

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

State Board of Administration of Florida  
Florida Retirement System (FRS) Investment Plan Trust Fund  
Fiscal Years Ended June 30, 2016 and 2015  
With Report of Independent Certified Public Accountants

Ernst & Young LLP



Building a better  
working world

State Board of Administration  
FRS Investment Plan Trust Fund

Financial Statements, Management's  
Discussion and Analysis and  
Other Report

Fiscal Years Ended June 30, 2016 and 2015

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## 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 Investment Plan Trust Fund (the Trust) administered by the State Board of Administration (SBA) of Florida as trustee, as of and for the year ended June 30, 2016 and 2015, 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 opinions 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, 2016 and 2015, and the changes in 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, 2016 and 2015, 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.

### ***Adoption of GASB Statement No. 72, Fair Value Measurement and Application***

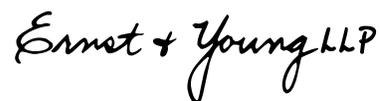
As discussed in Note 2 to the financial statements, the Fund changed its financial reporting disclosures for fair value measurements as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurements and Application, effective July 1, 2015. Our opinion 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 and 14 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 14, 2016 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 Trust's internal control over financial reporting and compliance.



November 14, 2016

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2016 and 2015

**Introduction**

This section of the financial statements of the Florida Retirement System (FRS) Investment Plan Trust Fund (the Trust) presents management's discussion and analysis of the Trust's financial position for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the basic financial statements and the accompanying notes, which follow this section.

As further described in Note 1 to the financial statements, the FRS Investment Plan (the Plan) is a defined contribution plan for eligible members of the Florida Retirement System who elect to participate in the Plan in lieu of participation in the FRS Pension Plan, a defined benefit plan.

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

Contributions to the Plan are collected by DMS and transmitted to the SBA, which deposits them in the Trust. Aon Hewitt, the Plan Administrator contracted by the SBA, is responsible for the placement of member-directed trades among investment options offered by the Plan and maintaining records of individual member accounts. Members choose from a diverse offering of low-cost institutional and mutual fund investment options selected by the SBA. In addition, a Self-Directed Brokerage Account investment option was added in January 2014. (See Note 3 to the financial statements for more information.) Aon Hewitt records in each member's account all relevant contributions, withdrawals, fees, and the investment performance of the funds selected by the member. Benefits a member receives from the Plan vary based on the member's individual account balance.

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**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 Trust's basic financial statements include two-year comparative statements of net position and statements of changes in net position. The statements of net position provide information on the financial position of the Trust at the end of each fiscal year. The statements of changes in net position present the results of investing activities during the fiscal years presented in this report. The notes to the financial statements offer additional discussion that is essential to the full understanding of the data presented in the financial statements. The notes provide more detail about accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

**Statements of Net Position**

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

	<b>As of June 30</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(In Millions)</i>		
<b>Assets:</b>			
Investments	\$ 8,949	\$ 9,178	\$ 9,041
Receivables	41	36	33
Investments sold, but not settled	54	107	—
<b>Total assets</b>	<b>9,044</b>	<b>9,321</b>	<b>9,074</b>
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	3	2	2
Investments purchased, but not settled	81	147	—
<b>Total liabilities</b>	<b>84</b>	<b>149</b>	<b>2</b>
<b>Net position held in trust</b>	<b>\$ 8,960</b>	<b>\$ 9,172</b>	<b>\$ 9,072</b>

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**Statements of Changes in Net Position**

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

	<b>Fiscal Years Ended June 30</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<i>(In Millions)</i>		
<b>Additions:</b>			
Net investment income/(loss)	\$ (78)	\$ 224	\$ 1,206
<b>Contributions and other additions:</b>			
Employer/employee contributions received from DMS	380	368	352
Member-directed benefits received from the FRS Trust Fund	612	719	808
Member-directed rollover deposits	84	87	69
Subtotal contributions and other additions	<u>1,076</u>	<u>1,174</u>	<u>1,229</u>
Total additions	<u>998</u>	<u>1,398</u>	<u>2,435</u>
<b>Deductions:</b>			
Benefit payments to members	1,148	1,235	1,217
Member-directed benefits sent to the FRS Trust Fund	55	58	50
Administrative expenses	7	5	10
Total deductions	<u>1,210</u>	<u>1,298</u>	<u>1,277</u>
Change in net position	<u>(212)</u>	<u>100</u>	<u>1,158</u>
<b>Net position held in trust:</b>			
Beginning of year	9,172	9,072	7,914
End of year	<u>\$ 8,960</u>	<u>\$ 9,172</u>	<u>\$ 9,072</u>

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**Analysis**

The Trust's net position decreased by \$212 million (2.3%) and increased by \$100 million (1.1%) during fiscal years 2016 and 2015, respectively. Fiscal year 2016 experienced lower investment performance in domestic and international equities and reduced member-directed benefits transferred from the FRS Trust Fund. For fiscal year 2015, the growth in net position was due primarily to positive domestic equity investment performance.

Trust investments yielded a net loss of approximately \$78 million in fiscal year 2016 compared to net income of \$224 million for fiscal year 2015. International equity and real asset returns were negative for fiscal year 2016, contributing to the overall net investment loss. Fixed income provided the best returns for the fiscal year 2016, although this asset class only accounted for 22% of the Trust assets. Domestic equities, which comprise the largest portion of the Trust's asset allocation, had positive returns but those returns were significantly less than fiscal year 2015. (See the "Investment Returns" section of the Management Discussion and Analysis).

