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

Fiscal Years Ended June 30, 2022 and 2021

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

Table of Contents

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
State Board of Administration of Florida

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Florida Retirement System Trust Fund (the "Trust") administered by the State Board of Administration ("SBA") of Florida, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust administered by the SBA as of June 30, 2022 and 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the State Board of Administration of Florida or the Florida Retirement System as of June 30, 2022 and 2021, their changes in financial position, or, where applicable, their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Notes 2 and 3, the financial statements include investments valued at approximately $50.9 billion and $52.9 billion as of June 30, 2022 and 2021, respectively, for which fair value has been estimated by general partners and investment advisors, and reviewed and approved by the Trust's management, in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation, the estimate of values may differ from the values that would have been used had a ready market existed for the investment securities, and the differences could be material. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 4 – 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2022 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Tampa, Florida
November 7, 2022

Management's Discussion and Analysis

Introduction

This section of the financial statements of the Florida Retirement System (FRS) Trust Fund (the Trust) presents management's discussion and analysis of the Trust's financial position for the fiscal years ended June 30, 2022 and 2021. 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 Pension Plan (the Plan) is a cost-sharing, multiple-employer defined benefit pension plan for eligible members of the FRS who have elected to participate in the Plan.

The Florida Legislature is responsible for establishing Plan structure, benefit levels and 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). 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 investing Trust assets consistent with statutory authority.

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

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

Management's Discussion and Analysis

Statements of Net Position

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

	As of June 30		
	2022	2021	2020
		(In Millions)	
Assets			
Cash and cash equivalents	$ 102	$ 84	$ 93
Investments	182,773	207,627	165,807
Receivables and prepaid expenses	1,942	2,288	1,889
Total assets	184,817	209,999	167,789
Liabilities			
Total liabilities	4,518	7,863	6,120
Net position held in trust	$ 180,299	$ 202,136	$ 161,669

Statements of Changes in Net Position

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

	Fiscal Years Ended June 30		
	2022	2021	2020
		(In Millions)	
Additions			
Investment (loss)/income	$ (13,511)	$ 48,621	$ 5,924
Investment expenses	(752)	(691)	(614)
Net security lending income	20	22	28
Total net investment (loss)/income	(14,243)	47,952	5,338
Contributions:			
Employer/employee contributions received from DMS	4,946	4,485	4,002
Member-directed benefits received from the FRS Investment Plan Trust Fund	112	140	90
Total contributions	5,058	4,625	4,092
Total additions	(9,185)	52,577	9,430
Deductions			
Funds sent to DMS for benefit payments	11,884	11,441	10,888
Member-directed benefits sent to the FRS Investment Plan Trust Fund	768	669	560
Total deductions	12,652	12,110	11,448
Change in net position	(21,837)	40,467	(2,018)
Net position held in trust			
Beginning of year	202,136	161,669	163,687
End of year	$ 180,299	$ 202,136	$ 161,669

Management's Discussion and Analysis

Analysis

The Trust's net position decreased by $21.8 billion (-10.8%) and increased by $40.5 billion (25.0%) during fiscal years 2022 and 2021, respectively. For fiscal year 2022, the decrease in net position was primarily due to the decline in investment performance caused by lingering effects of the Coronavirus-19 pandemic (COVID-19). Global supply chain interruptions and inflationary pressures caused economic uncertainty, and both equity and bond markets posted negative returns. As well, the Trust posted an overall investment return of -6.27% for the year, but exceeded the benchmark by 278 basis points. Additionally, overall contributions received for investment in the Trust continued to rise, but was offset by the decline in investment income and an increase in deductions for benefit payments.

Trust investments generated a loss of approximately $13.5 billion for fiscal year 2022 and income of approximately $48.6 billion for fiscal year 2021. Despite the economic rebound in fiscal year 2021, global tensions and inflationary pressures continued to impact the market during fiscal year 2022. Global equity investment performance contributed significantly to the decrease in investment income for fiscal year 2022, returning -17.2% in comparison to 41.8% for the previous fiscal year 2021. As well, fixed income investment performance declined during fiscal year 2022, returning -8.0%, versus 1.0% for fiscal year 2021. Private equity, strategic, and real estate investment performance remained positive for fiscal year 2022, as private markets offered some relief from the volatility experienced across public markets. Private equity returned 25.1% and 67.9%, strategic returned 7.8% and 17.1%, and real estate returned 22.4% and 8.6% for fiscal years 2022 and 2021, respectively. Additional information can be found in the "Investment Returns" section of Management's Discussion and Analysis.

Investment expenses totaled $752.4 million, or .38% (38 basis points) of total average investments for fiscal year 2022, compared with investment expenses of $691.3 million, or .38% (38 basis points) of total average investments for fiscal year 2021. Investment expenses increased by $61.0 million (8.8%) and $77.3 million (12.6%) during fiscal years 2022 and 2021, respectively. Investment expenses are driven in large part by assets under management (AUM). The increase in investment expenses in fiscal year 2022 was due mainly to private market value increases and the addition of several new private asset investments, which led to higher AUM.

Investment expenses are primarily comprised of fees and expenses deducted directly from earnings in the Trust. These expenses include such items as bank fees and investment management fees paid or accrued to third party investment managers who are responsible for managing the portion of the Trust not managed internally by the SBA. Additional items in this category include the SBA investment service charge and other investment fees and expenses. The SBA investment service charge (.0325% of AUM as of June 30, 2022, and .0225% of AUM as of June 30, 2021) is statutorily charged to all SBA investment mandates for general investment services and is used to fund the SBA's operating costs. The increase in the SBA investment service charge, for fiscal year 2022, also added to the overall increase in investment expenses.

Management's Discussion and Analysis

Analysis (continued)

Other investment fees and expenses are summarized below and generally represent expenditures not covered by the SBA investment service charge.

Investment Expenses	Fiscal Years Ended June 30 2022	2021	2020
		(In Thousands)	
Bank fees	$ 4,274	$ 4,431	$ 4,048
Investment management fees	671,216	631,621	561,642
SBA investment service charges	64,231	40,815	36,436
Other fees and expenses:			
Consulting	4,062	4,314	4,788
Legal	4,137	6,041	3,589
Derivative instruments	3,821	3,634	3,014
Miscellaneous	629	486	552
Total other fees and expenses	12,649	14,475	11,943
Total investment expenses	$ 752,370	$ 691,342	$ 614,069

Net security lending income decreased by $2.4 million (-10.9%) and $6.0 million (-21.4%) in fiscal years 2022 and 2021, respectively. The fluctuations are due to changes in demand and pricing of loaned securities. The lending program continues to focus on maximizing earnings while managing reinvestment risk. Additional information on the security lending programs is provided in Note 3 to the financial statements.

Contributions to the Trust consist primarily of amounts received from DMS for employer and employee retirement plan contributions during the fiscal year. Total contributions to the Trust increased by $432.1 million (9.3%) and $534.1 million (13.1%) during fiscal years 2022 and 2021, respectively. These amounts vary from year to year based upon a number of factors such as statutory contribution rates and the number of participating employers and employees.

Deductions from the Trust include amounts needed to fund benefit payments and member-directed transfers to the FRS Investment Plan Trust Fund throughout the year. Funds sent from the Trust to DMS for benefit payments increased by $442.3 million (3.9%) and $553.7 million (5.1%) during fiscal years 2022 and 2021, respectively. Member-directed benefits sent to the FRS Investment Plan Trust Fund reflect elections by the FRS members to transfer their membership from the FRS Pension Plan to the FRS Investment Plan. Member-directed benefits sent to the FRS Investment Plan Trust Fund increased by $99.4 million (14.9%) and $108.5 million (19.4%) during fiscal years 2022 and 2021, respectively.

Management's Discussion and Analysis

Plan Choice[1]

Chapter 2017-88, Laws of Florida amended Chapter 121, *Florida Statutes*. The amendment provided that all new hires whose employment in a regularly established position commenced on or after January 1, 2018, or who did not complete an election window before January 1, 2018, will have until the last business day of the 8th month after hire to make a choice between the FRS Pension Plan and FRS Investment Plan. If a new hire does not make an active election by the deadline date, the new hire will default into the FRS Investment Plan, except those who are enrolled in the Special Risk Class (who will continue to default to the FRS Pension Plan). The first group of new hires defaulted into the FRS Investment Plan effective October 1, 2018. For fiscal year ended June 30, 2022, 5.49% of all new hires defaulted to the FRS Pension Plan and 25.5% made an active election to enroll in the FRS Pension Plan. The SBA continues to monitor trend information and projections as to the effect the plan choice amendment may have on the Trust.

The number of new employees eligible to make an initial plan choice increased by 4,712 (10.2%) during fiscal year 2022, due to increased hiring by participating FRS employers following the peak of the pandemic. The number of employees making active elections to the FRS Pension Plan also increased during fiscal year 2022. Nevertheless, the number of new employees defaulting to the Plan has decreased over the last three years. Additionally, the number of employees joining the Plan through a Second Election decreased during fiscal year 2022.

	Fiscal Years Ended June 30		
	2022	**2021**	**2020**
New employees making initial Plan Choice	50,931	46,219	58,203
New employees joining FRS Pension Plan:	15,768	15,577	18,661
Active election	12,973	12,057	15,103
Plan default	2,795	3,520	3,558
Employee Second Elections [2]:			
To the FRS Pension Plan	1,048	1,442	1,171
To the FRS Investment Plan	3,563	3,258	2,638

[1] Plan Choice data is based on unaudited statistics received from Alight Solutions, the Plan Administrator for the FRS Investment Plan.

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

Management's Discussion and Analysis

Contribution Rates

The Legislature is responsible for establishing employer and employee contribution rates. Employer rates vary by membership class and have steadily increased for most classes over the last three fiscal years.

	Employee Rate	Employer Rate [1]		
Membership Class	**FYs 2020-22**	**FY 2022**	**FY 2021**	**FY 2020**
Regular	3.00 %	9.10 %	8.28 %	6.75 %
Special risk	3.00	24.17	22.73	23.76
Special risk: administrative support	3.00	36.04	34.12	36.87
Legislators	3.00	62.01	57.19	54.31
Governor, Lt. Governor, and cabinet officers	3.00	62.01	57.19	54.31
State Attorney and public defenders	3.00	62.01	57.19	54.31
Justices and judges	3.00	39.19	38.01	40.28
County and local elected officers	3.00	49.70	47.46	47.10
Senior management service	3.00	27.29	25.57	23.69
DROP	0.00	16.68	15.32	12.94

[1] Employer rates presented in this table do not include employer contributions for Health Insurance Subsidy (1.66% for FYs 2020-2022) or plan administrative/educational expense (.06% for FYs 2020-2022) as these amounts are not deposited into the Trust.

Management's Discussion and Analysis

Investment Returns

The Trust's total fund return for fiscal year 2022 was -6.27%, outperforming its benchmark over the trailing one-, three-, five-, ten- and fifteen-year periods. The 2022 total fund return exceeded the benchmark by 278 basis points. The 2021 total fund return exceeded the benchmark by 321 basis points.

For the fiscal years ended June 30, 2022 and 2021, the Trust's investment returns[1], by major asset class, were as follows:

	Fiscal Years Ended June 30			
	2022		2021	
Asset Class	**Return**	**Benchmark**	**Return**	**Benchmark**
Total Fund	-6.27%	-9.05%	29.46%	26.25%
Global Equity	-17.15	-16.51	41.78	40.95
Fixed Income	-7.97	-7.91	0.95	0.05
Real Estate	22.43	22.88	8.58	4.63
Private Equity[2]	25.07	-12.62	67.93	44.41
Strategic Investments	7.78	3.97	17.14	15.96
Cash & Cash Equivalents	0.22	0.18	0.10	0.08

[1] The above investment performance information for June 30, 2022 and 2021, is the investment return data 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, payables and other items, and differences in GASB accounting rules and SBA performance measurement policies. For fiscal years 2022 and 2021, Total Fund performance, based on audited information as certified by BNY Mellon Performance Reporting and Analytics Services, was -7.32% and 30.31%, respectively.

[2] 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. For fiscal years 2022 and 2021, the time-weighted return for Private Equity was 24.17% and 68.47%, respectively.

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

Management's Discussion and Analysis

Economic Factors

On the heels of exceptional market growth, the 2022 fiscal year ended with most equity and bond markets in double digit negative territory. The war in Ukraine was the prevailing story, though causes of the economic volatility were present prior to Russia's invasion. Lingering effects of the COVID-19 pandemic continued to strain global supply chains and inflationary pressures began to surface in late 2021, making the prospects of rate hikes inevitable. As the war hit mid-year, it worsened the already strained supply chain and pushed inflation to levels not seen in over 40 years in the United States.

