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

Fiscal Years Ended June 30, 2017 and 2016

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

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
State Board of Administration of Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida Retirement System ("FRS") Investment Plan Trust Fund (the "Trust") administered by the State Board of Administration ("SBA") of Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust administered by the SBA as of June 30, 2017, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the State Board of Administration of Florida or the Florida Retirement System as of June 30, 2017, their changes in financial position, or, where applicable, their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of the Trust as of June 30, 2016, were audited by other auditors whose report dated November 14, 2016, expressed an unmodified opinion on those statements. The other auditors report included a Basis of Presentation and Adoption of GASB Statement No. 72, *Fair Value Measurement and Application* emphasis of matter, neither of which modified their opinion with respect to those matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 3 – 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 6, 2017 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Tampa, Florida
November 6, 2017

Management's Discussion and Analysis

Introduction

This section of the financial statements of the Florida Retirement System (FRS) Investment Plan Trust Fund (the Trust) presents management's discussion and analysis of the Trust's financial position for the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the basic financial statements and the accompanying notes, which follow this section.

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

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

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

Management's Discussion and Analysis

Financial Statements

The financial reporting entity represented in the basic financial statements and accompanying notes is the Trust, which consists of the assets held in trust by the SBA for the payment of retirement benefits and reasonable administrative expenses of the Plan. The assets, liabilities, and net position of the Trust are reported in the comprehensive annual financial reports (CAFRs) published by the State of Florida and the 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 information on the financial position of the Trust at the end of each fiscal year. The statements of changes in net position present the results of investing activities during the fiscal years presented in this report. The accompanying notes to the financial statements offer additional discussion that is essential for a full understanding of the data presented in the financial statements, and provide more detail about accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

Statements of Net Position

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

	As of June 30		
	2017	2016	2015
		(In Millions)	
Assets			
Investments	**$ 10,007**	$ 8,949	$ 9,178
Receivables	**40**	41	36
Investments sold, but not settled	**43**	54	107
Total assets	**10,090**	9,044	9,321
Liabilities			
Accounts payable & accrued liabilities	**3**	3	2
Investments purchased, but not settled	**78**	81	147
Total liabilities	**81**	84	149
Net position held in trust	**$ 10,009**	$ 8,960	$ 9,172

Management's Discussion and Analysis

Statements of Changes in Net Position

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

	Fiscal Years Ended June 30		
	2017	2016	2015
	(In Millions)		
Additions			
Net investment income/(loss)	**$ 1,163**	$ (78)	$ 224
Contributions and other additions:			
Employer/employee contributions received from DMS	**397**	380	368
Member-directed benefits received from the FRS Trust Fund	**569**	612	719
Member-directed rollover deposits	**69**	84	87
Total contributions and other additions	**1,035**	1,076	1,174
Total additions	**2,198**	998	1,398
Deductions			
Benefit payments to members	**1,070**	1,148	1,235
Member-directed benefits sent to the FRS Trust Fund	**71**	55	58
Administrative expenses	**8**	7	5
Total deductions	**1,149**	1,210	1,298
Change in net position	**1,049**	(212)	100
Net position held in trust			
Beginning of year	**8,960**	9,172	9,072
End of year	**$ 10,009**	$ 8,960	$ 9,172

Management's Discussion and Analysis

Analysis

The Trust's net position increased by $1.05 billion (11.7%) and decreased by $212 million (2.3%) during fiscal years 2017 and 2016, respectively. For fiscal year 2017, the growth in net position was due primarily to positive overall investment performance and a reduction in benefit payments to members. Fiscal year 2016 experienced lower investment performance in domestic and international equities and reduced member-directed benefits transferred from the FRS Trust Fund.

Trust investments yielded net income of approximately $1.16 billion in fiscal year 2017. Both domestic and international equity performance contributed substantially to 2017 income, by posting returns in excess of 20% for the fiscal year. As well, returns were positive across the other asset classes, further contributing to investment gains and overall net income for fiscal year 2017.

The Trust experienced a net investment loss of approximately $78 million in fiscal year 2016. International equity and real asset returns were both negative for that fiscal year. Fixed income provided some positive performance for 2016, posting just over a 5% return. (See the "Investment Returns" section of the Management Discussion and Analysis).

Deductions from the Trust in both fiscal years consist mainly of benefit payments to members. Benefit payments decreased by $78 million (6.8%) and decreased by $87 million (7%) during fiscal years 2017 and 2016, respectively, as the number of members requesting benefits varies from year to year.

