

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

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

Ernst & Young LLP



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State Board of Administration
Florida Retirement System Trust Fund

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

Fiscal Years Ended June 30, 2016 and 2015

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Report of Independent Certified Public Accountants

The Board of Trustees
State Board of Administration of Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida Retirement System Trust Fund (the Trust) managed by the State Board of Administration (SBA) of Florida, as of and for the year ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust managed by the SBA as of June 30, 2016 and 2015, and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1 to the financial statements, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the State Board of Administration of Florida or the Florida Retirement System as of June 30, 2016 and 2015, or their changes in financial position, for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

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

As discussed in Note 2 to the financial statements, the Fund changed its financial reporting disclosures for fair value measurements as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurements and Application, effective July 1, 2015. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 and 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated December 5, 2016 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Trust's internal control over financial reporting and compliance.



December 5, 2016

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2016 and 2015

Introduction

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

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

The 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 funded status of the Plan are reported in the comprehensive annual financial reports (CAFRs) published by the State of Florida and the Florida Department of Management Services.

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 status of the Trust as of the end of the fiscal year. The statements of changes in net position present the results of investing activities during the fiscal years presented in this report. These statements are reported using the accrual basis of accounting. Under the accrual basis of accounting, the current year's additions (revenues) are recognized when earned and deductions (expenses) are recognized when incurred, regardless of when the cash is received or paid.

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

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

Statements of Net Position

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

	As of June 30		
	2016	2015	2014
	<i>(In Millions)</i>		
Assets			
Cash and cash equivalents	\$ 137	\$ 723	\$ 307
Security lending collateral	1,916	8,347	4,618
Investments, at fair value	143,610	151,201	152,915
Receivables and prepaid expenses	6,808	4,448	5,527
Total assets	\$ 152,471	\$ 164,719	\$ 163,367
Liabilities			
Total liabilities	\$ 10,560	\$ 16,280	\$ 13,644
Net position held in trust	\$ 141,911	\$ 148,439	\$ 149,723

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

Statements of Changes in Net Position

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

	Fiscal Years Ended June 30		
	2016	2015	2014
	<i>(In Millions)</i>		
Additions:			
Investment income	\$ 1,332	\$ 5,697	\$ 23,278
Investment expenses	(555)	(530)	(511)
Net security lending income	40	38	45
Total net investment income	<u>817</u>	<u>5,205</u>	<u>22,812</u>
Contributions:			
Employer/employee contributions received from DMS	3,085	3,113	2,935
Member-directed benefits received from the FRS Investment Plan Trust Fund	55	58	50
Total contributions	<u>3,140</u>	<u>3,171</u>	<u>2,985</u>
Total additions	<u>3,957</u>	<u>8,376</u>	<u>25,797</u>
Deductions:			
Funds sent to DMS for benefit payments	9,873	8,941	8,028
Member-directed benefits sent to the FRS Investment Plan Trust Fund	612	719	808
Total deductions	<u>10,485</u>	<u>9,660</u>	<u>8,836</u>
Change in net position	<u>(6,528)</u>	<u>(1,284)</u>	<u>16,961</u>
Net position held in trust:			
Beginning of year	148,439	149,723	132,762
End of year	<u>\$ 141,911</u>	<u>\$ 148,439</u>	<u>\$ 149,723</u>

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

Analysis

The Trust's net position decreased by \$6.5 billion (4.4%) and \$1.3 billion (0.9%) during fiscal years 2016 and 2015, respectively. In both years, withdrawals for benefit payments and transfers to the FRS Investment Plan Trust Fund exceeded contributions and investment income.

Investment income was approximately \$1.3 billion and \$5.7 billion for fiscal years 2016 and 2015, respectively. In fiscal year 2016, global equity, private equity and strategic investment returns, while exceeding their benchmarks, were markedly lower than in fiscal year 2015. For fiscal year 2015, the Trust's returns for all asset classes exceeded their benchmarks. Additional information is provided in the Investment Returns section below.

Investment expenses totaled \$555 million, or .39% (39 basis points) of average investment assets for fiscal year ended 2016, compared with investment expenses of \$530 million, or .35% (35 basis points) of average investment assets for fiscal year ended 2015. The investment expense increases of \$25 million (4.7%) and \$19 million (3.7%) during fiscal years 2016 and 2015, respectively, were due in large part to the addition of several new private equity, strategic and real estate investments.

Net security lending income of \$40 million in fiscal year 2016 increased by approximately \$2 million (5.3%) compared to a decrease of \$7 million (15.6%) in fiscal year 2015. 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. (See Note 4 for additional information on the securities lending program.)

Total contributions of \$3.1 billion in fiscal year 2016 declined by \$31 million (1%) following an increase of \$186 million (6.2%) during fiscal year 2015.

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

Analysis (continued)

Total deductions from the Trust for fiscal year 2016 were \$10.5 billion, an increase of \$825 million (8.5%) over fiscal year 2015 deductions of \$9.7 billion. This followed an increase of \$824 million (9.3%) during fiscal year 2015. Trust funds are sent to DMS for retiree benefit payments throughout the year. Funds sent from the Trust to DMS for benefit payments increased by \$932 million (10.4%) and \$913 million (11.4%) during fiscal years 2016 and 2015, respectively. Member-directed benefits sent to the FRS Investment Plan Trust Fund reflect elections by the FRS members to transfer their membership from the Plan to the FRS Investment Plan. Member-directed benefits sent to the FRS Investment Plan Trust Fund decreased by \$107 million (14.9%) and \$89 million (11%) during fiscal years 2016 and 2015, respectively.

Contribution Rates

Contributions consist of employer and employee contributions to the Plan received from DMS, and member-directed benefits received from the FRS Investment Plan Trust Fund.

Membership Class	Employee Rate	Employer Rate ¹		
	FYs 2014-16	FY 2016 ²	FY 2015 ²	FY 2014
Regular	3.00 %	5.56 %	6.07 %	5.72 %
Special risk	3.00	20.34	18.52	17.83
Special risk: administrative support	3.00	31.25	40.77	34.73
Legislators	3.00	44.10	44.96	31.37
Governor, Lt. Governor, and cabinet officers	3.00	44.10	44.96	31.37
State Attorney, public defenders	3.00	44.10	44.96	31.37
Justices, judges	3.00	34.01	31.87	27.05
County and local elected officers	3.00	40.57	41.94	31.80
Senior management service	3.00	19.73	19.84	17.08
DROP	–	11.22	11.02	11.64

¹ Employer rates presented in this table do not include employer contributions for Health Insurance Subsidy (1.66% FY 2016, 1.26% FY 2015 and 1.20% FY 2014) or plan administrative/educational expense (.04% for FYs 2016 and 2015 and 0.03% for FY 2014) as these amounts are not deposited into the Trust.

² Effective July 1, 2013, the unfunded actuarial liability (UAL) was increased based upon the 2012 actuarial valuation and uniform blended rates recommended by the Plan's consulting actuary. Fiscal year 2015 was the first year the Florida Legislature required employers to pay the full UAL recommended by the actuary for all membership classes. For the previous two fiscal years, the legislature required only a portion of the UAL to be paid for all membership classes. This new requirement resulted in employer contribution rates varying from year to year as the UAL is recalculated annually.

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

Investment Returns¹

The Trust earned an overall investment return of .54% for fiscal year 2016, outperforming its benchmark over the trailing one-, three-, five-, ten- and fifteen-year periods. The 2016 total fund return exceeded the benchmark by 65 basis points. The 2015 total fund return exceeded the benchmark by 143 basis points.

For the fiscal years ended June 30, 2016 and 2015, the Trust's investment returns, by major asset class, were as follows:

Asset Class	2016		2015	
	Return	Benchmark	Return	Benchmark
Global Equity	(3.11)%	(3.83)%	1.92%	0.89%
Fixed Income	4.30	4.36	1.99	1.89
Real Estate	12.66	12.82	11.92	11.33
Private Equity ²	6.21	(0.65)	14.96	3.77
Strategic investments	1.83	1.11	6.77	3.05
Cash	0.33	0.15	0.21	0.03
Total fund	0.54	(0.11)	3.67	2.24

¹ The above investment performance information for June 30, 2016 and 2015, is the official investment return data supplied by the SBA's master custodian and performance measurement service provider, BNY Mellon Performance Reporting and Analytics Services. These rates of returns do not necessarily reflect the same information and accounting treatments as included in the Trust's Statements of Changes in Net Position, due to the latter's inclusion of subsequent updates to private market investment valuations, timing differences in the recognition of receivables and other items, and differences in GASB accounting rules and SBA performance measurement policies. For 2015, Total Fund performance based on 2015 audited information as certified by BNY Mellon Performance Reporting and Analytics Services was 3.57%. As of the issuance date of the audit report for 2016, Total Fund performance based on 2016 audited information was not available.

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.

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

State Board of Administration
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Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

Economic Factors

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

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

State Board of Administration
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Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2016 and 2015

Economic Factors (continued)

Diversification across asset classes was vital to weathering the volatility during the past fiscal year. The diverging trend between U.S. and non-U.S. equity market returns continued, as the broad U.S. equity market, represented by the DJ U.S. Total Stock Market Index, returned a positive 2.0%. International market returns were much more reflective of the ongoing concerns, with developed international markets declining 10.2% and emerging markets declining 12.1% in USD terms, as represented by the MSCI EAFE and MSCI Emerging Markets Indices, respectively. Emerging market returns were significantly impacted by currency depreciation relative to the U.S. dollar. Though commodities bounced back during the second half of the year, the Bloomberg Commodity Index still ended the year down 13.3%. As noted earlier, risk aversion throughout the year heightened demand for U.S. fixed income, which provided some relief from weak equity markets. The Barclays Aggregate Bond Index returned 6.0% over the twelve-month period. Long U.S. government bonds were the greatest beneficiaries, returning 19.0% over the year. Private core real estate also provided diversification benefits, posting a 10.8% return, represented by the NCREIF-ODCE Index.

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.

State Board of Administration
Florida Retirement System Trust Fund

Statements of Net Position

	As of June 30	
	2016	2015
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 137,042	\$ 722,766
Security lending collateral	1,915,672	8,346,890
Investments, at fair value:		
Short-term	5,142,284	8,216,186
Fixed income:		
Domestic	25,395,080	24,815,802
International	1,717,405	2,636,429
Equities:		
Domestic	41,029,902	43,387,207
International	37,267,022	42,405,570
Alternative	22,440,286	19,596,357
Real estate	10,581,549	10,142,274
Other	37,014	958
Total investments	<u>143,610,542</u>	<u>151,200,783</u>
Receivables:		
Due from DMS	303,945	323,041
Accrued interest and dividends	296,285	309,640
Margin receivable from counterparty	58,315	19,522
Forward foreign currency contracts	4,031,875	2,199,460
Spot foreign currency contracts	610,594	111,121
Investments sold, but not settled	1,499,740	1,477,146
Total receivables	<u>6,800,754</u>	<u>4,439,930</u>
Prepaid investment management fees	7,623	8,398
Total assets	<u>152,471,633</u>	<u>164,718,767</u>
Liabilities		
Due to DMS	358,325	335,700
Accounts payable and accrued liabilities	93,833	96,044
Margin payable to counterparty	16,629	8,064
Forward foreign currency contracts payable	4,008,032	2,198,673
Spot foreign currency contracts payable	610,918	111,062
Investments purchased, but not settled	3,168,209	4,977,483
Options sold	35,820	17
Short sell obligations	308,225	156,976
Obligations under security lending agreements	1,960,173	8,395,914
Total liabilities	<u>10,560,164</u>	<u>16,279,933</u>
Net position held in trust	<u>\$ 141,911,469</u>	<u>\$ 148,438,834</u>

See accompanying notes to financial statements.