Deductions from the Trust in both fiscal years consist mainly of benefit payments to members. Benefit payments decreased by \$87 million (7%) and increased \$18 million (1.5%) during fiscal years 2016 and 2015, respectively, as the number of members requesting benefits varies from year to year.

Additional Plan highlights and trends follow.

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**Plan Participation and Membership**

The number of employers participating in the Plan increased marginally, while overall Plan membership increased by approximately 4% annually during the most recent fiscal years.

	<b>As of June 30</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Participating employers	<b>1,029</b>	1,017	1,015
Plan membership:			
Active members <sup>1</sup>	<b>118,300</b>	115,294	113,216
Inactive members <sup>2</sup>	<b>51,276</b>	48,162	44,011
Total Plan membership	<b>169,576</b>	163,456	157,227

<sup>1</sup> Active members are those employees currently receiving contributions into their retirement account.

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

**Active Plan Membership by Class**

Over the last three fiscal years, active Plan membership has continued to increase in the regular class, with marginal changes in the other membership classes.

	<b>As of June 30</b>						
	<b>Regular</b>	<b>Senior Management</b>	<b>Special Risk Admin</b>	<b>Elected Officers</b>	<b>Special Risk</b>	<b>Other</b>	<b>Total</b>
<b>2016</b>	<b>101,734</b>	<b>2,250</b>	<b>24</b>	<b>504</b>	<b>11,180</b>	<b>2,608</b>	<b>118,300</b>
2015	99,226	2,280	26	497	11,278	1,987	115,294
2014	96,329	2,252	19	505	11,364	2,747	113,216

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**Plan Choice**

The number of new employees eligible to make an initial retirement plan choice has increased over the last three fiscal years. The percentage of those employees choosing the Plan declined by 1-2% annually for fiscal years 2015 and 2016. The number of employees joining the Plan through a Second Election has declined in each of the last three fiscal years.

	<b>Fiscal Years Ended June 30</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
New employees making initial plan choice	<b>60,680</b>	56,572	51,924
Number of new employees joining FRS Investment Plan	<b>13,635</b>	13,498	13,024
% Electing FRS Investment Plan	<b>22%</b>	24%	25%
Employee Second Elections <sup>1</sup> :			
To the FRS Investment Plan	<b>4,505</b>	5,068	5,718
To the FRS Pension Plan	<b>692</b>	662	583

<sup>1</sup> Florida Retirement System members are granted a one-time option to transfer from one retirement plan (Pension or Investment) to the other during their FRS-covered employment. This is considered a Second Election.

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**Benefit Payments**

Benefit payments reflect withdrawals from the Trust in the form of lump sum distributions, partial distributions, rollovers to other qualified retirement plans, and periodic payments to members. The number of members requesting benefit payments during the year decreased by 765 (1.5%) and increased by 2,699 (5.4%) for fiscal years 2016 and 2015, respectively. The annual amount of benefits disbursed to plan members has varied over that same time period. Benefit payments decreased by \$87 million (7%) in fiscal year 2016, compared to an \$18 million (1.5%) increase in fiscal year 2015.

	<b>Fiscal Years Ended June 30</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Members requesting benefits	<b>51,871</b>	52,636	49,937
Benefit payments ( <i>In Millions</i> ):			
Rollovers	\$ <b>699</b>	\$ 759	\$ 722
All other	<b>449</b>	476	495
Total	<b>\$ 1,148</b>	\$ 1,235	\$ 1,217

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**Contribution Rates**

Employer contribution rates, which are established by the Legislature and reflected in Section 121.72, *Florida Statutes*, vary by membership class but have remained stable as a percentage of compensation for the last three fiscal years.

<b>Membership Class</b>	<b>Employee Rate</b>	<b>Employer Rate<sup>1</sup></b>
	<b>FYs 2014-16</b>	<b>FYs 2014-16</b>
Regular	3.00%	3.30%
Special risk	3.00	11.00
Special risk: administrative support	3.00	4.95
Legislators	3.00	6.38
Governor, Lt. Governor, cabinet officers	3.00	6.38
State Attorney, public defenders	3.00	6.38
Justices, judges	3.00	10.23
County and local elected officers	3.00	8.34
Senior management service	3.00	4.67

<sup>1</sup> Employer rates presented in this table do not include employer contributions for the Health Insurance Subsidy (1.66% FY 2016, 1.26% FY 2015 and 1.20% FY 2014), plan administrative/educational expense (.04% for FYs 2016 and 2015 and .03% for FY 2014) or the disability program (varies by membership class) as these amounts are not deposited into the Trust.