Additional Plan highlights and trends follow.

Management's Discussion and Analysis

Plan Participation and Membership

The number of employers participating in the Plan varied marginally over the last three fiscal years, while overall Plan membership increased by approximately 4% annually over that same period.

	As of June 30		
	2017	2016	2015
Participating employers	**994**	1,029	1,017
Plan membership:			
Active members[1]	**121,205**	118,300	115,294
Inactive members[2]	**56,013**	51,276	48,162
Total Plan members	**177,218**	169,576	163,456

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

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

Active Plan Membership by Class

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

	As of June 30						
	Regular	**Senior Management**	**Special Risk Admin**	**Elected Officers**	**Special Risk**	**Other**	**Total**
2017	**105,060**	**2,256**	**25**	**517**	**10,915**	**2,432**	**121,205**
2016	101,734	2,250	24	504	11,180	2,608	118,300
2015	99,226	2,280	26	497	11,278	1,987	115,294

Management's Discussion and Analysis

Plan Choice

The number of new employees eligible to make an initial retirement plan choice has increased over the last three fiscal years. The percentage of those employees choosing the Investment Plan varied by 1-2% annually over that same period. The number of employees joining the Investment Plan through a Second Election continues to decline.

	For Fiscal Years Ended June 30		
	2017	2016	2015
New employees making initial plan choice	**61,511**	60,680	56,572
Number of new employees joining FRS Investment Plan	**13,866**	13,635	13,498
% Electing FRS Investment Plan	**23%**	22%	24%
Employee Second Elections[1]:			
To the FRS Investment Plan	**4,019**	4,505	5,068
To the FRS Pension Plan	**792**	692	662

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

Management's Discussion and Analysis

Benefit Payments

Benefit payments reflect withdrawals from the Trust in the form of lump sum distributions, partial distributions, rollovers to other qualified retirement plans, and periodic payments to members. The number of members requesting benefit payments during the year increased by 1,289 (2.5%) and decreased by 765 (1.5%) for fiscal years 2017 and 2016, respectively. The annual amount of benefits disbursed to Plan members has dropped steadily over that same time period. Benefit payments decreased by $78 million (6.8%) in fiscal year 2017, compared to an $87 million (7%) decrease in fiscal year 2016.

	For Fiscal years ended June 30		
	2017	2016	2015
Members requesting benefits	**53,160**	51,871	52,636
Benefit payments *(In Millions)*			
Rollovers	**$ 629**	$ 699	$ 759
All other	**441**	449	476
Total	**$ 1,070**	$ 1,148	$ 1,235

Contribution Rates

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

Membership Class	Employee Rate FYs 2015-17	Employer Rate[1] FYs 2015-17
Regular	**3.00%**	**3.30%**
Special risk	**3.00**	**11.00**
Special risk: administrative support	**3.00**	**4.95**
Legislators	**3.00**	**6.38**
Governor, Lt. Governor, cabinet officers	**3.00**	**6.38**
State Attorney, public defenders	**3.00**	**6.38**
Justices, judges	**3.00**	**10.23**
County and local elected officers	**3.00**	**8.34**
Senior management service	**3.00**	**4.67**