State Board of Administration
Florida Retirement System Trust Fund

Statements of Changes in Net Position

	Fiscal Years Ended June 30	
	2016	2015
	<i>(In Thousands)</i>	
Additions		
Investment income:		
Interest income	\$ 732,354	\$ 901,727
Dividend income	1,856,399	2,002,847
Alternative investment income	1,543,167	196,345
Real estate income	481,636	488,970
Fines, forfeits, and securities litigation proceeds	12,022	13,487
Net increase/(decrease) in fair value of investments	(3,293,230)	2,093,633
Total investment income	1,332,348	5,697,009
Investment expenses:		
Bank fees	(4,294)	(4,746)
Investment management fees	(509,323)	(478,969)
SBA investment service charges	(31,970)	(33,308)
Other fees and expenses	(9,851)	(12,609)
Total investment expenses	(555,438)	(529,632)
Net income from investments	776,910	5,167,377
Security lending income	52,955	46,845
Security lending expenses	(12,960)	(8,672)
Net income from security lending	39,995	38,173
Total net investment income	816,905	5,205,550
Contributions:		
Employer/employee contributions received from DMS	3,085,492	3,112,534
Member-directed benefits received from the FRS Investment Plan Trust Fund	54,889	57,536
Total contributions	3,140,381	3,170,070
Total additions	3,957,286	8,375,620
Deductions		
Funds sent to DMS for benefit payments	9,872,350	8,941,103
Member-directed benefits sent to the FRS Investment Plan Trust Fund	612,301	719,182
Total deductions	10,484,651	9,660,285
Change in net positions	(6,527,365)	(1,284,665)
Net position held in trust:		
Beginning of year	148,438,834	19,723,499
End of year	\$ 141,911,469	\$ 148,438,834

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements

Fiscal Years Ended June 30, 2016 and 2015

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 IRC 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, 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, 2016 and 2015, and the changes in their financial position for the years then ended, in conformity with accounting principles generally accepted in the United States (GAAP).

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

New Accounting Standards

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (GASB 73)*. GASB 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans and Statement 68* for pension plans and pensions that are within their respective scopes. The requirements of GASB 73 are effective for fiscal years beginning after June 15, 2015. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 73, as the Trust is not a Pension Plan.

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

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Income Recognition

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

Valuation of Investments

Section 215.47, *Florida Statutes*, gives the SBA the authority to invest in a range of instruments, including security lending agreements. All of the Trust's investments are reported at fair value in accordance with GASB 31 and GASB 72. Realized and unrealized gains and losses are reflected in the statements of changes in net position as "net increase 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. BNY Mellon uses a variety of independent pricing sources and designates certain vendors as the primary source based on asset type, class or issue. BNY Mellon monitors 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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

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 (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 net asset value of an entity is the value of its investment holdings. The net asset value is provided by the general partner and/or investment manager and reviewed by management.

Annually, the financial statements of all private market investments are audited by independent auditors. Private market investments, in which the SBA has a controlling interest or are reported at cost per GAAP, 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 are reported at cost which approximates fair value. Commingled funds are reported at net asset value (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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

All derivative financial instruments are reported at fair value in the statements of net position. The instruments are adjusted to fair value at least monthly, with valuation changes recognized during the period as gains or losses in the statements of changes in net position and included in the “net increase in fair value of investments.” The nature and use of derivative instruments is discussed in Note 4.

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

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with an original maturity of ninety days or less when purchased. 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.

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 time frame.

At fiscal year-end, the Trust accrues a receivable from DMS for employer and employee contributions due for the month of June, but not sent to the Trust until the following fiscal year. The Trust accrues a payable to DMS 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. The DMS maintains records for all employer and employee contributions to the Plan.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Management Fees and Investment 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 2016 and 2015, the SBA investment service charge was .0225% (annualized).

Use of Estimates

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

Reclassifications

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

3. Deposits

As of June 30, 2016, the recorded carrying amount of deposits totaled \$137.0 million and consisted of U.S. dollars and foreign currencies (U.S. value) in the amounts of \$17.9 million and \$119.1 million, respectively.

As of June 30, 2015, the recorded carrying amount of deposits totaled \$722.8 million and consisted of U.S. dollars and foreign currencies (U.S. value) in the amounts of \$562.5 million and \$160.3 million, respectively.

Custodial Credit Risk

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

All deposits of U.S. dollars at the Trust's custodian bank were covered by federal depository insurance as of June 30, 2016 and 2015. The remaining uninsured and uncollateralized deposits, totaling \$119.1 million and \$160.3 million as of June 30, 2016 and 2015, respectively, were held in foreign currencies in the SBA's custodian nominee name.

Foreign Currency Risk for Deposits

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Under Section 215.47, *Florida Statutes*, and subject to the limitation and conditions of the State Constitution or of the trust agreement relating to a trust fund, moneys available for investments by the Trust may be invested in fixed income obligations or stocks denominated in foreign currency. The SBA has developed for the Trust an Investment Policy Statement (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 2016 and 2015, Florida law limits the exposure to foreign securities held outside of foreign group trusts and other foreign entities to 50% of the total Trust.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

3. Deposits (continued)

Investment activity in foreign investments resulted in deposits of foreign currency as of June 30, 2016 and 2015, as illustrated in the following schedule.

Currency	2016	2015
	<i>(In Thousands)</i>	
Australian dollar	\$ 3,931	\$ 17,014
Brazilian real	1,092	2,243
British pound sterling	10,330	25,719
Canadian dollar	15,313	6,825
Chilean peso	29	124
Danish krone	692	889
Egyptian pound	38	211
Euro currency unit	15,935	32,727
Hong Kong dollar	11,892	8,138
Indian rupee	1,104	4,684
Indonesian rupiah	475	294
Israeli shekel	1,284	739
Japanese yen	30,057	34,524
Kenyan shilling	33	618
Malaysian ringgit	484	628
Mexican peso	715	267
New Zealand dollar	1,371	703
Norwegian krone	2,456	2,599
Pakistan rupee	293	173
Philippines peso	400	95
Polish zloty	84	228
Qatari riyal	178	147
Singapore dollar	2,374	2,101
South African rand	3,029	1,636
South Korean won	639	1,275
Swedish krona	891	1,826
Swiss franc	3,071	1,164
Taiwan new dollar	9,925	11,885
Thailand baht	267	189
Turkish lira	48	502
UAE dirham	65	43
Vietnam dong	592	-
Other	77	47
Total deposits subject to foreign currency risk	<u>\$ 119,164</u>	<u>\$ 160,257</u>

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments

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, and real estate. The SBA may also buy and sell futures contracts, option contracts, and domestic or foreign notional principal contracts. The following are the major asset types invested in by the Trust.

- **Short-Term**

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

- **Fixed Income**

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

- **Equities**

Equity investments represent both domestic and international stocks traded on major stock exchanges. Also included as equities are preferred stock, commingled funds, real estate investment trusts (REITS), and equity-linked notes. 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. Equity linked notes are instruments whose return is determined by the performance of a single equity security, a basket of equity securities, or an equity index.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

- **Alternative**

The Trust invests in various funds and investment vehicles which employ specific strategies and co-investments often outside the traditional asset classes. The most common investment categories for these funds include domestic and international private equity, activist equity, private debt/credit opportunities, real assets 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 of office, multifamily, retail, agricultural, and industrial properties. Also included are value-added and opportunistic investments such as hotels, senior housing, student housing, and traditional property types. These assets are held directly, as part of a joint venture, or through ownership in open-ended pooled funds.

- **Other**

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

The following schedule discloses the Trust's investments, by type, at June 30, 2016 and 2015.

Investment type	Fair Value	
	2016	2015
	<i>(In Thousands)</i>	
Short-term:		
Certificates of deposit	\$ 775,062	\$ 1,936,529
Commercial paper	3,516,125	5,867,392
Money market funds	1,097	12,265
Repurchase agreements	850,000	400,000
Fixed income – domestic:		
U.S. guaranteed obligations	11,074,342	7,622,315
Federal agencies	7,725,369	9,458,712
Corporate and municipal bonds and notes ¹	6,595,369	7,734,775
Fixed income – international:		
International bonds and notes ¹	1,717,405	2,636,429
Equities – domestic ¹	41,029,902	43,387,207
Equities – international ¹		
International equities	31,814,912	36,089,572
International equity commingled funds	5,452,110	6,315,998
Alternative		
Activist equity	651,600	681,362
Hedge funds	4,458,711	3,871,335
Private debt/credit opportunities	3,089,748	2,833,416
Private equity	10,486,107	9,104,960
Real assets	3,754,120	3,105,284
Real estate		
Direct investments	8,059,810	7,777,275
Commingled funds	2,521,739	2,364,999
Other investments:		
Option contracts purchased	38,674	33
Swap contracts (debt related)	(1,659)	925
Total investments excluding securities lending collateral	143,610,542	151,200,783
Securities lending collateral investments		
Money market funds	1,046,370	4,458,145
Repurchase agreements	789,504	3,775,237
Domestic corporate bonds and notes ¹	79,798	96,443
International bonds and notes ¹	–	17,065
Total securities lending collateral investments	1,915,672	8,346,890
Total investments	\$ 145,526,214	\$ 159,547,673
Investments sold short		
U.S. guaranteed obligations	(1,891)	(11,843)
Federal agencies	(306,334)	(145,133)
Option contracts	(35,820)	(17)
Total investments sold short ²	\$ (344,045)	\$ (156,993)

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

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Pledged Collateral

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

	Fair Value	
	2016	2015
	<i>(In Thousands)</i>	
Investment type:		
U.S. guaranteed obligations	\$ 12,433	\$ 22,974
Federal agencies	9,829	14,833
Domestic stocks	215,832	24,966
Total	\$ 238,094	\$ 62,773

In addition, cash to open futures contracts (initial margins) was pledged as collateral with the SBA's futures counterparty. These initial margin amounts, as reflected in the table below, are included in "Margin receivable from counterparty" on the statements of net position. The variation margin represents the daily settlement of the profit (receivable) and loss (payable) on a position based upon market movement.

	Fair Value	
	2016	2015
	<i>(In Thousands)</i>	
Margin receivable from counterparty		
Futures initial margin	\$ 13,326	\$ 8,597
Futures variation margin	36,061	7,136
Swaps initial margin	3,768	-
Swaps variation margin	5,160	3,789
Total margin receivable from counterparty	\$ 58,315	\$ 19,522
Margin payable to counterparty		
Futures variation margin	\$ 274	\$ 6,674
Swaps variation margin	4,075	1,390
Forward contract variation margin	12,280	-
Total	\$ 16,629	\$ 8,064

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Fair Value Hierarchy

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

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

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

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

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

Debt and equity securities classified 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 primary external pricing vendors.

Debt securities classified as Level 2 are 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 evaluated prices provided by the custodial bank's external pricing vendors, or alternative pricing source, such as investment managers, if information is not available from the primary vendors.

Debt and equity securities classified as Level 3 are prices from the custodian bank's external pricing vendors or an alternative pricing source, utilizing inputs such as stale prices, cash flow models, broker bids, or cost. Cost or book value may be used as an estimate of fair value when there is a lack of an independent pricing source.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Derivative instruments classified as Level 1 of the fair value hierarchy are 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 derivatives.

Private equity funds and real estate direct investments classified as Level 3 were valued using the methodology as described in the footnotes for the *Additional GASB 72 Required Disclosures* tables, Notes 11 and 13, respectively.