State Board of Administration  
FRS Investment Plan Trust Fund

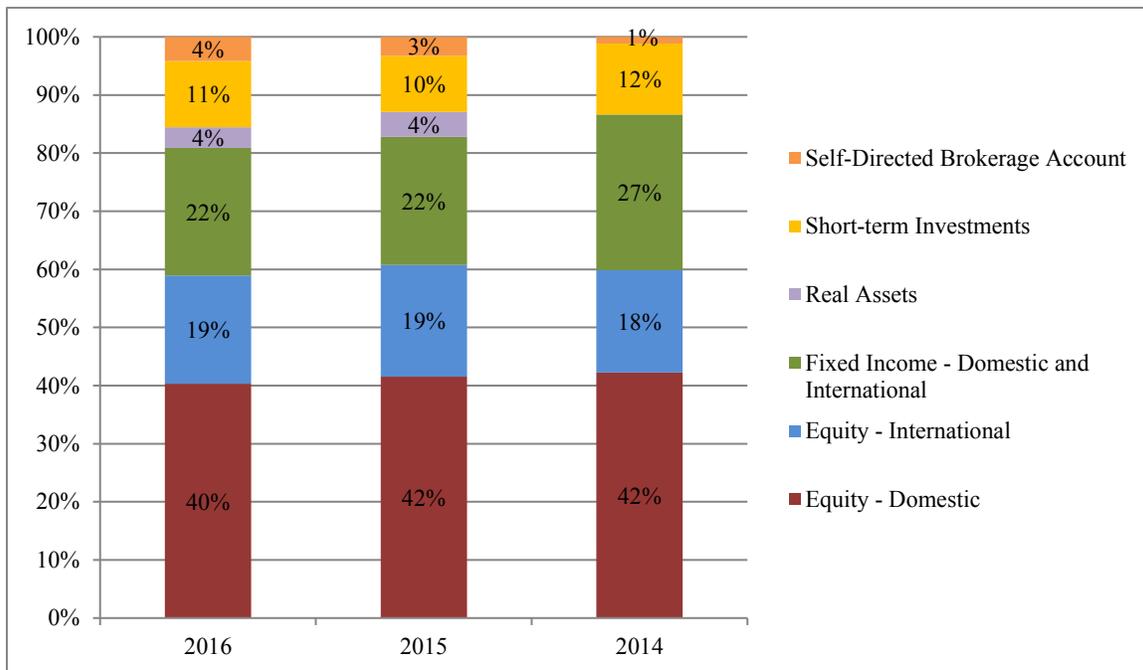
Management’s Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**Asset Allocation**

The asset allocation of the Trust is a function of the members’ investment decisions across the various investment options offered. Despite recent performance, equity investments (domestic and international combined) remained the largest allocation. Allocations to fixed income and short-term investments remained steady following a decline in fiscal year 2015. Members continued to increase their allocation to the Self-Directed Brokerage Account. Note 3 to the financial statements describes the Plan’s Investment Policy Statement (IPS) and oversight of the Trust’s investments.

*(By Percentage of Invested Assets)<sup>1</sup>*



<sup>1</sup> A Real Asset Fund was added during fiscal year 2015. A Self-Directed Brokerage Account was added as an investment option during fiscal year 2014.

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**Investment Returns<sup>1</sup>**

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

Included below are Trust investment returns for the last three fiscal years by asset type.

	<b>As of June 30</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Balanced Funds <sup>2,3</sup>	–%	–%	14.3%
Retirement Date Funds <sup>2,3</sup>	<b>(0.8)</b>	0.9	–
Short-term	<b>0.4</b>	0.2	0.2
TIPS	–	–	4.6
Real Assets and TIPS	<b>(2.4)</b>	(4.6)	–
Fixed Income	<b>5.3</b>	1.4	4.9
Domestic Equity	<b>0.6</b>	7.4	26.1
International Equity	<b>(8.4)</b>	(2.5)	23.6
Total Trust return	<b>(0.9)%</b>	2.6%	15.5%
Total Trust aggregate benchmark	<b>(0.4)</b>	2.1	15.1
Over/(Under) benchmark	<b>(0.5)%</b>	0.5%	0.4%

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

<sup>2</sup> In July 2014, the Balanced Funds were mapped (converted) into Retirement Date Funds.

<sup>3</sup> Balanced Funds and Retirement Date Funds consist of Plan fund investments in different proportions within the other asset classes shown in the table.

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**Investment Returns (continued)**

The Trust's total return for fiscal year 2016 was a negative 0.9%. The investment loss for fiscal year 2016 was driven primarily by negative returns in international equities. The Trust's total return for fiscal year 2015 was 2.6% due to solid performance in the domestic equity investments.

As of June 30, 2016, the Trust underperformed its benchmark for the trailing one-year period, but has outperformed its aggregate benchmark over the trailing three-, five-, and ten-year periods. The Trust's overall performance compared with its benchmark reflects the weighted performance for the underlying fund options in which members are investing. 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). Performance for the Self-Directed Brokerage Account is not included since there is no comparable benchmark. The member assumes the full risk and responsibility for the investments selected in the Self-Directed Brokerage Account and for monitoring the performance of these investments.

**Economic Factors**

The 2016 fiscal year began and ended with significant market volatility, without much reprieve during the year. The health of the global economy and the actions of central banks around the globe continued to drive investor sentiment and capital market returns. The year began with rising fears that the global economic picture may be worse than expected, triggered by a surprise devaluation of the Chinese Yuan and collapse of the Chinese stock market. The U.S. Federal Reserve's (Fed) decision to not raise interest rates at its September 2015 meeting reinforced these concerns and capital markets reacted strongly, selling off in August and September 2015 before posting a quick recovery. This marked the first of three whipsaw events over the year. The highly anticipated U.S. Federal Funds Rate hike did eventually occur on December 16, 2015 and while viewed as a vote of confidence for the U.S. economy, it was mostly shrugged off as a non-event in the markets. The second sharp downturn came in January 2016, prompted again by global growth fears, largely stemming from China, and coupled with dovish comments from the Fed pledged support from the European Central Bank and Bank of Japan, both of which slashed benchmark interest rates into negative territory, among other easing measures, aided a quick recovery and generally supported positive investor sentiment through much of the latter half of the fiscal year. The final whipsaw event followed the UK's vote to leave the European Union in June. Surprised by the outcome, global equity markets declined sharply before generally recovering ahead of fiscal year-end.