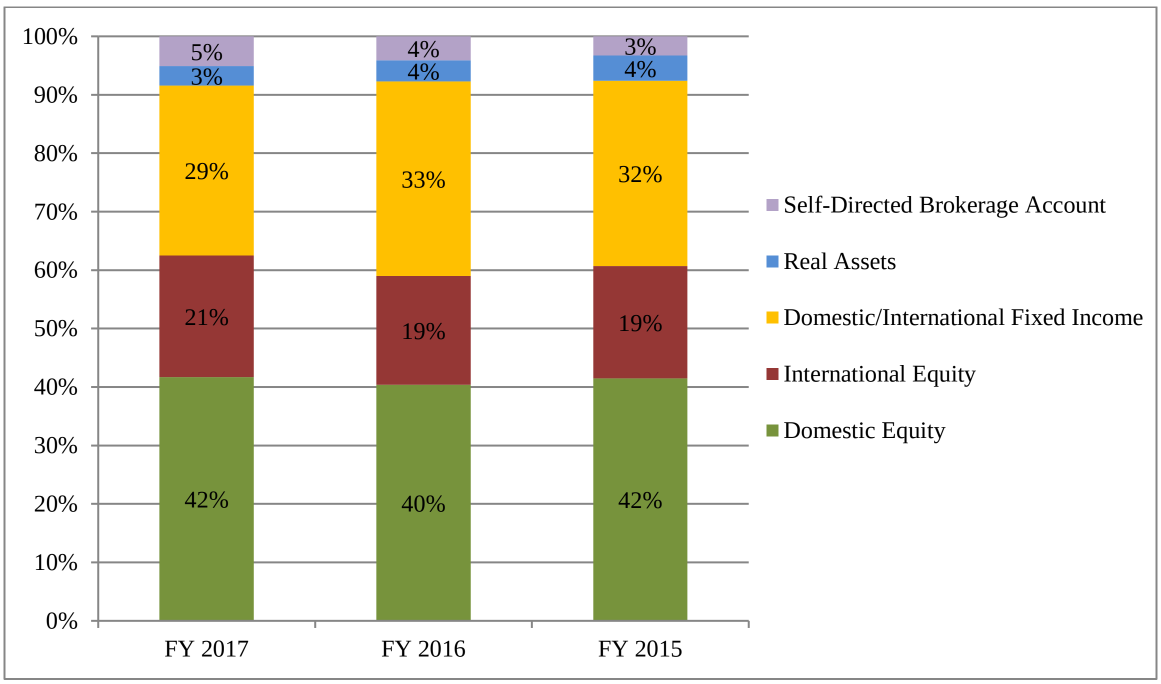
[1] Employer rates presented in this table do not include employer contributions for the Health Insurance Subsidy (1.66% for FYs 2017 and 2016 and 1.26% for FY 2015), plan administrative/educational expense (.06% for FY2017 and .04% for FYs 2016 and 2015) or the disability and in line-of-duty death programs (varies by membership class) as these amounts are not deposited into the Trust.

Management's Discussion and Analysis

Asset Allocation

The asset allocation of the Trust is a function of the members' investment decisions across the various investment options offered. Equity investments (domestic and international combined) remained the largest allocation, as members looked to capitalize on the long-term growth prospects of these assets. Allocations to fixed income investments varied year-to-year, due in part to performance expectations relative to other investment options. Members continued to increase their allocation to the Self-Directed Brokerage Account, which allows for additional investment flexibility. Note 3 to the financial statements describes the Plan's Investment Policy Statement (IPS) and oversight of the Trust's investments.

(By Percentage of Invested Assets)[1]



[1] International fixed income securities represent a small fraction (less than 1%) of the overall Trust investments and are combined with domestic fixed income for charting purposes.

Management's Discussion and Analysis

Investment Returns[1]

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

	As of June 30		
	2017	2016	2015
Retirement Date Funds[2]	**13.2** %	(0.8) %	0.9 %
Short-term	**0.9**	0.4	0.2
Real Assets	**3.5**	(2.4)	(4.6)
Fixed Income	**2.1**	5.3	1.4
Domestic Equity	**20.1**	0.6	7.4
International Equity	**21.0**	(8.4)	(2.5)
Total Trust return	**13.4** %	(0.9) %	2.6 %
Total Trust aggregate benchmark	**12.6**	(0.4)	2.1
Over (under) benchmark	**0.8** %	(0.5) %	0.5 %

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

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

The Trust's total return for fiscal year 2017 was a 13.4%. The investment gain for fiscal year 2017 was driven primarily by strong performance in both domestic and international equities along with overall positive returns across all the asset classes. The Trust's total return for fiscal year 2016 was a negative 0.9%. The investment loss for fiscal year 2016 was driven primarily by negative returns in international equities.

As of June 30, 2017, the Trust outperformed its aggregate benchmark over the trailing one-, three-, five-, and ten-year periods. The Trust's overall performance compared with its benchmark reflects the weighted performance for the underlying fund options in which members are investing. More detailed information and analysis of the Trust's performance can be obtained from the SBA's Annual Investment Report, which can be found at www.sbafla.com. Performance for the Self-Directed Brokerage Account is not included since there is no comparable benchmark. Members assume the full risk and responsibility for the investments selected in the Self-Directed Brokerage Account and for monitoring the performance of these investments.