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

The Trust has the following fair value measurements as of June 30, 2016 and June 30, 2015.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Investment by fair value level	Total Fair Value	As of June 30, 2016 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		<i>(In Thousands)</i>		
Debt securities				
Certificate of deposit	\$ 775,062	\$ –	\$ 775,062	\$ –
Commercial paper	3,516,125	–	3,516,125	–
U.S. guaranteed obligations	11,074,342	7,289,368	3,784,974	–
Federal agencies	7,725,369	–	7,725,369	–
Domestic bonds and notes	6,595,369	–	6,579,623	15,746
International bonds and notes	1,717,405	–	1,703,208	14,197
Total debt securities	31,403,672	7,289,368	24,084,361	29,943
Equity securities				
Domestic	41,029,902	41,028,761	–	1,141
International	31,814,912	31,755,588	56,306	3,018
Total equity securities	72,844,814	72,784,349	56,306	4,159
Alternative Investments				
Private equity fund	323,000	–	–	323,000
Real Estate direct investments	8,059,810	–	–	8,059,810
Derivative Instruments				
Options purchased	38,673	38,673	–	–
Swap contracts (debt)	(1,659)	–	(1,659)	–
Forward currency contracts ¹	23,843	–	23,843	–
Futures contracts ¹	45,167	45,167	–	–
Total derivative instruments	106,024	83,840	22,184	–
Securities lending collateral investments				
Domestic corporate bonds and notes	79,798	–	65,629	14,169
Total investments by fair value level	\$ 112,817,118	\$ 80,157,557	\$ 24,228,480	\$ 8,431,081
Investments Measure at the Net Asset Value (NAV)				
International equity commingled funds	5,452,110			
Real estate commingled funds	2,521,739			
Activist equity funds	651,600			
Hedge funds	4,458,711			
Private debt/credit opportunities funds	3,089,748			
Private equity funds	10,163,107			
Private real asset funds	3,754,120			
Total investments measured at the NAV	\$ 30,091,135			
Investments sold short (Liabilities)				
U.S. guaranteed obligations	\$ (1,891)	\$ –	\$ (1,8981)	\$ –
Federal agencies	(306,334)	–	(306,334)	–
Options sold	(35,820)	(35,820)	–	–
Total Investments sold short	\$ (344,045)	\$ (35,820)	\$ (308,225)	\$ –

¹ Futures and forward currency contracts are valued at their net Unrealized Appreciation/(Depreciation) and are reported on the Statements of Net Positions as Receivables and/or Liabilities.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Investment by fair value level	Total Fair Value	As of June 30, 2015 Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		<i>(In Thousands)</i>		
Debt securities				
Certificate of deposit	\$ 1,936,529	\$ –	\$ 1,936,529	\$ –
Commercial paper	5,867,392	–	5,867,392	–
U.S. guaranteed obligations	7,622,315	5,758,098	1,864,217	–
Federal agencies	9,458,712	–	9,458,712	–
Domestic bonds and notes	7,734,775	–	7,710,652	24,123
International bonds and notes	2,636,429	–	2,636,236	193
Total debt securities	<u>35,256,152</u>	<u>5,758,098</u>	<u>29,473,738</u>	<u>24,316</u>
Equity securities				
Domestic	43,387,207	43,384,416	–	2,791
International	36,089,572	35,941,247	143,348	4,977
Total equity securities	<u>79,476,779</u>	<u>79,325,663</u>	<u>143,348</u>	<u>7,768</u>
Alternative Investments				
Private equity fund	376,701	–	–	376,701
Real Estate direct investments	7,777,275	–	–	7,777,275
Derivative Instruments				
Options purchased	33	33	–	–
Swap contracts (debt)	925	–	–	–
Forward currency contracts ¹	787	–	787	–
Futures contracts ¹	(8,967)	(8,967)	–	–
Total derivative instruments	<u>(7,222)</u>	<u>(8,934)</u>	<u>1,712</u>	<u>–</u>
Securities lending collateral investments				
Domestic corporate bonds and notes	96,443	–	73,450	22,993
International bonds and notes	17,065	–	17,065	–
Total securities lending collateral investments	<u>113,508</u>	<u>–</u>	<u>90,515</u>	<u>22,993</u>
Total investments by fair value level	<u>\$ 122,993,193</u>	<u>\$ 85,074,827</u>	<u>\$ 29,709,313</u>	<u>\$ 8,209,053</u>
Investments Measure at the Net Asset Value (NAV)				
International equity commingled funds	6,315,998			
Real estate commingled funds	2,364,999			
Activist equity funds	681,362			
Hedge funds	3,871,335			
Private debt/credit opportunities funds	2,833,416			
Private equity funds	8,728,259			
Private real asset funds	3,105,284			
Total investments measured at the NAV	<u>\$ 27,900,653</u>			
Investments sold short (Liabilities)				
U.S. guaranteed obligations	\$ (11,843)	\$ –	\$ (11,843)	\$ –
Federal agencies	(145,133)	–	(145,133)	–
Options sold	(17)	(17)	–	–
Total Investments sold short	<u>\$ (156,993)</u>	<u>\$ (17)</u>	<u>\$ (156,976)</u>	<u>\$ –</u>

¹ Futures and forward currency contracts are valued at their net Unrealized Appreciation/(Depreciation) and are reported on the Statements of Net Positions as Receivables and/or Liabilities.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) as of June 30, 2016 and June 30, 2015 is presented in the footnotes to the tables below.

ADDITIONAL GASB 72 REQUIRED DISCLOSURES

	Fair Value 6/30/2016	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
<i>(In Thousands)</i>				
Investments Measured at the NAV				
Commingled international equity funds ¹	\$ 5,452,110		Daily, Monthly	2 – 120 days
Commingled real estate investment funds ¹	2,521,739		Quarterly	15 – 90 days
Activist equity funds ²	651,601		Monthly, Annually	65 – 90 days
Hedge funds				
Diversifying strategies (CTAs) ³	1,045,435		Daily, Monthly	10 – 35 days
Equity long/short ⁴	519,283		Monthly, Quarterly	30 – 125 days
			Quarterly, Biennially,	
Event driven ⁵	378,600		Annually	45 – 90 days
Global macro ⁶	550,907		Monthly, Quarterly	30 – 60 days
			Quarterly, Biennially,	
Multi-strategy ⁷	937,686		Annual	30 – 90 days
Opportunistic debt ⁸	562,100		Quarterly, Annually	65 – 90 days
Relative value ⁹	462,699		Quarterly	45 – 90 days
Private debt/credit opportunity funds ¹⁰	3,089,748	\$ 1,331,738		
Private equity funds ¹¹	10,163,107	\$ 6,135,189		
Private real asset funds ¹²	3,754,120	\$ 2,092,524		
Total Investments Measured at the NAV	<u>\$ 30,091,135</u>			
Investments at Level 3				
Private equity funds ¹¹	\$ 323,000			
Real Estate Direct Investments ¹¹	\$ 8,059,810	\$ 206,258		

¹ *Commingled International Equity Funds and Real Estate Investment Funds.* Seven international equity funds and nine real estate investment funds are considered to be commingled in nature. These funds are valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments.

² *Activist Equity Funds.* The three funds that make up 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 32% of this strategy) is eligible for redemption in six months due to annual lock-up restrictions. The remaining fund (approximately 25% of this strategy) may be redeemed annually with the next redemption in nine months.

³ *Diversifying strategies (CTAs) Hedge Funds.* The four funds that make up this group primarily trade equity and commodity futures, but can also participate in indexes, rates and currencies in markets across the globe. 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 not subject to lock-up restrictions.

⁴ *Equity Long/Short Hedge Funds.* Consisting of four 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. One fund (approximately 16% of this strategy) is currently eligible for redemption monthly, while the remaining three funds (approximately 84% of this strategy) are redeemable in three months or less due to quarterly redemption restrictions.

⁵ *Event Driven Hedge Funds.* The four funds in this strategy 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. All funds in this strategy are no longer under contractual lockup, but due to exit restrictions, the redemption period ranges from three to eighteen months.

⁶ *Global Macro Hedge Funds.* Consisting of four 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. One of these funds (approximately 27% of this strategy) is redeemable in six months due to lock-up restrictions. The remaining three funds (approximately 73% of this strategy) are redeemable in three months or less, as they are not subject to lock-up restrictions.

⁷ *Multi-Strategy Hedge Funds.* The five funds in this group aim to diversify risks and reduce volatility by combining other strategies. These strategies are usually a mix of Equity Long/Short, Event-Driven, or Opportunistic Debt and Relative Value. These funds are valued at the NAV per share. Two funds (approximately 44% of this strategy) are eligible for redemption in six months or less due to annual redemption restrictions. Another fund (approximately 26% of this strategy) is eligible for redemption biennially with the next redemption date in six months. The remaining two funds (approximately 29% of this strategy) are eligible for redemption in three months and quarterly thereafter.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

- ⁸ *Opportunistic Debt Hedge Funds.* Consisting of three 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. One fund (approximately 38% of this strategy) is subject to one year recurring hard lock-ups for each contribution and can be redeemed between three and six months. Another fund (approximately 18% of this strategy) is eligible for redemption in six months and annually, thereafter. The remaining fund (approximately 44% of this strategy) is currently eligible for redemption in three months due to quarterly redemption restrictions.
- ⁹ *Relative Value Hedge Funds.* Consisting of three funds, 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. Due to contractual lock-up restrictions, one fund (approximately 33% of this strategy) is eligible for redemption in fourteen months. Two funds (approximately 67% of the value of this strategy) are eligible for redemption in three months and quarterly thereafter.
- ¹⁰ *Private debt/credit opportunity funds.* There are 47 private debt/credit funds investing primarily in Distressed, Mezzanine and Senior Loans with some exposure to Special Situations. The fair value of these funds has been determined using the NAV at June 30, 2016 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.
- ¹¹ *Private equity funds.* There are 179 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 177 funds has been determined using the NAV at June 30, 2016 or one quarter in arrears adjusted for current quarter cash flows. The fair value of the remaining two funds (approximately 3% of the value of these investments) was based on external appraisals at June 30, 2016 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.
- ¹² *Private Real Asset Funds.* There are 50 real asset funds. Forty-one of these funds 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 nine funds invest in infrastructure, timberland and commodities. The fair value of these funds has been determined using the NAV at June 30, 2016 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 *Direct Real Estate Investments.* There are 69 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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

ADDITIONAL GASB 72 REQUIRED DISCLOSURES

	Fair Value 6/30/2015	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
<i>(In Thousands)</i>				
Investments Measured at the NAV				
Commingled international equity funds ¹	\$ 6,315,998		Daily, Monthly	2 – 120 days
Commingled real estate investment funds ¹	2,364,999		Quarterly	15 – 90 days
Activist equity funds ²	681,362		Monthly, Annually	65 – 90 days
Hedge funds				
Diversifying strategies (CTAs) ³	827,263		Daily, Monthly	10 – 35 days
Equity long/short ⁴	555,953		Monthly, Quarterly	30 – 125 days
Event driven ⁵	607,180		Quarterly, Biennially,	45 – 90 days
Global macro ⁶	160,119		Annually	60 days
Multi-strategy ⁷	997,118		Monthly, Quarterly	30 – 90 days
Opportunistic debt ⁸	572,498		Quarterly, Biennially,	65 – 90 days
Relative value ⁹	151,204		Annually	60 days
Private debt/credit opportunity funds ¹⁰	2,833,416	\$ 1,663,814	Quarterly, Annually	
Private equity funds ¹¹	8,728,259	\$ 7,526,361	Quarterly	
Private real asset funds ¹²	3,105,284	\$ 1,909,837		
Total Investments Measured at the NAV	<u>\$ 27,900,653</u>			
Investments at Level 3				
Private equity funds ¹¹	\$ 376,701			
Real Estate Direct Investments ¹¹	\$ 7,777,275	\$ 65,881		

¹ *Commingled International Equity Funds and Real Estate Investment Funds.* Eight international equity funds and nine real estate investment funds are considered to be commingled in nature. These funds are valued at the NAV of units held at the end of the period based upon the fair value of the underlying investments.

