

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, 2015 and 2014
With Report of Independent Certified Public Accountants

Ernst & Young LLP



Building a better
working world

State Board of Administration
Florida Retirement System Trust Fund

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

Fiscal Years Ended June 30, 2015 and 2014

Contents

Report of Independent Certified Public Accountants1

Management’s Discussion and Analysis3

Financial Statements

Statements of Net Position.....11

Statements of Changes in Net Position.....12

Notes to Financial Statements.....13

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 the Financial Statements Performed in Accordance With
Government Auditing Standards.....54



Ernst & Young LLP
Suite 1700
390 North Orange Avenue
Orlando, FL 32801-1671

Tel: +1 407 872 6600
Fax: +1 407 872 6626
ey.com

Report of Independent Certified Public Accountants

The Board of Trustees
State Board of Administration of Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida Retirement System Trust Fund (the Trust) managed by the State Board of Administration (SBA) of Florida, as of and for the year ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust managed by the SBA as of June 30, 2015 and 2014, and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1 to the financial statements, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the State Board of Administration of Florida or the Florida Retirement System as of June 30, 2015 and 2014, 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 and 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated November 6, 2015 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Trust's internal control over financial reporting and compliance.

Ernst & Young LLP

November 6, 2015

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2015 and 2014

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, 2015 and 2014. 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
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

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		
	2015	2014	2013
	<i>(In Millions)</i>		
Assets			
Cash and cash equivalents	\$ 723	\$ 307	\$ 218
Security lending collateral	8,347	4,618	3,245
Investments, at fair value	151,201	152,915	136,999
Receivables and prepaid expenses	4,448	5,527	3,524
Total assets	\$ 164,719	\$ 163,367	\$ 143,986
Liabilities			
Total liabilities	\$ 16,280	\$ 13,644	\$ 11,224
Net position held in trust	\$ 148,439	\$ 149,723	\$ 132,762

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

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		
	2015	2014	2013
	<i>(In Millions)</i>		
Additions:			
Investment income	\$ 5,697	\$ 23,278	\$ 16,722
Investment expenses	(530)	(511)	(437)
Net security lending income	38	45	49
Total net investment income	<u>5,205</u>	<u>22,812</u>	<u>16,334</u>
Contributions:			
Employer/employee contributions received from DMS	3,113	2,935	2,049
Member-directed benefits received from the FRS Investment Plan Trust Fund	58	50	44
Total contributions	<u>3,171</u>	<u>2,985</u>	<u>2,093</u>
Total additions	<u>8,376</u>	<u>25,797</u>	<u>18,427</u>
Deductions:			
Funds sent to DMS for benefit payments	8,941	8,028	7,478
Member-directed benefits sent to the FRS Investment Plan Trust Fund	719	808	794
Total deductions	<u>9,660</u>	<u>8,836</u>	<u>8,272</u>
Changes in net position	<u>(1,284)</u>	<u>16,961</u>	<u>10,155</u>
Net position held in trust:			
Beginning of year	149,723	132,762	122,607
End of year	<u>\$ 148,439</u>	<u>\$ 149,723</u>	<u>\$ 132,762</u>

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Analysis

The Trust's net position decreased by \$1.3 billion (0.9%) and increased by \$17.0 billion (12.8%) during fiscal years 2015 and 2014, respectively. The decrease for fiscal year 2015 was due primarily to lower investment returns across all the asset classes, while the increase for fiscal year 2014 was the result of positive returns across all asset classes. For all three fiscal years, benefit payments exceeded contributions to the Trust.

Investment income was approximately \$5.7 billion and \$23.3 billion for fiscal years 2015 and 2014, respectively. In fiscal year 2015, capital market returns were markedly lower than in fiscal year 2014, however, the Trust's returns for all asset classes exceeded their benchmarks. For fiscal year 2014, global equity, real estate and strategic investments earned sizable returns outpacing their benchmarks and leading to the increase in the Trust's overall investment income. Additional information is provided in the Investment Returns section below.

Investment expenses totaled \$530 million, or .35% (35 basis points) of investment assets for fiscal year ended 2015, compared with investment expenses of \$511 million, or .33% (33 basis points) of investment assets for fiscal year ended 2014. The investment expense increases of \$19 million (3.7%) and \$74 million (16.9%) during fiscal years 2015 and 2014, 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. The larger increase in fiscal year 2014 was also due to the overall increase in the market value of investments. Most investment fees are calculated as a percent of market value.

Net security lending income of \$38.2 million in fiscal year 2015 decreased by approximately \$7 million (15.6%) compared to a decrease of \$4 million (8.2%) in fiscal year 2014. The fluctuations are due to changes in demand and pricing of loaned securities. The lending program continues to focus on maximizing earnings while managing reinvestment risk. (See Note 4 for additional information on the securities lending program.)

Total contributions to the Trust were \$3.2 billion and \$3.0 billion for fiscal years 2015 and 2014, respectively. Total contributions for fiscal year 2015 increased by \$186 million (6.2%) compared to an increase of \$892 million (42.6%) during fiscal year 2014. In fiscal year 2015 there was a decrease in member-directed transfers sent to the FRS Investment Plan Trust Fund as well as an increase in member-directed transfers from the FRS Investment Plan Trust Fund. 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
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Analysis (continued)

Total deductions from the Trust for fiscal year 2015 were \$9.7 billion, an increase of \$824 million (9.3%) over fiscal year 2014 deductions of \$8.8 billion. This followed an increase of \$564 million (6.8%) during fiscal year 2014. 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 \$913 million (11.4%) and \$550 million (7.4%) during fiscal years 2015 and 2014, respectively. Member-directed benefits sent to the FRS Investment Plan Trust Fund reflect elections by the FRS members to transfer their membership from the Plan to the FRS Investment Plan. Member-directed benefits sent to the FRS Investment Plan Trust Fund decreased by 11% to \$719 million for fiscal year 2015 following an increase of 1.8% to \$808 million for fiscal year 2014.

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.

Membership Class	Employee Rate ³	Employer Rate ¹		
	FYs 2013-15	FY 2015 ²	FY 2014 ²	FY 2013
Regular	3.00%	6.07%	5.72%	4.04%
Special risk	3.00	18.52	17.83	13.76
Special risk: administrative support	3.00	40.77	34.73	4.77
Legislators	3.00	44.96	31.37	7.39
Governor, Lt. Governor, and cabinet officers	3.00	44.96	31.37	7.39
State Attorney, public defenders	3.00	44.96	31.37	7.39
Justices, judges	3.00	31.87	27.05	10.79
County and local elected officers	3.00	41.94	31.80	9.09
Senior management service	3.00	19.84	17.08	5.16
DROP	—	11.02	11.64	4.33

¹ Employer rates presented in this table do not include employer contributions for Health Insurance Subsidy (1.26% FY 2015, 1.20% FY 2014 and 1.11% FY 2013) or plan administrative/educational expense (0.04% for FY2015 and 0.03% for FY2014 and FY 2013) 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 and 2015.