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

**Economic Factors (continued)**

Though there were periods where capital markets seemed unpredictable, various positive economic releases did provide some stability throughout the year. Further, with support from global central banks and expectations of delayed rate hikes from the Fed, investors' concerns regarding global growth eased and two ongoing themes reversed course: the decline in energy prices and the strengthening of the U.S. dollar. The price of oil reached a low of \$26/barrel before rallying back to over \$50/barrel by year end. The U.S. dollar also reversed course, declining during the second half of the year. Though investors' concerns generally eased as the year progressed, the appetite for safe-haven investments did not. Despite the Fed's initial rate hike, interest rates fell across the U.S. yield curve. Global growth concerns, low inflation and uncertainty abroad increased demand for U.S. Treasuries and caused rates to decline.

Diversification across asset classes was vital to weathering the volatility during the past fiscal year. The diverging trend between U.S. and non-U.S. equity market returns continued, as the broad U.S. equity market, represented by the Dow Jones U.S. Total Stock Market Index, returned a positive 2.0%. International market returns were much more reflective of the ongoing concerns, with developed international markets declining 10.2% and emerging markets declining 12.1% in USD terms, as represented by the MSCI EAFE and MSCI Emerging Markets Indices, respectively. Emerging market returns were significantly impacted by currency depreciation relative to the U.S. dollar. Though commodities bounced back during the second half of the year, the Bloomberg Commodity Index still ended the year down 13.3%. As noted earlier, risk aversion throughout the year heightened demand for U.S. fixed income, which provided some relief from weak equity markets. The Barclays Aggregate Bond Index returned 6.0% over the twelve-month period. Long U.S. government bonds were the greatest beneficiaries, returning 19.0% over the 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. If you have any questions regarding this report or need additional information, please contact the Chief of Defined Contribution Programs, State Board of Administration of Florida, P.O. Box 13300, Tallahassee, FL 32317.

State Board of Administration  
FRS Investment Plan Trust Fund

Statements of Net Position

	<b>As of June 30</b>	
	<b>2016</b>	<b>2015</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Investments, at fair value:		
Short-term	\$ 1,019,225	\$ 886,893
Fixed income:		
Domestic	1,944,395	2,000,853
International	20,178	22,209
Equities:		
Domestic	3,607,393	3,809,956
International	1,667,785	1,766,727
Real Assets	321,026	391,720
Self-Directed brokerage account	369,381	299,571
Total investments, at fair value	8,949,383	9,177,929
Receivables:		
Accounts receivable	1,462	277
Interest and dividends	1,720	1,574
Due from DMS	37,395	34,332
Investments sold, but not settled	53,673	106,961
Total receivables	94,250	143,144
Total assets	9,043,633	9,321,073
<b>Liabilities</b>		
Accounts payable and accrued liabilities	2,402	1,570
Investments purchased, but not settled	81,323	147,325
Total liabilities	83,725	148,895
Net position held in trust	\$ 8,959,908	\$ 9,172,178

*See accompanying notes to the financial statements.*

State Board of Administration  
FRS Investment Plan Trust Fund

Statements of Changes in Net Position

	<b>Fiscal Years Ended June 30</b>	
	<b>2016</b>	<b>2015</b>
	<i>(In Thousands)</i>	
<b>Additions</b>		
Investment income:		
Dividend income	\$ 12,777	\$ 18,948
Interest and other investment income	7,920	2,236
Net increase/(decrease) in fair value of investments	<u>(96,049)</u>	204,936
	<u>(75,352)</u>	<u>226,120</u>
Investment expenses:		
Bank fees	(349)	(350)
Investment management fees	<u>(2,138)</u>	<u>(1,913)</u>
Total investment expense	<u>(2,487)</u>	<u>(2,263)</u>
Net investment income/(loss)	<u>(77,839)</u>	<u>223,857</u>
Contributions and other additions:		
Employer/employee contributions received from DMS	379,521	367,944
Member-directed benefits received from the FRS Trust Fund	612,301	719,182
Member-directed rollover deposits	<u>84,225</u>	<u>86,523</u>
Total contributions and other additions	<u>1,076,047</u>	<u>1,173,649</u>
Total additions	<u>998,208</u>	<u>1,397,506</u>
<b>Deductions</b>		
Benefit payments to members	1,148,553	1,234,729
Member-directed benefits sent to the FRS Trust Fund	54,890	57,536
Administrative expenses	<u>7,035</u>	<u>4,944</u>
Total deductions	<u>1,210,478</u>	<u>1,297,209</u>
Change in net position	<u>(212,270)</u>	<u>100,297</u>
Net position held in trust:		
Beginning of year	9,172,178	9,071,881
End of year	<u>\$ 8,959,908</u>	<u>\$ 9,172,178</u>

*See accompanying notes to the financial statements.*

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements

Fiscal Years Ended June 30, 2016 and 2015

**1. Financial Reporting Entity**

The Florida Retirement System (FRS) Investment Plan (the Plan), a defined contribution pension plan, qualified under IRC Section 401(a), was established pursuant to Section 121.4501, *Florida Statutes*, to provide for retirement benefits for eligible employees of the State and all participating county, district school board, community college and university employees who elect to participate in the Plan as an alternative to the FRS Pension Plan or other optional retirement plans. Under the Plan, employers and employees make contributions to an account set up in the member's name and the member directs the investments in the account, choosing from a number of diverse investment options selected and monitored by the State Board of Administration of Florida (SBA). The Plan was first offered to public sector employees in fiscal year 2003, and was modeled after private sector 401(k) plans. The Plan's and SBA's financial activities are reported in the Comprehensive Annual Financial Report (CAFR) of the State of Florida. The SBA is governed by a Board of Trustees, comprised of the Governor, as Chair, the Attorney General, and the Chief Financial Officer of the State of Florida.

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

The Trust is a separate legal entity within the State of Florida. These financial statements and notes include only the net position and changes in net position of the Trust and do not purport to, and do not, present fairly the net financial position of the State of Florida, the SBA or the Plan as of June 30, 2016 and 2015, and the changes in their net financial position for the years then ended, in conformity with accounting principles generally accepted in the United States (GAAP).