² *Activist Equity Funds.* The three funds that make up 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 30% of this strategy) is eligible for redemption in six months due to annual lock-up restrictions. The remaining fund (approximately 27% of this strategy) may be redeemed annually with the next redemption in nine months.

³ *Diversifying strategies (CTAs) 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 in markets across the globe. 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 not subject to lock-up restrictions.

⁴ *Equity Long/Short Hedge Funds.* Consisting of four 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. One fund (approximately 17% of this strategy) is currently eligible for redemption monthly, while the remaining 83% of this strategy are redeemable in three months or less, due to quarterly redemption restrictions.

⁵ *Event Driven Hedge Funds.* Consisting of four funds, this strategy seeks 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. Due to contractual lock-up restrictions, two funds (approximately 53% of this strategy) are eligible for redemption within six months. The remaining two funds (approximately 47% of this strategy) are no longer subject to lock-up restrictions, but can only be redeemed annually with next redemption date in nine months.

⁶ *Global Macro Hedge Funds.* Consisting of one fund, which bases its 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. This fund is valued at the NAV per share. This fund is redeemable monthly, as it is not subject to lock-up or exit restrictions.

⁷ *Multi-Strategy Hedge Funds.* The five funds in this group aim to diversify risks and reduce volatility by combining other strategies. These strategies are usually a mix of Equity Long/Short, Event-Driven, or Opportunistic Debt and Relative Value. These funds are valued at the NAV per share. Due to contractual lock-up restrictions for each contribution, one fund (approximately 27% of this strategy) is eligible for redemption in six months, and annually thereafter. One fund (approximately 21% of this strategy) can currently be redeemed on an annual basis with next redemption in three months. Another fund (approximately 25% of this strategy) is eligible for redemption on a biennial basis, with next redemption date in five months. The remaining two funds (approximately 27% of this strategy) are eligible for redemption in three months and quarterly thereafter.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

- ⁸ *Opportunistic Debt Hedge Funds.* Consisting of three 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. Due to initial period lock-up restrictions, one fund (approximately 18% of this strategy) is eligible for redemption in eighteen months. Another fund (approximately 39% of this strategy) is subject to one year recurring hard lock-ups for each contribution and can be redeemed between three and six months. The remaining fund (approximately 43% of this strategy) is currently eligible for redemption in three months and quarterly thereafter.
- ⁹ *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. This investment is valued at the NAV per share. This fund is eligible for redemption in three months due to quarterly redemption restrictions.
- ¹⁰ *Private debt/credit opportunity funds.* There are 43 private debt/credit funds investing primarily in Distressed, Mezzanine and Senior Loans with some exposure to Special Situations. The fair value of these funds has been determined using the NAV at June 30, 2015 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.
- ¹¹ *Private equity funds.* There are 156 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 153 funds has been determined using the NAV at June 30, 2015 or one quarter in arrears adjusted for current quarter cash flows. The fair value of two funds (approximately 3% of the value of these investments) were based on external appraisals at June 30, 2015 and were 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. The fair value of the remaining fund (approximately 1% of the value of these investments), classified as Level 3, was based on the sales prices at June 5, 2015 adjusted for subsequent cash flows through June 30, 2015. The sale of this fund was finalized in the first quarter of the fiscal year 2016.
- ¹² *Private Real Asset Funds.* There are 40 real asset funds. Thirty-four of these funds 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 six funds invest in infrastructure, timberland and commodities. The fair value of these funds has been determined using the NAV at June 30, 2015 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 *Direct Real Estate Investments.* There are 63 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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Investment Risks

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

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

Custodial Credit Risk

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the counterparty to a transaction, the Trust will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The SBA's custodial credit risk policy states that custodial credit risk will be minimized through the use of trust accounts maintained at top tier third-party custodian banks. To the extent possible, negotiated trust and custody contracts shall require that all deposits, investments and collateral be held in accounts in the SBA's name, or in the case of certain foreign investments, in an omnibus client account, but separate and apart from the assets of the custodian banks.

This policy applies to investments evidenced by cash or securities, 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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

As required by negotiated trust and custody contracts, many of the Trust's investments were held in the SBA's name (or, in the case of certain foreign investments, in an omnibus client account) by the custodial financial institutions. Presented below are investments that were uninsured and unregistered, with securities held by the counterparty, or by the counterparty's trust department but not in the SBA's name.

	Fair Value	
	2016	2015
	<i>(In Thousands)</i>	
Investment security lending collateral:		
Repurchase agreements	\$ 139,504	\$ 459,782
Domestic bonds and notes	79,798	96,443
International bonds and notes	-	7,387
Total investments exposed to custodial credit risk	\$ 219,302	\$ 563,612

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of issuers and debt instruments is evaluated by nationally recognized statistical rating agencies such as Standard & Poor's Corporation (S&P), Moody's Investors Service, Inc. (Moody's), and Fitch Ratings (Fitch). The SBA, in compliance with Section 215.47, *Florida Statutes*, has adopted certain investment policies with regard to credit risk of debt securities. Investment policies vary by portfolio. Below are the investment policies and credit risk disclosures for the Trust. Investments generally are managed through individual portfolios with various asset classes, as listed below. Some of the individual portfolios have slightly different restrictions on credit quality.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

- **Short-Term Portfolio**

Securities must be high quality at the time of purchase. For short-term investment ratings, this is defined as the highest applicable rating from one of the three Nationally Recognized Statistical Rating Organizations (NRSRO) – S&P A-1; Moody’s P-1; Fitch F1. For long-term investment ratings, this is defined as a minimum mid-single A rating from one of the three NRSROs – S&P A, Moody’s A2, Fitch A. Securities of a single issuer are generally limited to 5% of the amortized cost of the portfolio (excluding U.S. Treasuries and Agencies).

- **Mortgage Index Portfolio**

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

- **Intermediate Aggregate Less MBS Index Portfolio**

Securities should be rated investment grade by at least one of the three NRSROs at the time of purchase. Minimum ratings include S&P BBB-, Moody’s Baa3, and Fitch BBB-. Securities of a single issuer are generally limited to 5% of the market value of the portfolio (excluding U.S. Treasuries and Agencies). This portfolio primarily contains U.S. Treasuries, government agencies, and corporates.

- **Core Portfolios**

Securities should generally be rated investment grade by one of the three NRSROs at the time of purchase. Minimum ratings include S&P BBB-, Moody’s Baa3, and Fitch BBB-. Securities of a single issuer are generally limited to 5% of the market value of the portfolio (excluding U.S. Treasuries and Agencies). These portfolios can contain: U.S. Treasuries; government Agencies; investment grade residential mortgage backed, commercial mortgage backed and asset backed securities; investment grade foreign sovereign debt; municipals, and corporates.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

• **Security Lending Portfolios**

Under investment policy guidelines in effect since October 2015, eligible cash collateral investments are:

- Tri-party qualified repurchase agreement transactions in which the subject securities thereunder will be repurchased by the seller between one and forty-five calendar days from the purchase date, and such 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 three NRSROs – S&P AAAM; Moody's Aaamf; Fitch AAAMmf.
- U.S. Treasury bills, notes, and bonds.
- Investments that were purchased prior to the policy guidelines established in December 2008 are being held to maturity in existing lending portfolios. These previous investment policy guidelines contained short-term rating requirements that were similar to the current short-term portfolio rating requirements. Repurchase agreements were required to be fully collateralized.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

The following tables disclose credit quality ratings related to credit risk on investments held in the Trust at June 30, 2016 and 2015.

Credit Quality Ratings As of June 30, 2016									
S&P ¹	Moody's ¹	Total ²	Certification of Deposit	Commercial Paper	Money Market Funds	Repurchase Agreements	Federal Agencies ⁴	Domestic Bonds and Notes	International Bonds and Notes
A-1/AAAm		\$ 4,563,592	\$ -	\$ 3,516,125	\$ 1,047,467	\$ -	\$ -	\$ -	\$ -
AAA		750,766	-	-	-	-	-	424,190	326,576
AA		1,064,384	200,044	-	-	31	14,999	686,057	163,253
A		2,086,976	-	-	-	-	-	1,551,810	535,166
BBB		3,376,750	-	-	-	-	-	2,875,349	501,401
BB		78,611	-	-	-	-	-	60,810	17,801
B		24,401	-	-	-	-	-	8,610	15,791
CCC		26,949	-	-	-	-	-	26,949	-
D		2,746	-	-	-	-	-	2,746	-
Not rated	Aaa	520,331	-	-	-	-	5,202	476,609	38,520
Not rated	Aa	52,619	-	-	-	-	4,403	39,151	9,065
Not rated	A	156,646	-	-	-	-	-	151,032	5,614
Not rated	Baa	57,918	-	-	-	-	-	27,625	30,293
Not rated	Ba	18,341	-	-	-	-	-	18,341	-
Not rated	Caa	7,770	-	-	-	-	-	7,770	-
Not rated	Ca	3,972	-	-	-	-	-	3,972	-
Not rated	Not rated	9,510,156	575,018	-	-	846,302	7,700,765	314,146	73,925
		\$ 22,302,928	\$ 775,062	\$ 3,516,125	\$ 1,047,467	\$ 846,333	\$ 7,725,369	\$ 6,675,167	\$ 1,717,405
Ratings not applicable									
			\$ 793,171						
			11,074,342						
			41,029,902						
			31,814,912						
			5,452,110						
			22,440,286						
			10,581,549						
			38,673						
			(1,659)						
			<u>\$ 145,526,214</u>						

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

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

³ Repurchase agreements collateralized by U.S. guaranteed obligations or cash, and U.S. guaranteed obligations do not require disclosure of credit quality.

⁴ Federal Agency TBAs and mortgage backed securities are classified as "Not Rated" because they do not have explicit credit ratings on individual securities.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

		Credit Quality Ratings As of June 30, 2015							
S&P ¹	Moody's ¹	Total ²	Certification of Deposit	Commercial Paper	Money Market Funds	Repurchase Agreements	Federal Agencies ⁴	Domestic Bonds and Notes	International Bonds and Notes
A-1/AAAm		\$ 10,337,802	\$ -	\$ 5,867,392	\$ 4,470,410	\$ -	\$ -	\$ -	\$ -
AAA		1,202,995	-	-	-	-	-	653,190	549,805
AA		1,733,439	99,992	-	-	370,254	9,700	948,396	305,097
A		3,419,301	-	-	-	-	1,050	2,590,631	827,620
BBB		3,143,907	-	-	-	-	-	2,478,599	665,308
BB		123,659	-	-	-	-	-	54,475	69,184
B		20,410	-	-	-	-	-	20,410	-
CCC		30,429	-	-	-	-	-	30,429	-
D		3,159	-	-	-	-	-	3,159	-
Not rated	Aaa	606,020	-	-	-	10	17,004	506,708	82,298
Not rated	Aa	226,493	149,988	-	-	-	4,572	58,120	13,813
Not rated	A	132,841	-	-	-	-	-	125,336	7,505
Not rated	Baa	120,567	-	-	-	-	-	60,900	59,667
Not rated	Ba	4,918	-	-	-	-	-	4,918	-
Not rated	B	-	-	-	-	-	-	-	-
Not rated	Caa	9,218	-	-	-	-	-	9,218	-
Not rated	Ca	4,374	-	-	-	-	-	4,374	-
Not rated	Not rated	12,760,775	1,686,549	-	-	1,292,288	9,426,386	282,355	73,197
		<u>\$ 33,880,307</u>	<u>\$ 1,936,529</u>	<u>\$ 5,867,392</u>	<u>\$ 4,470,410</u>	<u>\$ 1,662,552</u>	<u>\$ 9,458,712</u>	<u>\$ 7,831,218</u>	<u>\$ 2,653,494</u>
Ratings not applicable									
			\$ 2,512,685						
			7,622,315						
			43,387,207						
			36,089,572						
			6,315,998						
			19,596,357						
			10,142,274						
			33						
			925						
			<u>\$ 159,547,673</u>						

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

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

³ Repurchase agreements collateralized by U.S. guaranteed obligations or cash, and U.S. guaranteed obligations do not require disclosure of credit quality.

