

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, 2014 and 2013
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, 2014 and 2013

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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 years ended June 30, 2014 and 2013, 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust managed by the SBA as of June 30, 2014 and 2013, and the changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1 to the financial statements, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the State Board of Administration of Florida or the Florida Retirement System as of June 30, 2014 and 2013, or their changes in financial position, for the years then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated November 7, 2014 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

Ernst & Young LLP

November 7, 2014

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2014 and 2013

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, 2014 and 2013. 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 Report (CAFR) of the State of Florida.

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
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Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

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		
	2014	2013	2012
	<i>(In Millions)</i>		
Assets			
Cash and cash equivalents	\$ 307	\$ 218	\$ 196
Security lending collateral	4,618	3,245	4,938
Investments, at fair value	152,915	136,999	126,870
Receivables and prepaid expenses	5,527	3,524	2,359
Total assets	<u>\$ 163,367</u>	<u>\$ 143,986</u>	<u>\$ 134,363</u>
Liabilities			
Total liabilities	<u>\$ 13,644</u>	<u>\$ 11,224</u>	<u>\$ 11,756</u>
Net position held in trust	<u>\$ 149,723</u>	<u>\$ 132,762</u>	<u>\$ 122,607</u>

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

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 withdrawals for members and beneficiaries that occurred during the fiscal year.

	Fiscal Years Ended June 30		
	2014	2013	2012
	<i>(In Millions)</i>		
Additions:			
Investment income	\$ 23,278	\$ 16,722	\$ 199
Investment expenses	(511)	(437)	(377)
Net security lending income	45	49	44
Total net investment income (loss)	<u>22,812</u>	<u>16,334</u>	<u>(134)</u>
Contributions:			
Employer/employee contributions received from DMS	2,935	2,049	1,791
Member-directed benefits received from the FRS Investment Plan Trust Fund	50	44	33
Total contributions	<u>2,985</u>	<u>2,093</u>	<u>1,824</u>
Total additions	<u>25,797</u>	<u>18,427</u>	<u>1,690</u>
Deductions:			
Funds sent to DMS for benefit payments	8,028	7,478	6,949
Member-directed benefits sent to the FRS Investment Plan Trust Fund	808	794	967
Total deductions	<u>8,836</u>	<u>8,272</u>	<u>7,916</u>
Changes in net position	<u>16,961</u>	<u>10,155</u>	<u>(6,226)</u>
Net position held in trust:			
Beginning of year	132,762	122,607	128,833
End of year	<u>\$ 149,723</u>	<u>\$ 132,762</u>	<u>\$ 122,607</u>

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

Fiscal Years Ended June 30, 2014 and 2013

Analysis

The Trust's net position increased by \$17.0 billion (12.8%) and \$10.2 billion (8.3%) during fiscal years 2014 and 2013, respectively. The increases for fiscal years 2014 and 2013 were due primarily to positive investment returns across all the asset classes. For all three fiscal years, benefit payments exceeded contributions to the Trust.

Investment income increased by \$6.6 billion (39.2%) to \$23.3 billion in fiscal year 2014 and by \$16.5 billion (83.0%) during fiscal year 2013. Global equity, real estate and strategic investments earned substantial returns outpacing their benchmarks and leading to the increase in the Trust's overall investment income for both fiscal years. Additional information is provided in the Investment Returns section below.

Investment expenses totaled \$511 million, or .33% (33 basis points) of investment assets for fiscal year ended 2014, compared with investment expenses of \$437 million, or .32% (32 basis points) of investment assets for fiscal year ended 2013. The investment expense increases of \$74 million (16.9%) and \$60 million (15.9%) during fiscal years 2014 and 2013, respectively, were due in large part to the increase in investment management fees that resulted from the addition of several new private equity, strategic and real estate investments, and the overall increase in the market value of investments during both fiscal years. Most investment fees are calculated as a percent of market value.

Net security lending income of \$45 million in fiscal year 2014 decreased by approximately \$4 million (8.2%) compared to an increase of \$5 million (11.4%) in fiscal year 2013. The fluctuations are due to changes in demand and pricing of loaned securities. The lending program continues to focus on maximizing earnings while managing risk, principally utilizing the intrinsic lending model. (See Note 4 for additional information on the securities lending program.)

Total contributions to the Trust were \$3.0 billion and \$2.1 billion for fiscal years 2014 and 2013, respectively. Total contributions for fiscal year 2014 increased by \$892 million (42.6%) compared to an increase of \$269 million (14.7%) during fiscal year 2013. The fiscal year 2014 increase in contributions was due to the new requirement for all employers, effective July 1, 2013, to pay the full unfunded actuarial liability (UAL), recommended by the Plan's consulting actuary (see Contribution Rates table).

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

Fiscal Years Ended June 30, 2014 and 2013

Total deductions from the Trust for fiscal year 2014 were \$8.8 billion, an increase of \$564 million (6.8%) over fiscal year 2013 deductions of \$8.3 billion. This followed an increase of \$356 million (4.5%) during fiscal year 2013. 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 \$550 million (7.4%) and \$529 million (7.6%) during fiscal years 2014 and 2013, 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 increased by 1.8% to \$808 million for fiscal year 2014 following a decrease of 17.9% to \$794 million for fiscal year 2013.

Contribution Rates

Contributions consist of both employer and employee contributions to the Plan received from DMS, but also include member-directed benefits received from the FRS Investment Plan Trust Fund. Effective July 1, 2011, the Florida Legislature reduced the contribution rates for all member classes and required all employees, except Deferred Retirement Option Program (DROP) participants, to contribute 3% of their gross salaries to the Plan.

Membership Class	Employee Rate	Employer Rate ¹		
	FYs 2012-14	FY 2014 ²	FY 2013	FY 2012
Regular	3.00%	5.72%	4.04%	3.77%
Special risk	3.00	17.83	13.76	12.96
Special risk: administrative support	3.00	34.73	4.77	4.90
Legislators	3.00	31.37	7.39	7.90
Governor, Lt. Governor, and cabinet officers	3.00	31.37	7.39	7.90
State Attorney, public defenders	3.00	31.37	7.39	7.90
Justices, judges	3.00	27.05	10.79	10.55
County and local elected officers	3.00	31.80	9.09	10.00
Senior management service	3.00	17.08	5.16	5.13
DROP participants	—	11.64	4.33	3.31

¹ Employer rates presented in this table do not include employer contributions for Health Insurance Subsidy (1.2% FY 2014, 1.11% FY 2013 and 2012) or plan administrative/educational expense (.03%) 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 2014 is the first year the Florida Legislature has 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 change led to a large increase in employer contribution rates for fiscal year 2014.

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

Fiscal Years Ended June 30, 2014 and 2013

Investment Returns²

The Trust earned an overall investment return of 17.40% for fiscal year 2014, compared with a return of 13.12% for fiscal year 2013. The Trust has outperformed its performance benchmark over the trailing one-, three-, five-, ten- and fifteen-year periods. The 2014 total fund return was .38% above the performance benchmark while the 2013 total fund return exceeded its benchmark by 1.11%. For the fiscal years ended June 30, 2014 and 2013, the Trust's investment returns, by major asset class, were as follows:

Asset Class	2014		2013	
	Return	Benchmark	Return	Benchmark
Global Equity	23.52%	23.36%	18.56%	17.23%
Fixed Income	3.78	3.28	0.38	(0.69)
Private Equity ¹	20.49	28.44	10.41	24.55
Real Estate	14.92	12.87	14.92	10.12
Strategic investments	13.19	11.26	16.16	9.83
Cash	0.22	0.02	0.29	0.05
Total fund	17.40	17.02	13.12	12.01

¹ 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.

² The above investment performance information as of June 30, 2014 and 2013 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.

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, 2014 and 2013

Economic Factors

The current expansion in the U.S. economy began five years ago. As of June 30, 2014, U.S. real GDP stood at \$16.0 trillion, having grown 2.5% since June 2013. Although this year's growth was relatively subdued by historical standards, sustained expansion, combined with ongoing policy accommodation and stable inflation, produced attractive investment returns.

