	
	2013	2012
	<i>(In Thousands)</i>	
<b>Additions</b>		
Investment income:		
Interest income	\$ 1,043,496	\$ 1,140,642
Dividend income	1,992,763	1,783,693
Real estate income, net	471,728	437,865
Fines, forfeits, and securities litigation proceeds	29,055	40,569
Other investment income	133,067	83,134
Net increase (decrease) in fair value of investments	13,052,082	(3,286,665)
Total investment income	16,722,191	199,238
Investment expenses:		
Bank fees	(3,959)	(4,089)
Investment management fees	(395,477)	(345,315)
SBA investment service charges	(29,193)	(18,343)
Other fees and expenses	(8,246)	(8,974)
Total investment expenses	(436,875)	(376,721)
Net income (loss) from investments	16,285,316	(177,483)
Security lending income	56,229	49,982
Security lending expenses	(7,791)	(6,543)
Net income from security lending	48,438	43,439
Total net investment income (loss)	16,333,754	(134,044)
Transfers:		
Transfers from DMS related to employer/employee contributions	2,049,535	1,790,848
Transfers from members of the FRS Investment Plan Trust	43,771	33,681
Total transfers	2,093,306	1,824,529
Total additions	18,427,060	1,690,485
<b>Deductions</b>		
Member transfers to FRS Investment Plan Trust	794,361	967,164
Transfers to DMS for benefit payments	7,477,699	6,949,178
Total deductions	8,272,060	7,916,342
Changes in net position	10,155,000	(6,225,857)
Net position held in trust:		
Beginning of year	122,607,203	128,833,060
End of year	\$ 132,762,203	\$ 122,607,203

*See accompanying notes to financial statements.*

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements

Years Ended June 30, 2013 and 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 Board of Trustees, comprised of the Governor, the Attorney General, and the Chief Financial Officer of the State of Florida.

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 include only the net position and change 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 FRS as of June 30, 2013 and 2012, 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, 2013 and 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), 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 presents statements of net position and statements of changes in net position.

### 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 and was retroactively applied to the Trust’s statements beginning in fiscal year 2013. The adoption of this standard did not have a material impact on the statement of net position or the statement of changes in net position.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position. The provisions of GASB 63 require the replacement

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**2. Summary of Significant Accounting Policies (continued)**

of the statement of net assets with the statement of net position. GASB 63 became effective for financial statements for reporting periods beginning after December 15, 2011 and was retroactively applied to the Trust's statements beginning in fiscal year 2013. The adoption of this standard did not have a material impact on the statement of net position or the statement of changes in net position.

**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 position as "net increase (decrease) in fair value of investments."

The fair values 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, 2013 and 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. The external appraisals are generally spread evenly throughout the year depending upon property type. 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.

All derivative financial instruments are reported at fair value in the statements of net position. 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 position as “net increase (decrease) in fair value of investments” during the period. The nature and use of derivative instruments is discussed in Note 4.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**2. Summary of Significant Accounting Policies (continued)**

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.

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

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**2. Summary of Significant Accounting Policies (continued)**

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 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 position 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 position as part of the Trust's investment expenses. During the fiscal years 2013 and 2012, the SBA investment service charges were 0.0225% and 0.015% (annualized), respectively.

**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.

**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, 2013, the recorded carrying amount of deposits totaled \$226.9 million, and consisted of U.S. dollars and foreign currencies (U.S. value) in the amounts of \$7.0 million and \$219.9 million, respectively.

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

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**3. Deposits (continued)**

Certain deposits in U.S. dollars and foreign currencies (U.S. value), totaling \$9.1 million and \$5.7 million at June 30, 2013 and 2012, respectively, were held as initial margin at the SBA's futures clearing brokers. 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 were \$265.7 million and \$213.0 million as of June 30, 2013 and 2012, respectively. A portion of the deposits, totaling \$0.1 million for both fiscal years June 30, 2013 and 2012, was covered by federal depository insurance. Uninsured and uncollateralized amounts in U.S. dollars and foreign currencies (U.S. value), totaling \$47.8 million and \$17.1 as of June 30, 2013 and 2012, respectively, were held at the SBA's futures clearing brokers.

All deposits of U.S. dollars at the Trust's custodian banks were covered by federal depository insurance as of June 30, 2013 and 2012. The remaining uninsured and uncollateralized deposits, totaling \$212.3 million and \$195.2 million as of June 30, 2013 and 2012, respectively, were held in foreign currencies in SBA 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, 2013 and 2012, as illustrated in the following schedule.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**3. Deposits (continued)**

Foreign currency as of June 30, 2013 and 2012:

Currency	2013	2012
	<i>(In Thousands)</i>	
Australian dollar	\$ 14,390	\$ 8,878
Brazilian real	2,333	3,114
British pound sterling	31,719	26,732
Canadian dollar	4,371	15,740
Chilean peso	120	17
Colombian peso	194	—
Danish krone	35	2,027
Egyptian pound	408	258
Euro currency unit	77,865	30,977
Hong Kong dollar	10,629	17,721
Hungarian forint	16	156
Indian rupee	2,974	397
Indonesian rupiah	1,253	1,437
Israeli shekel	708	918
Japanese yen	32,109	35,818
Kenyan shilling	1	240
Malaysian ringgit	622	645
Mexican new peso	549	499
New Zealand dollar	131	248
Norwegian krone	2,080	1,925
Pakistan rupee	502	—
Philippines peso	641	526
Polish zloty	2,604	14
Qatari riyal	887	—
Singapore dollar	3,978	4,368
South African rand	827	1,151
South Korean won	1,861	705
Swedish krona	1,864	3,288
Swiss franc	1,332	21,029
Taiwan new dollar	16,849	15,526
Thailand baht	1,260	274
Turkish new lira	1,522	5,846
UAE dirham	708	205
Vietnam dong	2,317	—
Other	229	245
Total deposits subject to foreign currency risk	<u>\$ 219,888</u>	<u>\$ 200,924</u>

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 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, 2013 and 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 tends to be long term and illiquid in nature. Due to this type of structure, private debt/credit opportunities typically do not 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, as part of a joint venture, or through ownership in pooled funds and partnerships.

**Other**

Included in this asset type are investments such as foreign currency contracts, futures, options, and swaps.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

The following schedule discloses the Trust's investments, by type, at June 30, 2013 and 2012.

Investment type	Fair Value	
	2013	2012
	<i>(In Thousands)</i>	
Short-term:		
Certificates of deposit	\$ 2,051,388	\$ 899,769
Commercial paper	4,755,488	3,638,373
Money market funds	302,990	16,064
Repurchase agreements	750,000	2,055,000
Fixed income—domestic:		
U.S. guaranteed obligations	9,937,361	9,430,834
Federal agencies	7,792,894	9,699,691
Domestic corporate and municipal bonds and notes <sup>1</sup>	7,694,298	8,814,663
Fixed income— international:		
International bonds and notes <sup>1</sup>	2,451,499	3,353,042
Equities – domestic <sup>1</sup>	38,428,785	33,407,723
Equities – international: <sup>1</sup>		
International equities	33,946,698	30,177,809
International equity commingled funds	6,291,530	5,966,638
Alternative:		
Private equity	7,800,180	6,626,130
Private debt/credit opportunities	3,267,447	3,304,803
Hedge funds	2,488,129	1,302,137
Real estate	9,040,776	8,176,282
Other investments:		
Option contracts purchased	1,034	59
Swap contracts (debt related)	(1,638)	1,092
Total investments excluding securities lending collateral	<u>136,998,859</u>	<u>126,870,109</u>
<b>Securities lending collateral investments</b>		
Repurchase agreements	3,043,723	4,668,171
Domestic corporate bonds and notes <sup>1</sup>	155,614	209,977
International bonds and notes <sup>1</sup>	46,080	60,312
Total securities lending collateral investments	<u>3,245,417</u>	<u>4,938,460</u>
Total investments	<u>\$ 140,244,276</u>	<u>\$ 131,808,569</u>
<b>Investments sold short</b>		
Federal agencies	\$ (365,238)	\$ (380,076)
Equities – domestic <sup>1</sup>	(5)	–
U.S. guaranteed obligations	(1,833)	–
Option contracts	(1,468)	(257)
Total investments sold short <sup>2</sup>	<u>\$ (368,544)</u>	<u>\$ (380,333)</u>

<sup>1</sup> 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.”

<sup>2</sup> Investments sold short are classified as liabilities on the statements of net position.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

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

**Securities Pledged as Collateral for Futures Contracts**

	<b>Fair Value</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
Investment type:		
U.S. guaranteed obligations	\$ 17,539	\$ 1,445
Federal agencies	9,515	36,111
Domestic equities	22,949	22,780
Total	\$ 50,003	\$ 60,336

**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.

**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.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

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**

	<b>Fair Value</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
Invested security lending collateral:		
Repurchase agreements	<b>\$ 1,471,237</b>	\$ 2,329,827
Domestic bonds and notes	<b>154,049</b>	204,559
International bonds and notes	<b>20,686</b>	27,829
Total investments exposed to custodial credit risk	<b><u>\$ 1,645,972</u></b>	<b><u>\$ 2,562,215</u></b>

**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.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

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.

**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.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

**Lending Portfolios**

Under investment policy guidelines in effect for the fiscal years ended June 30, 2013 and 2012, 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 current investment policy guidelines, are being held to maturity in existing lending portfolios. The previous investment policy guidelines contained short-term 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.