⁴ Federal Agency TBAs and mortgage backed securities are classified as "Not Rated" because they do not have explicit credit ratings on individual securities.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

All futures and options contracts held by the Trust at June 30, 2016 and 2015, were exchange traded, therefore minimizing counterparty credit risk through the use of a futures clearing merchant and a clearing house.

All swap contracts held by the Trust at June 30, 2016 and 2015, were exchange traded, therefore minimizing counterparty credit risk through the use of a swap clearing merchant and a clearing house.

Counterparty credit ratings related to credit risk for spot and forward foreign currency contracts held at June 30, 2016 and 2015, are presented in the following tables.

			As of June 30, 2016		
Counterparty Credit Rating (Long/Short) ¹			Receivable Fair Value	Payable Fair Value	Net Unrealized Gain/(Loss)
S&P	Moody's	Fitch			
<i>(In Thousands)</i>					
AA/A-1	Aa/P-1	AA/F1	\$ 420,705	\$ (423,368)	\$ (2,663)
A/A-1	Aa/P-1	AA/F1	88	(88)	-
A/A-1	Aa/P-1	AA/F1	3,575	(3,565)	10
A/A-1	Aa/P-1	A/F1	596	(598)	(2)
A/A-1	A/P-1	AA/F1	25,537	(25,524)	13
A/A-1	A/P-1	A/F1	3,993,398	(3,964,170)	29,228
A/A-1	NR/NR	NR/NR	288	(286)	2
A/A-2	A/P-1	A/F1	21,813	(22,420)	(607)
BBB/A-2	Baa/P-2	NR/NR	28,247	(28,291)	(44)
NR/NR	Aa/P-1	NR/NR	91,187	(93,626)	(2,439)
NR/NR	NR/NR	A/F1	50,296	(50,280)	16
NR/NR	NR/NR	NR/NR	6,739	(6,734)	5
			<u>\$ 4,642,469</u>	<u>\$ (4,618,950)</u>	<u>\$ 23,519</u>

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Counterparty Credit Rating (Long/Short) ¹		As of June 30, 2015			Payable Fair Value	Net Unrealized Gain/(Loss)
		S&P	Moody's	Fitch		
<i>(In Thousands)</i>						
AA/A-1	Aaa/P-1	AA/F1	\$ 407,169	\$ (408,200)	\$ (1,031)	
AA/A-1	Aa/P-1	AA/F1	852	(852)	–	
AA/A-1	NR/P-1	AA/F1	9,367	(9,266)	101	
A/A-1	Aa/P-1	AA/F1	20,186	(20,202)	(16)	
A/A-1	Aa/P-1	A/F1	687	(688)	(1)	
A/A-1	A/P-1	AA/F1	4,493	(4,495)	(2)	
A/A-1	A/P-1	A/F1	297,840	(300,054)	(2,214)	
A/A-1	NR/P-1	AA/F1	6,515	(6,510)	5	
A/A-1	NR/P-1	A/F1	3,186	(3,208)	(22)	
A/A-1	NR/NR	NR/NR	132	(132)	–	
A/A-2	Aa/P-1	A/F1	493,014	(488,187)	4,827	
BBB/A-1	NR/P-2	NR/NR	292,565	(292,285)	280	
NR/NR	NR/P-1	NR/NR	639,860	(641,107)	(1,247)	
NR/NR	NR/NR	A/F1	35,933	(35,930)	3	
NR/NR	NR/NR	NR/NR	98,782	(98,619)	163	
			\$ 2,310,581	\$ (2,309,735)	\$ 846	

¹ If no rating exists, “NR” is reported.

Concentration of Credit Risk

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

Effective October 2015, the security lending programs are allowed to hold up to 30% of the cash collateral reinvestment portfolio in U.S. Treasury bills, notes, and bonds.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Interest Rate Risk

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

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

- **Short-Term Portfolio**

Weighted-average maturity to final maturity date (WAL) is limited to 120 days in the internally managed FRS Short-term Investment Pool (STIPFRS) portfolio and weighted-average time to coupon reset (WAM) is limited to 60 days. For securities without a fixed interest rate, the next coupon reset date is used as the maturity for the reset WAM calculation. In STIPFRS, no individual security shall have a final maturity date longer than 397 days except for U.S. Treasury and Agency securities, which shall not exceed five years.

- **Mortgage Index Portfolio**

Portfolio duration should be similar to the duration of the mortgage-related fixed income market and should remain within plus or minus 0.25 years of 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.

- **Intermediate Aggregate Less MBS Index Portfolio**

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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

• **Core Portfolios**

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 may contribute no more than 25% of the portfolio's total duration.

The Core Portfolios contain certain investments, Collateralized Mortgage Obligations (CMOs), which are more sensitive to interest rate changes than others. 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.

• **Security Lending Portfolios**

Effective October 2015, new investment policy guidelines allow investment in:

- Repurchase agreements, with a term to repurchase not to exceed forty-five 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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Investments that were purchased prior to the investment policy guidelines established in December 2008 are still held in the lending programs, but are slowly paying down. These guidelines included a maximum WAM for a portfolio of 60 to 90 days, depending on the lending program. For investments that had floating interest rates, interest rate reset dates were used to calculate WAM.

The interest rate risk tables for the Trust as of June 30, 2016 and 2015, are presented below. Investment types related to debt portfolios are presented using effective weighted duration. Investment types related to short-term, and security lending collateral portfolios are presented using weighted-average maturity.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Investment type	As of June 30, 2016			
	Fair Value (Duration)	Effective Weighted Duration	Fair Value (WAM)	Weighted Average Maturity
	<i>(In Thousands)</i>	<i>(In Years)</i>	<i>(In Thousands)</i>	<i>(In Days)</i>
Certificate of deposit	\$ —	NA	\$ 775,062	11
Commercial paper	—	NA	3,516,125	21
Money market funds	—	NA	1,047,467	1
Repurchase agreements	—	NA	1,639,504	5
U.S. guaranteed obligations:				
U.S. Treasury bills	1,815,962	0.06	—	NA
U.S. Treasury bonds and notes	7,289,368	4.09	—	NA
Index linked government bonds	283,611	7.10	—	NA
U.S. government guaranteed bonds and notes	54,869	4.41	—	NA
Mortgage backed	915,179	2.05	—	NA
GNMA commitments to purchase (TABs)	440,639	1.93	—	NA
Mortgage backed-CMOs and CMBS ¹	274,714	2.56	—	NA
Federal agencies				
Discount notes	201,167	0.06	—	NA
Unsecured bonds and notes	435,196	3.30	—	NA
Agency strips	28,504	3.83	—	NA
Mortgage backed	4,889,281	2.35	—	NA
FNMA, FHLMC commitments to purchase (TBAs)	1,422,991	2.28	—	NA
Mortgage backed CMOs and CMBS ¹	748,230	2.22	—	NA
Domestic:				
Corporate bonds and notes	4,700,890	4.67	—	NA
Asset and mortgage backed	729,262	1.61	51,589	25
Mortgage backed-CMOs and CMBS ¹	1,161,151	2.53	14,040	25
Municipal/provincial	15,489	6.27	—	NA
Real estate mortgage loans	2,746	5.83	—	NA
International:				
Government and agency obligations	700,397	3.46	—	NA
Corporate bonds and notes	976,492	4.18	—	NA
Asset and mortgage backed	40,516	0.94	—	NA
Futures contract-long ²	—	2.75	—	NA
Swap contracts ²	(1,659)	0.19	—	NA
Total fixed income investments	<u>\$ 27,124,995</u>		<u>\$ 7,043,787</u>	

¹ Includes investments in IOs, POs and INVs totaling \$66 million at June 30, 2016.

² The futures and swap contracts effective weighted duration was calculated using notional values rather than fair values. For foreign futures, local notional value was converted to a U.S. dollar value based on foreign exchange rates at June 30, 2016.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Investment type	As of June 30, 2015			
	Fair Value (Duration)	Effective Weighted Duration	Fair Value (WAM)	Weighted Average Maturity
	<i>(In Thousands)</i>	<i>(In Years)</i>	<i>(In Thousands)</i>	<i>(In Days)</i>
Certificate of deposit	\$ —	NA	\$ 1,936,529	20
Commercial paper	—	NA	5,867,392	27
Money market funds	—	NA	4,470,410	1
Repurchase agreements	—	NA	4,175,237	2
U.S. guaranteed obligations:				
U.S. Treasury bills	4,139	0.30	—	NA
U.S. Treasury bonds and notes	5,758,098	3.87	—	NA
Index linked government bonds	211,746	8.20	—	NA
U.S. government guaranteed bonds and notes	51,181	5.71	—	NA
Mortgage backed	749,820	3.43	—	NA
GNMA commitments to purchase (TABs)	693,557	3.50	—	NA
Mortgage backed-CMOs and CMBS ¹	153,774	3.13	—	NA
Federal agencies				
Discount notes	344,754	0.16	—	NA
Unsecured bonds and notes	707,763	2.95	—	NA
Agency strips	212,416	2.83	—	NA
Mortgage backed	4,554,035	3.47	—	NA
FNMA, FHLMC commitments to purchase (TBAs)	2,454,550	3.85	—	NA
Mortgage backed CMOs and CMBS ¹	1,185,194	3.60	—	NA
Domestic:				
Corporate bonds and notes	5,541,558	4.32	—	NA
Asset and mortgage backed	873,742	1.98	59,857	27
Mortgage backed-CMOs and CMBS ¹	1,312,605	3.80	16,691	25
Municipal/provincial	23,982	2.84	—	NA
Real estate mortgage loans	2,783	6.24	—	NA
International:				
Government and agency obligations	1,103,046	3.17	—	NA
Corporate bonds and notes	1,487,296	3.65	—	NA
Asset and mortgage backed	40,748	1.05	—	NA
Mortgage backed-CMOs and CMBS	5,339	0.15	17,065	16
Futures contract-long ²	—	3.45	—	NA
Options purchased ²	33	See Note 2	—	—
Swap contracts ²	925	(4.15)	—	NA
Total fixed income investments	<u>\$ 27,473,084</u>		<u>\$ 16,543,181</u>	

¹ Includes investments in IOs, POs and INVs totaling \$63 million at June 30, 2015.

² The futures and swap contracts' effective weighted duration was calculated using notional values rather than fair values. For foreign futures, local notional value was converted to a U.S. dollar value based on foreign exchange rates at June 30, 2015.