Central banks around the globe began to tighten monetary policy in response to the rise in inflation. The U.S. Federal Reserve (Fed) increased its benchmark interest rate by 25 basis points in March 2022 and formally ended quantitative easing[1]. As inflation persisted, the Fed became more aggressive with a 50 basis point increase in May 2022, followed by a 75 basis point rise in June 2022. Nevertheless, through the end of the 2022 fiscal year, inflation continued to rise, with U.S. CPI hitting 9.1% year-over-year in June, the fastest pace for inflation since 1981.

As central banks worked to combat persistent inflation, most bond markets saw a rise in yields. In the U.S., the 10-year Treasury yield doubled from 1.5% to 3.0% by the end of the year and sent bond prices in the opposite direction. The U.S. bond market declined by 10.3% over the year, as measured by the Bloomberg Barclays Aggregate Bond Index.

With both equity and bond markets declining by double digits, most total return investors felt notable declines from a large portion of their investment portfolios. Global equities declined by 16.5% for the one-year period, as defined by the MSCI All Country World Investable Market Index (ACWI IMI). As well, the Russell 3000 Value Index declined by 7.5%, while the Russell 3000 Growth Index declined by 19.8%. Similar dispersion was seen across value and growth international equities as well.

Despite declining equity and bond markets, commodities trended higher as food and energy prices increased. While the impact on most private market (real asset) returns are yet to be fully known, we expect real assets, especially those with lower correlations to equity markets, to offer some relief from the volatility experienced across publicly traded equities and bonds.

Overall, the 2022 fiscal year was volatile, leaving investors with more uncertainty than clarity. Most total return investors experienced negative results over the year, as traditional diversification via core bonds was generally ineffective to combat the equity market risk. Allocations across alternative asset classes, especially real assets, served investors well during the year, offering a strong reminder as to the benefits of diversification.

[1] Quantitative easing is a form of monetary policy in which a central bank (e.g., U.S. Federal Reserve) purchases securities from the open market to increase the domestic money supply and stimulate economic activity.

Management's Discussion and Analysis

Contacting the Trust's Financial Management

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

Statements of Net Position

	As of June 30	
	2022	2021
	(In Thousands)	
Assets		
Cash and cash equivalents	$ 102,139	$ 84,129
Investments:		
Fixed income	38,987,684	43,747,258
Equity	85,397,590	109,407,541
Alternative	40,680,622	39,472,450
Real estate	16,722,306	12,936,853
Other	41,727	79,306
Security lending collateral	943,509	1,983,382
Total investments	182,773,438	207,626,790
Receivables:		
Accrued interest and dividends	427,512	392,912
Spot foreign currency contracts	146,451	344,223
Investments sold, but not settled	859,607	1,078,133
Margin receivable from counterparty	41,764	41,606
Due from DMS	456,581	425,890
Total receivables	1,931,915	2,282,764
Prepaid investment management fees	9,856	5,725
Total assets	184,817,348	209,999,408
Liabilities		
Investments:		
Short sales	36,041	76,584
Other	34,861	78,360
Total investments	70,902	154,944
Payables:		
Accounts payable and accrued liabilities	153,398	160,699
Spot foreign currency contracts	146,378	344,928
Investments purchased, but not settled	2,934,849	4,907,134
Margin payable to counterparty	38,963	29,183
Obligations under security lending agreements	960,930	2,015,232
Due to DMS	212,687	251,114
Total payables	4,447,205	7,708,290
Total liabilities	4,518,107	7,863,234
Net position held in trust	$ 180,299,241	$ 202,136,174

See accompanying notes to the financial statements.

Statements of Changes in Net Position

	Fiscal Years Ended June 30	
	2022	2021
	(In Thousands)	
Additions		
Investment income:		
Interest income	$ 767,117	$ 708,341
Dividend income	1,982,410	1,803,964
Alternative investment income	4,227,784	3,833,769
Real estate income	608,772	472,325
Fines, forfeits, and securities litigation proceeds	7,733	15,049
Net (decrease)/increase in fair value of investments	(21,104,533)	41,787,177
Total investment (loss)/income	(13,510,717)	48,620,625
Investment expenses:		
Bank fees	(4,274)	(4,431)
Investment management fees	(671,216)	(631,621)
SBA investment service charges	(64,231)	(40,815)
Other fees and expenses	(12,649)	(14,475)
Total investment expenses	(752,370)	(691,342)
Net (loss)/income from investments	(14,263,087)	47,929,283
Security lending income	24,032	25,318
Security lending expenses	(4,221)	(3,080)
Net income from security lending	19,811	22,238
Total net investment (loss)/income	(14,243,276)	47,951,521
Contributions:		
Employer/employee contributions received from DMS	4,946,063	4,485,426
Member-directed benefits received from the FRS Investment Plan Trust Fund	111,924	140,431
Total contributions	5,057,987	4,625,857
Total additions	(9,185,289)	52,577,378
Deductions		
Funds sent to DMS for benefit payments	11,883,537	11,441,223
Member-directed benefits sent to the FRS Investment Plan Trust Fund	768,107	668,695
Total deductions	12,651,644	12,109,918
Change in net position	(21,836,933)	40,467,460
Net position held in trust		
Beginning of year	202,136,174	161,668,714
End of year	$ 180,299,241	$ 202,136,174

See accompanying notes to the financial statements.

Notes to the Financial Statements

1. Financial Reporting Entity

The Florida Retirement System (FRS) Pension Plan (the Plan) is a cost-sharing, multiple-employer defined benefit pension plan qualified under Internal Revenue Code Section 401(a) and 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, municipal, district school board, community college and university employees. Under the FRS, employers and, as of July 1, 2011, employees make contributions to the Department of Management Service (DMS), Division of Retirement, the Plan administrator, which are initially deposited into the Florida Retirement System Contributions 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 State Board of Administration (SBA) to receive, invest and hold the assets of the Plan in the Trust for the exclusive benefit of the Plan members and for the payment of reasonable costs of the Plan. The DMS sends employer and employee contributions to the Trust for investment by the SBA. 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 Trust is 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 Plan as of June 30, 2022 and 2021, nor the changes in their financial position for the years then ended, in conformity with accounting principles generally accepted in the United States (GAAP).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements were prepared in conformity with GAAP as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. The Trust is accounted for as an investment trust fund pursuant to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB 31), GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). As such, the Trust's financial statements include statements of net position and statements of changes in net position.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting

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

Cash and Cash Equivalents

The Trust reports all cash on hand and deposits in banks, including demand deposits, time deposits, and non-negotiable certificates of deposit as cash and cash equivalents. See Note 3, Deposits and Investments, for additional information.

Investment Valuation

Section 215.47, *Florida Statutes*, gives the SBA the authority to invest in a range of instruments, including security lending agreements. The Trust's investments are reported in accordance with GASB reporting standards. 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 bank, BNY Mellon, which 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 pricing 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 price of a security is not received from the primary pricing source.
- The primary pricing source no longer provides prices for a particular asset type, class or issue.
- The SBA or its portfolio investment manager challenges a price and BNY Mellon reviews the price with the vendor, who agrees that the price provided by that vendor may not be appropriate.
- The price from the primary source exceeds price tolerance checkpoints and results in a vendor comparison review where another source is deemed to be more appropriate by BNY Mellon.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

When a portfolio includes securities or instruments for which the custodian bank does not receive fair value information from its vendor pricing source, the custodian 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 instances where securities or instruments are in the portfolio of an investment manager appointed by the SBA. In cases where the SBA directed the purchase of securities or instruments, BNY Mellon may obtain the non-vendor prices by contacting the SBA only if it is not commercially reasonable to directly obtain the non-vendor price information from the broker of record, as identified by the SBA.

For private market investments, where no readily ascertainable market value exists (including limited partnerships, hedge funds, direct-owned real estate, and real estate pooled funds), fair values for the individual investments are based on the net asset value (NAV), which equates to the capital account balance, at the closest available reporting period, as communicated by the general partner and/or investment manager, 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 NAV of an entity is the value of its investment holdings. The NAV is provided by the general partner and/or investment manager and reviewed by SBA management.

Annually, the financial statements of all private market investments are audited by independent auditors. Private market investments, in which the SBA has a controlling interest and are reported at cost per the investment manager, are also required to be valued, generally annually, by independent, licensed external appraisers selected by an appraisal management company retained by the SBA.

Money market funds and repurchase agreements are reported at amortized cost. Commingled funds are generally reported at the NAV of units held at the end of the period based upon the value of the underlying investments as reported by the external investment manager. Certain commingled funds may be valued under different pricing methods depending on the nature of the fund.

All investment derivative 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 during the period as gains or losses in the statements of changes in net position and included in the "net (decrease)/increase in fair value of investments". The nature and use of derivative instruments is discussed in Note 3 to the financial statements.

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 an active market existed.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Plan Member-Directed Benefits to/from DMS and the FRS Investment Plan Trust Fund

The DMS sends employer and employee contributions to the Trust for investment purposes, and may also request return of funds from the Trust to meet benefit obligations of the FRS. The members of the FRS Investment Plan Trust Fund may direct their Plan account balance within the FRS Investment Plan Trust Fund be sent to the Trust to effectuate their second election. DMS will also fulfill member-directed second election requests for Trust account balances to be sent from the Trust to the FRS Investment Plan Trust Fund. 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). These allocations constitute liquidity assessments, which the asset classes are required to provide in a prudent, but reasonable timeframe.

At fiscal year-end, the Trust accrues a receivable from DMS for employer and employee contributions due for the month of June, but the amount is received by the Trust the following fiscal year. The Trust accrues a payable at fiscal year-end for the expected amounts to be requested by DMS in order to fund the Deferred Retirement Option Program (DROP) payouts and benefit obligations as of June 30. DMS maintains records for all employer and employee contributions to the Plan.

Income Recognition

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

Investment Management Fees and Service 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, usually paid quarterly, may be based on a sliding scale of the portfolio's net asset value at quarter-end, calculated by multiplying each level of net position by a specified basis point charge, or may be performance-related, typically associated with exceeding a market benchmark or hurdle rate. Fees are paid from the appropriate manager's portfolio and are recognized as an expense over the time period for which the fees are applicable. 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 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 fiscal years 2022 and 2021, the SBA investment service charge was .0325% (annualized) and .0225% (annualized), respectively

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

Additionally, the lingering effects of the COVID-19 pandemic have caused global supply chain interruptions and high inflation. The uncertainty regarding continued economic recovery precludes any prediction as to the long-term impact of COVID-19 on financial market and economic conditions. The estimates and assumptions underlying these financial statements are based on the information available as of June 30, 2022, including judgments about the financial market and economic conditions, which may change over time.

New Accounting Standards

In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report (GASB 98)*. The objective of this Statement is to establish the term annual comprehensive financial report and its acronym ACFR. The usage of the new term and acronym are effective for reporting periods ending after December 15, 2021. The requirements of GASB 98 were implemented beginning in fiscal year 2021 and the changes are reflected in the accompanying financial statements.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 (GASB 97)*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74,

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 97, as the Trust is accounted for separately as an investment trust fund and is administered by the Department of Management Services.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates (GASB 93)*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). Some governments have entered into agreements in which variable payments made or received depend on an IBOR most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. The replacement of an IBOR upon which variable payments depend in lease contracts is effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter. All other requirements of GASB 93 are effective for reporting periods beginning after June 15, 2020. The statements of net position and statements of changes in net position are not affected by the adoption of GASB 93, as the Trust does not hold hedging derivative instruments or leases. However, the SBA continues to review the applicability of this Statement as it pertains to the Trust for the removal of LIBOR as an appropriate benchmark interest rate.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020 (GASB 92)*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

1. The effective date of Statement No. 87, *Leases* and Implementation Guide No. 2019-3, *Leases*, for interim financial reports.
2. Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan.
3. The applicability of Statements 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*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

4. The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements.
5. Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.
6. Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
7. Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
8. Terminology used to refer to derivative instruments.

The requirements of items 1, 6, and 8 were effective upon issuance of this Statement. The requirements of items 2, 3, 4, 5, and 7 are effective for reporting periods beginning after June 15, 2021. The requirements related to the terminology used to refer to derivative instruments (item 8), were implemented and changes are reflected in the accompanying financial statements. The financial statements are not affected by the remaining requirements of GASB 92, as the Trust is accounted for as an investment trust fund, holds investments measured at fair value in accordance with GASB 72, and does not issue debt for which principal and interest payments are secured by lease payments.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period (GASB 89)*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. The Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and as an expenditure on a basis consistent with governmental fund accounting principles for financial statements prepared using the current financial resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 89, as the Trust does not construct assets and is accounted for as an investment trust fund.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

In June 2017, the GASB issued Statement No. 87, *Leases (GASB 87)*. The primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Additionally, if the underlying asset in a lease meets the requirements in Statement No. GASB 72, *Fair Value Measurement and Application (GASB 72)*, to be reported as an investment measured at fair value, the requirements of this statement do not apply, unless debt was issued for which principal and interest payments are secured by lease payments. The requirements of GASB 87 are effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 87, as the Trust holds investments measured at fair value in accordance with GASB 72 and does not issue debt for which principal and interest payments are secured by lease payments.