The Trust did not hold any investments with a single issuer representing 5% or more of the Trust's fair value at June 30, 2013 or 2012. The following schedules disclose credit quality ratings on investments held in the Trust.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

**Credit Quality Ratings**

		As of June 30, 2013						
S&P <sup>1</sup>	Moody <sup>1</sup>	Total <sup>2</sup>	Certificates of Deposit	Commercial Paper	Money Market Funds	Federal Agencies	Domestic Bonds and Notes	International Bonds and Notes
<i>(In Thousands)</i>								
A-1/AAAm		\$ 5,058,478	\$ -	\$ 4,755,488	\$ 302,990	\$ -	\$ -	-
AAA		1,243,210	-	-	-	-	795,136	448,074
AA		2,512,142	351,020	-	-	1,125,203	736,161	299,758
A		3,579,166	-	-	-	11,336	2,911,385	656,445
BBB		3,016,195	-	-	-	-	2,248,420	767,775
BB		212,377	-	-	-	-	158,692	53,685
B		20,668	-	-	-	-	20,668	-
CCC		34,523	-	-	-	-	34,523	-
D		14,866	-	-	-	-	14,866	-
Not rated	Aaa	497,947	-	-	-	-	392,387	105,560
Not rated	Aa	243,927	200,117	-	-	-	37,810	6,000
Not rated	A	57,360	-	-	-	-	38,662	18,698
Not rated	Baa	122,216	-	-	-	-	25,891	96,325
Not rated	Ba	2,107	-	-	-	-	2,107	-
Not rated	B	3,362	-	-	-	-	3,362	-
Not rated	Not rated	8,631,707	1,500,251	-	-	6,656,355	429,842	45,259
		<u>25,250,251</u>	<u>\$ 2,051,388</u>	<u>\$ 4,755,488</u>	<u>\$ 302,990</u>	<u>\$ 7,792,894</u>	<u>\$ 7,849,912</u>	<u>\$ 2,497,579</u>
Not rated	Not rated	3,793,723	Repurchase agreements					
Not rated	Not rated	9,937,361	U.S. guaranteed obligations					
Not rated	Not rated	38,428,785	Domestic equities					
Not rated	Not rated	33,946,698	International equities					
Not rated	Not rated	6,291,530	International equity commingled funds					
Not rated	Not rated	13,555,756	Alternative investments					
Not rated	Not rated	9,040,776	Real estate investments					
Not rated	Not rated	1,034	Options					
Not rated <sup>3</sup>	Not rated <sup>3</sup>	(1,638)	Swaps <sup>3</sup>					
		<u>\$ 140,244,276</u>	Total investments					

<sup>1</sup> 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.

<sup>2</sup> All investments are included in this table, including security lending collateral investments.

<sup>3</sup> 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, 2013 and 2012

**4. Investments (continued)**

As of June 30, 2012									
S&P <sup>1</sup>	Moody <sup>1</sup>	Total <sup>2</sup>	Certificates of Deposit	Commercial Paper	Money Market Funds	Federal Agencies	Domestic Bonds and Notes	International Bonds and Notes	
<i>(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	-
		<u>26,691,891</u>	<u>\$ 899,769</u>	<u>\$ 3,638,373</u>	<u>\$ 16,064</u>	<u>\$ 9,699,691</u>	<u>\$ 9,024,640</u>	<u>\$ 3,413,354</u>	<u>-</u>
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	11,233,070	Alternative investments						
Not rated	Not rated	8,176,282	Real estate investments						
Not rated	Not rated	59	Options						
Not rated <sup>3</sup>	Not rated <sup>3</sup>	1,092	Swaps <sup>3</sup>						
		<u>\$ 131,808,569</u>	Total investments						

<sup>1</sup> 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.

<sup>2</sup> All investments are included in this table, including security lending collateral investments.

<sup>3</sup> 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, 2013 and 2012

**4. Investments (continued)**

All futures and options contracts held by the Trust at June 30, 2013 and 2012 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, 2013 and 2012 are presented in the following tables.

<b>Counterparty Credit Rating (Long/Short)</b>			
S&P	Moody	Fitch	Fair Value
			<i>(In Thousands)</i>
<b>June 30, 2013</b>			
A/A-1	Aa/P-1	A/F1	\$ 319
A/A-1	A/P-2	A/F1	<u>(1,957)</u>
Total swaps			<u><u>\$ (1,638)</u></u>

<b>Counterparty Credit Rating (Long/Short)</b>			
S&P	Moody	Fitch	Fair Value
			<i>(In Thousands)</i>
<b>June 30, 2012</b>			
A/A-1	Aa/P-1	A/F1	\$ 713
A/A-1	A/P-2	A/F1	<u>379</u>
Total swaps			<u><u>\$ 1,092</u></u>

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

Counterparty credit ratings for foreign currency contracts held at June 30, 2013 and 2012 are presented in the following tables