³ 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.

State Board of Administration
Florida Retirement System Trust Fund

Management’s Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Investment Returns¹

The Trust earned an overall investment return of 3.67% for fiscal year 2015, outperforming its benchmark over the trailing one-, three-, five-, ten- and fifteen-year periods. The 2015 total fund return exceeded the benchmark by 143 basis points. The 2014 total fund return of 17.4% exceeded its benchmark by 38 basis points.

For the fiscal years ended June 30, 2015 and 2014, the Trust’s investment returns, by major asset class, were as follows:

Asset Class	2015		2014	
	Return	Benchmark	Return	Benchmark
Global Equity	1.92%	0.89%	23.52%	23.36%
Fixed Income	1.99	1.89	3.78	3.28
Private Equity ²	14.96	3.77	20.49	28.44
Real Estate	11.92	11.33	14.92	12.87
Strategic investments	6.77	3.05	13.19	11.26
Cash	0.21	0.03	0.22	0.02
Total fund	3.67	2.24	17.40	17.02

¹ The above investment performance information for June 30, 2015 and 2014, is the official investment return data supplied by the SBA’s master custodian and performance measurement service provider, BNY Mellon Performance Reporting and Analytics Services. These rates of returns do not necessarily reflect the same information and accounting treatments as included in the Trust’s Statements of Changes in Net Position, due to the latter’s inclusion of subsequent updates to private market investment valuations, timing differences in the recognition of receivables and other items, and differences in GASB accounting rules and SBA performance measurement policies. For 2014, Total Fund performance based on 2014 audited information as certified by BNY Mellon Performance Reporting and Analytics Services was 17.49%. As of the issuance date of the audit report for 2015, Total Fund performance based on 2015 audited information was not available.

² Per industry convention, Private Equity returns are presented on a dollar-weighted basis. All other returns (including Total Fund) are on a time-weighted basis. Time-weighted returns show the value of one dollar invested in a portfolio for the entire period while dollar-weighted returns show an average return of all dollars in the portfolio for the period.

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

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Economic Factors

The fiscal year was characterized by diverging market trends from both a policy and economic perspective. Economic growth in the U.S. became more sure-footed throughout the year, while growth overseas, and particularly in Europe and Japan, stalled in the first half of the year before showing modest signs of improvement. Elsewhere, signs of economic weakness across most emerging market economies continued to unnerve investors and specifically, concerns were focused on an economic slowdown in China. Central banks around the globe responded to these economic indicators with corresponding guidance and policies. These diverging trends in economic growth and in central bank policies not only impacted investor sentiment and capital market returns, they also impacted currency markets. The U.S. dollar appreciated drastically relative to most currencies, rallying roughly 25% over the first nine-months of the year. Late in 2014, oil prices plummeted nearly 40% on concerns surrounding the demand for oil due to the Organization of the Petroleum Exporting Countries (OPEC) deciding not to cut production. Volatility immediately spiked as concerns rose for energy companies and oil-exporting countries, but eventually the lower oil prices were viewed as a net stimulus for the U.S. consumer-driven economy and the associated volatility subsided. Additionally, ongoing geopolitical events, i.e., ISIS, Ukraine, Argentina bond default and Greek debt crisis, also impacted market sentiment.

The resulting capital market returns for the one-year period illustrate the wide economic and central bank policy divergence. The broad U.S. equity market, as measured by the Dow Jones U.S. Total Stock Market Index, returned 7.2% on continued economic growth, continued support from the Fed, and from being relatively isolated from, and resilient to, the geopolitical events overseas. Developed international and emerging markets provided a stark contrast, declining 4.2% and 5.1% as measured in U.S. dollar terms by the MSCI EAFE Index and the MSCI Emerging Markets Index, respectively. The strong appreciation of the U.S. dollar over the year was the main detractor of international market returns for U.S. based investors. Despite improved returns in the latter half of the year from accommodating central bank policies and positive economic indicators, it was not enough to offset the numerous headwinds that faced international markets.

State Board of Administration
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Economic Factors (continued)

Amongst the volatility throughout the year, the U.S. bond market acted as somewhat of a safe-haven for investors. Despite a slight uptick in U.S. Treasury rates in the second half of the year, rates fell over the full one-year period and the broad U.S. bond market, as measured by the Barclays Aggregate Bond Index, returned 1.9%. U.S. government bonds outperformed their investment grade and high yield counterparts as credit spreads widened over the year. Long U.S. government bonds were the greatest beneficiaries, with the Barclays Long Government Bond Index returning 6.2% for the one-year period. U.S. Treasury Inflation Protected Securities (TIPS) produced a negative 1.7% over the year, as inflation expectations remained muted. Lastly, commodities were hit hard during the year due to supply growth, diminishing global demand and the U.S. dollar rally. The Bloomberg Commodity Index fell 23.7% for the one-year period.

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	
	2015	2014
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 722,766	\$ 307,311
Security lending collateral	8,346,890	4,618,260
Investments, at fair value:		
Short-term	8,216,186	8,738,281
Fixed income:		
Domestic	24,815,802	25,265,226
International	2,636,429	2,593,571
Equities:		
Domestic	43,387,207	44,070,462
International	42,405,570	45,832,013
Alternative	19,596,357	16,501,387
Real estate	10,142,274	9,910,420
Other	958	3,881
Total investments	<u>151,200,783</u>	<u>152,915,241</u>
Receivables:		
Due from DMS	323,041	292,609
Accrued interest and dividends	309,640	327,760
Margin receivable from broker	19,522	15,190
Forward foreign currency contracts	2,199,460	2,967,243
Spot foreign currency contracts	111,121	149,444
Investments sold, but not settled	1,477,146	1,764,144
Total receivables	<u>4,439,930</u>	<u>5,516,390</u>
Prepaid investment management fees	8,398	10,172
Total assets	<u>\$ 164,718,767</u>	<u>\$ 163,367,374</u>
Liabilities		
Due to DMS	\$ 335,700	\$ 288,150
Accounts payable and accrued liabilities	96,044	88,742
Margin payable to broker	8,064	2,117
Forward foreign currency contracts payable	2,198,673	2,974,063
Spot foreign currency contracts payable	111,062	149,397
Investments purchased, but not settled	4,977,483	5,287,170
Options sold	17	123
Short sell obligations	156,976	179,821
Obligations under security lending agreements	8,395,914	4,674,292
Total liabilities	<u>16,279,933</u>	<u>13,643,875</u>
Net position held in trust	<u>\$ 148,438,834</u>	<u>\$ 149,723,499</u>

See accompanying notes to financial statements.