Notes to the Financial Statements

3. Deposits and Investments

Deposits

As of June 30, 2022, the recorded carrying amount of deposits totaled $102.1 million and consisted of U.S. dollars and foreign currencies (U.S. value) in the amounts of $9.6 million and $92.5 million, respectively.

As of June 30, 2021, the recorded carrying amount of deposits totaled $84.1 million and consisted of U.S. dollars and foreign currencies (U.S. value) in the amounts of $292 thousand and $83.8 million, respectively. See Custodial Credit Risk for additional information.

Investment Classifications

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, real estate and alternative investments. The SBA may also buy and sell futures contracts, option contracts, and domestic or foreign notional principal contracts. The following are the major asset types, invested in by the Trust, as reported on the statements of net position. The classifications below do not necessarily represent the asset class portfolios for which investment performance is measured.

- **Fixed Income**

  Fixed income securities consist of short-term and long-term obligations. Short-term obligations consist primarily of U.S. Treasury and government-sponsored securities, money market funds, commercial paper, certificates of deposit, repurchase agreements (Repos), and other similar instruments. These investments are available to meet cash needs as they arise. Long-term obligations 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).

- **Equity**

  Equity investments represent both domestic and international stocks traded on major stock exchanges. Also included as equities are commingled funds, exchange-traded funds (ETFs), real estate investment trusts (REITs), equity-linked notes, participatory notes (P-Notes) and other securities. A REIT is a type of security that invests in real estate through property or mortgages and trades like a stock on the major exchanges. An equity-linked note is an instrument whose return is determined by the performance of a single equity security, a basket of equity securities, or an equity index.

Notes to the Financial Statements

3. Deposits and 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, activist equity, private debt/credit opportunities, real assets, insurance funds 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**

  Real estate investments include ownership primarily in office, multifamily, retail, industrial and agricultural properties, and secondarily in several alternative property types including self-storage and student housing. The program is focused on core risk strategies, but also includes value-add and opportunistic risk strategies. These assets are held directly, as part of a joint venture, and in open-ended and closed-ended commingled funds. Real assets and real estate partnership investments are classified as Alternative Investments for financial reporting purposes.

- **Other**

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

The following schedule discloses the Trust's investments, by type, at June 30, 2022 and 2021.

Investment Type	As of June 30 2022	2021
	(In Thousands)	
Fixed income		
Certificates of deposit	$ 403,384	$ —
Commercial paper	5,305,755	2,828,161
Money market funds	28,558	55,851
Repurchase agreements	1,200,000	1,000,000
U.S. guaranteed obligations	11,684,983	17,884,329
Federal agencies	7,741,992	9,467,240
Domestic bonds and notes	9,550,418	9,359,596
International bonds and notes	3,072,594	3,152,081
Equity		
Domestic	50,373,390	62,378,794
International	29,498,209	39,304,609
Commingled international funds	5,525,991	7,724,138
Alternative		
Activist equity funds	1,348,471	1,453,192
Hedge funds	4,901,024	5,018,236
Insurance funds	964,715	972,327
Private debt/credit opportunity funds	5,180,035	4,306,069
Private equity funds	21,005,534	21,614,883
Private real asset funds	7,280,843	6,107,743
Real estate		
Direct investments	14,011,500	10,663,262
Commingled investment funds	2,710,806	2,273,591
Other		
Forwards	16,351	34,491
Futures	24,782	32,222
Swaps	594	12,593
Securities lending collateral		
Money market funds	909,486	1,941,642
Domestic bonds and notes	34,023	41,740
Total investments	$ 182,773,438	$ 207,626,790
Short sales (liabilities)		
U.S. guaranteed obligations	$ (5,261)	$ (837)
Federal agencies	(30,780)	(75,747)
Other (liabilities)		
Forwards	(16,218)	(24,241)
Futures	(17,871)	(42,518)
Swaps	(772)	(11,601)
Total investments (liabilities)	$ (70,902)	$ (154,944)

Notes to the Financial Statements

3. Deposits and Investments (continued)

Pledged Collateral

Certain investments included in the above schedule were pledged as collateral with the SBA's futures and swaps clearing counterparties to meet initial margin requirements. Investments pledged as collateral as of June 30, 2022 and June 30, 2021, are presented below:

Investment Type	As of June 30 2022	2021
	(In Thousands)	
U.S. guaranteed obligations	$ 143,838	$ 161,993
Total pledged collateral	$ 143,838	$ 161,993

In addition, cash required to open futures and swap contracts (initial margins) may be pledged as collateral with the SBA's futures and swap counterparties. Such initial margin amounts are reflected as "Margin receivable from counterparty" on the statements of net position. Pursuant to these types of contracts, and also pending foreign currency contracts and commitments to purchase (TBAs), the Trust agrees to receive or pay to the broker an amount of cash equal to the daily fluctuation in the value of the contract. Such receivables and payables are known as variation margin, which are reflected as "Margin receivable from counterparty" or "Margin payable to counterparty" on the statements of net position. All initial and variation margin amounts receivable from or payable to the broker as of June 30, 2022 and June 30, 2021, are presented below:

Margin Collateral	As of June 30 2022	2021
	(In Thousands)	
Margin receivable from counterparty:		
Futures contracts	$ 19,834	$ 19,230
Swaps contracts	8,015	19,328
Foreign currency contracts	1,075	1,060
Commitments to purchase (TBAs)	12,840	1,988
Total margin receivable from counterparty	$ 41,764	$ 41,606
Margin payable to counterparty:		
Futures contracts	$ 35,842	$ 10,910
Swaps contracts	471	12,673
Foreign currency contracts	2,650	5,600
Total margin payable to counterparty	$ 38,963	$ 29,183

Notes to the Financial Statements

3. Deposits and Investments (continued)

Fair Value Hierarchy

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

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

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

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

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

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

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

Equity securities classified as Level 2 are valued using evaluated prices from the custodial bank’s external pricing vendors, or an alternative pricing source, such as investment managers, if information is not available from the custodial bank’s external pricing vendors.

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

Derivative instruments classified as Level 1 of the fair value hierarchy are valued using exchange-traded prices as provided by the custodian bank’s external pricing vendors. Derivative instruments classified as Level 2 receive clearing house prices, which are based on models that reflect the contractual terms of the derivative instruments.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Private equity funds and real estate direct investments classified as Level 3 were valued using external appraisals, as described in the footnotes for the additional GASB 72 disclosures (tables). See footnotes 13 and 15, respectively. Other private equity funds are measured at net asset value (NAV).

Certain investments, such as money market funds and repurchase agreements, are carried at amortized cost, and not priced at fair value. Commingled investments are generally measured at the net asset value (NAV) per share (or its equivalent) as provided by the investment manager. Commingled funds classified as Level 2 are valued using observable inputs that are market corroborated.

The Trust has the following fair value measurements as of June 30, 2022 and June 30, 2021.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investments by Fair Value Level	Total	As of June 30, 2022 — Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
		(In Thousands)		
Fixed income				
Certificates of deposit	$ 403,384	$ —	$ 403,384	$ —
Commercial paper	5,305,755	—	5,305,755	—
U.S. guaranteed obligations	11,684,983	—	11,684,983	—
Federal agencies	7,741,992	—	7,741,992	—
Domestic bonds and notes	9,550,418	—	9,475,168	75,250
International bonds and notes	3,072,594	—	2,376,709	695,885
Total fixed income	37,759,126	—	36,987,991	771,135
Equity				
Domestic	50,373,390	50,373,390	—	—
International	29,498,209	29,409,421	—	88,788
Commingled international funds	238,625	—	238,625	—
Total equity	80,110,224	79,782,811	238,625	88,788
Alternative				
Private equity funds	161,000	—	—	161,000
Real estate				
Direct investments	14,011,500	—	—	14,011,500
Other				
Forwards	16,351	—	16,351	—
Futures	24,782	24,782	—	—
Swaps	594	—	594	—
Total other	41,727	24,782	16,945	—
Securities lending collateral				
Domestic bonds and notes	34,023	—	34,023	—
Total investments by fair value level	132,117,600	79,807,593	37,277,584	15,032,423
Investments at net asset value (NAV)				
Commingled international equity funds	5,287,366			
Commingled real estate investment funds	2,710,806			
Activist equity funds	1,348,471			
Hedge funds	4,901,024			
Insurance funds	964,715			
Private debt/credit opportunity funds	5,180,035			
Private equity funds	20,844,534			
Private real asset funds	7,280,843			
Total investments at NAV	48,517,794			
Other investments at amortized cost				
Money market funds	28,558			
Money market funds - security lending collateral	909,486			
Repurchase agreements	1,200,000			
Total investments at amortized cost	2,138,044			
Total investments	$ 182,773,438			
Short sales (liabilities)				
U.S. guaranteed obligations	$ (5,261)	$ —	$ (5,261)	$ —
Federal agencies	(30,780)	—	(30,780)	—
Total short sales (liabilities)	(36,041)	—	(36,041)	—
Other (liabilities)				
Forwards	(16,218)	—	(16,218)	—
Futures	(17,871)	(17,871)	—	—
Swaps	(772)	—	(772)	—
Total other (liabilities)	(34,861)	(17,871)	(16,990)	—
Total investments (liabilities)	$ (70,902)	$ (17,871)	$ (53,031)	$ —

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investments by Fair Value Level	Total	As of June 30, 2021 — Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
		(In Thousands)		
Fixed income				
Commercial paper	$ 2,828,161	$ —	$ 2,828,161	$ —
U.S. guaranteed obligations	17,884,329	—	17,884,329	—
Federal agencies	9,467,240	—	9,467,240	—
Domestic bonds and notes	9,359,596	—	9,238,984	120,612
International bonds and notes	3,152,081	—	2,481,878	670,203
Total fixed income	42,691,407	—	41,900,592	790,815
Equity				
Domestic	62,378,794	62,378,399	—	395
International	39,304,609	39,196,510	—	108,099
Commingled international funds	356,029	—	356,029	—
Total equity	102,039,432	101,574,909	356,029	108,494
Alternative				
Private equity funds	329,592	—	—	329,592
Real estate				
Direct investments	10,663,262	—	—	10,663,262
Other				
Forwards	34,491	—	34,491	—
Futures	32,222	32,222	—	—
Swaps	12,593	—	12,593	—
Total other	79,306	32,222	47,084	—
Securities lending collateral				
Domestic bonds and notes	41,740	—	38,395	3,345
Total investments by fair value level	155,844,739	101,607,131	42,342,100	11,895,508
Investments at net asset value (NAV)				
Commingled international equity funds	7,368,109			
Commingled real estate investment funds	2,273,591			
Activist equity funds	1,453,192			
Hedge funds	5,018,236			
Insurance funds	972,327			
Private debt/credit opportunity funds	4,306,069			
Private equity funds	21,285,291			
Private real asset funds	6,107,743			
Total investments at NAV	48,784,558			
Other investments at amortized cost				
Money market funds	55,851			
Money market funds - security lending collateral	1,941,642			
Repurchase agreements	1,000,000			
Total investments at amortized cost	2,997,493			
Total investments	$ 207,626,790			
Short sales (liabilities)				
U.S. guaranteed obligations	$ (837)	$ —	$ (837)	$ —
Federal agencies	(75,747)	—	(75,747)	—
Total short sales (liabilities)	(76,584)	—	(76,584)	—
Other (liabilities)				
Forwards	(24,241)	—	(24,241)	—
Futures	(42,518)	(42,518)	—	—
Swaps	(11,601)	—	(11,601)	—
Total other (liabilities)	(78,360)	(42,518)	(35,842)	—
Total investments (liabilities)	$ (154,944)	$ (42,518)	$ (112,426)	$ —

Notes to the Financial Statements

3. Deposits and Investments (continued)

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) as of June 30, 2022 and June 30, 2021 is presented in the footnotes to the tables below.