<b>Counterparty Credit Rating (Long/Short)<sup>1</sup></b>			<b>Receivable Fair Value</b>	<b>Payable Fair Value</b>	<b>Net Unrealized Gain/(Loss)</b>
<b>S&amp;P</b>	<b>Moody</b>	<b>Fitch</b>			
<i>(In Thousands)</i>					
<b>June 30, 2013</b>					
AA/A-1	Aaa/P-1	AA/F1	\$ 330,398	\$ (326,971)	\$ 3,427
AA/A-1	Aa/P-1	AA/F1	9,575	(9,581)	(6)
AA/A-1	NR/P-1	AA/F1	3,563	(3,564)	(1)
A/A-1	Aa/P-1	AA/F1	65,220	(62,826)	2,394
A/A-1	Aa/P-1	A/F1	6,572	(6,567)	5
A/A-1	A/P-1	AA/F1	3,101	(3,113)	(12)
A/A-1	A/P-2	A/F1	4,722	(4,726)	(4)
A/A-1	NR/P-1	AA/F1	914	(912)	2
A/A-1	NR/P-1	A/F1	63,757	(64,078)	(321)
A/A-1	NR/P-1	NR/NR	18,883	(19,136)	(253)
A/A-1	NR/P-2	A/F1	7,908	(7,891)	17
NR/NR	NR/P-1	NR/NR	2,135	(2,141)	(6)
NR/NR	NR/P-2	NR/NR	207	(208)	(1)
NR/NR	NR/NR	A/F1	6,255	(6,229)	26
NR/NR	NR/NR	NR/NR	8,832	(8,823)	9
			<b>\$ 532,042</b>	<b>\$ (526,766)</b>	<b>\$ 5,276</b>

<sup>1</sup> 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, 2013 and 2012

**4. Investments (continued)**

<b>Counterparty Credit Rating (Long/Short)<sup>1</sup></b>			<b>Receivable Fair Value</b>	<b>Payable Fair Value</b>	<b>Net Unrealized Gain/(Loss)</b>
<b>S&amp;P</b>	<b>Moody</b>	<b>Fitch</b>			
<i>(In Thousands)</i>					
<b>June 30, 2012</b>					
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>

<sup>1</sup> If no rating exists, "NR" is reported.

**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.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

**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.

**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.

**Security Lending Portfolios**

The investment policy guidelines in effect for the fiscal years ended June 30, 2013 and 2012 allow investment only in overnight repurchase agreements that are fully collateralized by U.S. government and/or agency securities. Investments that were purchased under the previous 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, 2013 and 2012 follow. Investment types related to debt portfolios are presented using effective weighted duration. Investment types related to short-term, as well as 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, 2013 and 2012

**4. Investments (continued)**

Investment Type	June 30, 2013			
	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	\$ 2,051,388	65
Commercial paper	—	NA	4,755,488	47
Money market funds	—	NA	302,990	1
Repurchase agreements	—	NA	3,793,723	3
U.S. guaranteed obligations:				
U.S. Treasury bills	3,110	0.22	—	NA
U.S. Treasury bonds and notes	7,591,004	5.39	—	NA
U.S. Treasury strips	15,067	31.10	—	NA
Index linked government bonds	419,169	7.50	—	NA
U.S. government guaranteed	40,707	6.34	—	NA
U.S. Treasury note forwards	141	(2.02)	—	NA
GNMA mortgage backed	842,406	4.03	—	NA
GNMA mortgage backed CMOs and CMBS	29,910	1.64	—	NA
GNMA commitments to purchase (TBAs)	986,363	4.30	—	NA
GNMA Interest-only CMOs	3,581	(16.46)	—	NA
GNMA interest-only inverse floating CMOs	5,904	7.90	—	NA
Federal agencies:				
Discount notes	38,550	0.02	—	NA
Unsecured bonds and notes	1,136,539	4.38	—	NA
Agency strips	14,170	3.96	—	NA
Mortgage backed (FNMA, FHLMC)	3,367,097	3.79	—	NA
FNMA, FHLMC commitments to purchase (TBAs)	2,911,451	4.38	—	NA
Mortgage backed CMOs and CMBS	295,177	3.38	—	NA
Interest-only CMOs	6,482	(7.12)	—	NA
Interest-only inverse floating CMOs	18,073	9.29	—	NA
Inverse floating CMOs	1,419	6.38	—	NA
Principal-only CMOs	3,935	5.73	—	NA
Domestic bond and notes:				
Corporate	5,590,470	6.45	—	NA
Non-government asset and mortgage backed	597,357	2.86	85,496	28
Non-government backed CMOs and CMBS	1,265,479	2.55	46,237	19
Municipal/provincial	257,093	10.62	—	NA
Real estate mortgage loans	7,779	6.31	—	NA
International bonds and notes:				
Government and regional	667,563	5.25	—	NA
Government agency	245,223	3.55	—	NA
Corporate	1,487,181	5.61	—	NA
Non-government asset and mortgage backed	27,521	0.18	—	NA
Non-government backed CMOs and CMBS	24,011	(0.14)	46,080	31
Futures contracts-long <sup>1</sup>	—	3.78	—	NA
Futures contracts-short <sup>1</sup>	—	6.44	—	NA
Options purchased <sup>2</sup>	1,034	235.51	—	NA
Swap contracts <sup>1</sup>	(1,638)	0.05	—	NA
Total fixed income investments	<u>\$ 27,899,328</u>		<u>\$ 11,081,402</u>	

<sup>1</sup> 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, 2013.