³ An option's effective weighted duration measures the rate of change of price with respect to yield. The effective weighted duration was (0.02) as of June 30, 2015.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Interest rate risk information for debt investments sold short is presented below as of June 30, 2016 and 2015.

Investment Type	June 30, 2016		June 30, 2015	
	Fair Value	Effective Weighted Duration	Fair Value	Effective Weighted Duration
	<i>(In Thousands)</i>	<i>(In Years)</i>	<i>(In Thousands)</i>	<i>(In Years)</i>
GNMA commitments to sell (TBAs)	\$ (1,891)	(0.02)	\$ (11,843)	3.24
FNMA, FHLMC commitments to sell (TBAs)	(306,334)	4.40	(145,133)	3.47
Futures contracts ²	-	3.49	-	4.22
Options ³	-		(17)	See Note 3
Total debt investments sold short ¹	<u>\$ (308,225)</u>		<u>\$ (156,993)</u>	

¹ Investments sold short are reported as liabilities on the Statements of Net Position.

² The futures contracts' effective weighted duration was calculated using notional values rather than fair values. For foreign futures, local notional value was converted to a U.S. dollar value based on foreign exchange rates at June 30, 2016 and 2015.

³ An option's effective weighted duration measures the rate of change of price with respect to yield. There were no fixed income options held at June 30, 2016. Effective weighted duration was (0.01) as of June 30, 2015.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Trust may have exposure to foreign currency risk to the extent its investments contain non-U.S. dollar denominated holdings in foreign countries. All asset classes may hold non-U.S. securities, depending on portfolio guidelines. Florida law limits the 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 be hedged through forward currency contracts, although the managers use them in many cases.

International equity commingled funds are investments where the Trust owns units in commingled funds with other investors and, therefore, owns only a portion of the overall investment in the funds. Equity linked notes are participatory notes that allow the holder to participate in certain foreign equity markets where direct participation is not possible due to local government regulations, tax policies, or other reasons. The overall investments or notes themselves may be valued in U.S. dollars, but a portion of the underlying assets are exposed to foreign currency risk in various currencies.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

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. Alternative investments with potential exposure to foreign currency risk totaled \$20.0 billion and \$17.4 billion as of June 30, 2016 and 2015, respectively.

Following are the Trust's investments, by currency at fair value (in U.S. dollars), exposed to foreign currency risk as of June 30, 2016 and 2015.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Currency	As of June 30, 2016		
	Investment Type		
	Equity	Alternative Investments	Fixed Income
	<i>(In Thousands)</i>		
Australian dollar ¹	\$ 1,077,695	\$ —	\$ —
Brazilian real	445,084	—	—
British pound sterling	4,473,700	13,333	—
Canadian dollar	1,392,486	—	—
Chilean peso	29,301	—	—
Danish krone	363,066	—	—
Egyptian pound	29,468	—	—
Euro currency unit ¹	6,427,069	584,953	—
Hong Kong dollar	1,916,243	—	—
Hungarian forint	37,775	—	—
Indian rupee	706,586	—	—
Indonesian rupiah	153,610	—	—
Israeli shekel	74,865	—	—
Japanese yen	4,519,662	—	—
Kenyan shilling	21,836	—	—
Malaysian ringgit	144,097	—	—
Mexican peso	215,345	—	—
New Zealand dollar	67,977	—	—
Nigerian naira	27,884	—	—
Norwegian krone	191,105	—	—
Omani rial	8,634	—	363
Pakistani rupee	32,780	—	—
Philippines peso	122,496	—	—
Polish zloty	72,469	—	—
Qatari riyal	39,279	—	—
Singapore dollar	416,356	—	—
South African rand	418,284	—	—
South Korean won	839,575	—	—
Sri Lankan rupee	16,411	—	—
Swedish krona	615,823	—	—
Swiss franc ¹	1,904,848	—	—
Taiwan new dollar	693,978	—	—
Thailand baht	193,215	—	—
Turkish lira	182,261	—	—
United Arab Emirates dirham	56,338	—	—
Other	62,265	—	—
Equity linked notes (various currencies)	47,562	—	—
International equity commingled funds	5,452,110	—	—
Total investments subject to foreign currency risk	<u>\$ 33,489,538</u>	<u>\$ 598,286</u>	<u>\$ 363</u>

¹ Equity exposure to Australian dollars, Euro currency units and Swiss francs include equity currency options with fair values at June 30, 2016 of \$11,870, (\$4,048,661) and \$3,904,123, respectively.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Currency	As of June 30, 2015		
	Investment Type		
	Equity	Alternative Investments	Fixed Income
	<i>(In Thousands)</i>		
Australian dollar	\$ 1,191,743	\$ —	\$ —
Brazilian real	466,067	—	—
British pound sterling	5,667,070	413	—
Canadian dollar	1,461,287	—	—
Chilean peso	25,764	—	—
Danish krone	359,608	—	—
Egyptian pound	38,629	—	—
Euro currency unit	7,490,040	411,024	—
Hong Kong dollar	2,511,811	—	—
Hungarian forint	36,560	—	—
Indian rupee	530,925	—	—
Indonesian rupiah	111,122	—	—
Israeli shekel	81,576	—	—
Japanese yen	5,061,576	—	—
Kenyan shilling	21,686	—	—
Malaysian ringgit	147,957	—	—
Mexican peso	211,216	—	—
New Zealand dollar	49,496	—	—
Nigerian naira	49,172	—	—
Norwegian krone	215,902	—	—
Omani rial	14,469	—	195
Pakistani rupee	23,499	—	—
Philippines peso	114,618	—	—
Polish zloty	80,819	—	—
Qatari riyal	48,006	—	—
Singapore dollar	510,134	—	—
South African rand	484,997	—	—
South Korean won	905,714	—	—
Sri Lankan rupee	22,731	—	—
Swedish krona	727,736	—	—
Swiss franc	2,351,834	—	—
Taiwan new dollar	753,626	—	—
Thailand baht	198,953	—	—
Turkish lira	212,228	—	—
United Arab Emirates dirham	65,203	—	—
Other	50,857	—	—
Equity linked notes (various currencies)	129,240	—	—
International equity commingled funds	6,315,998	—	—
Total investments subject to foreign currency risk	<u>\$ 38,739,869</u>	<u>\$ 411,437</u>	<u>\$ 195</u>

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

In addition to the investments presented above, the Trust holds positions in futures contracts (see Note 4 for details on derivatives) that are subject to foreign currency risk. The margin payments are exposed to foreign currency risk. The Trust's futures contract positions at June 30, 2016 and 2015, that were exposed to foreign currency risk are presented below.

Currency	Number of Contracts ¹	In Local Currency			In U.S. \$	
		Notional Traded Exposure	Notional Market Exposure	Unrealized Gain/(Loss) ²	Unrealized Gain/(Loss)	
<i>(In Thousands)</i>						
<u>As of June 30, 2016</u>						
Stock Index Futures:						
GBP FTSE 100 Index	British pound sterling	323	19,297	20,745	1,448	\$ 1,935
Canada S&P/TSE 60 Index	Canadian dollar	56	9,007	9,120	113	\$ 87
ASX SPI 200	Australian dollar	11	1,422	1,423	1	\$ 1
DJ Euro STOXX 50	Euro currency unit	1,053	29,507	30,063	556	\$ 618
TOPIX Index Future	Japanese yen	193	2,547,341	2,403,815	(143,526)	\$ (1,399)
Yen Denom NIKKEI	Japanese yen	333	2,711,453	2,620,710	(90,743)	\$ (885)
<u>As of June 30, 2015</u>						
Bond Futures:						
Euro BTP	Euro currency unit	709	95,674	92,319	(3,355)	\$ (3,738)
Euro Bund	Euro currency unit	(568)	(87,858)	(86,336)	(1,522)	\$ (1,696)
Stock Index Futures:						
GBP FTSE 100 Index	British pound sterling	275	18,244	17,858	(386)	\$ (606)
Canada S&P/TSE 60 Index	Canadian dollar	87	14,849	14,684	(165)	\$ (133)
DJ Euro STOXX 50	Euro currency unit	631	21,502	21,681	179	\$ 200
TOPIX Index Future	Japanese yen	222	3,663,623	3,619,710	(43,913)	\$ (359)

¹ Long positions are positive and short positions are negative.

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

The Trust also holds positions in interest rate swap contracts (see Note 4 for details on derivatives) that are subject to foreign currency risk. The margin payments are exposed to foreign currency risk. There were no interest rate swaps with foreign currency exposure at June 30, 2015. The Trust's interest rate swap contract positions at June 30, 2016 that were exposed to foreign currency risk are presented below.

Currency	Notional Amount (Local Currency) <i>(In Thousands)</i>	Receive ¹	Pay ^{1,2}	Maturity Dates	Fair Value in Local Currency <i>(In Thousands)</i>	Fair Value in U.S. Dollars
Euro currency unit	27,000	1.0995%	EURIBOR 6 month	02/12/36	1,618	\$ 1,797
Euro currency unit	1,000,000	EURIBOR 6 month	(0.155)% – (0.153)%	02/13/17	(137)	(153)
New Zealand Dollar	40,000	3.06%	3 Month NZD_BBR_FRA	03/29/26	1,412	1,006
					<u>1,412</u>	<u>\$ 2,650</u>

¹ If a range of interest rates are presented, they represent the lowest to highest fixed rates received or paid. The EURIBOR (Euro Interbank Offered Rate) is the rate at which euro wholesale money market (or interbank market) term deposits within the euro zone are offered by one prime bank to another prime bank. Euro rates at 6/30/16 were negative. The 6-month EURIBOR rate at 6/30/16 was -0.179%.

² The NZD_BBR_FRA is a forward rate agreement bank bill reference rate maintained by the New Zealand Financial Markets Association, a professional body for wholesale (institutional) banking in New Zealand. The bank bill interest rate is the wholesale interbank rate within Australia and is published by the Australian Financial Markets Association (AFMA). It is the borrowing rate among the country's top market makers, and is widely used as the benchmark interest rate for financial instruments. The 3-month rate is the average interest rate at which a selection of banks are prepared to lend to one another in New Zealand dollars with a maturity of 3 months. The 3-month NZD_BBR_FRA rate at 6/30/16 was 2.41.

The Trust also enters into foreign currency contracts, which are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. A currency overlay program is used to seek additional value and is run independently of the underlying equity assets. Currently, there are two types of foreign currency contracts being utilized by the Trust. Spot currency contracts are used primarily for trade settlement and currency repatriation and are valued at spot (traded) currency rates. Forward currency contracts are valued at interpolated forward rates and are generally used to mitigate currency risk for changes in value associated with foreign holdings, payables and/or receivables. These contracts are recorded as receivables and payables on the statements of net position.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Schedules of all foreign currency contracts outstanding at June 30, 2016 and 2015, are presented below, by currency.