	As of June 30, 2022					
Investment Type		**Total**		**Unfunded Commitments**	**Redemption Frequency (If Currently Eligible)**	**Redemption Notice Period**
		(In Thousands)				
Investments measured at the NAV						
Commingled international equity funds[1]	$	5,287,366		—	Daily, Monthly	2 - 120 days
Commingled real estate investment funds[2]		2,710,806		—	Quarterly	15 - 90 days
Activist equity funds[3]		1,348,471		—	Monthly, Annually	65 - 90 days
Hedge funds						
Diversifying strategies (managed futures)[4]		1,689,211		—	Daily, Monthly	10 - 35 days
Equity long/short[5]		449,443		—	Monthly, Quarterly	30 - 60 days
Event-driven[6]		200,002	$	15,000	None currently eligible	
Global macro[7]		412,945		—	Monthly	5 - 30 days
Multi-strategy[8]		1,284,364		—	Quarterly, Biennially	30 - 90 days
Opportunistic-debt[9]		466,508		—	Quarterly, Annually	60 - 90 days
Relative value[10]		398,551		—	Quarterly	60 days
Insurance funds[11]		964,715	$	223,216	Monthly, Quarterly, Biannually	30 - 90 days
Private debt/credit opportunity funds[12]		5,180,035	$	4,155,747		
Private equity funds[13]		20,844,534	$	7,952,972		
Private real asset funds[14]		7,280,843	$	4,621,591		
Total investments measured at the NAV	**$**	**48,517,794**				
Investments at Level 3						
Private equity funds[13]	$	161,000	$	—		
Real estate direct investments[15]	$	14,011,500	$	214,170		

1 *Commingled International Equity Funds:* The six funds in this group are primarily invested in publicly traded international equity securities. Three of these funds focus on emerging markets. Each are valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments. Three funds within this strategy are redeemable daily, two funds are redeemable monthly, and the remaining fund is currently in the liquidation process with a residual balance remaining.

2 *Commingled Real Estate Investment Funds:* The nine funds in this group consist primarily of real estate investments owned directly or through partnership interests located in the United States. These investments include multi-family, industrial, retail, office, apartments and mortgage loans on income producing property. Each are valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments. Eight funds within this strategy are eligible for redemption quarterly, and the remaining fund is subject to contractual lock-up restrictions and not currently eligible for redemption.

3 *Activist Equity Funds:* The four funds in this group invest in public companies with the intent to effect positive change through influencing management. The funds may be structured with a focus on specific domestic or foreign geographic regions. These investments are valued at the NAV per share. One fund (approximately 42% of this strategy) is currently eligible for redemption monthly. Another fund (approximately 26% of this strategy) is eligible for redemption in six months due to annual lock-up restrictions. The remaining two funds (approximately 32% of this strategy) are subject to contractual lock-up restrictions and not currently eligible for redemption.

4 *Diversifying Strategies (Managed Futures) Hedge Funds*: The three funds that make up this group primarily trade equity and commodity futures, but can also participate in indexes, rates and currencies across global markets. These funds use a systematic approach and focus on trends in price and other market signals. These investments are valued at the NAV per share. All funds within this strategy are no longer subject to contractual lock-up restrictions and are eligible for redemption within one month or less.

Notes to the Financial Statements

3. Deposits and Investments (continued)

[5] *Equity Long/Short Hedge Funds:* Consisting of three funds, this strategy invests both long and short, primarily in U.S. and global stocks that are mispriced by the markets. These managers vary in their use of short selling, leverage and definitions of growth or value. These funds are valued at the NAV per share. All funds within this strategy are no longer subject to contractual lock-up restrictions and are eligible for redemption within three months or less.

[6] *Event-Driven Hedge Funds:* The two funds in this group seek to gain an advantage from pricing inefficiencies that may occur in the onset or aftermath of a corporate action or related event. These investments are valued at the NAV per share. Both funds within this strategy are subject to contractual lock-up restrictions and not currently eligible for redemption.

[7] *Global Macro Hedge Funds:* Consisting of two funds, which base their holdings (such as long and short positions in various equity, fixed income, currency, and futures markets) primarily on overall economic and political views of various countries. These funds are valued at the NAV per share. Both funds within this strategy are no longer subject to contractual lock-up restrictions and are eligible for redemption within one month.

[8] *Multi-Strategy Hedge Funds:* The five funds in this group aim to diversify risks and reduce volatility by combining other strategies. These strategies are typically a mix of Equity Long/Short, Event-Driven, Opportunistic Debt and Relative Value. These funds are valued at the NAV per share. Four funds (approximately 74% of this strategy) are currently eligible for redemption within three months due to quarterly redemption restrictions. One fund (approximately 26% of this strategy) is eligible for redemption biennially (for each commitment) with the next redemption in six months.

[9] *Opportunistic-Debt Hedge Funds:* Consisting of four funds that pursue various strategies and asset classes, with an emphasis on mispriced debt or equity of companies in distress. These managers vary in their focus on early versus late stage situations, senior versus subordinated levels on the capital structure and non-traditional areas including high yield bonds and Emerging Markets debt, and may also pursue relative value and arbitrage strategies with various debt instruments. These funds are valued at the NAV per share. The funds in this strategy are currently eligible for redemption in three to six months due to quarterly and annual redemption restrictions.

[10] *Relative Value Hedge Funds:* Consisting of one fund, this strategy focuses on benefiting from valuation discrepancies that may be present in related financial instruments by simultaneously purchasing (long) or selling (short) these instruments. These investments are valued at the NAV per share. The one fund in this strategy is no longer subject to contractual lock-up restrictions and eligible for redemption within three months.

[11] *Insurance Funds*: The seven funds in this group invest primarily in reinsurance contracts and insurance-linked securities. These investments are valued at NAV per share. One fund (approximately 27%) has varying restrictions due to underlying investment funds and redeemable within one to three months. Two funds (approximately 31%) are eligible for redemption within seven months or less due to biannual redemption restrictions. The remaining four funds (approximately 42%) are not eligible for redemption due to contractual lock-up restrictions.

[12] *Private Debt/Credit Opportunity Funds:* There are 77 private debt/credit funds investing primarily in Distressed, Mezzanine and Loans with some exposure to Special Situations. The fair value of these funds has been determined using the NAV at June 30, 2022 or one quarter in arrears adjusted for current quarter cash flows. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to ten years.

[13] *Private Equity Funds:* There are 249 private equity funds investing primarily in Leveraged Buyouts funds, Venture Capital funds, Secondary funds and Growth funds with some exposure to Special Situations, Diversifying Strategies and GP Investments. The fair value of 248 funds has been determined using the NAV at June 30, 2022 or one quarter in arrears adjusted for current quarter cash flows. The fair value of the remaining 1 fund (approximately 1% of the value of these investments) is based on external appraisals at June 30, 2022 and classified as Level 3. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to ten years.

[14] *Private Real Asset Funds:* There are 100 real asset funds, 66 of which invest in real estate assets such as commercial office buildings, retail properties, multi-family residential properties, developments or hotels. In addition, the funds may be structured with a focus on specific geographic domestic or foreign regions. The remaining 34 funds invest in infrastructure, timberland, transportation and commodities. The fair value of these funds has been determined using the NAV at June 30, 2022 or one quarter in arrears adjusted for current quarter cash flows. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to ten years.

[15] *Direct Real Estate Investments:* There are 80 direct owned/joint venture real estate assets that are valued based on annual external and/or quarterly internal appraisals and are classified as Level 3.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investment Type	Total	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
	As of June 30, 2021			
	(In Thousands)			
Investments measured at the NAV				
Commingled international equity funds[1]	$ 7,368,109	—	Daily, Monthly	2 - 120 days
Commingled real estate investment funds[2]	2,273,591	—	Quarterly	15 - 90 days
Activist equity funds[3]	1,453,192	—	Monthly, Annually	65 - 90 days
Hedge funds				
Diversifying strategies (managed futures)[4]	1,482,589	—	Daily, Monthly	10 - 35 days
Equity long/short[5]	578,678	—	Monthly, Quarterly	30 - 60 days
Event-driven[6]	224,203	$ 60,000	Biennially	90 days
Global macro[7]	509,951	—	Monthly, Quarterly	5 - 45 days
Multi-strategy[8]	1,340,509	—	Quarterly, Annually, Biennially	60 - 90 days
Opportunistic-debt[9]	506,749	—	Quarterly, Annually	60 - 90 days
Relative value[10]	375,557	—	Quarterly	60 days
Insurance funds[11]	972,327	$ 103,216	Monthly, Quarterly, Biannually	30 - 90 days
Private debt/credit opportunity funds[12]	4,306,069	$ 3,940,793		
Private equity funds[13]	21,285,291	$ 9,344,537		
Private real asset funds[14]	6,107,743	$ 4,640,219		
Total investments measured at the NAV	**$ 48,784,558**			
Investments at Level 3				
Private equity funds[13]	$ 329,592	$ —		
Real estate direct investments[15]	$ 10,663,262	$ 147,710		

[1] *Commingled International Equity Funds:* The six funds in this group are primarily invested in publicly traded international equity securities. Three of these funds focus on emerging markets. Each are valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments. Three funds within this strategy are redeemable daily, two funds are redeemable monthly, and the remaining fund is currently in the liquidation process with a residual balance remaining.

[2] *Commingled Real Estate Investment Funds:* The eight funds in this group consist primarily of real estate investments owned directly or through partnership interests located in the United States. These investments include multi-family, industrial, retail, office, apartments and mortgage loans on income producing property. Each are valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments. All funds within this strategy are eligible for redemption quarterly.

[3] *Activist Equity Funds:* The four funds in this group invest in public companies with the intent to effect positive change through influencing management. The funds may be structured with a focus on specific domestic or foreign geographic regions. These investments are valued at the NAV per share. One fund (approximately 43% of this strategy) is currently eligible for redemption monthly. Another fund (approximately 27% of this strategy) is eligible for redemption in six months due to annual lock-up restrictions. The remaining two funds (approximately 30% of this strategy) are subject to contractual lock-up restrictions and is not currently eligible for redemption.

[4] *Diversifying Strategies (Managed Futures) Hedge Funds*: The three funds that make up this group primarily trade equity and commodity futures, but can also participate in indexes, rates and currencies across global markets. These funds use a systematic approach and focus on trends in price and other market signals. These investments are valued at the NAV per share. All funds within this strategy are redeemable within a month or less, as they are no longer subject to lock-up restrictions.

[5] *Equity Long/Short Hedge Funds:* Consisting of three funds, this strategy invests both long and short, primarily in U.S. and global stocks that are mispriced by the markets. These managers vary in their use of short selling, leverage and definitions of growth or value. These funds are valued at the NAV per share. Two funds (approximately 58% of this strategy) are currently eligible for redemption monthly, while the remaining fund (approximately 42% of this strategy) is subject to contractual lock-up restrictions and is not currently eligible for redemption.

[6] *Event-Driven Hedge Funds:* The two funds in this group seek to gain an advantage from pricing inefficiencies that may occur in the onset or aftermath of a corporate action or related event. These investments are valued at the NAV per share. One fund (approximately 82% of this strategy) is redeemable in six months due to biennial lock-up restrictions. The remaining fund (approximately 18% of this strategy) is not eligible for redemption due to contractual lock-up restrictions.

Notes to the Financial Statements

3. Deposits and Investments (continued)

[7] *Global Macro Hedge Funds:* Consisting of three funds, which base their holdings (such as long and short positions in various equity, fixed income, currency, and futures markets) primarily on overall economic and political views of various countries. These funds are valued at the NAV per share. All funds in this strategy are no longer subject to contractual lock-up, and are redeemable in three months or less due to monthly and quarterly redemption restrictions.

[8] *Multi-Strategy Hedge Funds:* The five funds in this group aim to diversify risks and reduce volatility by combining other strategies. These strategies are typically a mix of Equity Long/Short, Event-Driven, Opportunistic Debt and Relative Value. These funds are valued at the NAV per share. Three funds (approximately 55% of this strategy) are currently eligible for redemption in one to three months due to quarterly and annual redemption restrictions. One fund (approximately 26% of this strategy) is eligible for redemption biennially (for each commitment) with the next redemption in five months. The remaining fund (approximately 19% of this strategy) is not eligible for redemption due to contractual lock-up redemptions.

[9] *Opportunistic-Debt Hedge Funds:* Consisting of four funds that pursue various strategies and asset classes, with an emphasis on mispriced debt or equity of companies in distress. These managers vary in their focus on early versus late stage situations, senior versus subordinated levels on the capital structure and non-traditional areas including high yield bonds and Emerging Markets debt, and may also pursue relative value and arbitrage strategies with various debt instruments. These funds are valued at the NAV per share. The funds in this strategy are currently eligible for redemption in three to six months due to quarterly and annual redemption restrictions.

[10] *Relative Value Hedge Funds:* Consisting of one fund, this strategy focuses on benefiting from valuation discrepancies that may be present in related financial instruments by simultaneously purchasing (long) or selling (short) these instruments. These investments are valued at the NAV per share. The fund in this strategy is no longer subject to contractual lock-up, and redeemable in three months due to quarterly redemption restrictions.