Equity markets were particularly strong in the first half of the fiscal year as the economy grew 4.5% in the third quarter of 2013 and 3.5% in the fourth quarter. Investors' optimism was enhanced by a pick-up in the pace of job creation and the Russell 3000 index, a broad measure of U.S. equities, returned 17.1% over that two-quarter period. On the international front, hopes for better performance in Europe and continued growth in most of Asia boosted stocks, with the Morgan Stanley Capital International (MSCI) All-Country World Index ex-U.S. posting a 15.6% return. The Trust combines its domestic and foreign equities into a single Global Equity asset class and its performance benchmark, the MSCI All-Country World Investable Market Index, returned 23.4% for the fiscal year ended June 30, 2014. The global equity asset class exceeded that Index return by generating a 23.5% managed return.

Nonetheless, the news was not all good in world equity markets. The MSCI Emerging Market Index fell sharply in late 2013 and was down 15.0% by February 2014. The impetus behind this plunge was an expected negative impact from higher U.S. interest rates. Developed markets also contained a few soft spots. In early 2014, there was noticeable slowing in the U.S. economy. Payroll job growth surged early in the fiscal year coming in over 200,000 for several months. However, just 84,000 new jobs were created in December 2013 and January was also soft. Housing starts fell quickly in early 2014 as did vehicle sales. Investors were further unnerved by Russian intervention in a Ukrainian civil war that brought threats of economic sanctions from the U.S. and Western Europe. Heightened geopolitical uncertainty caused oil prices to jump and stock prices to slip. During January 2014, the Russell 3000 lost 3.2% and the MSCI All-country World Index ex-U.S. fell 4.2%. The resulting flight-to-quality pushed the U.S. intermediate bond market's return to 1.1% for that month. The consensus opinion at the time was that very harsh winter weather was largely to blame for the U.S. economy's problems and expectations for firmer growth later in the year were undiminished. The Ukraine situation remained localized, and relatively tame from a military standpoint, helping non-U.S. markets to regain lost ground. After January's slump equity markets bounced back and rose through the rest of the fiscal year. Major stock indexes posted new all-time highs and kept going.

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Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

The U.S. commercial real estate market performed well during the fiscal year. The Trust's real estate asset class is primarily invested in directly-owned core properties, but also invests in commingled funds and real estate investment trusts (REITs). Large institutional investors view high-grade real estate as a bond-like investment with a much higher yield and, in the current low-rate environment, have been driving up the values of desirable properties. During the year, the Trust took advantage of this favorable pricing by selling a number of properties and booking significant profits. The fiscal year return for the real estate asset class was 14.92%. Private equity also found the environment to be attractive for sellers and completed a number of deals on the secondary market. Its return for the year was 20.49%.

The end of calendar year 2013 saw the Federal Open Market Committee (FOMC) cut its monthly bond purchases \$10 billion to \$75 billion. Markets got a clear message that the tapering of bond buying would continue at a gradual pace and that no interest rate hikes were likely until a "considerable time" after purchases had ceased. A key factor favoring low rates was the growing perception that inflation would not be a problem anytime soon. The Federal Reserve would like to see growth of at least 2.0% per year in the core price deflator for personal consumption expenditures to assure it that deflation is not a threat. However, the year-over-year change in this metric has been below that target since March 2012 and was above 1.5% in just one month during the fiscal year. European countries have been seeing even weaker price growth with several experiencing outright deflation. Consequently, the global outlook for prices remained very soft allowing central banks ample leeway to maintain stimulative policies.

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	
	2014	2013
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 307,311	\$ 217,822
Security lending collateral	4,618,260	3,245,417
Investments, at fair value:		
Short-term	8,738,281	7,859,866
Fixed income:		
Domestic	25,265,226	25,424,553
International	2,593,571	2,451,499
Equities:		
Domestic	44,070,462	38,428,785
International	45,832,013	40,238,228
Alternative	16,501,387	13,555,756
Real estate	9,910,420	9,040,776
Other	3,881	(604)
Total investments	152,915,241	136,998,859
Receivables:		
Due from DMS	292,609	198,456
Accrued interest and dividends	327,760	362,504
Futures margin due from broker	15,190	17,402
Forward foreign currency contracts	2,967,243	394,655
Spot foreign currency contracts	149,444	137,387
Investments sold, but not settled	1,764,144	2,407,947
Total receivables	5,516,390	3,518,351
Prepaid investment management fees	10,172	6,137
Total assets	\$ 163,367,374	\$ 143,986,586
Liabilities		
Due to DMS	\$ 288,150	\$ 263,900
Accounts payable and accrued liabilities	88,742	68,330
Futures margin due to broker	571	905
Forward foreign currency contracts payable	2,974,063	390,120
Spot foreign currency contracts payable	149,397	136,646
Investments purchased, but not settled	5,287,170	6,678,151
Options sold	123	1,468
Swap margin cash payable	1,546	-
Short sell obligations	179,821	367,076
Obligations under security lending agreements	4,674,292	3,317,787
Total liabilities	13,643,875	11,224,383
Net position held in trust	\$ 149,723,499	\$ 132,762,203

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	
	2014	2013
	<i>(In Thousands)</i>	
Additions		
Investment income:		
Interest income	\$ 985,682	\$ 1,043,496
Dividend income	2,201,178	1,992,763
Real estate net income	461,342	471,728
Fines, forfeits, and securities litigation proceeds	37,406	29,055
Other investment income	137,865	133,067
Net increase in fair value of investments	<u>19,454,762</u>	<u>13,052,082</u>
Total investment income	<u>23,278,235</u>	<u>16,722,191</u>
Investment expenses:		
Bank fees	(5,865)	(3,959)
Investment management fees	(463,617)	(395,477)
SBA investment service charges	(32,010)	(29,193)
Other fees and expenses	<u>(9,540)</u>	<u>(8,246)</u>
Total investment expenses	<u>(511,032)</u>	<u>(436,875)</u>
Net income from investments	<u>22,767,203</u>	<u>16,285,316</u>
Security lending income	50,690	56,229
Security lending expenses	(5,631)	(7,791)
Net income from security lending	<u>45,059</u>	<u>48,438</u>
Total net investment income	<u>22,812,262</u>	<u>16,333,754</u>
Contributions:		
Employer/employee contributions received from DMS	2,935,280	2,049,535
Member-directed benefits received from the FRS Investment Plan Trust Fund	<u>50,024</u>	<u>43,771</u>
Total contributions	<u>2,985,304</u>	<u>2,093,306</u>
Total additions	<u>25,797,566</u>	<u>18,427,060</u>
Deductions		
Funds sent to DMS for benefit payments	8,028,598	7,477,699
Member-directed benefits sent to the FRS Investment Plan Trust Fund	807,672	794,361
Total deductions	<u>8,836,270</u>	<u>8,272,060</u>
Changes in net position	16,961,296	10,155,000
Net position held in trust:		
Beginning of year	<u>132,762,203</u>	<u>122,607,203</u>
End of year	<u>\$ 149,723,499</u>	<u>\$ 132,762,203</u>

See accompanying notes to financial statements.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

1. Financial Reporting Entity

The Florida Retirement System (FRS) Pension Plan (the Plan) is a cost-sharing, multiple-employer defined benefit pension plan, established by the Legislature of the State of Florida in accordance with Chapter 121, *Florida Statutes*, to provide for retirement benefits for eligible employees of the State and all participating county, district school board, community college and university employees. Under the FRS, employers and, as of July 1, 2011, employees make contributions to the DMS, Division of Retirement, 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 Chairman, 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, 2014 and 2013, 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, 2014 and 2013

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 March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows and inflows. GASB 65 became effective for financial statement for reporting periods beginning after December 15, 2012. The adoption of this standard did not have an impact on the statements of net position or the statements of changes in net position.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

In March 2012, the GASB issued Statement No. 66, *Technical Corrections-2012, an amendment of GASB Statements No. 10 and No. 62* (GASB 66). This statement improves accounting and financial reporting by state and local government entities by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 66 became effective for financial statements for reporting periods beginning after December 15, 2012. The adoption of this standard did not have an impact on the statements of net position or the statements of changes in net position.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25* (GASB 67). This statement establishes standards of financial reporting for separately issued financial reports of pension plans and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. GASB 67 became effective for financial statements for reporting periods beginning after June 15, 2013. The Trust is not a pension plan, therefore, the statements of net position and the statements of changes in net position are not affected by this standard.