As of June 30, 2016						
Currency to Buy	Amount to Buy (in Local Currency)	Currency to Sell	Amount to Sell (in Local Currency)	Receivable Fair Value (in U.S. \$)	Payable Fair Value (in U.S. \$)	Net Unrealized Gain (Loss) (in U.S. \$)
	<i>(In Thousands)</i>			<i>(In Thousands)</i>		
Australian dollar	71,104	U.S. dollar	(52,835)	\$ 52,858	\$ (52,835)	\$ 23
Brazilian real	141,551	U.S. dollar	(39,947)	43,929	(39,947)	3,982
British pound sterling	9,656	Canadian dollar	(16,684)	12,908	(12,847)	61
British pound sterling	14,956	Japanese yen	(2,058,796)	19,993	(20,069)	(76)
British pound sterling	57,613	U.S. dollar	(80,837)	77,052	(80,837)	(3,785)
Canadian dollar	146,937	U.S. dollar	(114,270)	113,155	(114,270)	(1,115)
Chilean peso	24,852,229	U.S. dollar	(36,538)	37,491	(36,538)	953
Chinese yuan renminbi	31,089	U.S. dollar	(4,681)	4,648	(4,681)	(33)
Columbian peso	10,700,000	U.S. dollar	(3,482)	3,623	(3,482)	141
Czech koruna	84,000	Euro currency unit	(3,107)	3,453	(3,461)	(8)
Czech koruna	274,870	U.S. dollar	(11,638)	11,278	(11,638)	(360)
Danish krone	33,456	U.S. dollar	(5,106)	5,008	(5,106)	(98)
Euro currency unit	3,208	Australian dollar	(4,778)	3,564	(3,558)	6
Euro currency unit	730	Canadian dollar	(1,050)	811	(808)	3
Euro currency unit	34,020	Japanese yen	(4,296,538)	37,796	(41,882)	(4,086)
Euro currency unit	11,000	Polish zloty	(48,465)	12,221	(12,234)	(13)
Euro currency unit	17,100	Swiss franc	(18,494)	18,998	(18,985)	13
Euro currency unit	273,635	U.S. dollar	(306,300)	304,321	(306,300)	(1,979)
Hong Kong dollar	4,959	Canadian dollar	(830)	639	(639)	-
Hong Kong dollar	6,764	U.S. dollar	(872)	872	(872)	-
Hungarian forint	980,000	Euro currency unit	(3,130)	3,449	(3,486)	(37)
Hungarian forint	15,416,701	U.S. dollar	(55,608)	54,255	(55,608)	(1,353)
Indian rupee	3,087,026	U.S. dollar	(45,436)	45,287	(45,436)	(149)
Indonesian rupiah	561,025,552	U.S. dollar	(41,695)	42,259	(41,695)	564
Israeli shekel	185,753	U.S. dollar	(48,550)	48,241	(48,550)	(309)
Japanese yen	8,934,384	Euro currency unit	(69,426)	87,091	(77,131)	9,960
Japanese yen	40,262,804	U.S. dollar	(361,197)	393,568	(361,197)	32,371
Kenyan shilling	801	U.S. dollar	(8)	8	(8)	-
Malaysian ringgit	14,300	U.S. dollar	(3,480)	3,578	(3,480)	98
Mexican peso	1,178,759	U.S. dollar	(63,795)	63,712	(63,795)	(83)
Moroccan dirham	551	U.S. dollar	(56)	56	(56)	-
New Zealand dollar	201,912	U.S. dollar	(143,187)	143,488	(143,187)	301
Nigerian naira	16,408	U.S. dollar	(58)	58	(58)	-
Norwegian krone	277,515	U.S. dollar	(34,006)	33,163	(34,006)	(843)
Pakistan rupee	7,752	U.S. dollar	(74)	74	(74)	-
Peruvian nuevo sol	11,700	U.S. dollar	(3,485)	3,533	(3,485)	48
Philippines peso	171,500	U.S. dollar	(3,689)	3,630	(3,689)	(59)
Polish zloty	45,585	Euro currency unit	(10,317)	11,501	(11,470)	31
Polish zloty	340,035	U.S. dollar	(86,955)	85,826	(86,955)	(1,129)
Romanian leu	30,400	Euro currency unit	(6,713)	7,476	(7,476)	-
Russian ruble	1,551,265	U.S. dollar	(23,048)	24,072	(23,048)	1,024

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

As of June 30, 2016 (continued)

Currency to Buy	Amount to Buy (in Local Currency)	Currency to Sell	Amount to Sell (in Local Currency)	Receivable Fair Value (in U.S. \$)	Payable Fair Value (In U.S. \$)	Net Unrealized Gain(Loss) (In U.S. \$)
	<i>(In Thousands)</i>					
Singapore dollar	2,633	U.S. dollar	(1,951)	\$ 1,956	\$ (1,951)	\$ 5
South African rand	832,934	U.S. dollar	(55,165)	56,719	(55,165)	1,554
South Korean won	125,404,388	U.S. dollar	(107,072)	108,638	(107,072)	1,566
Swedish krona	269,059	U.S. dollar	(31,983)	31,804	(31,983)	(179)
Swiss franc	6,393	Euro currency unit	(5,900)	6,562	(6,555)	7
Swiss franc	114,992	U.S. dollar	(118,073)	118,360	(118,073)	287
Taiwan new dollar	114,796	U.S. dollar	(3,518)	3,568	(3,518)	50
Thailand baht	27,656	U.S. dollar	(787)	787	(787)	-
Turkish lira	2,520	Euro currency unit	(788)	877	(876)	1
Turkish lira	119,885	U.S. dollar	(40,560)	41,487	(40,560)	927
U.S. dollar	241,133	Australian dollar	(328,723)	241,133	(244,560)	(3,427)
U.S. dollar	23,675	Brazilian real	(83,305)	23,675	(25,894)	(2,219)
U.S. dollar	170,751	British pound sterling	(121,010)	170,751	(161,818)	8,933
U.S. dollar	135,445	Canadian dollar	(174,300)	135,445	(134,226)	1,219
U.S. dollar	31,850	Chilean peso	(22,112,493)	31,850	(33,375)	(1,525)
U.S. dollar	15,643	Chinese yuan renminbi	(103,891)	15,643	(15,522)	121
U.S. dollar	13,829	Czech koruna	(335,170)	13,829	(13,753)	76
U.S. dollar	560,979	Euro currency unit	(500,567)	560,979	(556,529)	4,450
U.S. dollar	13,047	Hong Kong dollar	(101,211)	13,047	(13,051)	(4)
U.S. dollar	71,184	Hungarian forint	(20,078,064)	71,184	(70,659)	525
U.S. dollar	3,613	Indian rupee	(246,965)	3,613	(3,611)	2
U.S. dollar	7,695	Indonesian rupiah	(104,311,406)	7,695	(7,858)	(163)
U.S. dollar	79,884	Israeli shekel	(308,698)	79,884	(80,174)	(290)
U.S. dollar	344,263	Japanese yen	(36,959,934)	344,263	(361,062)	(16,799)
U.S. dollar	10	Malaysian ringgit	(40)	10	(10)	-
U.S. dollar	66,402	Mexican peso	(1,232,333)	66,402	(66,734)	(332)
U.S. dollar	62,532	New Zealand dollar	(88,837)	62,532	(63,189)	(657)
U.S. dollar	25,190	Norwegian krone	(212,825)	25,190	(25,431)	(241)
U.S. dollar	92,688	Polish zloty	(366,434)	92,688	(92,486)	202
U.S. dollar	9,480	Russian ruble	(625,377)	9,480	(9,732)	(252)
U.S. dollar	40,760	Singapore dollar	(55,305)	40,760	(41,063)	(303)
U.S. dollar	51,805	South African rand	(814,413)	51,805	(55,457)	(3,652)
U.S. dollar	72,449	South Korean won	(85,654,124)	72,449	(74,179)	(1,730)
U.S. dollar	54	Sri lanka rupee	(7,992)	54	(55)	(1)
U.S. dollar	104,063	Swedish krona	(858,804)	104,063	(101,545)	2,518
U.S. dollar	168,556	Swiss franc	(163,849)	168,556	(168,583)	(27)
U.S. dollar	14,676	Taiwan new dollar	(477,277)	14,676	(14,837)	(161)
U.S. dollar	128	Thailand baht	(4,499)	128	(128)	-
U.S. dollar	30,850	Turkish lira	(91,845)	30,850	(31,876)	(1,026)
UAE dirham	493	U.S. dollar	(134)	134	(134)	-
Grand total				\$ 4,642,469	\$ (4,618,950)	\$ 23,519

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

As of June 30, 2015

Currency to Buy	Amount to Buy (in Local Currency)	Currency to Sell	Amount to Sell (in Local Currency)	Receivable Fair Value (in U.S. \$)	Payable Fair Value (In U.S. \$)	Net Unrealized Gain (Loss) (In U.S. \$)
	<i>(In Thousands)</i>			<i>(In Thousands)</i>		
Australian dollar	21,959	U.S. dollar	(17,084)	\$ 16,868	\$ (17,084)	\$ (216)
Brazilian real	162,805	U.S. dollar	(51,375)	51,857	(51,375)	482
British pound sterling	27,251	U.S. dollar	(42,452)	42,842	(42,452)	390
Canadian dollar	15,148	U.S. dollar	(12,216)	12,129	(12,216)	(87)
Chilean peso	21,056,102	U.S. dollar	(33,671)	32,846	(33,671)	(825)
Chinese yuan renminbi	111,434	U.S. dollar	(18,120)	18,146	(18,120)	26
Columbian peso	10,711,943	U.S. dollar	(4,090)	4,088	(4,090)	(2)
Danish krone	9,010	U.S. dollar	(1,369)	1,349	(1,369)	(20)
Euro currency unit	909	British pound sterling	(644)	1,013	(1,013)	-
Euro currency unit	143,383	U.S. dollar	(161,056)	159,853	(161,056)	(1,203)
Hong Kong dollar	245	Japanese yen	(3,869)	32	(32)	-
Hong Kong dollar	21,400	U.S. dollar	(2,760)	2,760	(2,760)	-
Hungarian forint	1,060,000	Euro currency unit	(3,396)	3,742	(3,788)	(46)
Hungarian forint	5,269,943	U.S. dollar	(19,100)	18,619	(19,100)	(481)
Indian rupee	3,729,368	U.S. dollar	(57,536)	58,048	(57,536)	512
Indonesian rupiah	628,193,642	U.S. dollar	(45,853)	46,424	(45,853)	571
Israeli shekel	45,576	U.S. dollar	(11,904)	12,082	(11,904)	178
Japanese yen	843,316	Australian dollar	(8,948)	6,892	(6,877)	15
Japanese yen	4,408	British pound sterling	(23)	36	(36)	-
Japanese yen	9,529,044	U.S. dollar	(77,200)	77,906	(77,200)	706
Malaysian ringgit	17,189	U.S. dollar	(4,599)	4,532	(4,599)	(67)
Mexican peso	250,019	U.S. dollar	(16,247)	15,899	(16,247)	(348)
Moroccan dirham	1,598	U.S. dollar	(164)	164	(164)	-
New Zealand dollar	7,830	U.S. dollar	(5,549)	5,264	(5,549)	(285)
Norwegian krone	282,167	U.S. dollar	(35,906)	35,848	(35,906)	(58)
Pakistan rupee	3,826	U.S. dollar	(37)	37	(37)	-
Peruvian nuevo sol	25,855	U.S. dollar	(8,092)	8,053	(8,092)	(39)
Philippines peso	208,960	Euro currency unit	(4,633)	4,617	(4,633)	(16)
Polish zloty	28,200	Euro currency unit	(6,806)	7,484	(7,591)	(107)
Polish zloty	137,777	U.S. dollar	(36,820)	36,597	(36,820)	(223)
Qatari riyal	104	U.S. dollar	(29)	29	(29)	-
Romanian leu	15,200	Euro currency unit	(3,417)	3,777	(3,811)	(34)
Russian ruble	361,002	U.S. dollar	(6,367)	6,307	(6,367)	(60)
Singapore dollar	369	Japanese yen	(33,538)	274	(274)	-
Singapore dollar	2,518	U.S. dollar	(1,868)	1,870	(1,868)	2