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

The financial statements of the Trust were prepared in accordance with GAAP as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. The Trust is accounted for as an investment trust fund pursuant to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB 31), GASB Statement No. 34, *Basic Financial Statements – and Management's*

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Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

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

*Discussion and Analysis – for State and Local Governments (GASB 34) and GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (GASB 63).* As such, the Trust's financial statements present 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.

**Investment Valuation**

Investments are reported at fair value, in accordance with GASB reporting standards, as follows:

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

**Income Recognition**

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

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FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

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

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**Administrative Expenses**

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

**Use of Estimates**

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

**New Accounting Standards**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of GASB 72 are effective for fiscal years beginning after June 15, 2015. The requirements of this statement were implemented during the fiscal year ended June 30, 2016.

In June 2015, the GASB issued Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73). This statement

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

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

establishes requirements for defined benefit pensions that are not within the scope of statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. This statement did not affect the Trust during 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of GASB 76 are effective for periods beginning after June 15, 2015, and should be applied retroactively. The requirements of this statement were implemented during the fiscal year ended June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* (GASB 79). GASB 79 established criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. It also established additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. The requirements of GASB 79 are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. The Trust's statements of net position and the statements of changes in net position are not affected by GASB 79, as the Trust is not an external investment pool.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments**

**Deposits**

The Trust did not hold any deposits at fiscal year end June 30, 2016 or June 30, 2015.

**Investments**

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

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

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

Beginning in fiscal year 2015, the Plan offered ten customized Retirement Date Funds that consist of mixtures of various asset classes. At fiscal year-end 2016, more than 61% of the Plan's members had allocated at least some of their assets to one or more of the ten available Retirement Date Funds. Approximately 42% of total Trust assets were in the Retirement Date Funds.

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

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

**Self-Directed Brokerage Account**

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

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

The SDBA provides access to the following investment instruments:

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

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

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

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

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

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

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

**Other Fund Lineup Changes**

During fiscal year 2015, an actively managed fixed income portfolio was added to the Plan investment line-up. This portfolio includes individual fixed income securities bought and sold on the open market. Due to the June 30 financial reporting cut-off, some trades were executed by year end but not settled until the following month. These trades are shown on the statement of net position as "Investments sold, but not settled" in the receivables section and "Investments purchased, but not settled" as a liability. There were no fund lineup changes during fiscal year 2016.

**Investment Performance**

The SBA staff, consultants and Trustees review the Trust's performance quarterly. The long-term performance of each actively managed investment option is expected to exceed the returns on its performance benchmark, net of all fees and charges, while avoiding large year-to-year deviations from the returns of the performance benchmark. The long-term performance of each passively managed investment option is expected to closely approximate returns of the performance benchmark, net of all fees and charges. At the total Trust level, performance is evaluated by asset

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

class and is measured on an absolute basis and relative to appropriate market benchmarks for each investment option. Performance data is aggregated for the total Trust and for each product type or asset class, using member allocations as the weighting factors. Performance for the SDBA is not included since there is no comparable benchmark. The member assumes the full risk and responsibility for the investments selected in the SDBA and for monitoring the performance of these investments.

More detailed information can be obtained by visiting the Florida Retirement System website at [MyFRS.com](http://MyFRS.com).

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

The following schedule discloses further detail of the Trust's investments, by type, at June 30, 2016 and 2015:

Investment Detail <sup>1</sup>	As of June 30			
	2016		2015	
	Fair Value	% of Total Investments	Fair Value	% of Total Investments
	<i>(In Thousands)</i>			
Short-term:				
EB Temporary Investment FD II	\$ 7,780	0.1%	\$ 18,091	0.2%
FRS Money Market Fund	1,011,445	11.3%	868,802	9.5%
Total Short-term	1,019,225	11.4%	886,893	9.7%
Fixed Income-domestic:				
FRS U.S. TIPS Index Fund	222,171	2.5%	195,394	2.1%
FRS Core Plus Fund	797,199	8.9%	864,278	9.4%
Pyramis Intermediate Duration Pool Fund	322,037	3.6%	336,428	3.7%
FRS U.S. Bond Enhanced Index Fund	602,988	6.7%	604,753	6.6%
Total Fixed Income-domestic	1,944,395	21.7%	2,000,853	21.8%
Fixed Income-international:				
FRS Core Plus Fund	20,178	0.2%	22,209	0.3%
Total Fixed Income-international	20,178	0.2%	22,209	0.3%
Equities-domestic				
FRS Large Cap Equity Fund	757,784	8.5%	837,464	9.1%
FRS Small/Mid Cap Equity Fund	882,373	9.9%	1,002,229	10.9%
FRS U.S. Stock Market Index Fund	1,967,236	22.0%	1,970,263	21.4%
Total Equities-domestic	3,607,393	40.4%	3,809,956	41.4%
Equities-international				
American Funds Euro-Pacific Growth Fund	149,234	1.7%	192,658	2.1%
American Funds New Perspective Fund	231,148	2.6%	253,592	2.8%
FRS Foreign Stock Index Fund	1,287,403	14.4%	1,320,477	14.4%
Total Equities-international	1,667,785	18.7%	1,766,727	19.3%
Real Assets				
Principal Diversified Real Assets Fund	321,026	3.6%	391,720	4.3%
Total Real Assets	321,026	3.6%	391,720	4.3%
Self-directed Brokerage Account	369,381	4.0%	299,571	3.2%
Total Investments	<u>\$ 8,949,383</u>	<u>100%</u>	<u>\$ 9,177,929</u>	<u>100%</u>

<sup>1</sup> Retirement Date Funds consist of Plan investments in different proportions and are accounted for in the individual investment options in this table.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

**Fair Value Hierarchy**

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

Level 1 – Investments reflect unadjusted quoted prices in active markets for identical assets.