<sup>2</sup> 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, 2013 and 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 <sup>1</sup>	—	4.97	—	NA
Futures contracts-short <sup>1</sup>	—	4.82	—	NA
Options purchased <sup>2</sup>	59	(955.42)	—	NA
Swap contracts <sup>1</sup>	1,092	0.29	—	NA
Total fixed income investments	<u>\$ 31,323,050</u>		<u>\$ 11,523,998</u>	

<sup>1</sup> 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.

<sup>2</sup> 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, 2013 and 2012

**4. Investments (continued)**

Interest rate risk information for debt investments sold short is presented below for June 30, 2013 and 2012:

Investment Type	June 30, 2013		June 30, 2012	
	Fair Value <i>(In Thousands)</i>	Effective Weighted Duration <i>(In Years)</i>	Fair Value <i>(In Thousands)</i>	Effective Weighted Duration <i>(In Years)</i>
FNMA, FHLMC, commitments to sell (TBAs)	\$ (365,238)	4.31	\$ (380,076)	2.01
GNMA commitments to sell (TBAs)	(1,833)	2.76	—	N/A
Options sold <sup>2</sup>	(1,468)	(125.27)	(257)	127.57
Total debt investments sold short <sup>1</sup>	<u>\$ (368,539)</u>		<u>\$ (380,333)</u>	

<sup>1</sup> Investments sold short are reported as liabilities on the Statement of Net Position.

<sup>2</sup> 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, 2013 and 2012.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

Currency	June 30, 2013		
	Equity	Alternative Investments	Fixed Income
	<i>(In Thousands)</i>		
Australian dollar	\$ 1,505,305	\$ —	\$ —
Brazilian real	446,253	—	—
British pound sterling	5,507,450	—	—
Canadian dollar	1,659,702	—	—
Chilean peso	25,749	—	—
Danish krone	289,283	—	—
Egyptian pound	10,472	—	—
Euro currency unit <sup>3</sup>	7,126,837	500,721	—
Hong Kong dollar	1,954,811	—	—
Hungarian forint	17,440	—	—
Indian rupee	421,685	—	—
Indonesian rupiah	207,021	—	—
Israeli shekel	76,184	—	—
Japanese yen	5,046,753	—	—
Kenyan shilling	24,610	—	—
Malaysian ringgit	148,513	—	1
Mexican peso	205,933	—	—
New Zealand dollar	30,345	—	—
Omani rial	13,045	—	176
Nigerian naira	75,970	—	—
Norwegian krone	228,693	—	—
Philippines peso	73,334	—	—
Polish zloty	56,149	—	—
Qatari riyal	40,890	—	—
Singapore dollar	532,959	—	—
South African rand	395,537	—	—
South Korean won	752,282	—	—
Swedish krona	663,728	—	—
Swiss franc	2,376,995	—	—
Taiwan new dollar	474,527	—	—
Thailand baht	306,461	—	—
Turkish Lira	267,084	—	—
Other	111,125	—	—
Equity linked notes (various currencies) <sup>1</sup>	15,831	—	—
International equity commingled funds <sup>1</sup>	6,291,530	—	—
Alternative investments <sup>2</sup>	—	12,891,904	—
Total investments subject to foreign currency risk	<u>\$ 37,380,486</u>	<u>\$ 13,392,625</u>	<u>\$ 177</u>

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

<sup>1</sup> International equity commingled funds are commingled investments where the Trust owns units in commingled funds with other investors and, therefore, only a portion of the overall investment in the funds. 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 overall investments or notes themselves may be valued in U.S. dollars, but the underlying assets are exposed to foreign currency risk in various currencies.

<sup>2</sup> Alternative investments are commingled investments (primarily limited partnerships) where the Trust owns an interest 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 denominated in U.S. dollars, but the underlying investments owned by the commingled funds may be exposed to foreign currency risk in various currencies. If the alternative investment manager provided financial statements in Euro currency units, it was reported above as having foreign currency risk in Euro currency units.

<sup>3</sup> Equity exposure to Euro currency units includes one stock call option with a fair value at June 30, 2013 of \$621,588 (or €807,972).

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

Currency	June 30, 2012		
	Investment Type		
	Equity	Alternative Investments	Fixed Income
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	-	-
Philippines 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) <sup>1</sup>	7,144	-	-
International equity commingled funds <sup>1</sup>	5,966,638	-	-
Alternative investments <sup>2</sup>	-	10,638,003	-
Total investments subject to foreign currency risk	<u>\$ 33,468,976</u>	<u>\$ 11,020,631</u>	<u>\$ 101</u>

<sup>1</sup> Equity options denominated in Euro currency units are reported above as having foreign currency risk in Euro currency units. International equity commingled funds are commingled investments where the Trust owns units in commingled funds with other investors and, therefore, only a portion of the overall investment in the funds. 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 overall investments or notes themselves may be valued in U.S. dollars, but the underlying assets are exposed to foreign currency risk in various currencies.