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. Realized and unrealized gains and losses are reflected in the statements of changes in net position as "net increase in fair value of investments."

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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 BNY Mellon's price tolerance checkpoints and results in a vendor comparison review where another source is deemed to be more appropriate by BNY Mellon.

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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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.

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 are also required to be valued annually by independent, licensed external appraisers selected by an appraisal management company retained by the SBA.

All derivative financial instruments are reported at fair value in the statements of net position. The instruments are adjusted to fair value at least monthly, with valuation changes recognized 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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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

The DMS sends employer and employee contributions to the Trust for investment purposes, and may also request return of funds from the Trust to meet benefit obligations of the FRS. The FRS Investment Plan Trust Fund members may direct benefits be sent to the Trust for investment purposes, and DMS will fulfill member-directed requests for benefits 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 DROP payouts and benefit obligations as of June 30. The DMS maintains records for all employer and employee contributions to the Plan.

Management Fees and Administrative Expenses

The SBA hires external investment managers to invest a significant portion of the Trust's investment assets. The Trust typically pays investment management fees based on individually negotiated investment management agreements. The fees, 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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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 2014 and 2013, 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.

3. Deposits

As of June 30, 2014, the recorded carrying amount of deposits totaled \$307.3 million, and consisted of U.S. dollars and foreign currencies (U.S. value) in the amounts of \$18.0 million and \$289.3 million, respectively.

As of June 30, 2013, the recorded carrying amount of deposits totaled \$217.8 million, and consisted of U.S. dollars and foreign currencies (U.S. value) in the amounts of \$5.5 million and \$212.3 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, 2014 and 2013. The remaining uninsured and uncollateralized deposits, totaling \$289.3 million and \$212.3 million as of June 30, 2014 and 2013, respectively, were held in foreign currencies in the SBA's custodian nominee name.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

3. Deposits (continued)

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 2014 and 2013, Florida law limits the exposure to foreign securities held outside of commingled trusts to 35% of the total Trust.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

3. Deposits (continued)

Investment activity in foreign investments resulted in deposits of foreign currency as of June 30, 2014 and 2013, as illustrated in the following schedule.

<u>Currency</u>	<u>2014</u>	<u>2013</u>
	<i>(In Thousands)</i>	
Australian dollar	\$ 24,905	\$ 14,389
Brazilian real	4,200	2,333
British pound sterling	30,249	29,765
Canadian dollar	60,334	3,508
Chilean peso	147	120
Colombian peso	17	194
Danish krone	261	35
Egyptian pound	261	408
Euro currency unit	70,375	75,060
Hong Kong dollar	18,116	10,629
Hungarian forint	158	16
Indian rupee	3,467	2,974
Indonesian rupiah	612	1,253
Israeli shekel	739	708
Japanese yen	39,835	30,165
Malaysian ringgit	548	622
Mauritius rupee	204	-
Mexican peso	1,892	549
New Zealand dollar	186	131
Nigerian naira	207	26
Norwegian krone	2,402	2,080
Omani rial	442	8
Pakistan rupee	8	502
Philippines peso	139	641
Polish zloty	10	2,604
Qatari riyal	576	887
Russian ruble	163	-
Singapore dollar	4,479	3,978
South African rand	1,859	827
South Korean won	824	1,861
Swedish krona	4,929	1,864
Swiss franc	1,389	1,331
Taiwan new dollar	11,797	16,849
Thailand baht	76	1,260
Turkish lira	652	1,522
UAE dirham	2,723	708
Vietnam dong	-	2,317
Other	127	196
Total deposits subject to foreign currency risk	<u>\$ 289,308</u>	<u>\$ 212,320</u>

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

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 the major stock exchanges. Also included as equities are preferred stock, commingled funds, real estate investment trusts (REITS), and equity-linked notes. REITS are securities that sell like a stock on the major exchanges and invest in real estate directly. Equity linked notes are instruments whose return is determined by the performance of a single equity security, a basket of equity securities, or an equity index.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

- **Alternative**

The Trust invests in various funds and investment vehicles which employ specific strategies and co-investments often outside the traditional asset classes. The most common investment categories for these funds include domestic and international private equity, private debt/credit opportunities, and hedge funds. The structure of these investments is generally a limited partnership or limited liability company and tends to be long term and illiquid in nature. Due to this type of structure, private debt/credit opportunities typically do not have established ratings or durations associated with these investments.

- **Real Estate**

Types of real estate investments can include ownership of office, multifamily, retail, agricultural, and industrial properties. It also includes value-added and opportunistic investments such as hotels, senior housing, student housing, international real estate, and traditional property types. These assets can be held directly, as part of a joint venture, or through ownership in pooled funds and partnerships.

- **Other**

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

The following schedule discloses the Trust's investments, by type, at June 30, 2014 and 2013.

	Fair Value	
	2014	2013
	<i>(In Thousands)</i>	
Investment type		
Short-term:		
Certificates of deposit	\$ 1,417,426	\$ 2,051,388
Commercial paper	6,161,121	4,755,488
Money market funds	9,734	302,990
Repurchase agreements	1,150,000	750,000
Fixed income—domestic:		
U.S. guaranteed obligations	9,274,839	9,937,361
Federal agencies	8,819,935	7,792,894
Domestic corporate and municipal bonds and notes ¹	7,170,452	7,694,298
Fixed income— international:		
International bonds and notes ¹	2,593,571	2,451,499
Equities – domestic ¹	44,070,462	38,428,785
Equities – international: ¹		
International equities	38,330,351	33,946,698
International equity commingled funds	7,501,662	6,291,530
Alternative:		
Private equity	9,453,461	7,800,180
Private debt/credit opportunities	3,789,487	3,267,447
Hedge funds	3,258,439	2,488,129
Real estate	9,910,420	9,040,776
Other investments:		
Option contracts purchased	2,389	1,034
Swap contracts (debt related)	1,492	(1,638)
Total investments excluding securities lending collateral	<u>\$ 152,915,241</u>	<u>\$ 136,998,859</u>
Securities lending collateral investments		
Repurchase agreements	\$ 4,471,397	\$ 3,043,723
Domestic corporate bonds and notes ¹	115,537	155,614
International bonds and notes ¹	31,326	46,080
Total securities lending collateral investments	<u>4,618,260</u>	<u>3,245,417</u>
Total investments	<u>\$ 157,533,501</u>	<u>\$ 140,244,276</u>
Investments sold short		
Federal agencies	\$ (95,122)	\$ (365,238)
Equities – domestic ¹	–	(5)
U.S. guaranteed obligations	(84,698)	(1,833)
Option contracts	(123)	(1,468)
Total investments sold short ²	<u>\$ (179,943)</u>	<u>\$ (368,544)</u>

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, 2014 and 2013

4. Investments (continued)

Securities Pledged as Collateral

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

	Fair Value	
	2014	2013
	<i>(In Thousands)</i>	
Investment type:		
U.S. guaranteed obligations	\$ 25,169	\$ 17,539
Federal agencies	–	9,515
Domestic stocks	23,156	22,949
Total	<u>\$ 48,325</u>	<u>\$ 50,003</u>

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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

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 Trust's custodial credit risk policy states that custodial credit risk will be minimized through the use of trust accounts maintained at top tier third-party custodian banks. To the extent possible, negotiated trust and custody contracts shall require that all deposits, investments and collateral be held in accounts in the SBA's name, or in the case of certain foreign investments, in an omnibus client account, but separate and apart from the assets of the custodian banks. This policy applies to investments evidenced by cash or securities, and does not apply to investments evidenced by contractual agreements such as private equity or real estate investments.

As required by negotiated trust and custody contracts, many of the Trust's investments were held in the SBA's name (or, in the case of certain foreign investments, in an omnibus client account) by the custodial financial institutions. Presented below are investments that were uninsured and unregistered, with securities held by the counterparty, or by its trust department.