[11] *Insurance Funds*: The six funds in this group invest primarily in reinsurance contracts and insurance-linked securities. These investments are valued at NAV per share. One fund (approximately 29%) has varying restrictions due to underlying investment funds and redeemable within one to three months. Three funds (approximately 59%) are eligible for redemption in seven months or less due to biannual redemption restrictions. The remaining two funds (approximately 12%) are not eligible for redemption due to contractual lock-up restrictions.

[12] *Private Debt/Credit Opportunity Funds:* There are 71 private debt/credit funds investing primarily in Distressed, Mezzanine and Loans with some exposure to Special Situations. The fair value of these funds has been determined using the NAV at June 30, 2021 or one quarter in arrears adjusted for current quarter cash flows. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to ten years.

[13] *Private Equity Funds:* There are 252 private equity funds investing primarily in Leveraged Buyouts funds, Venture Capital funds, Secondary funds and Growth funds with some exposure to Special Situations, Diversifying Strategies and GP Investments. The fair value of 250 funds has been determined using the NAV at June 30, 2021 or one quarter in arrears adjusted for current quarter cash flows. The fair value of the remaining 2 funds (approximately 2% of the value of these investments) is based on external appraisals at June 30, 2021 and classified as Level 3. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to ten years.

[14] *Private Real Asset Funds:* There are 94 real asset funds, 63 of which invest in real estate assets such as commercial office buildings, retail properties, multi-family residential properties, developments or hotels. In addition, the funds may be structured with a focus on specific geographic domestic or foreign regions. The remaining 31 funds invest in infrastructure, timberland, transportation and commodities. The fair value of these funds has been determined using the NAV at June 30, 2021 or one quarter in arrears adjusted for current quarter cash flows. These funds are not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to ten years.

[15] *Direct Real Estate Investments:* There are 75 direct owned/joint venture real estate assets that are valued based on annual external and/or quarterly internal appraisals and are classified as Level 3.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Deposit and Investment Risk

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

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

Credit Risk

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

The SBA, in compliance with Section 215.47, *Florida Statutes*, has adopted certain investment policies with regard to credit risk of fixed income securities, which generally are managed through individual portfolios within various asset classes. Some of the individual portfolios have slightly different restrictions on credit quality.

For the 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 NRSROs. For long-term investment ratings, this is defined as being a minimum rating of A from one of the NRSROs. Securities of a single issuer are generally limited to 5% of the market value of the portfolio (excluding U.S. Treasuries and Agencies).

Generally, securities in other major portfolios, such as the Mortgage Index Portfolio, Intermediate Aggregate Less MBS Index Portfolio and the Core Portfolio, should be rated investment grade by at least one of the NRSROs at the time of purchase allowing a very small allocation to below investment grade (down to BB-/Ba3) for the Core Portfolio. Securities for a single issuer are generally limited to 5% of the fair value of the portfolio (excluding U.S. Treasuries and Agencies).

The Mortgage Index Portfolio limits securities generally 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.

3. Deposits and Investments (continued)

The Intermediate Aggregate Less MBS Index Portfolio and the Core Portfolio allow U.S. Treasuries, U.S. Government Agencies, corporates, mortgage and asset backed securities, foreign sovereign debt, and municipals.

For security lending portfolios, eligible cash collateral investments are the following:

- Tri-party qualified repurchase obligations are collateralized by U.S. Treasury bills, notes, bonds, and/or strips, U.S. Government Agency securities, U.S. Government Agency mortgage-backed securities, and U.S. Equity securities. U.S. Treasury and Government Agencies must maintain a market value of at least 102% of the market value of the securities subject to being repurchased and U.S. equities must maintain a market value of at least 110% of the market value of the securities subject to being repurchased.
- Money market mutual funds regulated by SEC Rule 2a-7 and rated the highest applicable rating by at least one of the NRSROs.
- U.S. Treasury bills, notes, and bonds.

Security lending investments that were purchased prior to the policy guidelines established in December 2008 are being held to maturity in existing lending portfolios.

Notes to the Financial Statements

3. Deposits and Investments (continued)

The following tables disclose credit quality ratings related to credit risk on investments held in the Trust as of June 30, 2022 and 2021.

Credit Quality Ratings [1]		As of June 30, 2022							
S&P	Moody's	Total [2]	Certificates of Deposit	Commercial Paper	Money Market Funds	Repurchase Agreements	Federal Agencies [4]	Domestic Bonds and Notes	Int.. Bonds and Notes
		(In Thousands)							
A-1 / AAAm		$ 6,084,108	$ 374,033	$ 5,021,058	$ 689,017	$ —	$ —	$ —	$ —
AAA		1,168,358	—	—	—	—	—	645,309	523,049
AA		859,887	—	—	—	—	400,354	321,864	137,669
A		2,534,664	—	—	—	—	—	1,917,799	616,865
BBB		4,471,421	—	—	—	—	—	3,615,395	856,026
BB		303,334	—	—	—	—	—	228,097	75,237
B		111,446	—	—	—	—	—	84,284	27,162
CCC		16,877	—	—	—	—	—	8,365	8,512
CC		8,019	—	—	—	—	—	8,019	—
D		973	—	—	—	—	—	973	—
	P-1	29,351	29,351	—	—	—	—	—	—
	P-2	284,697	—	284,697	—	—	—	—	—
	Aaa	1,701,176	—	—	—	—	—	1,260,705	440,471
	Aa	148,824	—	—	—	—	—	109,520	39,304
	A	213,337	—	—	—	—	—	185,321	28,016
	Baa	489,122	—	—	—	—	—	313,743	175,379
	Ba	194,049	—	—	—	—	—	156,931	37,118
	B	49,038	—	—	—	—	—	40,101	8,937
	Caa	7,471	—	—	—	—	—	3,823	3,648
NR	NR	9,015,162	—	—	249,027	645,104	7,341,638	684,192	95,201
		27,691,314	403,384	5,305,755	938,044	645,104	7,741,992	9,584,441	3,072,594
Ratings not applicable:									
Repurchase agreements [3]		554,896							
U.S. guaranteed obligations [3]		11,684,983							
Total fixed income		$39,931,193							

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

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

[3] U.S. guaranteed obligations and collateral for repurchase agreements, which are explicitly guaranteed by the U.S. Government, do not require disclosure of credit quality.

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Credit Quality Ratings [1] S&P	Moody's	Total [2]	Commercial Paper	Money Market Funds	Repurchase Agreements	Federal Agencies [4]	Domestic Bonds and Notes	Int. Bonds and Notes
		As of June 30, 2021						
		(In Thousands)						
A-1 / AAAm		$ 4,582,656	$ 2,585,163	$ 1,997,493	$ —	$ —	$ —	$ —
A-2		242,998	242,998	—	—	—	—	—
AAA		1,218,999	—	—	—	—	625,768	593,231
AA		920,978	—	—	—	507,901	293,899	119,178
A		2,195,070	—	—	—	—	1,573,028	622,042
BBB		4,774,611	—	—	—	—	3,945,578	829,033
BB		433,757	—	—	—	—	312,854	120,903
B		138,347	—	—	—	—	99,671	38,676
CCC		25,546	—	—	—	—	19,229	6,317
CC		9,914	—	—	—	—	9,914	—
D		1,191	—	—	—	—	1,191	—
	Aaa	1,281,554	—	—	—	—	918,156	363,398
	Aa	126,895	—	—	—	—	97,992	28,903
	A	195,568	—	—	—	—	156,233	39,335
	Baa	569,461	—	—	—	—	418,398	151,063
	Ba	252,308	—	—	—	—	180,328	71,980
	B	65,592	—	—	—	—	54,727	10,865
	Caa	16,364	—	—	—	—	9,463	6,901
	Ca	199	—	—	—	—	199	—
NR	NR	10,428,149	—	—	633,846	8,959,339	684,708	150,256
		27,480,157	2,828,161	1,997,493	633,846	9,467,240	9,401,336	3,152,081
Ratings not applicable:								
Repurchase agreements [3]		366,154						
U.S. guaranteed obligations [3]		17,884,329						
Total fixed income investments		$ 45,730,640						

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

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

[3] U.S. guaranteed obligations and collateral for repurchase agreements, which are explicitly guaranteed by the U.S. Government, do not require disclosure of credit quality.

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

All futures, options and swaps contracts held by the Trust at June 30, 2022 and 2021, were exchange-traded, therefore minimizing counterparty credit risk through the use of futures and swaps clearing merchants and clearing houses.

The Trust may enter into contracts that allow for close-out netting with certain counterparties. In the event of default or early termination, the contract permits the non-defaulting party the right to close-out all transactions in a single net settlement to one net amount payable by one counterparty to the other. The aggregate fair value of non-exchange traded derivative instruments subject to close-out netting totaled $5.4 million and $10.2 million as of June 30, 2022 and 2021, respectively.

Counterparty credit ratings related to credit risk for forward currency contracts held at June 30, 2022 and 2021, are presented below.

Credit Ratings (Long/Short) [1]		As of June 30, 2022			As of June 30, 2021		
S&P	Moody's	Asset	Liability	Net Unrealized Gain/(Loss)	Asset	Liability	Net Unrealized Gain/(Loss)
		(In Thousands)			*(In Thousands)*		
AA/A-1		$ —	$ —	$ —	$ 110	$ (29)	$ 81
A/A-1		14,177	(9,601)	4,576	34,240	(24,107)	10,133
	A/P-1	876	(1,044)	(168)	—	—	—
	NR/P-1	1,298	(5,573)	(4,275)	141	(105)	36
	Total	$ 16,351	$ (16,218)	$ 133	$ 34,491	$ (24,241)	$ 10,250

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

Counterparty credit ratings related to credit risk for spot currency contracts held at June 30, 2022 and 2021, are presented below.

Credit Ratings (Long/Short) [1]		As of June 30, 2022			As of June 30, 2021		
S&P	Moody's	Receivables	Payables	Net Unrealized Gain/(Loss)	Receivables	Payables	Net Unrealized Gain/(Loss)
		(In Thousands)			*(In Thousands)*		
AA/A-1		$ 1,132	$ (1,133)	$ (1)	$ 10,273	$ (10,278)	$ (5)
A/A-1		95,188	(95,106)	82	259,195	(259,891)	(696)
	A/P-1	7,544	(7,525)	19	384	(384)	—
	NR/P-1	816	(815)	1	—	—	—
NR	NR	41,771	(41,799)	(28)	74,370	(74,375)	(5)
	Total	$ 146,451	$ (146,378)	$ 73	$ 344,222	$ (344,928)	$ (706)

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Custodial Credit Risk

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

As stated in SBA's custodial credit policy, the SBA seeks to minimize custodial credit risk through the use of trust accounts maintained at top tier third-party custodian banks, whose creditworthiness is monitored by the SBA. To the extent possible, 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, but does not apply to investments evidenced by contractual agreements such as alternatives, real estate, cleared derivative instruments (futures, options and swaps), external investment pools or open-ended mutual funds. These types of investments are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. In addition, un-invested cash for all portfolios/funds under SBA management is generally swept nightly into overnight investments, thereby reducing the Trust's exposure to custodial credit risk. On occasion, however, the Trust's cash balances can exceed federally-insured limits.

All U.S. dollar deposits at the SBA's custodian bank were covered by federal depository insurance (FDIC) as of June 30, 2022 and 2021. The remaining uninsured and uncollateralized deposits, totaling $92.5 million and $83.8 million as of June 30, 2022 and 2021, respectively, were held in foreign currencies in the SBA's custodian nominee name.

Presented below are investments that were uninsured and unregistered, with securities held by the counterparty, or by the counterparty's trust department but not in the SBA's name, as of June 30, 2022 and June 30, 2021.

	As of June 30	
Investment Type	**2022**	**2021**
	(In Thousands)	
Security lending collateral:		
Domestic bonds and notes	$ 34,023	$ 41,740

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Trust did not hold any investments with a single issuer representing 5% or more of the Trust's fair value at June 30, 2022 or 2021.

Investment policy guidelines allow the security lending programs to hold up to 30% of the cash collateral reinvestment portfolio in U.S. Treasury bills, notes, and bonds.

3. Deposits and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income instruments. The SBA, in compliance with Section 215.47, *Florida Statutes*, has adopted certain investment policies with regard to interest rate risk exposure for fixed income securities, which generally are managed through individual portfolios with various asset classes. The individual portfolios may have different policies regarding interest rate risk.

For the Short-Term Portfolio, the weighted-average maturity to final maturity date (WAL) is limited to 120 days 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.