State Board of Administration
Florida Retirement System Trust Fund

Statements of Changes in Net Position

	Fiscal Years Ended June 30	
	2015	2014
	<i>(In Thousands)</i>	
Additions		
Investment income:		
Interest income	\$ 901,727	\$ 985,682
Dividend income	2,002,847	2,201,178
Alternative investment income	196,345	137,815
Real estate net income	488,970	461,342
Fines, forfeits, and securities litigation proceeds	13,487	37,456
Net increase in fair value of investments	2,093,633	19,454,762
Total investment income	5,697,009	23,278,235
Investment expenses:		
Bank fees	(4,746)	(5,865)
Investment management fees	(478,969)	(463,617)
SBA investment service charges	(33,308)	(32,010)
Other fees and expenses	(12,609)	(9,540)
Total investment expenses	(529,632)	(511,032)
Net income from investments	5,167,377	22,767,203
Security lending income	46,845	50,690
Security lending expenses	(8,672)	(5,631)
Net income from security lending	38,173	45,059
Total net investment income	5,205,550	22,812,262
Contributions:		
Employer/employee contributions received from DMS	3,112,534	2,935,280
Member-directed benefits received from the FRS Investment Plan Trust Fund	57,536	50,024
Total contributions	3,170,070	2,985,304
Total additions	8,375,620	25,797,566
Deductions		
Funds sent to DMS for benefit payments	8,941,103	8,028,598
Member-directed benefits sent to the FRS Investment Plan Trust Fund	719,182	807,672
Total deductions	9,660,285	8,836,270
Changes in net position	(1,284,665)	16,961,296
Net position held in trust:		
Beginning of year	149,723,499	132,762,203
End of year	\$ 148,438,834	\$ 149,723,499

See accompanying notes to financial statements.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements

Fiscal Years Ended June 30, 2015 and 2014

1. Financial Reporting Entity

The Florida Retirement System (FRS) Pension Plan (the Plan) is a cost-sharing, multiple-employer defined benefit pension plan qualified under IRC Section 401(a) and established by the Legislature of the State of Florida in accordance with Chapter 121, *Florida Statutes*, to provide for retirement benefits for eligible employees of the State and all participating county, district school board, community college and university employees. Under the FRS, employers and, as of July 1, 2011, employees make contributions to the Department of Management Service (DMS), Division of Retirement, the Plan administrator, which are initially deposited into the Florida Retirement System Contributions Clearing Fund which holds all contributions for all plans of the FRS. The DMS, as the administrative agency of the Plan, provides full accounting and administration of benefit payments and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the Plan.

Chapter 121, *Florida Statutes*, established the Florida Retirement System Trust Fund (the Trust) and empowers and mandates the State Board of Administration (SBA) to receive, invest and hold the assets of the Plan in the Trust for the exclusive benefit of the Plan members and for the payment of reasonable costs of the Plan. The DMS sends employer and employee contributions to the Trust for investment by the SBA. The SBA is governed by a Board of Trustees, comprised of the Governor, as 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, 2015 and 2014, 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, 2015 and 2014

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 June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of GASB 68 are effective for fiscal years beginning after June 15, 2014. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 68, as the Trust is not a Pension Plan.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). This Statement GASB 71 relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement GASB 71 should be applied simultaneously with the provisions of Statement 68. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 71, as the Trust is not a Pension Plan.

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.”

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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

- 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.

For private market investments, where no readily ascertainable market value exists (including limited partnerships, hedge funds, direct-owned real estate, and real estate pooled funds), fair values for the individual investments are based on the net asset value (capital account balance) at the closest available reporting period, as communicated by the general partner and/or investment manager, adjusted for subsequent contributions and distributions. The valuation techniques vary based upon investment type and involve a certain degree of judgment. The most significant input into the net asset value of an entity is the value of its investment holdings. The net asset value is provided by the general partner and/or investment manager and reviewed by management.

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

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

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

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with an original maturity of ninety days or less when purchased. The Trust reports all cash on hand and deposits in banks, including demand deposits, time deposits, and non-negotiable certificates of deposit as cash and cash equivalents.

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

The DMS sends employer and employee contributions to the Trust for investment purposes, and may also request return of funds from the Trust to meet benefit obligations of the FRS. The 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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

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.

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 2015 and 2014, the SBA investment service charge was .0225% (annualized).

Use of Estimates

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

Reclassifications

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits

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

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.

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, 2015 and 2014. The remaining uninsured and uncollateralized deposits, totaling \$160.3 million and \$289.3 million as of June 30, 2015 and 2014, respectively, were held in foreign currencies in the SBA's custodian nominee name.

Foreign Currency Risk for Deposits

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Under Section 215.47, *Florida Statutes*, and subject to the limitation and conditions of the State Constitution or of the trust agreement relating to a trust fund, moneys available for investments by the Trust may be invested in fixed income obligations or stocks denominated in foreign currency. The SBA has developed for the Trust an Investment Policy Statement (IPS) that sets ranges on investments by asset class. All asset classes may hold non-U.S. securities, depending on portfolio guidelines. For fiscal years 2015 and 2014, Florida law limits the exposure to foreign securities held outside of commingled trusts to 50% and 35%, respectively, of the total Trust.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits (continued)

Investment activity in foreign investments resulted in deposits of foreign currency as of June 30, 2015 and 2014, as illustrated in the following schedule.

Currency	2015	2014
Australian dollar	\$ 17,014	\$ 24,905
Brazilian real	2,243	4,200
British pound sterling	25,719	30,249
Canadian dollar	6,825	60,334
Chilean peso	124	147
Danish krone	889	261
Egyptian pound	211	261
Euro currency unit	32,727	70,375
Hong Kong dollar	8,138	18,116
Hungarian forint	13	158
Indian rupee	4,684	3,467
Indonesian rupiah	294	612
Israeli shekel	739	739
Japanese yen	34,524	39,835
Kenyan shilling	618	-
Malaysian ringgit	628	548
Mauritius rupee	-	204
Mexican peso	267	1,892
New Zealand dollar	703	186
Nigerian naira	2	207
Norwegian krone	2,599	2,402
Omani rial	-	442
Pakistan rupee	173	8
Philippines peso	95	139
Polish zloty	228	10
Qatari riyal	147	576
Russian ruble	-	163
Singapore dollar	2,101	4,479
South African rand	1,636	1,859
South Korean won	1,275	824
Swedish krona	1,826	4,929
Swiss franc	1,164	1,389
Taiwan new dollar	11,885	11,797
Thailand baht	189	76
Turkish lira	502	652
UAE dirham	43	2,723
Other	32	144
Total deposits subject to foreign currency risk	<u>\$ 160,257</u>	<u>\$ 289,308</u>

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments

Investment Classifications

The SBA has the authority and responsibility for the investment of the Trust assets pursuant to Section 215.47, *Florida Statutes*, in a range of instruments including, but not limited to: federally guaranteed obligations, certain state bonds, corporate bonds, commercial paper, banker's acceptances, short-term obligations purchased individually or in pooled accounts, interests in certain open-end and closed-end management type investment companies or investment trusts, common and preferred stock, repurchase and reverse repurchase agreements, and real estate. The SBA may also buy and sell futures contracts, option contracts, and domestic or foreign notional principal contracts. The following are the major asset types invested in by the Trust.