	Fair Value	
	2014	2013
	<i>(In Thousands)</i>	
Invested security lending collateral:		
Repurchase agreements	\$ 2,864,861	\$ 1,471,237
Domestic bonds and notes	115,537	154,049
International bonds and notes	13,268	20,686
Total investments exposed to custodial credit risk	<u>\$ 2,993,666</u>	<u>\$ 1,645,972</u>

"Futures margin due from broker" on the statements of net position, includes initial margin amounts held by the broker to open futures contracts. These amounts in U.S. dollars and foreign currencies (U.S. value) of \$9,217,806 and \$9,121,647 as of June 30, 2014 and 2013, respectively, were uninsured and uncollateralized.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

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.

- **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.

- **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-. This portfolio primarily contains U.S. Treasuries, government agencies, and corporates.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

- **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.

- **Lending Portfolios**

Under investment policy guidelines in effect for the fiscal years ended June 30, 2014 and 2013, eligible cash collateral must be invested in tri-party qualified repurchase agreement transactions in which the subject securities thereunder will be repurchased by the seller thereof no later than one business day from the purchase date, and such repurchase obligations are collateralized by U.S. Government Securities having a market value of at least 100% of the market value of securities subject to being repurchased. "U.S. Government Securities" means any security issued or guaranteed as to principal or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the Government of the United States pursuant to authority granted by the Congress of the United States, or any certificate of deposit for any of the foregoing, including without limitation notes, bonds and other debt securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). In addition to tri-party repurchase agreements, investments that were purchased under the previous investment policy guidelines are being held to maturity in existing lending portfolios. The previous investment policy guidelines contained short-term rating requirements that were similar to the current short-term portfolio rating requirements. Repurchase agreements were required to be fully collateralized.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

Credit Quality Ratings

The following tables disclose credit quality ratings on investments held in the Trust at June 30, 2014 and 2013.

As of June 30, 2014									
S&P ¹	Moody's ¹	Total ²	Certificates of Deposit	Commercial Paper	Money Market Funds	Federal Agencies	Domestic Bonds and Notes	International Bonds and Notes	
<i>(In Thousands)</i>									
A-1/AAAm		\$ 6,205,549	\$ -	\$ 6,086,121	\$ 9,734	\$ -	\$ 99,994	\$ 9,700	
AAA		1,210,780	-	-	-	-	741,520	469,260	
AA		2,124,682	200,001	-	-	862,020	722,731	339,930	
A		3,266,171	-	-	-	-	2,495,226	770,945	
BBB		2,866,826	-	-	-	-	2,181,082	685,744	
BB		132,475	-	-	-	-	79,962	52,513	
B		14,884	-	-	-	-	14,884	-	
CCC		37,033	-	-	-	-	37,033	-	
D		8,270	-	-	-	-	8,270	-	
Not rated	Aaa	662,420	-	-	-	17,471	526,844	118,105	
Not rated	Aa	62,554	-	-	-	-	50,145	12,409	
Not rated	A	78,733	-	-	-	-	58,414	20,319	
Not rated	Baa	140,454	-	-	-	-	72,306	68,148	
Not rated	Ba	1,083	-	-	-	-	1,083	-	
Not rated	B	836	-	-	-	-	836	-	
Not rated	Caa	10,268	-	-	-	-	10,268	-	
Not rated	Not rated	9,496,084	1,217,425	75,000	-	7,940,444	185,391	77,824	
		26,319,102	\$ 1,417,426	\$ 6,161,121	\$ 9,734	\$ 8,819,935	\$ 7,285,989	\$ 2,624,897	
Not rated	Not rated	5,621,397	Repurchase agreements						
Not rated	Not rated	9,274,839	U.S. guaranteed obligations						
Not rated	Not rated	44,070,462	Domestic equities						
Not rated	Not rated	38,330,351	International equities						
Not rated	Not rated	7,501,662	International equity commingled funds						
Not rated	Not rated	16,501,387	Alternative investments						
Not rated	Not rated	9,910,420	Real estate investments						
Not rated	Not rated	2,389	Options						
Not rated ³	Notrated ³	1,492	Swaps ³						
		\$ 157,533,501	Total investments						

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 Although swap contracts do not have specific credit quality ratings, counterparty credit ratings are available and are disclosed in separate schedules.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

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

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 Although swap contracts do not have specific credit quality ratings, counterparty credit ratings are available and are disclosed in separate schedules.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

Counterparty Credit Ratings

All futures and options contracts held by the Trust at June 30, 2014 and 2013, 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, 2014 were exchange traded, therefore minimizing counterparty credit risk through the use of a swap clearing merchant and a clearing house.

Counterparty credit ratings for non-exchange traded swaps held at June 30, 2013 are presented in the following table.

S&P	Moody's	Fitch	Fair Value
			<i>(In Thousands)</i>
A/A-1	Aa/P-1	A/F1	\$ 319
A/A-1	A/P-2	A/F1	(1,957)
		Total swaps	\$ (1,638)

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

Counterparty credit ratings for spot and forward foreign currency contracts held at June 30, 2014 and 2013, are presented in the following tables.

As of June 30, 2014

S&P¹	Moody's¹	Fitch¹	Receivable Fair Value	Payable Fair Value	Net Unrealized Gain (Loss)
<i>(In Thousands)</i>					
AA/A-1	Aaa/P-1	AA/F1	\$ 306,633	\$ (309,891)	\$ (3,258)
AA/A-1	Aa/P-1	AA/F1	2,489	(2,482)	7
AA/A-1	NR/P-1	AA/F1	46,893	(46,926)	(33)
A/A-1	Aa/P-1	AA/F1	34,051	(34,017)	34
A/A-1	Aa/P-1	A/F1	877,604	(879,384)	(1,780)
A/A-1	A/P-1	AA/F1	3,483	(3,483)	-
A/A-1	A/P-1	A/F1	769,752	(770,448)	(696)
A/A-1	NR/P-1	AA/F1	26	(26)	-
A/A-1	NR/P-1	A/F1	24,701	(24,681)	20
A/A-1	NR/P-1	NR/NR	379,387	(379,607)	(220)
A/A-1	NR/NR	NR/NR	790	(794)	(4)
NR/NR	NR/P-1	NR/NR	249,017	(249,618)	(601)
NR/NR	NR/NR	A/F1	8,685	(8,669)	16
NR/NR	NR/NR	NR/NR	413,176	(413,434)	(258)
			\$ 3,116,687	\$ (3,123,460)	\$ (6,773)

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, 2014 and 2013

4. Investments (continued)

As of June 30, 2013

S&P ¹	Moody's ¹	Fitch ¹	Receivable Fair Value	Payable Fair Value	Net Unrealized Gain/(Loss)
<i>(In Thousands)</i>					
AA/A-1	Aaa/P-1	AA/F1	\$ 330,397	\$ (326,969)	\$ 3,428
AA/A-1	Aa/P-1	AA/F1	9,575	(9,581)	(6)
AA/A-1	NR/P-1	AA/F1	3,563	(3,564)	(1)
A/A-1	Aa/P-1	AA/F1	65,220	(62,826)	2,394
A/A-1	Aa/P-1	A/F1	6,572	(6,567)	5
A/A-1	A/P-1	AA/F1	3,101	(3,113)	(12)
A/A-1	A/P-2	A/F1	4,722	(4,726)	(4)
A/A-1	NR/P-1	AA/F1	914	(912)	2
A/A-1	NR/P-1	A/F1	63,757	(64,078)	(321)
A/A-1	NR/P-1	NR/NR	18,883	(19,136)	(253)
A/A-1	NR/P-2	A/F1	7,908	(7,891)	17
NR/NR	NR/P-1	NR/NR	2,135	(2,141)	(6)
NR/NR	NR/P-2	NR/NR	207	(208)	(1)
NR/NR	NR/NR	A/F1	6,255	(6,229)	26
NR/NR	NR/NR	NR/NR	8,832	(8,823)	9
			<u>\$ 532,041</u>	<u>\$ (526,764)</u>	<u>\$ 5,277</u>

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 the Trust's 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, 2014 or 2013.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

Security lending programs are allowed to hold up to the greater of \$5 million or 5% of their assets in securities by a single issuer (excluding U.S. Government guaranteed investments, its agencies or instrumentalities). For all lending programs, up to an additional 5% of the book value of the portfolio was allowed to be invested in the obligations of any single issuer, guarantor, or repo counterparty that matured on the next business day, that were redeemable upon demand, or that contained an unconditional put feature.