<sup>2</sup> Alternative investments are commingled investments (primarily limited partnerships) where the Trust owns an interest 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 denominated in U.S. dollars, but the underlying investments owned by the commingled funds may be exposed to foreign currency risk in various currencies. If the alternative investment manager provided financial statements in Euro currency units, it was reported above as having foreign currency risk in Euro currency units.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 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, 2013 and 2012 that were exposed to foreign currency risk are presented below:

	Currency	Number of Contracts <sup>1</sup>	In Local Currency			Unrealized Gain (Loss) (in U.S. \$)
			Notional Traded Exposure	Notional Market Exposure	Unrealized Gain (Loss) <sup>2</sup>	
<i>(In Thousands)</i>						
<b>As of June 30, 2013</b>						
Stock Index Futures:						
GBP FTSE 100 Index	British pound sterling	368	23,108	22,674	(434)	\$ (658)
Canada S&P/TSE 60 Index	Canadian dollar	131	18,270	18,152	(118)	(112)
DJ Euro STOXX 50	Euro currency unit	1,107	29,764	28,760	(1,004)	(1,305)
TOPIX Index Future	Japanese yen	348	3,801,594	3,935,880	134,286	1,352
<b>As of June 30, 2012</b>						
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

<sup>1</sup> Long positions are positive and short positions are negative.

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

The Trust also enters into foreign currency contracts which are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Currently, there are two types of foreign currency contracts being utilized by the Trust. Spot currency contracts are used primarily for trade settlement and currency repatriation and are valued at spot (traded) currency rates. Forward currency contracts are valued at interpolated forward rates and are generally used to mitigate currency risk for changes in value associated with foreign holdings, payables and/or receivables. These contracts are recorded as receivables and payables on the statements of net position. Schedules of all foreign currency contracts outstanding at June 30, 2013 and 2012 are presented below, by currency.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

June 30, 2013						
Currency to Buy	Amount to Buy (In Local Currency) <i>(In Thousands)</i>	Currency to Sell	Amount to Sell (In Local Currency)	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. \$)
Australian dollar	\$ 7,699	U.S. dollar	\$ (7,414)	\$ 7,037	\$ (7,414)	\$ (377)
Brazilian real	7,114	U.S. dollar	(3,248)	3,184	(3,248)	(64)
British pound sterling	86	Euro currency unit	(102)	131	(132)	(1)
British pound sterling	22,724	U.S. dollar	(35,195)	34,456	(35,195)	(739)
Canadian dollar	12,365	U.S. dollar	(11,771)	11,715	(11,771)	(56)
Chilean peso	104,646	U.S. dollar	(208)	207	(208)	(1)
Danish krone	11,478	U.S. dollar	(2,030)	2,002	(2,030)	(28)
Euro currency unit	5,455	U.S. dollar	(7,104)	7,091	(7,104)	(13)
Hong Kong dollar	224,433	Japanese yen	(2,837,961)	28,944	(28,580)	364
Hong Kong dollar	358,434	U.S. dollar	(46,191)	46,224	(46,192)	32
Indian rupee	171,089	U.S. dollar	(1,930)	2,843	(1,930)	913
Indonesian rupiah	18,047,861	U.S. dollar	(1,808)	1,819	(1,808)	11
Japanese yen	12,951	Australian dollar	(142)	130	(130)	-
Japanese yen	6,251,227	U.S. dollar	(63,419)	62,947	(63,419)	(472)
Malaysian ringgit	13,839	U.S. dollar	(4,374)	4,379	(4,374)	5
Mexican new peso	1,525	U.S. dollar	(117)	117	(117)	-
New Zealand dollar	432	U.S. dollar	(339)	332	(339)	(7)
Nigerian naira	126,651	U.S. dollar	(783)	779	(783)	(4)
Qatari riyal	5,147	U.S. dollar	(1,414)	1,414	(1,414)	-
S. African rand	26,988	U.S. dollar	(2,667)	2,708	(2,667)	41
Singapore dollar	14,915	U.S. dollar	(11,846)	11,762	(11,846)	(84)
South Korean won	962,920	U.S. dollar	(849)	844	(849)	(5)
Swedish krona	8,817	U.S. dollar	(1,335)	1,304	(1,335)	(31)
Swiss franc	3,036	U.S. dollar	(3,215)	3,209	(3,215)	(6)
Turkish lira	1,868	U.S. dollar	(971)	968	(971)	(3)
U.S. dollar	59,779	Australian dollar	(62,386)	59,778	(56,848)	2,930
U.S. dollar	995	Brazilian real	(2,197)	995	(995)	-
U.S. dollar	16,692	British pound sterling	(10,955)	16,692	(16,611)	81
U.S. dollar	42,219	Canadian dollar	(43,368)	42,220	(41,036)	1,184
U.S. dollar	2	Chilean peso	(1,086)	2	(2)	-
U.S. dollar	193	Colombian peso	(371,541)	193	(192)	1
U.S. dollar	84,932	Euro currency unit	(64,550)	84,932	(83,923)	1,009
U.S. dollar	15	Ghanaian cedi	(30)	15	(15)	-
U.S. dollar	4,885	Hong Kong dollar	(37,891)	4,884	(4,885)	(1)
U.S. dollar	1,567	Indian rupee	(93,025)	1,567	(1,565)	2
U.S. dollar	10	Israeli shekel	(38)	10	(10)	-
U.S. dollar	56,593	Japanese yen	(5,627,705)	56,593	(56,669)	(76)
U.S. dollar	1	Kenyan shilling	(31)	1	(1)	-
U.S. dollar	4,957	New Zealand dollar	(5,867)	4,957	(4,522)	435