Level 2 – Investments reflect prices that are based on inputs that are either directly or indirectly observable for an asset (including quoted prices for similar assets), which may include inputs in markets that are not considered to be active.

Level 3 – Investments reflect prices based upon unobservable inputs for an asset.

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

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using quoted prices from the custodian bank's primary external pricing vendors.

Debt securities classified in Level 2 are valued by the custodian bank's primary external pricing vendors. The pricing methodology involves the use of evaluation models such as matrix pricing, which is based on the securities' relationship to benchmark quoted prices.

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

Certain investments, such as money market funds, are not included in the tables because they are carried at cost, and not priced at fair value.

Commingled investments are measured at the net asset value (NAV) per share (or its equivalent).

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

Investment by fair value level	Total Fair Value	As of June 30, 2016 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Thousands)</i>				
<b>Mutual Funds and Self Directed Brokerage Account</b>				
Domestic equity mutual funds	\$ 708,487	\$ 708,487	\$ -	\$ -
International equity mutual funds	380,382	380,382	-	-
Self-Directed Brokerage Account	369,381	-	369,381	-
Total mutual fund and Self-Directed Brokerage Account	1,458,251	1,088,869	369,381	-
<b>Debt securities</b>				
U.S. government guaranteed obligations				
U.S. Treasury bonds and notes	93,485	-	93,485	-
U.S. government guaranteed bonds and notes	1,310	-	1,310	-
GNMA mortgage backed	6,809	-	6,809	-
GNMA commitments to purchase (TBAs)	9,008	-	9,008	-
Federal agencies				
Unsecured bonds and notes	2,787	-	2,787	-
Mortgage backed (FNMA, FHLMC)	59,972	-	59,972	-
FNMA, FHLMC commitments to purchase (TBAs)	15,443	-	15,443	-
Mortgage backed CMOs and CMBS	8,027	-	8,027	-
Domestic bonds and notes				
Corporate	57,756	-	57,756	-
Non-government asset and mortgage backed	45,515	-	45,515	-
Non-government backed CMOs and CBS	10,034	-	10,034	-
Municipal provincial	3,091	-	3,091	-
International bonds and notes				
Corporate	12,739	-	12,739	-
Government and regional	6,921	-	6,921	-
Non-government asset and mortgage backed	518	-	518	-
Total debt securities	333,415	-	333,415	-
Total investments by fair value level	\$ 1,791,666	\$ 1,088,869	\$ 702,796	\$ -

Investment Measured at the Net Asset Value (NAV)		Redemption	
		Frequency (If Currently Eligible)	Redemption Notice Period
Commingled TIPS funds <sup>1</sup>	\$ 222,171	Daily	1 Day
Commingled fixed income funds <sup>1</sup>	1,408,987	Daily	1 Day
Commingled domestic equity funds <sup>2</sup>	2,898,906	Daily, Monthly	1-2 Days
Commingled international equity funds <sup>2</sup>	1,287,403	Daily	1 Day
Commingled real asset fund <sup>3</sup>	321,026	Daily	1 Day
Total investments measured at the NAV	\$ 6,138,493		

<sup>1</sup> *Commingled TIPS and Fixed Income Funds*: One TIPS fund and five fixed income funds are considered to be commingled in nature. Each is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

<sup>2</sup> *Commingled Domestic Equity Funds and Commingled International Equity Funds*: Six domestic equity funds and one international equity fund are considered to be commingled in nature. Each is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

<sup>3</sup> *Commingled Real Asset Fund*: This fund consists of various investments such as commodities, floating rate loans, energy industry Master Limited Partnerships, global infrastructure and agriculture. The fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

	As of June 30, 2015 Fair Value Measurements Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In Thousands)</i>				
<b>Investment by fair value level</b>				
<b>Mutual Funds and Self Directed Brokerage Account</b>				
Domestic equity mutual funds	\$ 917,521	\$ 917,521	\$ -	\$ -
International equity mutual funds	446,250	446,250	-	-
Self-Directed Brokerage Account	299,571	-	299,571	-
<b>Total mutual fund and Self-Directed Brokerage Account</b>	<b>1,663,342</b>	<b>1,363,771</b>	<b>1,663,342</b>	<b>-</b>
<b>Debt securities</b>				
U.S. government guaranteed obligations				
U.S. Treasury bonds and notes	111,582	111,582	-	-
U.S. government guaranteed bonds and notes	1,019	-	1,019	-
GNMA mortgage backed	1,738	-	1,738	-
GNMA commitments to purchase (TBAs)	11,811	-	11,811	-
Federal agencies				
Unsecured bonds and notes	2,402	-	2,402	-
Mortgage backed (FNMA, FHLMC)	41,492	-	41,492	-
FNMA, FHLMC commitments to purchase (TBAs)	30,914	-	30,914	-
Mortgage backed CMOs and CMBS	15,945	-	15,945	-
Domestic bonds and notes				
Corporate	55,851	-	55,851	-
Non-government asset and mortgage backed	47,471	-	47,471	-
Non-government backed CMOs and CBS	13,884	-	13,884	-
Municipal provincial	3,266	-	3,266	-
International bonds and notes				
Corporate	17,021	-	17,021	-
Government and regional	5,188	-	5,188	-
<b>Total debt securities</b>	<b>359,584</b>	<b>111,582</b>	<b>248,002</b>	<b>-</b>
<b>Total investments by fair value level</b>	<b>\$ 2,022,926</b>	<b>\$ 1,475,353</b>	<b>\$ 547,573</b>	<b>\$ -</b>