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 one year 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 index duration. The index is the Barclays Capital U.S. MBS Index component of the Barclays Capital U.S. Intermediate Aggregate Bond Index. Swaps and/or Agency debentures may contribute no more than 25% to duration.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

- **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 less the MBS Index component.

- **Core Portfolios**

Portfolio duration should remain within plus or minus 0.50-1.25 years of the Barclays Capital U.S. Intermediate Aggregate Bond Index duration.

- **Security Lending Portfolios**

The investment policy guidelines in effect for the fiscal years ended June 30, 2014 and 2013, allow investment only in overnight repurchase agreements that are fully collateralized by U.S. government and/or agency securities. Investments that were purchased under the previous investment policy guidelines are still held in the lending programs, but are slowly paying down. Previous guidelines included a maximum WAM for a portfolio of 60 to 90 days, depending on the lending program. For investments that had floating interest rates, interest rate reset dates were used to calculate WAM.

The interest rate risk tables for the Trust as of June 30, 2014 and 2013, 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, 2014 and 2013

4. Investments (continued)

Investment Type	As of June 30, 2014			
	Fair Value	Effective Weighted	Fair	Weighted Average
	(Duration)	Duration	Value (WAM)	Maturity
	(In Thousands)	(In Years)	(In Thousands)	(In Days)
Certificates of deposit	\$ —	NA	\$ 1,417,426	36
Commercial paper	—	NA	6,161,121	44
Money market funds	—	NA	9,734	1
Repurchase agreements	—	NA	5,621,397	1
U.S. guaranteed obligations:				
U.S. Treasury bills	1,210	0.30	—	NA
U.S. Treasury bonds and notes	7,017,469	3.43	—	NA
Index linked government bonds	310,208	6.58	—	NA
U.S. government guaranteed	50,998	5.71	—	NA
GNMA mortgage backed	835,698	3.65	—	NA
GNMA commitments to purchase (TBAs)	955,045	3.79	—	NA
GNMA mortgage backed CMOs and CMBS	96,139	3.42	—	NA
GNMA interest-only CMOs	2,768	(9.01)	—	NA
GNMA interest-only inverse floating CMOs	5,304	13.36	—	NA
Federal agencies:				
Unsecured bonds and notes	920,222	3.35	—	NA
Agency strips	13,502	3.22	—	NA
Mortgage backed (FNMA, FHLMC)	4,146,137	3.76	—	NA
FNMA, FHLMC commitments to purchase (TBAs)	2,457,672	3.76	—	NA
Mortgage backed CMOs and CMBS	1,256,540	3.80	—	NA
Interest-only CMOs	7,492	(0.69)	—	NA
Interest-only inverse floating CMOs	14,795	7.82	—	NA
Inverse floating CMOs	1,097	3.97	—	NA
Principal-only CMOs	2,479	6.04	—	NA
Domestic bond and notes:				
Corporate	5,145,435	4.23	—	NA
Non-government asset and mortgage backed	605,561	1.27	74,924	27
Non-government backed CMOs and CMBS	1,383,541	3.24	18,453	25
Municipal/provincial	50,761	3.11	—	NA
Real estate mortgage loans	7,313	6.17	—	NA
International bonds and notes:				
Government and regional	616,017	3.11	—	NA
Government agency	304,510	3.32	—	NA
Corporate	1,626,507	4.06	—	NA
Non-government asset and mortgage backed	25,523	3.38	—	NA
Non-government backed CMOs and CMBS	21,013	0.04	31,326	27
Futures contracts-long ¹	—	2.59	—	NA
Futures contracts-short ¹	—	9.40	—	NA
Options purchased ²	318	See Note 2	—	NA
Swap contracts ¹	1,492	0.44	—	NA
Total fixed income investments	<u>\$ 27,882,766</u>		<u>\$ 13,334,381</u>	

¹ 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, 2014.

² An option's effective weighted duration measures the rate of change of price with respect to yield. The effective weighted duration was (890.58) as of June 30, 2014.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

Investment Type	As of June 30, 2013			
	Fair Value	Effective Weighted	Fair	Weighted Average
	(Duration)	Duration	Value (WAM)	Maturity
	<i>(In Thousands)</i>	<i>(In Years)</i>	<i>(In Thousands)</i>	<i>(In Days)</i>
Certificates of deposit	\$ —	NA	\$ 2,051,388	65
Commercial paper	—	NA	4,755,488	47
Money market funds	—	NA	302,990	1
Repurchase agreements	—	NA	3,793,723	3
U.S. guaranteed obligations:				
U.S. Treasury bills	3,110	0.22	—	NA
U.S. Treasury bonds and notes	7,591,004	5.39	—	NA
U.S. Treasury strips	15,067	31.1	—	NA
Index linked government bonds	419,169	7.5	—	NA
U.S. government guaranteed	40,707	6.34	—	NA
U.S. Treasury note forwards	141	(2.02)	—	NA
GNMA mortgage backed	842,406	4.03	—	NA
GNMA commitments to purchase (TBAs)	986,363	4.3	—	NA
GNMA mortgage backed CMOs and CMBS	29,910	1.64	—	NA
GNMA Interest-only CMOs	3,581	(16.46)	—	NA
GNMA interest-only inverse floating CMOs	5,904	7.9	—	NA
Federal agencies:				
Discount notes	38,550	0.02	—	NA
Unsecured bonds and notes	1,136,539	4.38	—	NA
Agency strips	14,170	3.96	—	NA
Mortgage backed (FNMA, FHLMC)	3,367,097	3.79	—	NA
FNMA, FHLMC commitments to purchase (TBAs)	2,911,451	4.38	—	NA
Mortgage backed CMOs and CMBS	295,177	3.38	—	NA
Interest-only CMOs	6,482	(7.12)	—	NA
Interest-only inverse floating CMOs	18,073	9.29	—	NA
Inverse floating CMOs	1,419	6.38	—	NA
Principal-only CMOs	3,935	5.73	—	NA
Domestic bond and notes:				
Corporate	5,590,470	6.45	—	NA
Non-government asset and mortgage backed	597,357	2.86	85,496	28
Non-government backed CMOs and CMBS	1,265,479	2.55	46,237	19
Municipal/provincial	257,093	10.62	—	NA
Real estate mortgage loans	7,779	6.31	—	NA
International bonds and notes:				
Government and regional	667,563	5.25	—	NA
Government agency	245,223	3.55	—	NA
Corporate	1,487,181	5.61	—	NA
Non-government asset and mortgage backed	27,521	0.18	—	NA
Non-government backed CMOs and CMBS	24,011	(0.14)	46,080	31
Futures contracts-long ¹	—	3.78	—	NA
Futures contracts-short ¹	—	6.44	—	NA
Options purchased ²	412	See note 2	—	NA
Swap contracts ¹	(1,638)	0.05	—	NA
Total fixed income investments	<u>\$ 27,899,328</u>		<u>\$ 11,081,402</u>	

¹ 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, 2013.

² An option's effective weighted duration measures the rate of change of price with respect to yield. The effective weighted duration was 235.51 as of June 30, 2013.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

Interest rate risk information for debt investments sold short is presented below as of June 30, 2014 and 2013.

Investment Type	June 30, 2014		June 30, 2013	
	Fair Value <i>(In Thousands)</i>	Effective Weighted Duration <i>(In Years)</i>	Fair Value <i>(In Thousands)</i>	Effective Weighted Duration <i>(In Years)</i>
GNMA commitments to sell (TBAs)	\$ (84,698)	3.84	\$ (1,833)	2.76
FNMA, FHLMC, commitments to sell (TBAs)	(95,122)	3.99	(365,238)	4.31
Options sold ²	(123)	See note 2	(1,468)	See note 2
Total debt investments sold short ¹	<u>\$ (179,943)</u>		<u>\$ (368,539)</u>	

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

² An option's effective weighted durations measure the rate of change of price with respect to yield. Effective weighted durations were (1608.36) and (125.27) as of June 30, 2014 and 2013, respectively.