Management's Discussion and Analysis

Economic Factors

The 2017 fiscal year was primarily characterized by economic stability, low volatility, and strong equity returns. Rather surprisingly, despite several political events throughout the year, investors primarily maintained a risk-on attitude and capital markets generated strong returns. On the heels of the Brexit referendum, global markets began the fiscal year positively with expectations of minimal impact on the global economy, along with evidence of stabilization in China's economy and central bank stimulus in the UK and Japan. Uncertainty briefly crept into markets surrounding the November U.S. Presidential election and on speculation around a December Federal Fund's rate hike. Bond yields spiked nearly 100 bps from October through the end of 2016, though remained mostly range-bound during the rest of the fiscal year. Post the surprising United States' presidential election results, U.S. equity markets rallied on the promise of infrastructure spending, tax reform and de-regulation. The Federal Reserve's rate hike in December marked the first of three rate hikes throughout the year and weighed somewhat on equity markets, but not enough to outweigh the earlier gains post-election.

The second half of the 2017 fiscal year was characterized by concerns surrounding the administration's ability to deliver on pre-election promises and reassurance from positive economic growth. Inflation expectations fell and Treasury yields moderated. Investors focused on the positive news, including economic growth in both the U.S. and abroad, favorable earnings results, expectations the administration would switch gears towards tax reform, and a favorable election result in France. Central Bank policy was also at the forefront of investors' focus. The second Federal Fund rate hike, in March 2017, was highly anticipated and therefore, had a relatively benign impact on markets. However, the third rate hike which took place in June, received more attention as concerns arose surrounding an end to easing monetary policies. As stronger economic data came out of Europe, the European Central Bank (ECB) and the Bank of England gave hawkish signals, including reports that the ECB may begin tapering its quantitative easing program later in 2017. The shift in central bank policy from divergence to convergence, along with downward pressure on the U.S. Dollar (USD), brought a tailwind for international and emerging equity markets.

Management's Discussion and Analysis

Economic Factors (continued)

In terms of returns, global equity markets remained mostly enthused throughout the year. U.S. equities continued their bull market, rallying on pro-growth promises from the Trump administration and continued signals of economic stability. The broad U.S. equity market, as represented by the Dow Jones U.S. Total Stock Market Index, returned an 18.5% over the 2017 fiscal year. Diverging from the past several years, international developed and emerging markets outperformed U.S. equities on both a hedged and unhedged basis over the year. International equities proved resilient against the Brexit referendum and gained on strong economic growth. Developed international markets, represented by the MSCI EAFE Index returned 20.3% in USD terms and 22.1% in local currency. Despite experiencing weakness around the U.S. Presidential election, emerging markets faired even better, posting a 23.8% return in USD terms and 21.8% in local currency, as represented by the MSCI Emerging Markets Equity Index. Consistent with the risk-on mentality, credit spreads tightened and spread sectors of the bond market outpaced safe haven treasuries. The broad Bloomberg Barclays Aggregate Bond Index declined 0.3% for the year, while the Bloomberg Barclays High Yield Index returned 12.7%. Overall, the 2017 fiscal year provided a strong return for a portfolio comprised primarily of traditional equities and bonds.

Contacting the Trust's Financial Management

This financial report is designed to provide citizens, taxpayers, Plan members, and other interested parties with an overview of the Trust's finances and the prudent exercise of the SBA's oversight. If you have any questions regarding this report or need additional information, please contact the Chief of Defined Contribution Programs, State Board of Administration of Florida, P.O. Box 13300, Tallahassee, FL 32317.

Statements of Net Position

	As of June 30	
	2017	2016
	(In Thousands)	
Assets		
Investments:		
Fixed income	**$ 2,912,003**	$ 2,983,798
Equities	**6,249,586**	5,275,178
Real assets	**334,393**	321,026
Self-Directed brokerage account	**510,859**	369,381
Total investments	**10,006,841**	8,949,383
Receivables:		
Accounts receivable	**80**	1,462
Interest and dividends	**2,614**	1,720
Due from DMS	**37,411**	37,395
Investments sold, but not settled	**42,951**	53,673
Total receivables	**83,056**	94,250
Total assets	**10,089,897**	9,043,633
Liabilities		
Accounts payable and accrued liabilities	**2,748**	2,402
Investments purchased, but not settled	**78,139**	81,323
Total liabilities	**80,887**	83,725
Net position held in trust	**$ 10,009,010**	$ 8,959,908

See accompanying notes to the financial statements.