- **Short-Term**

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

- **Fixed Income**

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

- **Equities**

Equity investments represent both domestic and international stocks traded on major stock exchanges. Also included as equities are preferred stock, commingled funds, real estate investment trusts (REITS), and equity-linked notes. 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, 2015 and 2014

4. Investments (continued)

- **Alternative**

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

- **Real Estate**

Real estate investments include ownership of office, multifamily, retail, agricultural, and industrial properties. Also included are value-added and opportunistic investments such as hotels, senior housing, student housing, and traditional property types. These assets are held directly, as part of a joint venture, or through ownership in open-ended pooled funds.

- **Other**

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

The following schedule discloses the Trust's investments, by type, at June 30, 2015 and 2014.

Investment type	Fair Value	
	2015	2014
	<i>(In Thousands)</i>	
Short-term:		
Certificates of deposit	\$ 1,936,529	\$ 1,417,426
Commercial paper	5,867,392	6,161,121
Money market funds	12,265	9,734
Repurchase agreements	400,000	1,150,000
Fixed income – domestic:		
U.S. guaranteed obligations	7,622,315	9,274,839
Federal agencies	9,458,712	8,819,935
Corporate and municipal bonds and notes ¹	7,734,775	7,170,452
Fixed income – international:		
International bonds and notes ¹	2,636,429	2,593,571
Equities – domestic ¹	43,387,207	44,070,462
Equities – international: ¹		
International equities	36,089,572	38,330,351
International equity commingled funds	6,315,998	7,501,662
Alternative:		
Activist equity	681,362	621,678
Hedge funds	3,871,335	2,722,286
Private debt/credit opportunities	2,948,608	2,884,978
Private equity	9,104,960	8,984,468
Real assets	2,990,092	2,265,812
Real estate:		
Direct investments	7,777,275	6,738,692
Commingled funds	2,364,999	2,193,893
Other investments:		
Option contracts purchased	33	2,389
Swap contracts (debt related)	925	1,492
Total investments excluding securities lending collateral	\$ 151,200,783	\$ 152,915,241
Securities lending collateral investments		
Money market funds	\$ 4,458,145	\$ –
Repurchase agreements	3,775,237	4,471,397
Domestic corporate bonds and notes ¹	96,443	115,537
International bonds and notes ¹	17,065	31,326
Total securities lending collateral investments	8,346,890	4,618,260
Total investments	\$ 159,547,673	\$ 157,533,501
Investments sold short		
U.S. guaranteed obligations	\$ (11,843)	\$ (84,698)
Federal agencies	(145,133)	(95,122)
Option contracts	(17)	(123)
Total investments sold short ²	\$ (156,993)	\$ (179,943)

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, 2015 and 2014

4. Investments (continued)

Pledged 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	
	2015	2014
	<i>(In Thousands)</i>	
Investment type:		
U.S. guaranteed obligations	\$ 22,974	\$ 25,169
Federal agencies	14,833	-
Domestic stocks	24,966	23,156
Total	\$ 62,773	\$ 48,325

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

	Fair Value	
	2015	2014
	<i>(In Thousands)</i>	
Margin receivable from broker:		
Futures initial margin	\$ 8,597	\$ 9,218
Futures variation margin	7,136	5,972
Swaps variation margin	3,789	-
Total margin receivable from broker	\$ 19,522	\$ 15,190
Margin payable to broker:		
Futures variation margin	\$ 6,674	\$ 571
Swaps variation margin	1,390	1,546
Total margin payable to broker	\$ 8,064	\$ 2,117

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Investment Risks

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

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

Custodial Credit Risk

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the counterparty to a transaction, the Trust will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The 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, but does not apply to investments evidenced by contractual agreements such as alternatives, real estate, cleared derivative instruments (futures, options and swaps), external investment pools or open-ended mutual funds. These types of investments are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

	Fair Value	
	2015	2014
	<i>(In Thousands)</i>	
Invested security lending collateral:		
Repurchase agreements	\$ 459,782	\$ 2,864,861
Domestic bonds and notes	96,443	115,537
International bonds and notes	7,387	13,268
Total investments exposed to custodial credit risk	\$ 563,612	\$ 2,993,666

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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

- **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.

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.

- **Security Lending Portfolios**

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

- * Tri-party qualified repurchase agreement transactions in which the subject securities thereunder will be repurchased by the seller no later than one business day from the purchase date, and such repurchase obligations are collateralized by U.S. Treasury bills, notes and/or bonds, U.S. Government Agency securities, and U.S. Government Agency mortgage backed securities having a market value of at least 100% of the market value of securities subject to being repurchased.
- * Money market mutual funds regulated by SEC rule 2a-7 and rated the highest applicable rating by at least one of the three Nationally Recognized Statistical Rating Organizations (NRSRO) – S&P AAmmf; Moody's Aaamf; Fitch AAmmf.
- * U.S. Treasury bills, notes, and bonds.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Under previous investment policy guidelines in effect for the fiscal year ended June 30, 2014 and part of fiscal year 2015, eligible cash collateral could only be invested in tri-party qualified repurchase agreement transactions that were collateralized by “U.S. Government securities” having a market value of at least 100 percent of the market value of securities subject to be repurchased, and money market mutual funds regulated by SEC rule 2a-7.

“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 prior to the policy guidelines established in December 2008 are being held to maturity in existing lending portfolios. These previous investment policy guidelines contained short-term rating requirements that were similar to the current short-term portfolio rating requirements. Repurchase agreements were required to be fully collateralized.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

The following tables disclose credit quality ratings related to credit risk on investments held in the Trust at June 30, 2015 and 2014.

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

Ratings not applicable:

Repurchase agreements (collateralized by U.S. guaranteed obligations)	\$ 2,512,685
U.S. guaranteed obligations	7,622,315
Domestic equities	43,387,207
International equities	36,089,572
International equity commingled funds	6,315,998
Alternative investments	19,596,357
Real estate investments	10,142,274
Options	33
Swaps	925
Total Investments	\$ 159,547,673

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.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Credit Quality Ratings									
As of June 30, 2014									
S&P ¹	Moody's ¹	Total ²	Certificates of Deposit	Commercial Paper	Money Market Funds	Repurchase Agreements	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		2,301,388	200,001	-	-	176,706	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	-
CC		-	-	-	-	-	-	-	-
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	11,242,885	1,217,425	75,000	-	1,746,801	7,940,444	185,391	77,824
		<u>\$ 28,242,609</u>	<u>\$ 1,417,426</u>	<u>\$ 6,161,121</u>	<u>\$ 9,734</u>	<u>\$ 1,923,507</u>	<u>\$ 8,819,935</u>	<u>\$ 7,285,989</u>	<u>\$ 2,624,897</u>

Ratings not applicable:

Repurchase agreements (collateralized by U.S. guaranteed obligations)	\$ 3,697,890
U.S. guaranteed obligations	9,274,839
Domestic equities	44,070,462
International equities	38,330,351
International equity commingled funds	7,501,662
Alternative investments	17,479,222
Real estate investments	8,932,585
Options	2,389
Swaps	1,492
Total Investments	<u>\$ 157,533,501</u>

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

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

All futures and options contracts held by the Trust at June 30, 2015 and 2014, 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, 2015 and 2014, were exchange traded, therefore minimizing counterparty credit risk through the use of a swap clearing merchant and a clearing house.