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

June 30, 2013						
Currency to Buy	Amount to Buy (In Local Currency) <i>(In Thousands)</i>	Currency to Sell	Amount to Sell (In Local Currency)	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. \$)
U.S. dollar	\$ 3,714	Norwegian krone	\$ (21,925)	\$ 3,714	\$ (3,586)	\$ 128
U.S. dollar	480	Pakistan rupee	(47,866)	480	(481)	(1)
U.S. dollar	21	Peruvian nuevo sol	(59)	21	(21)	-
U.S. dollar	274	Philippines peso	(11,871)	274	(275)	(1)
U.S. dollar	324	Polish zloty	(1,080)	324	(324)	0
U.S. dollar	347	S. African rand	(3,456)	347	(348)	(1)
U.S. dollar	1,138	Singapore dollar	(1,447)	1,138	(1,141)	(3)
U.S. dollar	3,805	South Korean won	(4,313,523)	3,805	(3,750)	55
U.S. dollar	210	Sri Lanka rupee	(27,459)	210	(211)	(1)
U.S. dollar	39	Swedish krona	(265)	39	(39)	-
U.S. dollar	9,577	Swiss franc	(8,993)	9,577	(9,509)	68
U.S. dollar	1,630	Thailand baht	(50,849)	1,630	(1,639)	(9)
U.S. dollar	506	Turkish lira	(975)	506	(505)	1
U.S. dollar	592	UAE dirham	(2,173)	592	(592)	-
Total				<u>\$ 532,042</u>	<u>\$ (526,766)</u>	<u>\$ 5,276</u>

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**4. Investments (continued)**

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)	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. \$)
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)
U.S. dollar	12,817	British pound 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, 2013 and 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 \$3.3 billion in cash and \$1.6 billion in U.S. government securities as collateral for the lending programs as of June 30, 2013. At June 30, 2013, the collateral held for the security lending transactions exceeded the fair value of the securities underlying the agreement (including accrued interest). As a result there were no under collateralized loans outstanding with brokers at fiscal year-end. 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 position, 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 8% or less of total collateral invested at June 30, 2013. There are no restrictions on the amount of securities that can be loaned at one time to one borrower.

At June 30, 2013, the collateral re-investment portfolio was reinvested in overnight repurchase agreements (repos) in order to maximize earnings and reduce risk. The 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, 2013, 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, 2013 and 2012

**4. Investments (continued)**

The schedules below disclose the fair value and carrying value of investments on loan at June 30, 2013 and 2012.

	<b>Fair Value of Securities on Loan<sup>1</sup></b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
<b>Securities on loan for cash collateral, by security type</b>		
U.S. guaranteed obligations	\$ 588,363	\$ 821,654
Federal agencies	247,765	298,133
Domestic corporate bonds and notes	105,054	263,805
International bonds and notes	114,212	201,008
Domestic equities	790,286	1,588,580
International equities	1,312,437	1,765,694
Total securities on loan for cash collateral	\$ 3,158,117	\$ 4,938,874
<b>Securities on loan for non-cash collateral, by security type</b>		
Domestic equities	\$ 1,094,646	\$ 1,758
International equities	442,844	1,133
Total securities on loan for non-cash collateral	1,537,490	2,891
Total securities on loan	\$ 4,695,607	\$ 4,941,765

<sup>1</sup> 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, 2013 and 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, 2013 and 2012 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 position. 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, 2013 and 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 currency 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, 2013 and 2012

**4. Investments (continued)**

A summary of investment derivatives traded in the Trust during the fiscal year ended June 30, 2013 is presented in the following table.