Statements of Changes in Net Position

	Fiscal Years Ended June 30	
	2017	2016
	(In Thousands)	
Additions		
Investment income:		
Dividend income	**$ 25,950**	$ 12,777
Interest and other investment income	**7,953**	7,920
Net increase/(decrease) in fair value of investments	**1,133,580**	(96,049)
Total investment income	**1,167,483**	(75,352)
Investment expenses:		
Bank fees	**(435)**	(349)
Investment management fees	**(3,857)**	(2,138)
Total investment expense	**(4,292)**	(2,487)
Net investment income/(loss)	**1,163,191**	(77,839)
Contributions and other additions:		
Employer/employee contributions received from DMS	**396,928**	379,521
Member-directed benefits received from the FRS Trust Fund	**568,912**	612,301
Member-directed rollover deposits	**69,095**	84,225
Total contributions and other additions	**1,034,935**	1,076,047
Total additions	**2,198,126**	998,208
Deductions		
Benefit payments to members	**1,070,371**	1,148,553
Member-directed benefits sent to the FRS Trust Fund	**71,110**	54,890
Administrative expenses	**7,543**	7,035
Total deductions	**1,149,024**	1,210,478
Change in net position	**1,049,102**	(212,270)
Net position held in trust		
Beginning of year	**8,959,908**	9,172,178
End of year	**$ 10,009,010**	$ 8,959,908

See accompanying notes to the financial statements.

Notes to the Financial Statements

1. Financial Reporting Entity

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

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

The Trust is a separate legal entity within the State of Florida. These financial statements and notes include only the net position and changes in net position of the Trust and do not purport to, and do not, present fairly the net financial position of the State of Florida, the SBA, or the Plan as of June 30, 2017 and 2016, and the changes in their net financial position for the years then ended, in conformity with accounting principles generally accepted in the United States (GAAP).

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting

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

Investment Valuation

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

- Money market funds – at cost.

- Commingled funds – at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments.

- Other investments – the most recent market price at the close of the markets on June 30, or the most recent market close of each fiscal year, if the markets are closed on June 30. If a market price is not readily determinable, alternative pricing methodologies may be used to determine fair value. Alternative pricing may include methodologies such as matrix-pricing, stale pricing, broker bids, or cost/book value.

Income Recognition

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

Administrative Expenses

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

Use of Estimates

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

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. These reclassifications had no effect on the total net position or changes in net position.

New Accounting Standards

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 except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. 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. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB 74)*. The objective of the Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 74, as the Trust is not an OPEB plan.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures (GASB 77).* The requirements of this Statement improve financial reporting by giving users of financial statements information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The requirements of GASB 77 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 77, as the Trust does not engage in tax abatements.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension* Plans (GASB 78). The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of GASB 78 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 78, as the Trust is not a Pension Plan.

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

December 15, 2015. The Trust is not an external investment pool, however, the Trust may invest in certain external investment pools. The adoption of GASB 79 had no material impact on the statements of net position and the statements of changes in net position.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14 (GASB 80)*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of GASB 80 are effective for reporting periods beginning after June 15, 2016. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 80, as the Trust is a separate legal entity within the State of Florida and does not control other reporting units of the State of Florida.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No.73 (GASB 82)*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and 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. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of GASB 82 are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 82, as the Trust is not a Pension Plan.

Notes to the Financial Statements

3. Deposits and Investments

Deposits

The Trust did not hold any deposits at fiscal year end June 30, 2017 or 2016.

Investments

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

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

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

Beginning in fiscal year 2015, the Plan offered ten customized Retirement Date Funds that consist of mixtures of various asset classes. At the end of fiscal year 2017, 80% of the Plan's members had allocated at least some of their assets to one or more of the available Retirement Date Funds. Approximately 43% of total Trust assets were held in the Retirement Date Funds, which are constructed using the various investment funds offered in the Plan.

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

Self-Directed Brokerage Account

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

3. Deposits and Investments (continued)

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

The SDBA provides access to the following investment instruments:

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

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

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

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

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

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Fund Lineup Changes

During fiscal year 2017, three actively managed equity portfolios were added to the Plan investment line-up. These portfolios include large cap and small/mid cap equity securities bought and sold on the open market. Additionally, one retail class mutual fund was closed and the assets transferred into a commingled trust fund run by the same manager with the same strategies and similar portfolio holdings.

Investment Performance

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

The following schedule discloses the Trust's investments, by type, at June 30, 2017 and 2016.