Investment Measured at the Net Asset Value (NAV)		Redemption	
		Frequency (If Currently Eligible)	Redemption Notice Period
Commingled TIPS funds <sup>1</sup>	\$ 195,394	Daily	1 Day
Commingled fixed income funds <sup>1</sup>	1,468,084	Daily	1 Day
Commingled domestic equity funds <sup>2</sup>	2,892,435	Daily, Monthly	1-2 Days
Commingled international equity funds <sup>2</sup>	1,320,477	Daily	1 Day
Commingled real asset fund <sup>3</sup>	291,720	Daily	1 Day
<b>Total investments measured at the NAV</b>	<b>\$ 6,268,110</b>		

<sup>1</sup> *Commingled TIPS and Fixed income Funds*: One TIPS fund and five fixed income funds are considered to be commingled in nature. Each are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

<sup>2</sup> *Commingled Domestic Equity Funds and Commingled International Equity Funds*: Six domestic equity funds and one international equity fund are considered to be commingled in nature. Each are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

<sup>3</sup> *Commingled Real Asset Fund*: This fund consists of various investments such as commodities, floating rate loans, energy industry Master Limited Partnerships, global infrastructure and agriculture. The fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

**Investment Risks**

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

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

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

As required by GASB Statement 40, *Deposit and Investment Risk Disclosures* (GASB 40), the Trust's exposure to the specific risks of credit risk, concentration of credit risk, custodial credit risk, interest rate risk and foreign currency risk follows. Each of these risks is managed by the investment advisors to the mutual funds and trusts subject to guidelines set forth in prospectuses, Statements of Additional Information and other governing documents of each fund's investment manager.

**Credit Risk**

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) and Moody's Investors Service, Inc. (Moody's).

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

The mutual funds and commingled trust funds in the Trust are institutional funds and, as such, are not rated by the nationally recognized statistical rating agencies such as Standard & Poor's Corporation or Moody's Investors Service, Inc.

An actively managed fixed income portfolio was added during fiscal year 2015 and invests in individual fixed income securities.

Credit quality ratings for these Trust investments at June 30, 2016, are disclosed in the following table.

<b>Credit Quality Ratings</b>							
<b>As of June 30, 2016</b>							
<b>S&amp;P<sup>1</sup></b>	<b>Moody's<sup>1</sup></b>	<b>Total</b>	<b>Money Market Funds</b>	<b>Federal Agencies</b>	<b>Domestic Bonds and Notes</b>	<b>Commingled Fixed Income</b>	<b>International Bonds and Notes</b>
AAA		\$ 32,067	\$ —	\$ —	\$ 31,549	\$ —	\$ 518
AA		\$ 22,267	—	22,787	15,232	—	4,248
A		\$ 20,939	—	—	14,674	—	6,265
BBB		\$ 45,159	—	—	37,754	—	7,405
BB		\$ 510	—	—	—	—	510
Not rated	Aaa	\$ 17,705	—	—	16,473	—	1,232
Not rated	Aa	\$ 714	—	—	714	—	—
Not rated	A	\$ —	—	—	—	—	—
Not rated	Not rated	\$ 2,733,825	1,019,225	83,442	—	1,631,158	—
		<u>\$ 2,873,186</u>	<u>\$ 1,019,225</u>	<u>\$ 86,229</u>	<u>\$ 116,396</u>	<u>\$ 1,631,158</u>	<u>\$ 20,178</u>
Ratings not applicable							
U.S. guaranteed obligations		110,612					
Domestic equity funds trusts		3,607,393					
International equity funds trusts		1,667,785					
Real asset fund trust		321,026					
Self-Directed Brokerage Account		369,381					
Total Investments		<u>\$ 8,949,383</u>					

<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.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

Credit Quality Ratings							
As of June 30, 2015							
S&P <sup>1</sup>	Moody's <sup>1</sup>	Total	Money Market Funds	Federal Agencies	Domestic Bonds and Notes	Commingled Fixed Income	International Bonds and Notes
AAA		\$ 32,866	\$ —	\$ —	\$ 32,143	\$ —	\$ 723
AA		\$ 18,417	—	2,402	14,641	—	1,374
A		\$ 26,132	—	—	18,501	—	7,631
BBB		\$ 42,053	—	—	31,947	—	10,106
BB		\$ 1,236	—	—	—	—	1,236
Not rated	Aaa	\$ 22,951	—	—	21,812	—	1,139
Not rated	Aa	\$ 1,428	—	—	1,428	—	—
Not rated	A	\$ 480	—	480	—	—	—
Not rated	Not rated	\$ 2,638,242	886,893	87,871	—	1,663,478	—
		\$ 2,783,805	\$ 886,893	\$ 90,753	\$ 120,472	\$ 1,663,478	\$ 22,209
Ratings not applicable							
U.S. guaranteed obligations		126,150					
Domestic equity funds trusts		3,809,956					
International equity funds trusts		1,766,727					
Real asset fund trust		391,720					
Self-Directed Brokerage Account		299,571					
Total Investments		<u>\$ 9,177,929</u>					

<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.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Trust did not hold any investments with a single issuer representing 5% or more of the Trust's fair value (amortized cost for short-term portfolios) at June 30, 2016 or 2015.

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the custodial counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

Units or shares of the commingled trusts or mutual funds along with the actively managed fixed income portfolio's cash and investments are held at the SBA's custodian bank, BNY Mellon. To the extent possible, the SBA's negotiated custody contract requires that deposits and investments be held in accounts in the SBA's name, separate and apart from the assets of the custodian bank.