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. For fiscal years 2014 and 2013, Florida Statutes limit the total exposure to foreign securities held outside of commingled funds to 35% of the total Trust. There is no requirement that this exposure to foreign currency be hedged through forward currency contracts, although the managers use them in many cases.

International equity commingled funds are commingled investments where the Trust owns units in commingled funds with other investors and, therefore, only a portion of the overall investment in the funds. Equity linked notes are participatory notes that allow the holder to participate in certain foreign equity markets where direct participation is not possible due to local government regulations, tax policies, or other reasons. The overall investments or notes themselves may be valued in U.S. dollars, but 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, 2014 and 2013

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 \$15.4 billion and \$12.7 billion as of June 30, 2014 and 2013, 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, 2014 and 2013.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

Currency	As of June 30, 2014		
	Investment Type		
	Equity	Alternative Investments	Fixed Income
	<i>(In Thousands)</i>		
Australian dollar	\$ 1,500,677	\$ —	\$ —
Brazilian real	554,045	—	—
British pound sterling	6,031,443	—	—
Canadian dollar	1,950,334	—	—
Chilean peso	26,378	—	—
Danish krone	434,702	—	—
Egyptian pound	16,188	—	—
Euro currency unit ¹	8,644,626	688,890	—
Hong Kong dollar	2,003,462	—	—
Hungarian forint	23,983	—	—
Indian rupee	583,259	—	—
Indonesian rupiah	195,700	—	—
Israeli shekel	79,259	—	—
Japanese yen	5,270,606	—	—
Kenyan shilling	23,835	—	—
Malaysian ringgit	149,889	—	—
Mexican peso	228,515	—	—
New Zealand dollar	51,608	—	—
Omani rial	74,487	—	195
Nigerian naira	274,465	—	—
Norwegian krone	16,663	—	—
Philippines peso	87,073	—	—
Polish zloty	57,543	—	—
Qatari riyal	21,915	—	—
Singapore dollar	517,973	—	—
South African rand	460,743	—	—
South Korean won	893,168	—	—
Swedish krona	833,529	—	—
Swiss franc	2,615,882	—	—
Taiwan new dollar	650,522	—	—
Thailand baht	228,880	—	—
Turkish lira	201,323	—	—
Other	104,972	—	—
Equity linked notes (various currencies)	49,751	—	—
International equity commingled funds	7,501,662	—	—
Total investments subject to foreign currency risk	<u>\$ 42,359,060</u>	<u>\$ 688,890</u>	<u>\$ 195</u>

¹ Equity exposure to Euro currency units includes one stock call option with a fair value at June 30, 2014, of \$2,070,702.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

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

¹ Equity exposure to Euro currency units includes one stock call option with a fair value at June 30, 2013, of \$621,588.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

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, 2014 and 2013, 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>						
As of June 30, 2014						
Stock Index Futures:						
GBP FTSE 100 Index	British pound sterling	434	29,149	29,126	(23) \$	(39)
Canada S&P/TSE 60 Index	Canadian dollar	154	26,299	26,602	303	284
DAX Index	Euro currency unit	12	2,979	2,958	(21)	(28)
DJ Euro STOXX 50	Euro currency unit	1,094	35,722	35,358	(364)	(499)
YEN Denom NIKKEI 225	Japanese yen	22	166,760	166,815	55	1
TOPIX Index Future	Japanese yen	221	2,742,702	2,790,125	47,423	468
As of June 30, 2013						
Stock Index Futures:						
GBP FTSE 100 Index	British pound sterling	368	23,108	22,674	(434) \$	(658)
Canada S&P/TSE 60 Index	Canadian dollar	131	18,270	18,152	(118)	(112)
DJ Euro STOXX 50	Euro currency unit	1,107	29,764	28,760	(1,004)	(1,305)
TOPIX Index Future	Japanese yen	348	3,801,594	3,935,880	134,286	1,352

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.

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, 2014 and 2013

4. Investments (continued)

Schedules of all foreign currency contracts outstanding at June 30, 2014 and 2013, are presented below, by currency.

As of June 30, 2014						
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	2,513	U.S. dollar	(2,362)	\$ 2,371	\$ (2,362)	\$ 9
Brazilian real	135,339	U.S. dollar	(59,650)	60,617	(59,650)	967
British pound sterling	25,367	U.S. dollar	(43,127)	43,370	(43,127)	243
British pound sterling	212	Euro currency unit	(265)	363	(363)	-
Canadian dollar	40,099	U.S. dollar	(37,350)	37,622	(37,350)	272
Chilean peso	14,654,356	U.S. dollar	(26,398)	26,360	(26,398)	(38)
Columbian peso	8,938,708	U.S. dollar	(4,700)	4,729	(4,700)	29
Czech koruna	1,868,328	U.S. dollar	(92,750)	93,251	(92,750)	501
Euro currency unit	257	Swiss franc	(313)	352	(353)	(1)
Euro currency unit	64,611	U.S. dollar	(88,113)	88,469	(88,113)	356
Hong Kong dollar	432,591	U.S. dollar	(55,814)	55,796	(55,814)	(18)
Hungarian forint	11,328,205	U.S. dollar	(49,950)	49,987	(49,950)	37
Indian rupee	2,845,671	U.S. dollar	(47,342)	47,016	(47,342)	(326)
Indonesian rupiah	404,777,782	U.S. dollar	(33,764)	33,764	(33,764)	-
Israeli shekel	121,411	U.S. dollar	(35,150)	35,395	(35,150)	245
Japanese yen	2,728,567	Hong Kong dollar	(208,794)	26,949	(26,929)	20
Japanese yen	4,112,725	U.S. dollar	(40,478)	40,603	(40,478)	125
Malaysian ringgit	213,475	U.S. dollar	(66,037)	66,295	(66,037)	258
Mexican peso	50,795	New Zealand dollar	(4,500)	3,895	(3,912)	(17)
Mexican peso	1,158,300	U.S. dollar	(88,556)	88,909	(88,556)	353
New Zealand dollar	47,199	U.S. dollar	(41,009)	41,230	(41,009)	221
Nigerian naira	10,106	U.S. dollar	(62)	62	(62)	-
Norwegian krone	36,306	U.S. dollar	(6,057)	5,913	(6,057)	(144)
Philippines peso	1,901,483	U.S. dollar	(43,400)	43,542	(43,400)	142
Polish zloty	183,261	U.S. dollar	(60,094)	60,143	(60,094)	49
Qatari riyal	620	U.S. dollar	(170)	170	(170)	-
Romanian leu	92,270	U.S. dollar	(28,522)	28,727	(28,522)	205
Russian ruble	1,579,628	U.S. dollar	(44,820)	45,577	(44,820)	757
Singapore dollar	101,957	U.S. dollar	(81,562)	81,787	(81,562)	225