The Mortgage Index 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 the Barclays Capital U.S. MBS Index duration. Swaps and/or Agency debentures may contribute no more than 25% of the portfolio's total duration.

The Intermediate Aggregate Less MBS Index Portfolio duration should remain within plus or minus 0.25 years of the Barclays Capital U.S. Intermediate Aggregate Bond Index duration less the MBS Index component. Interest rate swaps and interest rate futures, on a net basis, may contribute no more than 25% of the portfolio's total duration.

The Core Portfolio duration should remain within plus or minus 0.50 years of the Barclays Capital U.S. Intermediate Aggregate Bond Index duration. Interest rate swaps and interest rate futures, on a net basis, may contribute no more than 25% of the portfolio's total duration.

The Core Portfolio contains certain investments known as collateralized mortgage obligations (CMOs). CMOs are often more sensitive to interest rate changes than other fixed income instruments. Examples of CMO securities that qualify as "highly interest rate sensitive" include interest-only (IOs), principal-only (POs), and inverse floaters (INVs). IO and PO securities are transactions that involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which increase the value of a PO and decrease the value of an IO. Inverse floaters (INV) have an inverse relationship to a benchmark rate, and the coupon payment is adjusted as the interest rate changes. If the benchmark interest rate decreases, the coupon rate increases and vice versa, which allows the bondholder to benefit from declining interest rates. Similar to an IO, an interest-only inverse floater's value increases as interest rates rise.

Notes to the Financial Statements

3. Deposits and Investments (continued)

For security lending portfolios, policy guidelines allow investment in the following:

- Tri-party qualified repurchase obligations, with a term to repurchase not to exceed 45 calendar days, that are fully collateralized by U.S. Treasury bills, notes, bonds and/or strips, U.S. Government Agency securities, U.S. Government Agency mortgage-backed securities and U.S. Equity securities.
- Money market mutual funds regulated by SEC Rule 2a-7.
- U.S. Treasury bills, notes and bonds maturing within 92 days or less.

Security lending investments that were purchased prior to the investment policy guidelines established in December 2008 are still held in the lending programs, and are slowly paying down. 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, 2022 and 2021, are presented below. Investment types, related to fixed income portfolios, are presented using effective weighted duration. Investment types related to short-term, and security lending collateral portfolios are presented using weighted-average maturity.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investment Type	Total (Duration)	Effective Weighted Duration	Total (WAM)	Weighted Average Maturity
	As of June 30, 2022			
	(In Thousands)	*(In Years)*	*(In Thousands)*	*(In Days)*
Certificates of deposit	$ —	NA	$ 403,384	105
Commercial paper	—	NA	5,305,755	17
Money market funds	—	NA	938,044	1
Repurchase agreements	—	NA	1,200,000	2
U.S. guaranteed obligations:				
Treasury bills	796,065	0.23	—	NA
Treasury bonds and notes	9,330,586	4.18	—	NA
Treasury strips	12,050	18.80	—	NA
Index linked government bonds	120,151	6.68	—	NA
Bonds and notes	6,155	1.52	—	NA
Asset-backed	4,998	2.44	—	NA
GNMA mortgage-backed	1,066,319	5.48	—	NA
GNMA commitments to purchase (TBAs)	214,399	6.04	—	NA
Mortgage-backed CMOs and CMBS [1]	134,260	5.46	—	NA
Federal agencies:				
Discount notes	3,923	0.23	—	NA
Unsecured bonds and notes	396,431	4.71	—	NA
Agency strips	24,741	7.67	—	NA
Mortgage-backed	5,086,176	6.17	—	NA
FNMA, FHLMC commitments to purchase (TBAs)	1,464,639	6.09	—	NA
Mortgage-backed CMOs and CMBS [1]	766,082	5.53	—	NA
Domestic:				
Corporate bonds and notes	6,473,052	4.34	—	NA
Asset and mortgage-backed	694,737	2.13	33,214	25
Mortgage-backed CMOs and CMBS [1]	2,353,633	4.11	809	25
Municipal/provincial	28,996	7.16	—	NA
International:				
Government and agency obligations	667,424	3.44	—	NA
Corporate bonds and notes	1,634,860	3.89	—	NA
Asset and mortgage-backed	689,438	0.13	—	NA
Mortgage-backed CMOs and CMBS [1]	80,872	0.11	—	NA
Futures-long [2]	(13,868)	3.91	—	NA
Futures-short [2]	8,123	10.15	—	NA
Credit default swaps [2]	(500)	—	—	NA
Interest rate swaps [2]	322	2.75	—	NA
Total fixed income investments	$ 32,044,064		$ 7,881,206	
Short sales (liabilities)				
GNMA commitments to sell (TBAs)	$ (5,261)	7.46		
FNMA, FHLMC commitments to sell (TBAs)	(30,780)	6.10		
Total fixed income short sales	$ (36,041)			

[1] Includes investments in IOs, POs and INVs totaling $69 million.

[2] The futures and swaps contracts' effective weighted durations were calculated using notional values (in U.S. dollars) rather than fair values.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investment Type	As of June 30, 2021 Total (Duration)	Effective Weighted Duration	Total (WAM)	Weighted Average Maturity
	(In Thousands)	*(In Years)*	*(In Thousands)*	*(In Days)*
Commercial paper	$ —	NA	$ 2,828,161	14
Money market funds	—	NA	1,997,493	1
Repurchase agreements	—	NA	1,000,000	3
U.S. guaranteed obligations:				
Treasury bills	5,802,859	0.17	—	NA
Treasury bonds and notes	10,480,831	4.01	—	NA
Treasury strips	19,261	23.02	—	NA
Index linked government bonds	201,743	8.65	—	NA
Bonds and notes	10,973	1.83	—	NA
Asset-backed	9,674	2.94	—	NA
GNMA mortgage-backed	841,603	3.53	—	NA
GNMA commitments to purchase (TBAs)	379,785	5.05	—	NA
Mortgage-backed CMOs and CMBS [1]	137,600	3.65	—	NA
Federal agencies:				
Unsecured bonds and notes	507,901	3.95	—	NA
Agency strips	13,754	5.56	—	NA
Mortgage-backed	4,871,867	4.69	—	NA
FNMA, FHLMC commitments to purchase (TBAs)	3,062,980	4.93	—	NA
Mortgage-backed CMOs and CMBS [1]	1,010,738	3.42	—	NA
Domestic:				
Corporate bonds and notes	6,846,502	4.91	—	NA
Asset and mortgage-backed	761,674	2.16	37,403	26
Mortgage-backed CMOs and CMBS [1]	1,732,524	3.21	992	26
Municipal/provincial	22,241	6.03	—	NA
International:				
Government and agency obligations	769,839	3.71	—	NA
Corporate bonds and notes	1,650,953	4.05	—	NA
Asset and mortgage-backed	643,204	0.33	—	NA
Mortgage-backed CMOs and CMBS [1]	88,085	(0.05)	—	NA
Futures-long [2]	4,865	3.86	—	NA
Futures-short [2]	(17,627)	6.64	—	NA
Credit default swaps [2]	5,164	—	—	NA
Interest rate swaps [2]	(4,172)	7.65	—	NA
Total fixed income investments	$ 39,854,821		$ 5,864,049	
Short sales (liabilities)				
GNMA commitments to sell (TBAs)	$ (837)	2.47		
FNMA, FHLMC commitments to sell (TBAs)	(75,747)	3.11		
Total fixed income short sales	$ (76,584)			

1 Includes investments in IOs, POs and INVs totaling $80 million.

2 The futures and swaps contracts' effective weighted durations were calculated using notional values (in U.S. dollars) rather than fair values.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit or investment. Under Section 215.47, *Florida Statutes*, and subject to the limitations and conditions of the State Constitution or of the trust agreement relating to a trust fund, moneys available for investment by the Trust may be invested in various types of securities denominated in foreign currency. The SBA has developed for the Trust an Investment Policy Statement (IPS) that sets ranges on investments by asset class. All asset classes may hold non-U.S. securities, depending on portfolio guidelines. For fiscal years 2022 and 2021, Florida law limits the exposure to foreign securities held outside of foreign group trusts and certain other foreign entities to 50% of the total Trust. There is no requirement that this exposure to foreign currency risk be hedged through forward currency contracts, although some managers are authorized to use forward currency contracts.

Commingled international equity funds are collective investments where the Trust owns a portion of the total units in commingled funds with other investors. Exchange-traded funds (ETFs) are investment funds, traded on the exchanges, that hold assets such as stocks or bonds, and the Trust owns a portion of the total shares in the ETFs. Participatory notes (P-Notes) allow the Trust to participate in certain foreign equity markets where direct participation is not possible due to local government regulations, tax policies, or for other reasons. The overall investments or notes themselves are denominated in U.S. dollars, but a portion of the underlying assets may be exposed to foreign currency risk in various currencies.

Alternative investments are commingled investment funds (primarily limited partnerships) where the Trust owns a portion of the overall investment in the funds. For those funds denominated in U.S. dollars, some of the underlying investments may be exposed to foreign currency risk in various currencies.

The Trust is permitted to hold positions in futures, options, swaps, and foreign currency contracts that may be exposed to foreign currency risk. Additional information on derivative instruments is provided in Note 3 to the financial statements.

Following are the Trust's deposits and investments, by currency at fair value (in U.S. dollars) and by investment type, exposed to foreign currency risk as of June 30, 2022 and 2021.

Notes to the Financial Statements

3. Deposits and Investments (continued)

	As of June 30, 2022						
Currency	Cash	Equity	Alternative Investments	Fixed Income	Other	Spots, net	Total
			(In Thousands)				
Australian dollar	$ 848	$ 710,386	$ —	$ —	$ 68,883	$ (287)	$ 779,830
Brazilian real	2,618	414,038	—	—	—	289	416,945
British pound sterling	3,887	2,781,503	124,576	12,151	(22,202)	6,273	2,906,188
Canadian dollar	2,774	1,317,953	—	3,609	116,359	129	1,440,824
Chilean peso	621	33,587	—	—	—	—	34,208
Chinese yuan renminbi	6,852	898,633	—	—	5,135	(1,767)	908,853
Colombian peso	2	913	—	—	—	—	915
Czech koruna	—	4,087	—	—	—	—	4,087
Danish krone	260	536,956	—	—	(7,860)	1,065	530,421
Egyptian pound	23	17	—	—	—	—	40
Euro	13,243	6,228,509	1,666,724	91,933	(282,018)	8,419	7,726,810
Hong Kong dollar	14,617	2,793,069	—	—	27,440	(3,874)	2,831,252
Hungarian forint	336	7,172	—	—	—	—	7,508
Indian rupee	3,281	974,821	—	—	(31,332)	—	946,770
Indonesian rupiah	219	176,591	—	—	—	(74)	176,736
Israeli shekel	936	128,677	—	—	(4,003)	307	125,917
Japanese yen	14,550	3,203,154	5,973	—	(25,473)	1,091	3,199,295
Kenyan shilling	49	737	—	—	—	—	786
Kuwaiti dinar	17	10,262	—	—	—	—	10,279
Malaysian ringgit	293	55,889	—	—	—	(15)	56,167
Mexican peso	1,022	174,365	—	—	—	690	176,077
Moroccan dirham	8	—	—	—	—	—	8
New Taiwan dollar	5,323	1,128,764	—	—	(7,693)	(12,527)	1,113,867
New Zealand dollar	142	12,045	—	—	—	—	12,187
New Zimbabwe dollar	177	7,416	—	—	—	—	7,593
Norwegian krone	353	236,731	—	—	—	909	237,993
Pakistani rupee	75	—	—	—	—	—	75
Peruvian sol	5	80	—	—	—	—	85
Philippines peso	111	48,397	—	—	—	49	48,557
Polish zloty	196	59,267	—	—	—	227	59,690
Qatari riyal	413	41,942	—	—	—	—	42,355
Romanian new leu	—	2,565	—	—	—	—	2,565
Russian ruble	57	7,665	—	—	—	—	7,722
Saudi Arabian riyal	2,180	222,112	—	—	—	—	224,292
Singapore dollar	414	380,514	—	—	6,876	416	388,220
South African rand	1,493	274,891	—	—	—	(6,629)	269,755
South Korean won	10,826	1,018,875	—	—	(25,225)	3,934	1,008,410
Swedish krona	389	416,424	35,660	—	17,830	1,047	471,350
Swiss franc	998	1,454,310	—	—	5,540	(1,325)	1,459,523
Thailand baht	—	162,639	—	—	—	40	162,679
Turkish lira	758	34,417	—	—	—	—	35,175
United Arab Emirates dirham	41	57,662	—	—	—	—	57,703
Vietnam dong	2,096	10,892	—	—	—	—	12,988
Total foreign currency risk	92,503	26,028,927	1,832,933	107,693	(157,743)	(1,613)	27,902,700
Other investments with potential exposure to foreign currency risk:							
Alternative investments	—	—	38,847,689	—	—	—	38,847,689
P-notes and ETFs	—	42,318	—	—	—	—	42,318
Commingled int. equity funds	—	5,525,991	—	—	—	—	5,525,991
Total investments	$ 92,503	$ 31,597,236	$ 40,680,622	$ 107,693	$ (157,743)	$ (1,613)	$ 72,318,698