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

As of June 30, 2015 (continued)

Currency to Buy	Amount to Buy (in Local Currency)	Currency to Sell	Amount to Sell (in Local Currency)	Receivable Fair Value (in U.S. \$)	Payable Fair Value (In U.S. \$)	Net Unrealized Gain(Loss) (In U.S. \$)
	<i>(In Thousands)</i>			<i>(In Thousands)</i>		
South African rand	411,084	U.S. dollar	(33,118)	\$ 33,669	\$ (33,118)	\$ 551
South Korean won	10,779,172	U.S. dollar	(9,661)	9,639	(9,661)	(22)
Swedish krona	177,397	U.S. dollar	(21,135)	21,397	(21,135)	262
Swiss franc	470	British pound sterling	(319)	503	(502)	1
Swiss franc	17,659	U.S. dollar	(19,153)	18,932	(19,153)	(221)
Taiwan new dollar	332,673	U.S. dollar	(10,796)	10,793	(10,796)	(3)
Thailand baht	23,753	U.S. dollar	(701)	702	(701)	1
Turkish lira	144,071	U.S. dollar	(52,707)	53,437	(52,707)	730
U.S. dollar	89,501	Australian dollar	(116,203)	89,501	(89,090)	411
U.S. dollar	7,674	Brazilian real	(24,532)	7,674	(7,718)	(44)
U.S. dollar	77,884	British pound sterling	(50,208)	77,884	(78,933)	(1,049)
U.S. dollar	102,323	Canadian dollar	(126,278)	102,323	(101,095)	1,228
U.S. dollar	41,024	Chilean peso	(25,391,581)	41,024	(39,646)	1,378
U.S. dollar	16,539	Chinese yuan renminbi	(101,876)	16,539	(16,587)	(48)
U.S. dollar	153	Danish krone	(1,024)	153	(153)	-
U.S. dollar	327,162	Euro currency unit	(293,289)	327,162	(326,880)	282
U.S. dollar	17,905	Hong Kong dollar	(138,812)	17,905	(17,905)	-
U.S. dollar	72,550	Hungarian forint	(20,176,444)	72,550	(71,285)	1,265
U.S. dollar	8,010	Indian rupee	(522,629)	8,010	(8,107)	(97)
U.S. dollar	2,066	Indonesian rupiah	(28,179,203)	2,066	(2,086)	(20)
U.S. dollar	15,445	Israeli shekel	(59,079)	15,445	(15,662)	(217)
U.S. dollar	247,702	Japanese yen	(30,877,564)	247,702	(252,440)	(4,738)
U.S. dollar	769	Kenyan shilling	(76,292)	769	(769)	-
U.S. dollar	56,431	Mexican peso	(876,796)	56,431	(55,811)	620
U.S. dollar	54,067	New Zealand dollar	(77,979)	54,067	(52,604)	1,463
U.S. dollar	45,172	Norwegian krone	(350,200)	45,172	(44,470)	702
U.S. dollar	29	Pakistan rupee	(2,939)	29	(29)	-
U.S. dollar	1,921	Philippines peso	(86,774)	1,921	(1,924)	(3)
U.S. dollar	26,041	Polish zloty	(96,711)	26,041	(25,706)	335
U.S. dollar	2,386	Russian ruble	(137,869)	2,386	(2,404)	(18)
U.S. dollar	23,531	Singapore dollar	(31,700)	23,531	(23,517)	14
U.S. dollar	12,943	South African rand	(161,406)	12,943	(13,226)	(283)
U.S. dollar	53,955	South Korean won	(60,382,650)	53,955	(54,009)	(54)
U.S. dollar	58,947	Swedish krona	(486,487)	58,947	(58,684)	263
U.S. dollar	80,907	Swiss franc	(75,647)	80,907	(81,143)	(236)
U.S. dollar	8,204	Taiwan new dollar	(256,137)	8,204	(8,311)	(107)
U.S. dollar	11,984	Turkish lira	(32,939)	11,984	(12,249)	(265)
Grand total				<u>\$ 2,310,581</u>	<u>\$ (2,309,735)</u>	<u>\$ 846</u>

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Security Lending

During fiscal years 2016 and 2015, the Trust participated in security lending programs with three lending agents, including the Trust's custodian and two third-party agents. All 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.

Collateral requirements for securities on loan range from 100% to 105%, depending on the lending agent, the type of security lent, and the type of collateral received. The Trust had received and invested approximately \$2.0 billion in cash collateral and also received \$10.1 billion in securities as collateral for the lending programs as of June 30, 2016. At June 30, 2016, 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 primarily in overnight repurchase agreements (repos). However, investments purchased for one security lending program included investments with final maturities of six months or more, representing approximately 12% of that lender's total collateral invested at June 30, 2016. This is due to the portfolio containing some legacy non-repo securities that will remain until they are either sold or mature.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Fair Value of Securities on Loan¹

	As of June 30	
	2016	2015
	<i>(In Thousands)</i>	
Securities on loan for cash collateral, by security type		
U.S. guaranteed obligations	\$ 239,976	\$ 274,393
Federal agencies	15,031	19,012
Domestic corporate bonds and notes	58,017	462,601
International bonds and notes	52,820	162,012
Domestic equities	618,367	4,605,884
International equities	918,324	2,596,899
Total securities on loan for cash collateral	1,902,535	8,120,801
Securities on loan for non-cash collateral, by security type		
U.S. guaranteed obligations	1,063,666	—
Federal agencies	151,266	—
Domestic corporate bonds and notes	666,836	—
International bonds and notes	408,131	—
Domestic equities	6,805,027	2,986,967
International equities	837,446	59,094
Total securities on loan for non-cash collateral	9,932,372	3,046,061
Total securities on loan	\$ 11,834,907	\$ 11,166,862

¹ Fair value includes accrued interest on debt securities.

Derivatives

The Trust accounts for derivatives in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). GASB 53 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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

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

Derivative instruments in the Trust as of June 30, 2016 and 2015, consisted of futures, options, forward currency contracts, and swaps.

The SBA has established investment guidelines for each investment portfolio. Pursuant to these guidelines, derivative investment instruments are authorized to be used as tools for managing risk or executing investment strategies more efficiently than could otherwise be done in cash markets, 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 cost effectively manage exposure to domestic and international equities and bond 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 counterparty. 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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

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

A swap is a contractual agreement to exchange a stream of periodic payments 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.

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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

The fair value, changes in fair value, and notional amounts of the derivative investments are classified by type and presented by fiscal year in the tables below.

Fiscal Year Ended June 30, 2016

Investment Derivatives	Increase/(Decrease) in Fair Value		Fair Value		Notional (in US \$)
	Classification	Amount (in US \$)	Classification	Amount (in US \$)	
		<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Futures ¹	Investment Income	\$ (1,964)	Receivable (Payable)	\$ 45,167	\$ 3,668,813
Options purchased	Investment Income	(56,620)	Investment ²	38,673	(1,400,308)
Options sold	Investment Income	17,062	Liability ²	(35,820)	2,094,415
Forward currency contracts	Investment Income	25,031	Receivable (Payable) ³	23,843	23,843
Interest rate swaps	Investment Income	(4,676)	Investment	(2,163)	1,445,884
Credit default swaps	Investment Income	302	Investment	504	116,000

¹ The total unrealized gain for open futures contracts at June 30, 2016, was \$45,166,949. Variation margin cash payments in the net amount of \$9,380,738 had already been received from the counterparty on or before June 30, 2016. Outstanding remaining net futures variation margin at June 30, 2016, totaled \$35,786,211, which is included in the "Margin receivable from counterparty" and "Margin payable to counterparty" on the statements of net position. The total notional values of long and short futures positions were \$5,585,312,940 and \$(1,916,500,000), respectively.

² Purchased options are reported as investments and short sales of options are reported as liabilities on the statements of net position.

³ The total receivable and payable notional and fair values (in U.S. dollars) for forward currency contracts were \$4,031,874,674 and \$(4,008,031,731) as of June 30, 2016, and are presented on the statements of net position as Forward foreign currency contracts receivable and Forward foreign currency contracts payable.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

4. Investments (continued)

Fiscal Year Ended June 30, 2015

Investment Derivatives	Increase/(Decrease) in Fair Value		Fair Value		Notional (in US \$)
	Classification	Amount (in US \$)	Classification	Amount (in US \$)	
		<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Futures ¹	Investment Income	\$ 97,210	Receivable (Payable)	\$ (8,967)	\$ 2,751,145
Options purchased	Investment Income	(3,661)	Investment ²	33	(2,651,000)
Options written	Investment Income	842	Liability ²	(16)	2,652,000
Forward currency contracts	Investment Income	109,342	Receivable (Payable) ³	787	787
Interest rate swaps	Investment Income	(559)	Investment	(542)	101,000
Credit default swaps	Investment Income	1,114	Investment	1,467	103,000

¹ The total unrealized loss for open futures contracts at June 30, 2015, was \$(8,967,408). Variation margin cash payments in the net amount of \$9,429,298 had already been paid to the counterparty on or before June 30, 2015. Outstanding remaining net futures variation margin at June 30, 2015, totaled \$461,890, which is included in the "Margin receivable from counterparty" and "Margin payable to counterparty" on the statements of net position. The total notional values of long and short futures positions were \$4,226,231,605 and \$(1,475,086,560), respectively.

² Purchased options are reported as investments and short sales of options are reported as liabilities on the statements of net position.

³ The total receivable and payable notional and fair values (in U.S. dollars) for forward currency contracts were \$2,199,459,653 and \$(2,198,672,804) as of June 30, 2015, and are presented on the statements of net position as Forward foreign currency contracts receivable and Forward foreign currency contracts payable.

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 \$9.8 billion and \$11.2 billion as of June 30, 2016 and 2015, respectively.

5. Contingencies and Litigation

During 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's General Counsel's Office handles these matters either directly or with assistance of outside legal counsel. In the opinion of the SBA's management and legal counsel, these matters are not anticipated to have a material financial impact on the Trust.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2016 and 2015

6. Related Parties

The DMS, the FRS Investment Plan Trust Fund and the SBA are considered to be related parties for the purpose of the Trust's financial statements. The Trust has a variety of transactions with the DMS, FRS Investment Plan Trust 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 charge on the Trust's net asset value each month-end.

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

	2016	2015
	<i>(In Thousands)</i>	
<u>Receivables:</u>		
Due from DMS	\$ 303,945	\$ 323,041
<u>Payables:</u>		
Due to DMS	\$ 358,325	\$ 335,700
Due to the SBA for investment service charges	5,327	5,615
Total payables	\$ 363,652	\$ 341,315
<u>Additions:</u>		
Employer/employee contributions received from DMS	\$ 3,085,492	\$ 3,112,534
Member-directed benefits received from the FRS Investment Plan Trust Fund	54,889	57,536
Total additions	\$ 3,140,381	\$ 3,170,070
<u>Deductions:</u>		
Funds sent to the DMS for benefit payments	\$ 9,872,350	\$ 8,941,103
Member-directed benefits sent to the FRS Investment Plan Trust Fund	612,301	719,182
Investment service charges to the SBA based on month-end net asset values	31,970	33,308
Total deductions	\$ 10,516,621	\$ 9,693,593

Other Report

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

The Board of Trustees
State Board of Administration of Florida

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida Retirement System Trust Fund (the Trust) managed by the State Board of Administration (SBA) of Florida, which comprise the statement of net position as of June 30, 2016, and the related statements changes in net position, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



December 5, 2016

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