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

As of June 30, 2014 (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	269,068	U.S. dollar	(25,178)	25,112	(25,178)	(66)
South Korean won	76,711,230	U.S. dollar	(74,967)	75,716	(74,967)	749
Swedish krona	6,420	U.S. dollar	(960)	960	(960)	-
Swiss franc	1,138	U.S. dollar	(1,274)	1,283	(1,274)	9
Taiwan new dollar	1,132,893	U.S. dollar	(37,850)	38,017	(37,850)	167
Thailand baht	1,244,592	U.S. dollar	(38,247)	38,215	(38,247)	(32)
Turkish lira	136,892	U.S. dollar	(63,192)	63,896	(63,192)	704
U.S. dollar	99,259	Australian dollar	(106,690)	99,259	(100,305)	(1,046)
U.S. dollar	28,870	Brazilian real	(65,927)	28,870	(29,320)	(450)
U.S. dollar	30,286	British pound sterling	(17,940)	30,286	(30,665)	(379)
U.S. dollar	79,175	Canadian dollar	(86,507)	79,175	(81,072)	(1,897)
U.S. dollar	7,900	Chilean peso	(4,438,594)	7,900	(7,963)	(63)
U.S. dollar	1,100	Colombian peso	(2,094,400)	1,100	(1,108)	(8)
U.S. dollar	69,726	Czech koruna	(1,409,538)	69,726	(70,361)	(635)
U.S. dollar	192	Danish krone	(1,048)	192	(193)	(1)
U.S. dollar	396,809	Euro currency unit	(291,025)	396,809	(398,510)	(1,701)
U.S. dollar	13	Ghanaian cedi	(45)	13	(13)	-
U.S. dollar	359	Hong Kong dollar	(2,783)	359	(359)	-
U.S. dollar	49,650	Hungarian forint	(11,197,362)	49,650	(49,439)	211
U.S. dollar	14,822	Indian rupee	(897,658)	14,822	(14,791)	31
U.S. dollar	18,927	Indonesian rupiah	(226,845,220)	18,927	(18,917)	10
U.S. dollar	40,168	Israeli shekel	(138,571)	40,168	(40,399)	(231)
U.S. dollar	246,747	Japanese yen	(25,217,757)	246,747	(248,987)	(2,240)
U.S. dollar	439	Kenyan shilling	(38,483)	439	(439)	-
U.S. dollar	27,929	Malaysian ringgit	(90,549)	27,929	(28,118)	(189)
U.S. dollar	100,010	Mexican peso	(1,304,763)	100,010	(100,328)	(318)

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

As of June 30, 2014 (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>		
U.S. dollar	19,834	New Zealand dollar	(23,324)	19,834	(20,390)	(556)
U.S. dollar	10,189	Norwegian krone	(61,984)	10,189	(10,088)	101
U.S. dollar	133	Omani rial	(51)	133	(133)	-
U.S. dollar	8	Pakistan rupee	(824)	8	(8)	-
U.S. dollar	35,950	Philippines peso	(1,577,626)	35,950	(36,126)	(176)
U.S. dollar	53,070	Polish zloty	(162,446)	53,070	(53,325)	(255)
U.S. dollar	1,057	Qatari riyal	(3,848)	1,057	(1,058)	(1)
U.S. dollar	28,685	Romanian leu	(93,416)	28,685	(29,084)	(399)
U.S. dollar	33,200	Russian ruble	(1,167,330)	33,200	(33,681)	(481)
U.S. dollar	90,751	Singapore dollar	(113,509)	90,751	(91,054)	(303)
U.S. dollar	33,945	South African rand	(369,576)	33,945	(34,307)	(362)
U.S. dollar	24,343	South Korean won	(24,823,930)	24,343	(24,483)	(140)
U.S. dollar	27,519	Swedish krona	(185,113)	27,519	(27,681)	(162)
U.S. dollar	64,481	Swiss franc	(57,731)	64,481	(65,119)	(638)
U.S. dollar	38,000	Taiwan new dollar	(1,138,064)	38,000	(38,190)	(190)
U.S. dollar	46,600	Thailand baht	(1,514,815)	46,600	(46,511)	89
U.S. dollar	37,036	Turkish lira	(80,489)	37,036	(37,429)	(393)
U.S. dollar	2,978	UAE dirham	(10,945)	2,978	(2,980)	(2)
UAE dirham	236	U.S. dollar	(64)	64	(64)	-
Total				<u>\$3,116,687</u>	<u>\$(3,123,460)</u>	<u>\$ (6,773)</u>

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

As of June 30, 2013						
Currency to Buy	Amount to Buy (In Local Currency) <i>(In Thousands)</i>	Currency to Sell	Amount to Sell (In Local Currency)	Receivable Fair Value (In U.S. \$) <i>(In Thousands)</i>	Payable Fair Value (In U.S. \$)	Net Unrealized Gain(Loss) (In U.S. \$)
Australian dollar	7,699	U.S. dollar	(7,414)	\$ 7,037	\$ (7,414)	\$ (377)
Brazilian real	7,114	U.S. dollar	(3,248)	3,184	(3,248)	(64)
British pound sterling	86	Euro currency unit	(102)	131	(132)	(1)
British pound sterling	22,724	U.S. dollar	(35,195)	34,456	(35,195)	(739)
Canadian dollar	12,365	U.S. dollar	(11,771)	11,715	(11,771)	(56)
Chilean peso	104,646	U.S. dollar	(208)	207	(208)	(1)
Danish krone	11,478	U.S. dollar	(2,030)	2,002	(2,030)	(28)
Euro currency unit	5,455	U.S. dollar	(7,104)	7,091	(7,104)	(13)
Hong Kong dollar	224,433	Japanese yen	(2,837,961)	28,944	(28,580)	364
Hong Kong dollar	358,434	U.S. dollar	(46,191)	46,224	(46,192)	32
Indian rupee	113,617	U.S. dollar	(1,930)	1,876	(1,930)	(54)
Indian rupee ¹	57,472	U.S. dollar	-	967	-	967
Indonesian rupiah	18,047,861	U.S. dollar	(1,808)	1,819	(1,808)	11
Japanese yen	12,951	Australian dollar	(142)	130	(130)	-
Japanese yen	6,251,227	U.S. dollar	(63,419)	62,947	(63,419)	(472)
Malaysian ringgit	13,839	U.S. dollar	(4,374)	4,379	(4,374)	5
Mexican peso	1,525	U.S. dollar	(117)	117	(117)	-
New Zealand dollar	432	U.S. dollar	(339)	332	(339)	(7)
Nigerian naira	126,651	U.S. dollar	(783)	779	(783)	(4)
Qatari riyal	5,147	U.S. dollar	(1,414)	1,414	(1,414)	-
Singapore dollar	14,915	U.S. dollar	(11,846)	11,762	(11,846)	(84)
South African rand	26,988	U.S. dollar	(2,667)	2,708	(2,667)	41
South Korean won	962,920	U.S. dollar	(849)	844	(849)	(5)
Swedish krona	8,817	U.S. dollar	(1,335)	1,304	(1,335)	(31)
Swiss franc	3,036	U.S. dollar	(3,215)	3,209	(3,215)	(6)
Turkish lira	1,868	U.S. dollar	(971)	968	(971)	(3)
U.S. dollar	59,779	Australian dollar	(62,386)	59,778	(56,848)	2,930
U.S. dollar	995	Brazilian real	(2,197)	995	(995)	-

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

As of June 30, 2013 (continued)

Currency to Buy	Amount to Buy (In Local Currency) <i>(In Thousands)</i>	Currency to Sell	Amount to Sell (In Local Currency)	Receivable Fair Value (In U.S. \$) <i>(In Thousands)</i>	Payable Value (In U.S. \$)	Net Unrealized Gain(Loss) (In U.S. \$)
U.S. dollar	16,692	British pound sterling	(10,955)	16,692	(16,611)	81
U.S. dollar	42,219	Canadian dollar	(43,368)	42,220	(41,036)	1,184
U.S. dollar	2	Chilean peso	(1,086)	2	(2)	-
U.S. dollar	193	Colombian peso	(371,541)	193	(192)	1
U.S. dollar	84,932	Euro currency unit	(64,550)	84,932	(83,923)	1,009
U.S. dollar	15	Ghanaian cedi	(30)	15	(15)	-
U.S. dollar	4,885	Hong Kong dollar	(37,891)	4,884	(4,885)	(1)
U.S. dollar	1,567	Indian rupee	(93,025)	1,567	(1,565)	2
U.S. dollar	10	Israeli shekel	(38)	10	(10)	-
U.S. dollar	56,593	Japanese yen	(5,627,705)	56,593	(56,669)	(76)
U.S. dollar	1	Kenyan shilling	(31)	1	(1)	-
U.S. dollar	4,957	New Zealand dollar	(5,867)	4,957	(4,522)	435
U.S. dollar	3,714	Norwegian krone	(21,925)	3,714	(3,586)	128
U.S. dollar	480	Pakistan rupee	(47,866)	480	(481)	(1)
U.S. dollar	21	Peruvian nuevo sol	(59)	21	(21)	-
U.S. dollar	274	Philippines peso	(11,871)	274	(275)	(1)
U.S. dollar	324	Polish zloty	(1,080)	324	(324)	-
U.S. dollar	1,138	Singapore dollar	(1,447)	1,138	(1,141)	(3)
U.S. dollar	347	South African rand	(3,456)	347	(348)	(1)
U.S. dollar	3,805	South Korean won	(4,313,523)	3,805	(3,750)	55
U.S. dollar	210	Sri Lanka rupee	(27,459)	210	(211)	(1)
U.S. dollar	39	Swedish krona	(265)	39	(39)	-
U.S. dollar	9,577	Swiss franc	(8,993)	9,577	(9,509)	68
U.S. dollar	1,630	Thailand baht	(50,849)	1,630	(1,639)	(9)
U.S. dollar	506	Turkish lira	(975)	506	(505)	1
U.S. dollar	592	UAE dirham	(2,173)	592	(592)	-
Total				<u>\$ 532,042</u>	<u>\$ (526,766)</u>	<u>\$ 5,276</u>