Investment type [1]	**2017**	2016
	(In Thousands)	
Fixed income:		
Money market funds	**$ 940,661**	$ 1,019,225
Domestic	**304,707**	313,237
International	**20,575**	20,178
Domestic commingled funds	**1,646,060**	1,631,158
Total fixed income	**2,912,003**	2,983,798
Equities:		
Domestic	**520,514**	-
International	**17,900**	-
Domestic commingled funds	**3,652,352**	3,607,393
International commingled funds	**2,058,820**	1,667,785
Total equities	**6,249,586**	5,275,178
Commingled real asset fund	**334,393**	321,026
Self-Directed Brokerage Account	**510,859**	369,381
Total Investments	**$ 10,006,841**	$ 8,949,383

[1] Retirement Date Funds consist of Trust investments, shown in this table, in various proportions.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Fair Value Hierarchy

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

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

Level 2 - Investments reflect prices that are based on inputs that are either directly or indirectly observable for an asset or liability (including quoted prices for similar assets or liabilities), 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 or liability.

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

Fixed income and equity securities classified in 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, which utilize primary exchanges.

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

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

Certain investments, such as money market funds, are carried at cost, and not priced at fair value. Commingled investments are measured at the net asset value (NAV) per share (or its equivalent).

3. Deposits and Investments (continued)

Investments by fair value level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		As of June 30, 2017 Fair Value Measurements Using (In Thousands)		
Mutual funds and Self Directed Brokerage Account				
Domestic equity mutual funds	$ 531,885	$ 531,885	$ -	$ -
International equity mutual funds	437,500	437,500	-	-
Self-Directed Brokerage Account	510,859	-	510,859	-
Total mutual funds and Self-Directed Brokerage Account	1,480,244	969,385	510,859	-
Fixed income securities				
U.S. government guaranteed obligations	105,387	-	105,387	-
Federal agencies	75,318	-	75,318	-
Domestic bonds and notes	124,002	-	124,002	-
International bonds and notes	20,575	-	20,575	-
Total fixed income securities	325,282	-	325,282	-
Equity Securities				
Domestic	520,514	520,514	-	-
International	17,900	17,900	-	-
Total equity securities	538,414	538,414	-	-
Total investments by fair value level	$ 2,343,940	$ 1,507,799	$ 836,141	$ -

Investments Measured at the Net Asset Value (NAV)		Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled fixed income funds[1]	$ 1,646,060	Daily, Monthly	1 - 2 Days
Commingled domestic equity funds[2]	3,120,467	Daily, Monthly	1 - 2 Days
Commingled international equity funds[2]	1,621,320	Daily	1 Day
Commingled real asset fund[3]	334,393	Daily	1 Day
Total investments measured at the NAV	6,722,240		
Other investments (carried at cost)	940,661		
Total investments	$ 10,006,841		

[1] *Commingled Fixed Income Funds:* One TIPS fund and five fixed income funds are considered to be commingled in nature. The TIPS fund seeks long-term real total return and is designed to keep pace with inflation. The five commingled fixed income funds utilize various investment strategies such as short/intermediate duration, index/benchmark tracking, high-yield, and corporate/government investment grade debt. Each fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

[2] *Commingled Domestic Equity Funds:* Six domestic equity funds are considered to be commingled in nature. These commingled domestic equity funds utilize various investment strategies such as index/benchmark tracking, small/mid cap, and large cap growth/value seeking appreciation and income. Each fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

[3] *Commingled International Equity Funds*: One international equity fund is considered to be commingled in nature. This fund invests in a portfolio of international equity securities whose total rates of return will approximate as closely practicable the capitalization weighted total rates of return of the markets in certain countries for equity securities traded outside the United States. The fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investments by fair value level	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		As of June 30, 2016 Fair Value Measurements Using (In Thousands)		
Mutual funds and Self Directed Brokerage Account				
Domestic equity mutual funds	$ 708,487	$ 708,487	$ -	$ -
International equity mutual funds	380,382	380,382	-	-
Self-Directed Brokerage Account	369,381	-	369,381	-
Total mutual funds and Self-Directed Brokerage Account	1,458,250	1,088,869	369,381	-
Fixed income securities				
U.S. government guaranteed obligations	110,612	-	110,612	-
Federal agencies	86,229	-	86,229	-
Domestic bonds and notes	116,396	-	116,396	-
International bonds and notes	20,178	-	20,178	-
Total fixed income securities	333,415	-	333,415	-
Total investments by fair value level	$ 1,791,665	$ 1,088,869	$ 702,796	$ -

Investments Measured at the Net Asset Value (NAV)		Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled fixed income funds[1]	$ 1,631,158	Daily	1 Day
Commingled domestic equity funds[2]	2,898,906	Daily, Monthly	1 - 2 Days
Commingled international equity funds[2]	1,287,403	Daily	1 Day
Commingled real asset fund[3]	321,026	Daily	1 Day
Total investments measured at the NAV	6,138,493		
Other investments (carried at cost)	1,019,225		
Total investments	$ 8,949,383		