The SDBA assets are held at Pershing, LLC (a BNY Mellon company) as custodian for the Plan's SDBA. All brokerage accounts are held in the SBA's name as part of the Plan Participation Agreement for the SDBA.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of the Trust's investments.

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

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

Presented in the following table is the effective weighted duration of the money market, TIPS and fixed income investments as a measure of interest rate risk for the Trust.

<b>Investment type</b>	<b>As of June 30, 2016</b>	
	<b>Fair Value</b>	<b>Weighted Average Duration</b>
	<i>(In Thousands)</i>	<i>(In Years)</i>
Money Market Funds	\$ 1,019,225	0.08
TIPS Funds/Trusts	222,171	7.96
Fixed Income Funds/Trusts	1,408,987	4.82
U.S. guaranteed obligations:		
U.S. Treasury bonds and notes	93,485	5.81
U.S. government guaranteed	1,310	5.07
GNMA mortgage backed	6,809	1.11
GNMA commitments to purchase (TABs)	9,008	3.26
Federal agencies		
Unsecured bonds and notes	2,787	4.98
Mortgage backed (FNMA, FHLMC)	59,972	1.77
FNMA, FHLMC commitments to purchase (TBAs)	15,443	2.68
Mortgage backed CMOs and CMBS	8,027	2.83
Domestic bond and notes:		
Corporate	57,756	8.40
Non-government asset and mortgage backed	45,515	1.13
Non-government backed CMOs and CMBS	10,034	5.16
Municipal/provincial	3,091	15.99
International bonds and notes:		
Corporate	12,739	7.88
Government and regional	6,921	7.61
Non-government asset and mortgage backed	518	0.02
Total short-term and fixed income investments	<u>\$ 2,983,798</u>	

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

<b>Investment type</b>	<b>As of June 30, 2015</b>	
	<b>Fair Value</b>	<b>Weighted Average Duration</b>
	<i>(In Thousands)</i>	<i>(In Years)</i>
Money Market Funds	\$ 886,893	0.09
TIPS Funds/Trusts	195,394	7.78
Fixed Income Funds/Trusts	1,468,084	4.90
U.S. guaranteed obligations:		
U.S. Treasury bonds and notes	111,582	4.61
U.S. government guaranteed	1,019	7.56
GNMA mortgage backed	1,738	2.09
GNMA commitments to purchase (TABs)	11,811	3.90
Federal agencies		
Unsecured bonds and notes	2,402	4.28
Mortgage backed (FNMA, FHLMC)	41,492	2.66
FNMA, FHLMC commitments to purchase (TBAs)	30,914	4.74
Mortgage backed CMOs and CMBS	15,945	2.68
Domestic bond and notes:		
Corporate	55,851	8.07
Non-government asset and mortgage backed	47,471	0.86
Non-government backed CMOs and CMBS	13,884	8.35
Municipal/provincial	3,266	15.17
International bonds and notes:		
Corporate	17,021	7.71
Government and regional	5,188	8.13
Total short-term and fixed income investments	<u>\$ 2,909,955</u>	

<sup>1</sup> An actively managed fixed income portfolio, which holds individual fixed income securities, was introduced in fiscal year 2015. Prior to that, no individual fixed income securities were held by the Trust.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**3. Deposits and Investments (continued)**

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect an investment's fair value. The Trust invests in certain international equity and real asset commingled funds in addition to individual fixed income securities. These investments are reported in U.S. dollars by the investment fund managers. However, the underlying investments in the commingled funds may be exposed to foreign currency risk. The fair values of the international equity funds as of June 30, 2016 and 2015, were \$1.67 billion and \$1.77 billion, respectively. For fiscal year 2016, the real asset fund's fair value was \$321 million of which a portion of the portfolio was engaged in foreign currency transactions. The real asset fund did not have a foreign currency allocation during fiscal year 2015.

The actively managed fixed income portfolio is prohibited from holding any non-U.S. dollar denominated securities.

**4. Contingencies and 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.

**5. Related-Party Transactions**

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

The DMS is responsible for the receipt of member demographic data and for collecting employer and employee contributions and remitting those contributions to the SBA for deposit into the Trust for the benefit of the Plan members. The FRS Trust Fund is the source of funding for a member's accumulated benefit obligation (ABO) when a member in the FRS Pension Plan elects to join the FRS Investment Plan. The FRS Trust Fund is also a recipient of certain benefits returned to the Trust.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

**5. Related-Party Transactions (continued)**

Significant transactions between the Trust and the DMS and the FRS Trust Fund for fiscal years 2016 and 2015 were as follows:

	<u>As of June 30</u>	
	<u>2016</u>	<u>2015</u>
	<i>(In Thousands)</i>	
<u>Receivables:</u>		
Due from DMS	\$ 37,395	\$ 34,332
 <u>Additions:</u>		
Employer/employee contributions received from DMS	\$ 379,521	\$ 367,944
Member-directed benefits received from the FRS Trust Fund	<u>612,301</u>	<u>719,182</u>
Total additions	<u>\$ 991,822</u>	<u>\$ 1,087,126</u>
 <u>Deductions:</u>		
Member-directed benefits sent to the FRS Trust Fund	<u>\$ 54,890</u>	<u>\$ 57,536</u>

# Other Report



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## 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 Florida Retirement System Investment Plan Trust Fund (the Trust), administered by the State Board of Administration (SBA) of Florida which comprise the statement of net position as of June 30, 2016, and the related statements of changes in net position, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the

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 14, 2016

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