Counterparty credit ratings related to credit risk for spot and forward foreign currency contracts held at June 30, 2015 and 2014, are presented in the following tables.

As of June 30, 2015

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	\$ 407,169	\$ (408,200)	\$ (1,031)
AA/A-1	Aa/P-1	AA/F1	852	(852)	-
AA/A-1	NR/P-1	AA/F1	9,367	(9,266)	101
A/A-1	Aa/P-1	AA/F1	20,186	(20,202)	(16)
A/A-1	Aa/P-1	A/F1	687	(688)	(1)
A/A-1	A/P-1	AA/F1	4,493	(4,495)	(2)
A/A-1	A/P-1	A/F1	297,840	(300,054)	(2,214)
A/A-1	NR/P-1	AA/F1	6,515	(6,510)	5
A/A-1	NR/P-1	A/F1	3,186	(3,208)	(22)
A/A-1	NR/NR	NR/NR	132	(132)	-
A/A-2	Aa/P-1	A/F1	493,014	(488,187)	4,827
BBB/A-1	NR/P-2	NR/NR	292,565	(292,285)	280
NR/NR	NR/P-1	NR/NR	639,860	(641,107)	(1,247)
NR/NR	NR/NR	A/F1	35,933	(35,930)	3
NR/NR	NR/NR	NR/NR	98,782	(98,619)	163
			\$ 2,310,581	\$ (2,309,735)	\$ 846

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

As of June 30, 2014

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	\$ 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)
			<u>\$ 3,116,687</u>	<u>\$(3,123,460)</u>	<u>\$ (6,773)</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 an investment in a single issuer. The Trust did not hold any investments with a single issuer representing 5% or more of the Trust's fair value (amortized cost for short-term portfolios) at June 30, 2015 or 2014.

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Interest Rate Risk

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

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

- **Short-Term Portfolio**

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

- **Mortgage Index Portfolio**

Portfolio duration should be similar to the duration of the mortgage-related fixed income market and should remain within plus or minus 0.25 years of the Barclays Capital U.S. MBS Index duration. Swaps and/or Agency debentures may contribute no more than 25% of the portfolio's total duration.

- **Intermediate Aggregate Less MBS Index Portfolio**

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

- **Core Portfolios**

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

The Core Portfolios contain certain investments, Collateralized Mortgage Obligations (CMOs), which are more sensitive to interest rate changes than others. Examples of CMO securities that qualify as "highly interest rate sensitive" include interest-only (IOs), principal-only (POs), and inverse floaters (INVs).

IO and PO securities are transactions that involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which increase the value of a PO and decrease the value of an IO. Inverse floaters (INV) have an inverse relationship to a benchmark rate, and the coupon payment is adjusted as the interest rate changes. If the benchmark interest rate decreases, the coupon rate increases and vice versa, which allows the bondholder to benefit from declining interest rates. Similar to an IO, an interest-only inverse floater's value increases as interest rates rise.

- **Security Lending Portfolios**

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

- Overnight repurchase agreements that are fully collateralized by U.S. Treasury bills, notes and/or bonds, U.S. Government Agency securities and U.S. Government Agency mortgage-backed securities.
- Money market mutual funds regulated by SEC rule 2a-7.
- U.S. Treasury bills, notes and bonds maturing within 92 days or less.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Previous guidelines, in effect for the fiscal year ended June 30, 2014, and part of fiscal year 2015, allowed investment only in overnight repurchase agreements that were fully collateralized by U.S. government and/or agency securities, and money market mutual funds regulated by SEC rule 2a-7.

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

The interest rate risk tables for the Trust as of June 30, 2015 and 2014, 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, 2015 and 2014

4. Investments (continued)

Investment Type	As of June 30, 2015			
	Fair Value	Effective	Fair Value	Weighted
	(Duration)	Weighted	(WAM)	Average
	(In Thousands)	(In Years)	(In Thousands)	(In Days)
Certificates of deposit	\$ —	NA	\$ 1,936,529	20
Commercial paper	—	NA	5,867,392	27
Money market funds	—	NA	4,470,410	1
Repurchase agreements	—	NA	4,175,237	2
U.S. guaranteed obligations:				
U.S. Treasury bills	4,139	0.30	—	NA
U.S. Treasury bonds and notes	5,758,098	3.87	—	NA
Index linked government bonds	211,746	8.20	—	NA
U.S. government guaranteed bonds and notes	51,181	5.71	—	NA
Mortgage backed	749,820	3.43	—	NA
Commitments to purchase (TBAs)	693,557	3.50	—	NA
Mortgage backed-CMOs and CMBS ³	153,774	3.13	—	NA
Federal agencies:				
Discount notes	344,754	0.16	—	NA
Unsecured bonds and notes	707,763	2.95	—	NA
Agency strips	212,416	2.83	—	NA
Mortgage backed	4,554,035	3.47	—	NA
Commitments to purchase (TBAs)	2,454,550	3.85	—	NA
Mortgage backed-CMOs and CMBS ³	1,185,194	3.60	—	NA
Domestic:				
Corporate bonds and notes	5,541,558	4.32	—	NA
Asset and mortgage backed	873,742	1.98	59,857	27
Mortgage backed-CMOs and CMBS ³	1,312,605	3.80	16,691	25
Municipal/provincial	23,982	2.84	—	NA
Real estate mortgage loans	2,783	6.24	—	NA
International:				
Government and agency obligations	1,103,046	3.17	—	NA
Corporate bonds and notes	1,487,296	3.65	—	NA
Asset and mortgage backed	40,748	1.05	—	NA
Mortgage backed-CMOs and CMBS	5,339	0.15	17,065	16
Futures contracts-long ¹	—	3.45	—	NA
Options purchased ²	33	See Note 2	—	NA
Swap contracts ¹	925	(4.15)	—	NA
Total fixed income investments	<u>\$ 27,473,084</u>		<u>\$ 16,543,181</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, 2015.

² An option's effective weighted duration measures the rate of change of price with respect to yield. The effective weighted duration was (0.02) as of June 30, 2015.