Investment Derivatives	Increase (Decrease) in Fair Value		Fair Value at June 30, 2013		
	Classification	Amount (In U.S.\$) <i>(In Thousands)</i>	Classification	Amount (In U.S.\$) <i>(In Thousands)</i>	Notional (In U.S.\$) <i>(In Thousands)</i>
Futures <sup>1</sup>	Investment Income	\$ 3,559	Receivable/Payable	\$ (30,803)	\$ 2,757,496
Options	Investment Income	(1,132)	Investment/Liability <sup>2</sup>	(1,055)	(1,708,600)
Forward currency contracts	Investment Income	11,922	Receivable/Payable <sup>3</sup>	4,535	4,535
Interest rate swaps	Investment Income	81	Investment	174	34,000
Credit default swaps	Investment Income	447	Investment	(1,813)	133,000

<sup>1</sup> The total unrealized loss for open futures contracts at June 30, 2013 was \$(30,803,104). However, this loss has been settled with cash payments sent to the futures clearing broker on or before June 30, 2013. Outstanding remaining futures trade equity at June 30, 2013 totaled \$7,375,943, which is reported on the statements of net position as the net of "Futures trade equity receivable" and "Futures trade equity payable". The total notional values on long and short futures positions were \$3,411,045,569 and \$(653,550,000), respectively.

<sup>2</sup> Purchased options are reported as investments and short sales of options are reported as liabilities on the statements of net position. This schedule includes both long and short positions.

<sup>3</sup> The total receivable and payable notional and fair values (in U.S. \$) for forward currency contracts were \$394,655,258 and \$(390,120,198) as of June 30, 2013. These amounts are included in "Foreign currency contracts receivable" and "Foreign currency contracts payable" on the statements of net position

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 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	Classification	Increase (Decrease) in Fair Value		Fair Value at June 30, 2012	
		Amount (In U.S.\$) <i>(In Thousands)</i>	Classification	Amount (In U.S.\$) <i>(In Thousands)</i>	Notional (In U.S.\$) <i>(In Thousands)</i>
Futures <sup>1</sup>	Investment Income	\$ 220,255	Receivable/Payable	\$ (4,218)	\$ 2,393,120
Options	Investment Income	1,197	Investment/Liability <sup>2</sup>	(198)	376,400
Forward currency contracts	Investment Income	8,395	Receivable/Payable <sup>3</sup>	(915)	(915)
Interest rate swaps	Investment Income	(128)	Investment	462	41,500
Credit default swaps	Investment Income	(2,528)	Investment	630	105,000
Total return swaps		4,534	Not applicable <sup>4</sup>	–	–

<sup>1</sup> 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 futures trade equity at June 30, 2012 totaled \$7,204,605, which is reported on the statements of net position as the net of “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.

<sup>2</sup> Purchased options are reported as investments and short sales of options are reported as liabilities on the statements of net position. This schedule includes both long and short positions.

<sup>3</sup> The total receivable and payable notional and fair values (in U.S. \$) for forward currency contracts were \$163,326,128 and \$(164,241,274) as of June 30, 2012. These amounts are included in “Foreign currency contracts receivable” and “Foreign currency contracts payable” on the statements of net position.

<sup>4</sup> 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, 2013 and 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 position totaled \$10.0 billion and \$8.6 billion as of June 30, 2013 and 2012, 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.

As reported in the financial statements for the fiscal year ended June 30, 2012, the Trustees of the SBA and the Secretary of the Department of Management Services previously were 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 and heard oral argument on September 7, 2012. On January 17, 2013, the Court overturned the trial court's order and held that the entirety of the law is constitutional. As a result, this litigation had no financial impact on the Trust.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Years Ended June 30, 2013 and 2012

**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 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 an investment service charge on the Trust's net asset value each month-end.

Significant transactions between the Trust, the DMS, FRS Investment Plan Trust and the SBA in fiscal years 2013 and 2012 were as follows:

	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
Transfers from the DMS:		
Related to employer and employee contributions	<b>\$ 2,049,535</b>	\$ 1,790,848
Transfers from the FRS Investment Plan Trust:		
Related to member directed transfers	<b>\$ 43,771</b>	\$ 33,681
Transfers to the DMS:		
Related to member benefits and other transfers	<b>\$ 7,477,699</b>	\$ 6,949,178
Transfers to the FRS Investment Plan Trust:		
Related to member directed transfers	<b>\$ 794,361</b>	\$ 967,164
Investment service charges to the SBA:		
Based on month-end net asset values	<b>\$ 29,193</b>	\$ 18,343
Receivables:		
Due from the DMS	<b>\$ 198,456</b>	\$ 205,777
Payables:		
Due to the DMS	<b>\$ 263,900</b>	\$ 281,522
Due to the SBA for investment service charges	<b>5,038</b>	1,509
Total payables	<b>\$ 268,938</b>	\$ 283,031

# 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 Financial Statements Performed in  
Accordance with *Government Auditing Standards*

Board of Trustees  
State Board of Administration of Florida

We have audited, 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, the financial statements of the Florida Retirement System Trust Fund (the Trust) managed by the State Board of Administration (SBA) of Florida, which comprise the statement of net position as of June 30, 2013, and the related statement of changes in net position, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2013.

### 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) to determine the 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 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

## **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 result of that testing, and not to provide an opinion on 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst + Young LLP*

November 7, 2013

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