[1] *Commingled Fixed Income Funds:* One TIPS fund and five fixed income funds are considered to be commingled in nature. The TIPS fund seeks long-term real total return and is designed to keep pace with inflation. The five commingled fixed income funds utilize various investment strategies such as short/intermediate duration, index/benchmark tracking, high-yield, and corporate/government investment grade debt. Each fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

[2] *Commingled Domestic Equity Funds:* Six domestic equity funds are considered to be commingled in nature. These commingled domestic equity funds utilize various investment strategies such as index/benchmark tracking, small/mid cap, and large cap growth/value seeking appreciation and income. Each fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

[3] *Commingled International Equity Funds*: One international equity fund is considered to be commingled in nature. This fund invests in a portfolio of international equity securities whose total rates of return will approximate as closely practicable the capitalization weighted total rates of return of the markets in certain countries for equity securities traded outside the United States. The fund is valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investment Risks

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

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

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

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of issuers and debt instruments is evaluated by nationally recognized statistical rating agencies such as Standard & Poor's Corporation (S&P) and Moody's Investors Service, Inc. (Moody's).

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

An actively managed fixed income portfolio invests in individual fixed income securities. Credit quality ratings for these Trust investments at June 30, 2017 and 2016, are disclosed in the following tables.

Credit Quality Ratings
As of June 30, 2017

S&P[1]	Moody's[1]	Total	Money Market Funds	Federal Agencies[3]	Domestic Bonds and Notes	Commingled Fixed Income	International Bonds and Notes
			(In Thousands)				
AAA		$ 24,498	$ -	$ -	$ 24,498	$ -	$ -
AA		23,545	-	2,897	18,556	-	2,092
A		20,697	-	-	12,020	-	8,677
BBB		44,938	-	-	37,614	-	7,324
BB		1,133	-	-	361	-	772
Not rated	Aaa	23,305	-	-	22,526	-	779
Not rated	Aa	818	-	-	818	-	-
Not rated	A	1,078	-	-	1,078	-	-
Not rated	Baa	2,516	-	-	1,585	-	931
Not rated	Not rated	2,664,088	940,661	72,421	4,946	1,646,060	-
		$ 2,806,616	$ 940,661	$ 75,318	$ 124,002	$ 1,646,060	$ 20,575

Ratings not applicable:	
U.S. guaranteed obligations[2]	$ 105,387
Domestic equities	520,514
International equities	17,900
Domestic equity funds/trusts	3,652,352
International equity funds/trusts	2,058,820
Real asset fund/trust	334,393
Self-Directed Brokerage Account	510,859
Total Investments	$ 10,006,841

[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.

[2] U.S. guaranteed obligations do not require disclosure of credit quality.

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Credit Quality Ratings
As of June 30, 2016

S&P[1]	Moody's[1]	Total	Money Market Funds	Federal Agencies[3]	Domestic Bonds and Notes	Commingled Fixed Income	International Bonds and Notes
			(In Thousands)				
AAA		$ 32,067	$ -	$ -	$ 31,549	$ -	$ 518
AA		22,267	-	2,787	15,232	-	4,248
A		20,939	-	-	14,674	-	6,265
BBB		45,159	-	-	37,754	-	7,405
BB		510	-	-	-	-	510
Not rated	Aaa	17,705	-	-	16,473	-	1,232
Not rated	Aa	714	-	-	714	-	-
Not rated	A	-	-	-	-	-	-
Not rated	Not rated	2,733,825	1,019,225	83,442	-	1,631,158	-
		$ 2,873,186	$ 1,019,225	$ 86,229	$ 116,396	$ 1,631,158	$ 20,178

Ratings not applicable:	
U.S. guaranteed obligations[2]	$ 110,612
Domestic equity funds/trusts	3,607,393
International equity funds/trusts	1,667,785
Real asset fund/trust	321,026
Self-Directed Brokerage Account	369,381
Total Investments	$ 8,949,383

[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.

[2] U.S. guaranteed obligations do not require disclosure of credit quality.

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Custodial Credit Risk

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

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

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

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, 2017 or 2016.

Interest Rate Risk

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

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

The interest rate risk tables for the Trust as of June 30, 2017 and 2016, are presented below. Investment types, related to fixed come portfolios, are presented using effective weighted duration.