³ Includes investments in IOs, POs and INVs totaling \$63 million at June 30, 2015.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Investment Type	As of June 30, 2014			
	Fair Value	Effective	Fair Value	Weighted
	(Duration)	Weighted	(WAM)	Average
	(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 bonds and notes	50,997	5.71	—	NA
Mortgage backed	835,698	3.65	—	NA
Commitments to purchase (TBAs)	955,045	3.79	—	NA
Mortgage backed-CMOs and CMBS ³	104,212	3.60	—	NA
Federal agencies:				
Unsecured bonds and notes	920,222	3.35	—	NA
Agency strips	13,502	3.22	—	NA
Mortgage backed	4,146,137	3.76	—	NA
Commitments to purchase (TBAs)	2,457,672	3.76	—	NA
Mortgage backed-CMOs and CMBS ³	1,282,402	3.82	—	NA
Domestic:				
Corporate bonds and notes	5,145,435	4.25	—	NA
Asset and mortgage backed	605,561	1.27	74,925	27
Mortgage backed-CMOs and CMBS ³	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:				
Government and agency obligations	920,527	3.18	—	NA
Corporate bonds and notes	1,626,507	4.06	—	NA
Asset and mortgage backed	25,524	3.38	—	NA
Mortgage backed-CMOs and CMBS	21,013	0.04	31,326	27
Futures contracts-long ¹	—	2.59	—	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>\$ 13,334,382</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.

³ Includes investments in IOs, POs and INVs totaling \$59 million at June 30, 2014.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Interest rate risk information for debt investments sold short is presented below as of June 30, 2015 and 2014.

Investment Type	June 30, 2015		June 30, 2014	
	Fair Value	Effective Weighted Duration	Fair Value	Effective Weighted Duration
	<i>(In Thousands)</i>	<i>(In Years)</i>	<i>(In Thousands)</i>	<i>(In Years)</i>
GNMA commitments to sell (TBAs)	\$ (11,843)	3.24	\$ (84,698)	3.84
FNMA, FHLMC commitments to sell (TBAs)	(145,133)	3.47	(95,122)	3.99
Futures contracts ²	-	4.22	-	9.40
Options ³	(17)	See Note 3	(123)	See Note 3
Total debt investments sold short ¹	<u>\$ (156,993)</u>		<u>\$ (179,943)</u>	

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

² The futures contracts effective weighted duration was calculated using notional values rather than fair values. For foreign futures, local notional value was converted to a U.S. dollar value based on foreign exchange rates at June 30, 2015 and 2014.

³ An option's effective weighted durations measure the rate of change of price with respect to yield. Effective weighted durations were (0.01) and (1608.36) as of June 30, 2015 and 2014, 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 2015 and 2014, Florida law limits the exposure to foreign securities held outside of commingled trusts to 50% and 35%, respectively, 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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

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.

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 \$17.4 billion and \$15.0 billion as of June 30, 2015 and 2014, 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, 2015 and 2014.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Currency	As of June 30, 2015		
	Investment Type		
	Equity	Alternative Investments	Fixed Income
	<i>(In Thousands)</i>		
Australian dollar	\$ 1,191,743	\$ -	\$ -
Brazilian real	466,067	-	-
British pound sterling	5,667,070	413	-
Canadian dollar	1,461,287	-	-
Chilean peso	25,764	-	-
Danish krone	359,608	-	-
Egyptian pound	38,629	-	-
Euro currency unit	7,490,040	410,370	-
Hong Kong dollar	2,511,811	-	-
Hungarian forint	36,560	-	-
Indian rupee	530,925	-	-
Indonesian rupiah	111,122	-	-
Israeli shekel	81,576	-	-
Japanese yen	5,061,576	-	-
Kenyan shilling	21,686	-	-
Malaysian ringgit	147,957	-	-
Mexican peso	211,216	-	-
New Zealand dollar	49,496	-	-
Nigerian naira	49,172	-	-
Norwegian krone	215,902	-	-
Omani rial	14,469	-	195
Pakistani rupee	23,499	-	-
Phillippines peso	114,618	-	-
Polish zloty	80,819	-	-
Qatari riyal	48,006	-	-
Singapore dollar	510,134	-	-
South African rand	484,997	-	-
South Korean won	905,714	-	-
Sri Lankan rupee	22,731	-	-
Swedish krona	727,736	-	-
Swiss franc	2,351,834	-	-
Taiwan new dollar	753,626	-	-
Thailand baht	198,953	-	-
Turkish lira	212,228	-	-
United Arab Emirates dirham	65,203	-	-
Other	50,857	-	-
Equity linked notes (various currencies)	129,240	-	-
International equity commingled funds	6,315,998	-	-
Total investments subject to foreign currency risk	<u>\$ 38,739,869</u>	<u>\$ 410,783</u>	<u>\$ 195</u>

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Currency	As of June 30, 2014		
	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	696,415	—
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	—	—
Nigerian naira	74,487	—	—
Norwegian krone	274,465	—	—
Omani rial	16,663	—	195
Pakistani rupee	19,363	—	—
Phillippines 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	—	—
Sri Lankan rupee	22,420	—	—
Swedish krona	833,529	—	—
Swiss franc	2,615,882	—	—
Taiwan new dollar	650,522	—	—
Thailand baht	228,880	—	—
Turkish lira	201,323	—	—
United Arab Emirates dirham	19,995	—	—
Other	43,194	—	—
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>\$ 696,415</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, 2015 and 2014

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, 2015 and 2014, 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, 2015						
Bond Futures:						
	Euro currency unit	709	\$ 95,674	\$ 92,319	\$ (3,355)	\$ (3,738)
	Euro Bund	(568)	(87,858)	(86,336)	(1,522)	(1,696)
Stock Index Futures:						
	GBP FTSE 100 Index	275	18,244	17,858	(386)	(606)
	Canada S&P/TSE 60 Index	87	14,849	14,684	(165)	(133)
	DJ Euro STOXX 50	631	21,502	21,681	179	200
	TOPIX Index Future	222	3,663,623	3,619,710	(43,913)	(359)
As of June 30, 2014						
Stock Index Futures:						
	GBP FTSE 100 Index	434	\$ 29,149	\$ 29,126	\$ (23)	\$ (39)
	Canada S&P/TSE 60 Index	154	26,299	26,602	303	284
	DAX Index	12	2,979	2,958	(21)	(28)
	DJ Euro STOXX 50	1,094	35,722	35,358	(364)	(499)
	YEN Denom NIKKEI 225	22	166,760	166,815	55	1
	TOPIX Index Future	221	2,742,702	2,790,125	47,423	468

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, 2015 and 2014

4. Investments (continued)

Schedules of all foreign currency contracts outstanding at June 30, 2015 and 2014, are presented below, by currency.