¹ There were two spot contracts that should have been settled in June 2013, but had only partially settled by fiscal year end. The contracts were to buy Indian rupee and pay U.S. dollars and were outstanding on the receivable side for \$946,048.29 and \$21,090.87. Both were due to late instructions from the manager and were settled in July 2013 without loss to the Trust.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

Security Lending

The Trust participates in security lending programs. Initial collateral requirements for securities on loan range from 100% to 105%, depending on the lending agent, the type of security lent, and the type of collateral received. The Trust had received and invested approximately \$4.7 billion in cash and \$2.4 billion in U.S. government securities as collateral for the lending programs as of June 30, 2014. At June 30, 2014, the collateral held for the security lending transactions exceeded the fair value of the securities underlying the agreement (including accrued interest). As a result there were no under-collateralized loans outstanding with brokers at fiscal year-end. The SBA does not have the ability to pledge or sell the non-cash collateral securities, so the non-cash portion is not reported on the statements of net position. All security lending programs have indemnity clauses requiring the lending agent to assume borrower's risk from default. Maturities of investments made with cash collateral generally are not matched to maturities of the securities loaned, because security loan agreements generally are open-ended with no fixed expiration date. As such, investments made with cash collateral are primarily in short-term investments. However, investments purchased for some security lending programs included investments with final maturities of six months or more representing a range of approximately 4% or less of total collateral invested at June 30, 2014. There are no restrictions on the amount of securities that can be loaned at one time to one borrower.

At June 30, 2014, the collateral reinvestment portfolio was reinvested primarily in overnight repurchase agreements (repos) in order to maximize earnings and reduce risk. The portfolio contains some legacy non-repo securities that will remain until they are either sold or mature. All new lending is done using one-day repos of U.S. Government guaranteed securities as reinvestment. At June 30, 2014, there were three lending agents, including the Trust's custodian and two third-party agents.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

Fair Value of Securities on Loan¹

	As of June 30	
	2014	2013
	<i>(In Thousands)</i>	
Securities on loan for cash collateral, by security type		
Certificates of deposit	\$ 2,001	\$ –
U.S. guaranteed obligations	120,702	588,363
Federal agencies	176,026	247,765
Domestic corporate bonds and notes	240,573	105,054
International bonds and notes	192,621	114,212
Domestic equities	2,540,426	790,286
International equities	1,231,741	1,312,437
Total securities on loan for cash collateral	\$ 4,504,090	\$ 3,158,117
Securities on loan for non-cash collateral, by security type		
Domestic equities	\$ 2,240,654	\$ 1,094,646
International equities	107,161	442,844
Total securities on loan for non-cash collateral	2,347,815	1,537,490
Total securities on loan	\$ 6,851,905	\$ 4,695,607

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, 2014 and 2013

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, 2014 and 2013, 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. Derivative instruments shall only be used as part of a prudent investment process. Various derivative investment instruments are used as part of the investment strategy to hedge against interest rate risk, currency risk in foreign markets, default risk, and mortgage-backed security prepayment risk, and to cost effectively manage exposure to domestic and international equities and bond and real estate markets.

A futures contract is an agreement between two parties, a buyer and a seller, to exchange a particular good for a particular price at a particular date in the future, all of which are specified in a contract common to all members in a market on an organized futures exchange. Upon entering into a futures contract, collateral (cash and/or securities) is deposited with the broker, in SBA's name, in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily by the board of trade or exchange on which they are traded. The resulting gain/loss is received/paid the following day until the contract expires. The frequency of cash flows depends upon specified collateral and margin limits mutually agreed upon by the SBA and third-party broker. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed in the statements of net position. Losses may arise from future changes in the value of the underlying instrument.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

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 (new regulation requirements that went into effect in fiscal year 2014), 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 broker, in SBA’s name, in accordance with the initial margin requirements of the broker. 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, 2014 and 2013

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, 2014

Investment Derivatives	Increase (Decrease) in Fair Value		Fair Value		Notional (In U.S.\$)
	Classification	Amount (In U.S.\$)	Classification	Amount (In U.S.\$)	
<i>(In Thousands)</i>					
Futures ¹	Investment income	\$ 93,583	Receivable/payable	\$ 1,018	\$ 4,846,806
Options	Investment income	1,635	Investment/liability ²	195	1,641,000
Forward currency contracts	Investment income	(432)	Receivable/payable ³	(6,820)	(6,820)
Interest rate swaps	Investment income	158	Investment	5	13,250
Credit default swaps	Investment income	1,458	Investment	1,487	75,000

¹ The total unrealized gain for open futures contracts at June 30, 2014, was \$1,017,702. Cash payments in the amount of \$13,601,802 had already been settled with the broker on or before June 30, 2014. Outstanding remaining net futures margin at June 30, 2014, totaled \$14,619,504, which is reported on the statements of net position as "Futures margin due from broker" and "Futures margin due to broker".

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

³ The total receivable and payable notional and fair values (in U.S. dollars) for forward currency contracts were \$2,967,243,022 and \$(2,974,062,780) as of June 30, 2014. These amounts are included in "Foreign currency contracts receivable" and "Foreign currency contracts payable" on the statements of net position.

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Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

4. Investments (continued)

Fiscal Year Ended June 30, 2013

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

¹ The total unrealized loss for open futures contracts at June 30, 2013, was \$(30,803,104). Cash payments in the amount of \$47,300,694 had already been settled with the broker on or before June 30, 2013. Outstanding remaining net futures trade equity at June 30, 2013, totaled \$16,497,590, which is reported on the statements of net position as “Futures margin due from broker” and “Futures margin due to broker”.

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

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

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 \$9.9 billion and \$10.0 billion as of June 30, 2014 and 2013, respectively.

5. 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, 2014 and 2013

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 2014 and 2013, were as follows:

	2014	2013
	<i>(In Thousands)</i>	
<u>Receivables:</u>		
Due from DMS	\$ 292,609	\$ 198,456
<u>Payables:</u>		
Due to DMS	\$ 288,150	\$ 263,900
Due to the SBA for investment service charges	5,576	5,038
Total payables	\$ 293,726	\$ 268,938
<u>Additions:</u>		
Employer/employee contributions received from DMS	\$ 2,935,280	\$ 2,049,535
Member-directed benefits received from the FRS Investment Plan Trust Fund	50,024	43,771
Total additions	\$ 2,985,304	\$ 2,093,306
<u>Deductions:</u>		
Funds sent to the DMS for benefit payments	\$ 8,028,598	\$ 7,477,699
Member-directed benefits sent to the FRS Investment Plan Trust Fund	807,672	794,361
Investment service charges to the SBA: Based on month-end net asset values	32,010	29,193
Total deductions	\$ 8,868,280	\$ 8,301,253

Other Report

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

Board of Trustees
State Board of Administration of Florida

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida Retirement System Trust Fund (the Trust) managed by the State Board of Administration (SBA) of Florida, which comprise the statement of net position as of June 30, 2014, and the related statement of changes in net position, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ernst + Young LLP

November 7, 2014

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