	As of June 30, 2017	
Investment type	**Total**	**Weighted Average Duration**
	(In Thousands)	*(In Years)*
Money Market Funds	$ 940,661	0.08
Fixed Income Funds/Trusts	1,646,060	5.49
U.S. guaranteed obligations:		
U.S. Treasury bonds and notes	84,915	7.07
U.S. government guaranteed	636	4.14
GNMA mortgage backed	6,599	2.59
GNMA commitments to purchase (TBAs)	13,237	4.10
Federal agencies		
Unsecured bonds and notes	2,897	2.26
Mortgage backed (FNMA, FHLMC)	56,063	2.15
FNMA, FHLMC commitments to purchase (TBAs)	10,574	3.49
Mortgage backed CMOs and CMBS	5,784	2.12
Domestic bond and notes:		
Corporate	58,361	8.02
Non-government asset and mortgage backed	49,918	0.96
Non-government backed CMOs and CMBS	13,781	4.03
Municipal/provincial	1,942	16.09
International bonds and notes:		
Corporate	13,480	7.11
Government and regional	7,095	6.38
Total fixed income investments	$ 2,912,003	

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investment type	As of June 30, 2016 Total	Weighted Average Duration
	(In Thousands)	*(In Years)*
Money Market Funds	$ 1,019,225	0.08
Fixed Income Funds/Trusts	1,631,158	5.25
U.S. guaranteed obligations:		
U.S. Treasury bonds and notes	93,485	5.81
U.S. government guaranteed	1,310	5.07
GNMA mortgage backed	6,809	1.11
GNMA commitments to purchase (TBAs)	9,008	3.26
Federal agencies		
Unsecured bonds and notes	2,787	4.98
Mortgage backed (FNMA, FHLMC)	59,972	1.77
FNMA, FHLMC commitments to purchase (TBAs)	15,443	2.68
Mortgage backed CMOs and CMBS	8,027	2.83
Domestic bond and notes:		
Corporate	57,756	8.40
Non-government asset and mortgage backed	45,515	1.13
Non-government backed CMOs and CMBS	10,034	5.16
Municipal/provincial	3,091	15.99
International bonds and notes:		
Corporate	12,739	7.88
Government and regional	6,921	7.61
Non-government asset and mortgage backed	518	0.02
Total fixed income investments	$ 2,983,798	

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Trust's actively managed fixed income and equity portfolios are prohibited from holding any non-U.S. dollar denominated securities.

Although the Trust's commingled funds are denominated in U.S. dollars, the international equity and real asset funds may have underlying investments exposed to foreign currency risk in various currencies. The fair values of the commingled international equity funds as of June 30, 2017 and 2016, were $2.06 billion and $1.67 billion, respectively. For fiscal years 2017 and 2016, the commingled real asset fund's fair values were $334 million and $321 million, respectively.

Notes to the Financial Statements

4. Contingencies and Litigation

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

5. Related-Party Transactions

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

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

Significant transactions between the Trust and the DMS and the FRS Trust Fund for fiscal years 2017 and 2016 were as follows:

	2017	2016
	(In Thousands)	
Receivables:		
Due from DMS	**$ 37,411**	$ 37,395
Additions:		
Employer/employee contributions received from DMS	**396,928**	379,521
Member-directed benefits received from the FRS Trust Fund	**568,912**	612,301
Total additions	**$ 965,840**	$ 991,822
Deductions:		
Member-directed benefits sent to the FRS Trust Fund	**$ 71,110**	$ 54,890

Notes to the Financial Statements

6. Subsequent Events

Chapter 2017-88, Laws of Florida was signed into law amending, among other sections, section 121.4501(4), Florida Statutes. The new law generally provides that effective January 1, 2018, all new hires will have until the last business day of the 8th month after hire to make a choice between the FRS Pension Plan and FRS Investment Plan. If a new hire does not make an active election by the deadline date, the new hire will default into the FRS Investment Plan, except those who are enrolled in the Special Risk Class (who will still default to the FRS Pension Plan). The first group of new hires will not default into the FRS Investment Plan until October 1, 2018. The SBA has prepared a preliminary analysis of the impact of the new law. Based on this analysis, the SBA does not currently believe the new law will have a material adverse effect on the FRS Investment Plan Trust Fund (or the FRS Trust Fund).

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

The Board of Trustees
State Board of Administration of Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Florida Retirement System Investment Plan Trust Fund (the "Trust") administered by the State Board of Administration ("SBA") of Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2017. As discussed in Note 1, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the SBA of Florida or the Florida Retirement System, their changes in financial position, or, where applicable, their cash flows, in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Tampa, Florida
November 6, 2017