As of June 30, 2015						
Currency to Buy	Amount to Buy (in Local Currency)	Currency to Sell	Amount to Sell (in Local Currency)	Receivable Fair Value (in U.S. \$)	Payable Fair Value (in U.S. \$)	Net Unrealized Gain (Loss) (in U.S. \$)
	<i>(In Thousands)</i>			<i>(In Thousands)</i>		
Australian dollar	21,959	U.S. dollar	(17,084)	\$ 16,868	\$ (17,084)	\$ (216)
Brazilian real	162,805	U.S. dollar	(51,375)	51,857	(51,375)	482
British pound sterling	27,251	U.S. dollar	(42,452)	42,842	(42,452)	390
Canadian dollar	15,148	U.S. dollar	(12,216)	12,129	(12,216)	(87)
Chilean peso	21,056,102	U.S. dollar	(33,671)	32,846	(33,671)	(825)
Chinese yuan renminbi	111,434	U.S. dollar	(18,120)	18,146	(18,120)	26
Columbian peso	10,711,943	U.S. dollar	(4,090)	4,088	(4,090)	(2)
Danish krone	9,010	U.S. dollar	(1,369)	1,349	(1,369)	(20)
Euro currency unit	909	British pound sterling	(644)	1,013	(1,013)	-
Euro currency unit	143,383	U.S. dollar	(161,056)	159,853	(161,056)	(1,203)
Hong Kong dollar	245	Japanese yen	(3,869)	32	(32)	-
Hong Kong dollar	21,400	U.S. dollar	(2,760)	2,760	(2,760)	-
Hungarian forint	1,060,000	Euro currency unit	(3,396)	3,742	(3,788)	(46)
Hungarian forint	5,269,943	U.S. dollar	(19,100)	18,619	(19,100)	(481)
Indian rupee	3,729,368	U.S. dollar	(57,536)	58,048	(57,536)	512
Indonesian rupiah	628,193,642	U.S. dollar	(45,853)	46,424	(45,853)	571
Israeli shekel	45,576	U.S. dollar	(11,904)	12,082	(11,904)	178
Japanese yen	843,316	Australian dollar	(8,948)	6,892	(6,877)	15
Japanese yen	4,408	British pound sterling	(23)	36	(36)	-
Japanese yen	9,529,044	U.S. dollar	(77,200)	77,906	(77,200)	706
Malaysian ringgit	17,189	U.S. dollar	(4,599)	4,532	(4,599)	(67)
Mexican peso	250,019	U.S. dollar	(16,247)	15,899	(16,247)	(348)
Moroccan dirham	1,598	U.S. dollar	(164)	164	(164)	-
New Zealand dollar	7,830	U.S. dollar	(5,549)	5,264	(5,549)	(285)
Norwegian krone	282,167	U.S. dollar	(35,906)	35,848	(35,906)	(58)
Pakistan rupee	3,826	U.S. dollar	(37)	37	(37)	-
Peruvian nuevo sol	25,855	U.S. dollar	(8,092)	8,053	(8,092)	(39)
Philippines peso	208,960	Euro currency unit	(4,633)	4,617	(4,633)	(16)
Polish zloty	28,200	Euro currency unit	(6,806)	7,484	(7,591)	(107)
Polish zloty	137,777	U.S. dollar	(36,820)	36,597	(36,820)	(223)
Qatari riyal	104	U.S. dollar	(29)	29	(29)	-
Romanian leu	15,200	Euro currency unit	(3,417)	3,777	(3,811)	(34)
Russian ruble	361,002	U.S. dollar	(6,367)	6,307	(6,367)	(60)
Singapore dollar	369	Japanese yen	(33,538)	274	(274)	-
Singapore dollar	2,518	U.S. dollar	(1,868)	1,870	(1,868)	2

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

As of June 30, 2015 (continued)

Currency to Buy	Amount to Buy (in Local Currency)	Currency to Sell	Amount to Sell (in Local Currency)	Receivable Fair Value (in U.S. \$)	Payable Fair Value (In U.S. \$)	Net Unrealized Gain(Loss) (In U.S. \$)
	<i>(In Thousands)</i>			<i>(In Thousands)</i>		
South African rand	411,084	U.S. dollar	(33,118)	\$ 33,669	\$ (33,118)	\$ 551
South Korean won	10,779,172	U.S. dollar	(9,661)	9,639	(9,661)	(22)
Swedish krona	177,397	U.S. dollar	(21,135)	21,397	(21,135)	262
Swiss franc	470	British pound sterling	(319)	503	(502)	1
Swiss franc	17,659	U.S. dollar	(19,153)	18,932	(19,153)	(221)
Taiwan new dollar	332,673	U.S. dollar	(10,796)	10,793	(10,796)	(3)
Thailand baht	23,753	U.S. dollar	(701)	702	(701)	1
Turkish lira	144,071	U.S. dollar	(52,707)	53,437	(52,707)	730
U.S. dollar	89,501	Australian dollar	(116,203)	89,501	(89,090)	411
U.S. dollar	7,674	Brazilian real	(24,532)	7,674	(7,718)	(44)
U.S. dollar	77,884	British pound sterling	(50,208)	77,884	(78,933)	(1,049)
U.S. dollar	102,323	Canadian dollar	(126,278)	102,323	(101,095)	1,228
U.S. dollar	41,024	Chilean peso	(25,391,581)	41,024	(39,646)	1,378
U.S. dollar	16,539	Chinese yuan renminbi	(101,876)	16,539	(16,587)	(48)
U.S. dollar	153	Danish krone	(1,024)	153	(153)	-
U.S. dollar	327,162	Euro currency unit	(293,289)	327,162	(326,880)	282
U.S. dollar	17,905	Hong Kong dollar	(138,812)	17,905	(17,905)	-
U.S. dollar	72,550	Hungarian forint	(20,176,444)	72,550	(71,285)	1,265
U.S. dollar	8,010	Indian rupee	(522,629)	8,010	(8,107)	(97)
U.S. dollar	2,066	Indonesian rupiah	(28,179,203)	2,066	(2,086)	(20)
U.S. dollar	15,445	Israeli shekel	(59,079)	15,445	(15,662)	(217)
U.S. dollar	247,702	Japanese yen	(30,877,564)	247,702	(252,440)	(4,738)
U.S. dollar	769	Kenyan shilling	(76,292)	769	(769)	-
U.S. dollar	56,431	Mexican peso	(876,796)	56,431	(55,811)	620
U.S. dollar	54,067	New Zealand dollar	(77,979)	54,067	(52,604)	1,463
U.S. dollar	45,172	Norwegian krone	(350,200)	45,172	(44,470)	702
U.S. dollar	29	Pakistan rupee	(2,939)	29	(29)	-
U.S. dollar	1,921	Philippines peso	(86,774)	1,921	(1,924)	(3)
U.S. dollar	26,041	Polish zloty	(96,711)	26,041	(25,706)	335
U.S. dollar	2,386	Russian ruble	(137,869)	2,386	(2,404)	(18)
U.S. dollar	23,531	Singapore dollar	(31,700)	23,531	(23,517)	14
U.S. dollar	12,943	South African rand	(161,406)	12,943	(13,226)	(283)
U.S. dollar	53,955	South Korean won	(60,382,650)	53,955	(54,009)	(54)
U.S. dollar	58,947	Swedish krona	(486,487)	58,947	(58,684)	263
U.S. dollar	80,907	Swiss franc	(75,647)	80,907	(81,143)	(236)
U.S. dollar	8,204	Taiwan new dollar	(256,137)	8,204	(8,311)	(107)
U.S. dollar	11,984	Turkish lira	(32,939)	11,984	(12,249)	(265)
Grand total	<u>695,649,004</u>		<u>(170,075,576)</u>	<u>\$ 2,310,581</u>	<u>\$ (2,309,735)</u>	<u>\$ 846</u>

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

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
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)

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

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	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	49,650	Hungarian forint	(11,197,362)	49,650	(49,439)	211
U.S. dollar	359	Hong Kong dollar	(2,783)	359	(359)	-
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)
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)	-
Grand total	<u>538,714,771</u>		<u>(307,162,722)</u>	<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, 2015 and 2014

4. Investments (continued)

Security Lending

At June 30, 2015, the Trust participated in security lending programs with three lending agents, including the Trust's custodian and two third-party agents. All security lending programs have indemnity clauses requiring the lending agent to assume the borrower's risk from default. There are no restrictions on the amount of securities that can be loaned at one time to one borrower.