Notes to the Financial Statements

3. Deposits and Investments (continued)

	As of June 30, 2021						
Currency	Cash	Equity	Alternative Investments	Fixed Income	Other	Spots, net	Total
			(In Thousands)				
Australian dollar	$ 1,378	$ 1,006,211	$ —	$ —	$ (130,375)	$ (226)	$ 876,988
Brazilian real	3,807	684,376	—	—	—	(1,552)	686,631
British pound sterling	5,473	3,441,186	111,669	19,939	(70,977)	12,322	3,519,612
Canadian dollar	1,638	1,403,652	—	3,962	67,311	2,670	1,479,233
Chilean peso	473	32,196	—	—	—	—	32,669
Chinese yuan renminbi	2,547	1,083,278	—	—	49,586	(93)	1,135,318
Colombian peso	4	917	—	—	22,496	—	23,417
Czech koruna	12	1,088	—	—	45,542	—	46,642
Danish krone	1,319	675,407	—	—	—	(202)	676,524
Egyptian pound	28	10,590	—	—	—	—	10,618
Euro	16,690	8,319,691	1,604,304	102,508	(500,657)	98,330	9,640,866
Hong Kong dollar	11,329	4,044,101	—	—	(18,773)	18,474	4,055,131
Hungarian forint	181	8,644	—	—	10,427	—	19,252
Indian rupee	3,462	1,231,137	—	6	64,718	(94)	1,299,229
Indonesian rupiah	121	77,623	—	—	89,131	(5)	166,870
Israeli shekel	448	107,048	—	—	(19,618)	478	88,356
Japanese yen	15,921	4,102,818	1,812	—	(138,769)	(12,037)	3,969,745
Kenyan shilling	—	6,109	—	—	—	—	6,109
Kuwaiti dinar	—	2,756	—	—	—	—	2,756
Malaysian ringgit	313	56,291	—	—	—	(5)	56,599
Mexican peso	1,430	165,744	—	—	(4,015)	108	163,267
Moroccan dirham	9	—	—	—	—	—	9
New Taiwan dollar	592	1,778,993	—	—	(102,766)	48,031	1,724,850
New Zealand dollar	102	17,118	—	—	36,156	—	53,376
New Zimbabwe dollar	578	8,393	—	—	—	—	8,971
Norwegian krone	—	291,877	—	—	5,900	(911)	296,866
Pakistani rupee	61	1,053	—	—	—	—	1,114
Peruvian sol	3	61	—	—	—	—	64
Philippines peso	724	44,857	—	—	21,014	419	67,014
Polish zloty	186	67,428	—	—	20,887	234	88,735
Qatari riyal	30	10,011	—	—	—	—	10,041
Romanian new leu	—	—	—	—	10,471	—	10,471
Russian ruble	15	9,843	—	—	83,624	—	93,482
Saudi Arabian riyal	987	136,036	—	—	—	—	137,023
Singapore dollar	1,560	424,269	—	—	2,278	648	428,755
South African rand	709	341,729	—	—	(3,811)	(1,049)	337,578
South Korean won	6,548	1,834,183	—	—	(9,993)	—	1,830,738
Swedish krona	2,245	804,106	55,096	—	(37,575)	(4,942)	818,930
Swiss franc	2,334	1,915,226	—	—	(54,578)	(7,454)	1,855,528
Thailand baht	—	126,045	—	—	3,384	10	129,439
Turkish lira	389	67,573	—	—	10,267	(190)	78,039
United Arab Emirates dirham	—	33,699	—	—	—	—	33,699
Vietnam dong	191	12,508	—	—	—	—	12,699
Total foreign currency risk	83,837	34,385,871	1,772,881	126,415	(548,715)	152,964	35,973,253
Other investments with potential exposure to foreign currency risk:							
Alternative investments	—	—	37,699,569	—	—	—	37,699,569
P-notes and ETFs	—	59,574	—	—	—	—	59,574
Commingled int. equity funds	—	7,724,138	—	—	—	—	7,724,138
Total investments	$ 83,837	$ 42,169,583	$ 39,472,450	$ 126,415	$ (548,715)	$ 152,964	$ 81,456,534

Notes to the Financial Statements

3. Deposits and Investments (continued)

The tables below provide additional details on the futures contracts and foreign currency contracts that were subject to foreign currency risk. The margin payments included in "Margin receivable from counterparty" and "Margin payable to counterparty" on the statements of net position, may also be exposed to foreign currency risk.

Futures

The Trust's futures contract positions as of June 30, 2022 and 2021, that were exposed to foreign currency risk are presented below.

		As of June 30, 2022				
			In Local Currency			In U.S. $
Futures Contract Type	**Currency**	**Number of Contracts**	**Notional Traded Exposure**	**Notional Market Exposure**	**Unrealized Gain/(Loss)**	**Unrealized Gain/(Loss)**
				(In Thousands)		*(In Thousands)*
Stock Index Futures:						
MSCI EAFE[1]	U.S. dollar	4,991	463,069	463,314	245	$ 245
MSCI Emerging Markets[1]	U.S. dollar	216	10,819	10,829	10	10
Bond Futures:						
Euro Bobl	Euro	(22)	(2,406)	(2,401)	5	5
Euro Bund	Euro	(36)	(5,470)	(5,356)	114	119
Euro Schatz	Euro	(122)	(15,290)	(15,151)	139	146
Total futures subject to foreign currency risk		5,027	450,722	451,235	513	$ 525

[1] Futures denominated in U.S. dollars are based on an index that converts the foreign issues to dollar equivalents at currency market exchange rates.

		As of June 30, 2021				
			In Local Currency			In U.S. $
Futures Contract Type	**Currency**	**Number of Contracts**	**Notional Traded Exposure**	**Notional Market Exposure**	**Unrealized Gain/(Loss)**	**Unrealized Gain/(Loss)**
				(In Thousands)		*(In Thousands)*
Stock Index Futures:						
GBP FTSE 100	British pound sterling	10	707	698	(9)	$ (13)
Canada S&P/TSE 60	Canadian dollar	4	956	962	6	5
DJ Euro STOXX 50	Euro	40	1,648	1,622	(26)	(31)
Topix Index Future	Japanese yen	8	156,439	155,440	(999)	(9)
MSCI EAFE[1]	U.S. dollar	4,536	536,156	522,570	(13,586)	(13,586)
MSCI Emerging Markets[1]	U.S. dollar	239	16,303	16,309	6	6
Total futures subject to foreign currency risk		4,837	712,209	697,601	(14,608)	$ (13,628)

[1] Futures denominated in U.S. dollars are based on an index that converts the foreign issues to dollar equivalents at currency market exchange rates.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Forward and Spot Foreign Currency Contracts

Foreign currency contracts are agreements to exchange one currency for another currency 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 valued at spot (traded) currency rates and are used primarily for trade settlement and currency repatriation. Forward currency contracts are valued at interpolated forward rates and may be used to mitigate currency risk for changes in value associated with foreign holdings, payables and/or receivables. Forward currency contracts are recorded as investment assets and liabilities on the statements of net position and spot currency contracts are recorded as receivables and payables on the statements of net position. In addition, during fiscal year 2021 and a portion of fiscal year 2022, a currency overlay program was used to seek additional value and ran independently of the underlying equity assets.

Notes to the Financial Statements

3. Deposits and Investments (continued)

The Trust's forward currency contract positions as of June 30, 2022 and 2021, that were exposed to foreign currency risk are presented below, by currency.

	As of June 30, 2022				As of June 30, 2021			
	In U.S. $				In U.S. $			
Currency	Receivable Notional	Payable Notional	Total Market Value	Unrealized Gain/(Loss)	Receivable Notional	Payable Notional	Total Market Value	Unrealized Gain/(Loss)
	(In Thousands)				*(In Thousands)*			
Australian dollar	$ 91,431	$ 19,792	$ 68,883	$ (2,757)	$ 207,958	$ 338,623	$ (130,375)	$ 291
Brazilian real	—	—	—	—	22,259	21,705	—	(555)
British pound sterling	50,262	72,654	(22,202)	189	125,986	198,095	(70,964)	1,145
Canadian dollar	192,534	72,236	116,359	(3,938)	328,752	260,675	67,306	(771)
Chilean peso	—	—	—	—	12,495	12,174	—	(320)
Chinese yuan renminbi	5,045	—	5,135	90	49,924	—	49,586	(337)
Colombian peso	—	—	—	—	35,388	12,029	22,496	(862)
Czech koruna	—	—	—	—	46,495	—	45,542	(953)
Danish krone	6,182	14,081	(7,860)	39	—	—	—	—
Euro	175,719	462,490	(282,288)	4,483	235,963	744,957	(500,626)	8,368
Hong Kong dollar	27,440	—	27,440	(1)	5,132	23,927	(18,773)	22
Hungarian forint	—	—	—	—	10,850	—	10,427	(423)
Indian rupee	3,309	35,404	(31,332)	763	78,003	12,147	64,718	(1,139)
Indonesian rupiah	—	—	—	—	90,744	—	89,131	(1,613)
Israeli shekel	1,661	5,856	(4,003)	192	1,506	21,137	(19,618)	13
Japanese yen	68,059	95,919	(25,473)	2,388	35,962	176,512	(138,760)	1,790
Mexican peso	—	—	—	—	12,202	16,217	(4,015)	—
New Taiwan dollar	1,513	9,417	(7,693)	211	6,500	108,971	(102,766)	(295)
New Zealand dollar	—	—	—	—	252,223	215,987	36,156	(80)
Norwegian krone	—	—	—	—	184,773	179,797	5,900	923
Philippines peso	—	—	—	—	21,451	—	21,014	(437)
Polish zloty	—	—	—	—	21,689	—	20,887	(801)
Romanian new leu	—	—	—	—	10,735	—	10,471	(264)
Russian ruble	—	—	—	—	81,421	834	83,624	3,037
Singapore dollar	6,998	—	6,876	(122)	2,299	—	2,278	(21)
South African rand	—	—	—	—	—	3,817	(3,811)	5
South Korean won	4,556	30,931	(25,225)	1,150	29,324	39,680	(9,993)	363
Swedish krona	22,146	4,191	17,830	(124)	155,687	195,368	(37,575)	2,106
Swiss franc	65,848	57,878	5,540	(2,430)	206,298	261,928	(54,578)	1,052
Thailand baht	—	—	—	—	21,576	18,007	3,384	(186)
Turkish lira	—	—	—	—	10,075	—	10,267	192
U.S. dollar	880,849	722,703	158,146	—	1,608,209	1,049,292	558,917	—
Total	$ 1,603,552	$ 1,603,552	$ 133	$ 133	$ 3,911,879	$ 3,911,879	$ 10,250	$ 10,250

3. Deposits and Investments (continued)

The Trust's spot currency contract positions as of June 30, 2022 and 2021, that were exposed to foreign currency risk are presented below, by currency.