Collateral requirements for securities on loan range from 100% to 105%, depending on the lending agent, the type of security lent, and the type of collateral received. The Trust had received and invested approximately \$8.4 billion in cash and \$3.1 billion in U.S. government securities as collateral for the lending programs as of June 30, 2015. At June 30, 2015, the collateral held for the security lending transactions exceeded the fair value of the securities on loan (including accrued interest). As a result none of the lenders were under-collateralized versus all outstanding loans at the end of the fiscal year. The Trust does not have the ability to pledge or sell the non-cash collateral securities unless the borrower defaults, so the non-cash portion is not reported on the statements of net position.

Maturities of investments made with cash collateral generally are not matched to maturities of the securities loaned, because security loan agreements generally are open-ended with no fixed expiration date. As such, investments made with cash collateral are primarily in overnight repurchase agreements (repos). However, investments purchased for some security lending programs included investments with final maturities of six months or more, representing a range of approximately 18% or less of total collateral invested at June 30, 2015. The portfolio contains some legacy non-repo securities that will remain until they are either sold or mature.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Fair Value of Securities on Loan¹

	As of June 30	
	2015	2014
	<i>(In Thousands)</i>	
Securities on loan for cash collateral, by security type		
Certificates of deposit	\$ —	\$ 2,001
U.S. guaranteed obligations	274,393	120,702
Federal agencies	19,012	176,026
Domestic corporate bonds and notes	462,601	240,573
International bonds and notes	162,012	192,621
Domestic equities	4,605,884	2,540,426
International equities	2,596,899	1,231,741
Total securities on loan for cash collateral	8,120,801	4,504,090
Securities on loan for non-cash collateral, by security type		
Domestic equities	2,986,967	2,240,654
International equities	59,094	107,161
Total securities on loan for non-cash collateral	3,046,061	2,347,815
Total securities on loan	\$ 11,166,862	\$ 6,851,905

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, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014

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, 2015 and 2014

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, 2015

Investment Derivatives	Increase (Decrease) in Fair Value		Fair Value		Notional (in US \$)
	Classification	Amount (in US \$)	Classification	Amount (in US \$)	
		<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Futures ¹	Investment Income	\$ 97,210	Receivable/Payable	\$ (8,967)	\$2,751,145
Options	Investment Income	(2,819)	Investment/Liability ²	17	1,000
Forward currency contracts	Investment Income	109,342	Receivable/Payable ³	787	787
Interest rate swaps	Investment Income	(559)	Investment	(542)	101,000
Credit default swaps	Investment Income	1,114	Investment	1,467	103,000

¹ The total unrealized loss for open futures contracts at June 30, 2015, was \$(8,967,409). Cash payments in the amount of \$18,026,406 had already been settled with the broker on or before June 30, 2015. Outstanding remaining net futures margin at June 30, 2015, totaled \$9,058,997, which is included in the "Margin receivable from broker" and "Margin payable to broker" on the statements of net position. The total notional values of long and short futures positions were \$4,226,231,605 and \$(1,475,086,560), respectively.

² Purchased options are reported as investments and short sales of options are reported as liabilities on the statements of net position. 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 \$2,199,459,653 and \$(2,198,672,804) as of June 30, 2015, and are presented on the statements of net position as Forward foreign currency contracts receivable and Forward foreign currency contracts payable.

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

4. Investments (continued)

Fiscal Year Ended June 30, 2014

Investment Derivatives	Classification	Increase (Decrease) in Fair Value		Classification	Fair Value		
		Amount (in US \$)	Amount (in US \$)		Amount (in US \$)	Notional (in US \$)	
		<i>(In Thousands)</i>				<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 \$13,601,802 had already been settled with broker on or before June 30, 2014. Outstanding remaining net futures margins at June 30, 2014 totaled \$14,619,504, which is included in "Margin receivable from broker" and "Margin payable to broker" on the statements of net position. The total notional values of long and short futures positions were \$5,198,905,681 and \$(352,100,000), respectively.

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, and are presented on the statements of net position as Forward foreign currency contracts receivable and Forward foreign currency contracts payable.

Commitments

Each year the Trust enters into a number of agreements that commit the Trust, upon request, to make additional investment purchases (i.e., capital commitments) up to predetermined amounts over certain investment time periods. The unfunded capital commitments for private equity, real estate and strategic investments, not reported on the Trust's statements of net position, totaled \$11.2 and \$9.9 billion as of June 30, 2015 and 2014, respectively.

5. Contingencies and Litigation

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

State Board of Administration
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

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 2015 and 2014, were as follows:

	2015	2014
	<i>(In Thousands)</i>	
<u>Receivables:</u>		
Due from DMS	\$ 323,041	\$ 292,609
<u>Payables:</u>		
Due to DMS	\$ 335,700	\$ 288,150
Due to the SBA for investment service charges	5,615	5,576
Total payables	\$ 341,315	\$ 293,726
<u>Additions:</u>		
Employer/employee contributions received from DMS	\$ 3,112,534	\$ 2,935,280
Member-directed benefits received from the FRS Investment Plan Trust Fund	57,536	50,024
Total additions	\$ 3,170,070	\$ 2,985,304
<u>Deductions:</u>		
Funds sent to the DMS for benefit payments	\$ 8,941,103	\$ 8,028,598
Member-directed benefits sent to the FRS Investment Plan Trust Fund	719,182	807,672
Investment service charges to the SBA: Based on month-end net asset values	33,308	32,010
Total deductions	\$ 9,693,593	\$ 8,868,280

Other Report



Ernst & Young LLP
Suite 1700
390 North Orange Avenue
Orlando, FL 32801-1671

Tel: +1 407 872 6600
Fax: +1 407 872 6626
ey.com

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

The Board of Trustees
State Board of Administration of Florida

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida Retirement System Trust Fund (the Trust) managed by the State Board of Administration (SBA) of Florida, which comprise the statement of net position as of June 30, 2015, and the related statements changes in net position, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ernst + Young LLP

November 6, 2015

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 Ernst & Young LLP.
All Rights Reserved.

ey.com