	As of June 30, 2022				As of June 30, 2021			
	In U.S. $				In U.S. $			
Currency	**Receivables**	**Payables**	**Net Receivables / Payables**	**Unrealized Gain/(Loss)**	**Receivables**	**Payables**	**Net Receivables /Payables**	**Unrealized Gain/ (Loss)**
	(In Thousands)				*(In Thousands)*			
Australian dollar	$ 557	$ (844)	$ (287)	$ 1	$ 1,975	$ (2,201)	$ (226)	$ (3)
Brazilian real	1,030	(741)	289	(2)	—	(1,552)	(1,552)	—
British pound sterling	13,943	(7,670)	6,273	(7)	22,208	(9,886)	12,322	(142)
Canadian dollar	519	(390)	129	—	3,527	(857)	2,670	3
Chinese yuan renminbi	—	(1,767)	(1,767)	(1)	—	(93)	(93)	—
Danish krone	1,065	—	1,065	1	—	(202)	(202)	—
Euro	30,685	(22,266)	8,419	34	132,511	(34,181)	98,330	(674)
Hong Kong dollar	4,227	(8,101)	(3,874)	(2)	27,058	(8,584)	18,474	(4)
Indian rupee	—	—	—	—	—	(94)	(94)	—
Indonesian rupiah	—	(74)	(74)	—	—	(5)	(5)	—
Israeli shekel	308	(1)	307	(2)	478	—	478	—
Japanese yen	8,988	(7,897)	1,091	(7)	2,093	(14,130)	(12,037)	28
Malaysian ringgit	—	(15)	(15)	—	—	(5)	(5)	—
Mexican peso	1,886	(1,196)	690	(1)	108	—	108	—
Moroccan dirham	—	—	—	—	—	—	—	—
New Taiwan dollar	—	(12,527)	(12,527)	(3)	48,064	(33)	48,031	80
Norwegian krone	947	(38)	909	(1)	—	(911)	(911)	1
Philippines peso	65	(16)	49	—	419	—	419	(2)
Polish zloty	240	(13)	227	1	234	—	234	—
Singapore dollar	419	(3)	416	—	2,924	(2,276)	648	(2)
South African rand	706	(7,335)	(6,629)	64	2,004	(3,053)	(1,049)	(4)
South Korean won	4,170	(236)	3,934	—	—	—	—	—
Swedish krona	2,632	(1,585)	1,047	(6)	5,126	(10,068)	(4,942)	(10)
Swiss franc	—	(1,325)	(1,325)	4	—	(7,454)	(7,454)	24
Thailand baht	40	—	40	—	21	(11)	10	—
Turkish lira	—	—	—	—	—	(190)	(190)	(1)
U.S. dollar	74,024	(72,338)	1,686	—	95,472	(249,142)	(153,670)	—
Total	$ 146,451	$ (146,378)	$ 73	$ 73	$ 344,222	$ (344,928)	$ (706)	$ (706)

Notes to the Financial Statements

3. Deposits and Investments (continued)

Security Lending

During fiscal years 2022 and 2021, the Trust participated in security lending programs with two lending agents, including the Trust's custodian and one third-party agent. These security lending programs have indemnity clauses requiring the lending agent to assume the borrower's risk from default. There are no restrictions on the amount of securities that can be loaned at one time to one borrower.

In addition to the two agent lending programs, the Trust participated in security lending through investments in three commingled funds that do not offer borrower indemnification. The Trust receives a proportionate share of the security lending income generated from these activities.

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. As of June 30, 2022, the Trust had received and invested approximately \$1.0 billion in cash collateral and received \$5.1 billion in securities as collateral for the lending programs. The collateral held for the security lending transactions exceeded the fair value of the securities on loan (including accrued interest). As a result, none of the lending programs were under-collateralized at the end of the fiscal year. The Trust does not have the ability to pledge or sell the non-cash collateral securities unless the borrower defaults, so the non-cash portion is not reported on the statements of net position.

Maturities of investments made with cash collateral generally are not matched to maturities of the securities loaned, because security lending agreements generally are open-ended with no fixed expiration date. As such, investments made with cash collateral are limited to those with a final maturity of up to 92 days. However, investments in one of the security lending programs included investments with final maturities of six months or more, which represented approximately 6% of that lender's total collateral invested at June 30, 2022. This is due to the portfolio containing some legacy securities that will remain until they are sold or mature.

Notes to the Financial Statements

3. Deposits and Investments (continued)

The Trust's securities on loan as of June 30, 2022 and 2021, are presented below, by security type.

Securities on Loan by Security Type[1]	As of June 30 2022	As of June 30 2021
	(In Thousands)	
Securities on loan for cash collateral:		
U.S. guaranteed obligations	$ 354,573	$ 1,230,458
Federal agencies	26,427	26,410
Domestic corporate bonds and notes	83,037	46,916
International bonds and notes	78,119	60,606
Domestic equities	109,690	89,153
International equities	249,227	493,737
Total securities on loan for cash collateral	901,073	1,947,280
Securities on loan for non-cash collateral:		
U.S. guaranteed obligations	1,020,027	1,134,410
Federal agencies	2,702	2,489
Domestic corporate bonds and notes	194,582	19,111
International bonds and notes	42,626	11,226
Domestic equities	2,843,866	8,458,175
International equities	782,131	678,931
Total securities on loan for non-cash collateral	4,885,934	10,304,342
Total securities on loan	$ 5,787,007	$ 12,251,622

[1] Fair value includes accrued interest on fixed income securities.

Derivatives

The Trust accounts for derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This statement defines a derivative instrument 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.

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.

The Trust is permitted to hold the following derivative instruments: futures, options, forward currency contracts, and swaps.

Notes to the Financial Statements

3. Deposits and Investments (continued)

The SBA has established investment guidelines for each investment portfolio. Pursuant to these guidelines, investment derivative 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, and may 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, and to effectively manage exposure to domestic and international equities, bonds, and real estate markets.

A futures contract is an agreement between 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 (cash and/or securities) is deposited with the counterparty, in SBA's name, in accordance with the initial margin requirements of the counterparty. 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 counterparties. 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 in which the seller (writer), for a certain sum of money called the option premium, gives the buyer the right to demand within a specified time the purchase (call) from or sale (put) to the option seller of a specified number of bonds, currency units, index units, or shares of stock, at a fixed price or rate, called the strike price.

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

A swap is a contractual agreement to exchange a stream of periodic payments utilizing a central clearing house whereby, each party in the transaction enters into a contract with the central counterparty. These agreements may be over-the-counter or exchange-traded. Upon entering into a swap contract through a clearing house, collateral is deposited with the counterparty, in SBA's name, in accordance with the initial margin requirements of the counterparty. Swaps are available in and between all active financial markets. Examples include:

Interest rate swap – An agreement between two parties, 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.

Notes to the Financial Statements

3. Deposits and Investments (continued)

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.

The fair value, changes in fair value, and notional amounts of the investment derivative instruments held by the Trust as of June 30, 2022 and 2021, are classified by type in the tables below.

	Fiscal Year Ended June 30,2022				
		Increase/(Decrease) in Fair Value		Fair Value	
Investment Derivative Instruments	**Notional (in US $)**	**Classification**	**Amount (in US $)**	**Classification**	**Amount (in US $)**
	(In Thousands)		*(In Thousands)*		*(In Thousands)*
Futures[1]					
Fixed income futures	$ 3,800,581	Investment Income	$ (123,732)	Investment	$ (5,745)
Equity futures	$ 2,167,412	Investment Income	(289,745)	Investment	12,656
Total futures			$ (413,477)		$ 6,911
Forwards					
Foreign currency forwards	$ 1,603,552	Investment Income	$ 61,150	Investment	$ 133
Swaps					
Credit default swaps	$ 434,600	Investment Income	$ 1,117	Investment	$ (500)
Interest rate swaps	$ 132,373	Investment Income	(244)	Investment	322
Total swaps			$ 873		$ (178)

[1] The total notional values of long and short fixed income futures positions were $3.0 billion and $786.4 million, respectively. The total notional value of long equity futures positions was $2.2 billion.

Notes to the Financial Statements

3. Deposits and Investments (continued)

	Fiscal Year Ended June 30,2021				
		Increase/(Decrease) in Fair Value		Fair Value	
Investment Derivative Instruments	**Notional (in US $)**	**Classification**	**Amount (in US $)**	**Classification**	**Amount (in US $)**
	(In Thousands)		*(In Thousands)*		*(In Thousands)*
Futures[1]					
Fixed income futures	$ 7,199,391	Investment Income	$ 5,730	Investment	$ (12,762)
Equity futures	$ 2,337,517	Investment Income	438,779	Investment	2,466
Total futures			$ 444,509		$ (10,296)
Forwards					
Foreign currency forwards	$ 3,911,879	Investment Income	$ 32,876	Investment	$ 10,250
Swaps					
Credit default swaps	$ 786,630	Investment Income	$ (1,289)	Investment	$ 5,164
Interest rate swaps	$ 135,213	Investment Income	(1,436)	Investment	(4,172)
Total swaps			$ (2,725)		$ 992

1 The total notional values of long and short fixed income futures positions were $5.1 billion and $2.1 billion, respectively. The total notional value of long equity futures positions was $2.3 billion.

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 over certain investment time periods. The unfunded capital commitments for private equity, real estate and strategic investments not reported on the Trust's statements of net position totaled $17.2 billion and $18.2 billion as of June 30, 2022 and 2021, respectively.

4. Contingencies and Litigation

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

Notes to the Financial Statements

5. Related Parties

The Department of Management Services (DMS), the FRS Investment Plan Trust Fund and the SBA are considered related parties for the purpose of the Trust's financial statements. The Trust has a variety of transactions with the DMS, the FRS Investment Plan Trust Fund and the 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 Fund, including working with DMS to collect employer and employee contributions and processing member-directed benefit amounts between the Trust and the FRS Investment Plan Trust Fund. The SBA provides investment services to the Trust and charges an investment service fee on the Trust's net asset value each month-end.

Significant transactions between the Trust, DMS, FRS Investment Plan Trust Fund and the SBA for fiscal years 2022 and 2021, were as follows:

	As of June 30	
	2022	**2021**
	(In Thousands)	
Receivables:		
Due from DMS	$ 456,581	$ 425,890
Payables:		
Due to DMS	212,687	251,115
Due to the SBA	10,043	7,467
Total payables	$ 222,730	$ 258,582

	Fiscal Years Ended June 30	
	2022	**2021**
	(In Thousands)	
Additions:		
Employer/employee contributions received from DMS	$ 4,946,063	$ 4,485,426
Member-directed benefits received from the FRS Investment Plan Trust Fund	111,924	140,431
Total additions	$ 5,057,987	$ 4,625,857
Deductions:		
Funds sent to the DMS for benefit payments	$ 11,883,537	$ 11,441,223
Member-directed benefits sent to the FRS Investment Plan Trust Fund	768,107	668,696
Investment service charges to the SBA[1]	64,231	40,815
Total deductions	$ 12,715,875	$ 12,150,734

[1] Based on month-end net asset values.

Notes to the Financial Statements

6. Subsequent Events

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

On August 23, 2022, the Board of Trustees adopted a Resolution directing an update to the Investment Policy Statement ("IPS") for the FRS DB Pension Plan to provide for the following changes:

1. STANDARD OF CARE AND EVALUATION OF INVESTMENTS. The State Board of Administration (Board) will initiate the process of updating the Board's Investment Policy Statement to reflect the following changes:
   a. The evaluation by the Board of an investment decision must be based only on pecuniary factors. As used in this section, "pecuniary factor" means a factor that the board prudently determines is expected to have a material effect on the risk and return of an investment based on appropriate investment horizons consistent with the fund's investment objectives and funding policy. Pecuniary factors do not include the consideration of the furtherance of social, political, or ideological interests.
   b. The board may not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote any non-pecuniary factors. The weight given to any pecuniary factor by the board should appropriately reflect a prudent assessment of its impact on risk and returns.
   c. In the case of a conflict with this section and any other provision of Florida law, Florida law shall prevail.

2. PROXY VOTING. When deciding whether to exercise shareholder rights and when exercising such rights, including the voting of proxies, the board:
   a. Must act prudently and solely in the interests of participants and beneficiaries and for the exclusive purpose of providing benefits to participants and beneficiaries and defraying the reasonable expenses of the Florida Retirement System Defined Benefit Pension Plan.
   b. May not subordinate the interests of the participants and beneficiaries to other objectives and may not sacrifice investment return or take on additional investment risk to promote non-pecuniary factors.
   c. In the case of a conflict with this section and any other provision of Florida law, Florida law shall prevail.

3. INTERNAL REVIEW. The State Board of Administration will organize and conduct a comprehensive review and prepare a report of the governance policies over the voting practices of the Florida Retirement System Defined Benefit Pension Plan, to include an operational review of decision-making in vote decisions and adherence to the fiduciary standards of the Fund. The State Board of Administration will ensure compliance with the updated Investment Policy Statement and adherence to the proxy voting requirements through the review process of this resolution. The State Board of Administration will submit its report to the Trustees no later than December 15, 2023.

Notes to the Financial Statements

6. Subsequent Events (continued)

As required under Section 215.475, Fla. Stat., the Executive Director has presented the Investment Advisory Council with these changes to the IPS, and the IAC reviewed on September 13, 2022. The changes to the IPS will be presented to the Trustees for approval at a Trustee meeting in the near future. The SBA does not anticipate such changes will have a material impact on the financial statements of the DB Pension Plan.

This subsequent event is considered a type two, non-recognized event for reporting purposes, requiring no adjustment to the financial statements. Accordingly, the Trust's net position was unaffected.

Crowe LLP
Independent Member Crowe Global

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

The Board of Trustees
State Board of Administration of Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida Retirement System Trust Fund (the "Trust") administered by the State Board of Administration ("SBA") of Florida as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Trust's basic financial statements, and have issued our report thereon dated November 7, 2022.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Crowe LLP

Tampa, Florida
November 7, 2022