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

Fiscal Years Ended June 30, 2018 and 2017

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

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Crowe

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
State Board of Administration of Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida Retirement System ("FRS") Investment Plan Trust Fund (the "Trust") administered by the State Board of Administration ("SBA") of Florida, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust administered by the SBA as of June 30, 2018 and 2017, and the changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the State Board of Administration of Florida or the Florida Retirement System as of June 30, 2018 and 2017, their changes in financial position, or, where applicable, their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2018 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

Tampa, Florida
November 7, 2018

Management's Discussion and Analysis

Introduction

This section of the financial statements of the Florida Retirement System (FRS) Investment Plan Trust Fund (the Trust) presents management's discussion and analysis of the Trust's financial position for the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the basic financial statements and the accompanying notes, which follow this section.

As further described in Note 1 to the financial statements, the FRS Investment Plan (the Plan) is a defined contribution plan for eligible members of the FRS who have not elected to participate in the FRS Pension Plan, a defined benefit plan, or who are mandated to participate in the Plan as a condition of renewed membership in the FRS.

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

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

Management's Discussion and Analysis

Financial Statements

The financial reporting entity represented in the basic financial statements and accompanying notes is the Trust, which consists of the assets held in trust by the SBA for the payment of retirement benefits and reasonable administrative expenses of the Plan. The assets, liabilities, and net position of the Trust are reported in the comprehensive annual financial reports (CAFRs) published by the State of Florida and the DMS.

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

Statements of Net Position

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

	As of June 30		
	2018	2017	2016
		(In Millions)	
Assets			
Investments	**$ 10,862**	$ 10,007	$ 8,949
Receivables	**45**	40	41
Investments sold, but not settled	**53**	43	54
Total assets	**10,960**	10,090	9,044
Liabilities			
Accounts payable & accrued liabilities	**3**	3	3
Investments purchased, but not settled	**86**	78	81
Total liabilities	**89**	81	84
Net position held in trust	**$ 10,871**	$ 10,009	$ 8,960

Management's Discussion and Analysis

Statements of Changes in Net Position

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

	Fiscal Years Ended June 30		
	2018	2017	2016
		(In Millions)	
Additions			
Net investment income/(loss)	**$ 945**	$ 1,163	$ (78)
Contributions and other additions:			
Employer/employee contributions received from DMS	**433**	397	380
Member-directed benefits received from the FRS Trust Fund	**597**	569	612
Member-directed rollover deposits	**62**	69	84
Total contributions and other additions	**1,092**	1,035	1,076
Total additions	**2,037**	2,198	998
Deductions			
Benefit payments to members	**1,097**	1,070	1,148
Member-directed benefits sent to the FRS Trust Fund	**71**	71	55
Administrative expenses	**7**	8	7
Total deductions	**1,175**	1,149	1,210
Change in net position	**862**	1,049	(212)
Net position held in trust			
Beginning of year	**10,009**	8,960	9,172
End of year	**$ 10,871**	$ 10,009	$ 8,960

Management's Discussion and Analysis

Analysis

The Trust's net position increased by $862 million (8.6%) and increased by $1.05 billion (11.7%) during fiscal years 2018 and 2017, respectively. For fiscal year 2018, the growth in net position was due primarily to positive investment performance and a marginal increase in contributions received for investment in the Trust. For fiscal year 2017, the growth in net position was due primarily to positive investment performance and a reduction in benefit payments to members.

Trust investments yielded net income of approximately $945 million in fiscal year 2018 and $1.16 billion in fiscal year 2017. Equity investment performance contributed substantially to both fiscal years' net investment income. Domestic equities posted returns in excess of 15% and 20% for fiscal years 2018 and 2017, respectively. International equity returns were approximately 9% and 21% over those same time periods. As well, returns were positive across the other asset classes, further contributing to investment gains and overall net investment income. (Additional information is provided in the "Investment Returns" section of the Management Discussion and Analysis).

Deductions from the Trust in both fiscal years consist mainly of benefit payments to members. Benefit payments increased by $27 million (2.5%) and decreased by $78 million (6.8%) during fiscal years 2018 and 2017, respectively, as the benefits a member receives from the Plan vary based on the member's individual account balance.

Additional Plan highlights and trends follow.

Management's Discussion and Analysis

Plan Participation and Membership

The number of employers participating in the Plan varied slightly over the last three fiscal years, while overall Plan membership increased steadily over that same time period.

	As of June 30		
	2018	2017	2016
Participating employers	**1,001**	994	1,029
Plan membership:			
Active members[1]	**130,466**	121,205	118,300
Inactive members[2]	**60,198**	56,013	51,276
Total Plan members	**190,664**	177,218	169,576

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

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

Active Plan Membership by Class

Over the last three fiscal years, active Plan membership has continued to increase across most of the membership classes, though some variation is expected from year to year.

As of June 30	Regular	Senior Management	Special Risk Admin	Elected Officers	Special Risk	Other	Total
2018	**112,303**	**2,330**	**18**	**547**	**12,055**	**3,213**	**130,466**
2017	105,060	2,256	25	517	10,915	2,432	121,205
2016	101,734	2,250	24	504	11,180	2,608	118,300

Management's Discussion and Analysis

Plan Choice

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

	Fiscal Years Ended June 30		
	2018	2017	2016
New employees making initial plan choice	**56,517**	61,511	60,680
Number of new employees joining FRS Investment Plan	**13,537**	13,866	13,635
% Electing FRS Investment Plan	**24%**	23%	22%
Employee Second Elections[1]:			
To the FRS Investment Plan	**3,871**	4,019	4,505
To the FRS Pension Plan	**766**	792	692

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

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

Management's Discussion and Analysis

Benefit Payments

Benefit payments reflect withdrawals from the Trust in the form of lump sum distributions, partial distributions, rollovers to other qualified retirement plans, and periodic payments to members. The number of members requesting benefit payments during the year increased by 3,285 (6.2%) and increased by 1,289 (2.5%) for fiscal years 2018 and 2017, respectively. The annual amount of benefits disbursed to Plan members varies from year to year due to the number of retirees and the benefit payment amounts due. Benefit payments increased by $27 million (2.5%) in fiscal year 2018, compared to a $78 million (6.8%) decrease in fiscal year 2017.

	Fiscal Years Ended June 30		
	2018	2017	2016
Members requesting benefits	**56,445**	53,160	51,871
Benefit payments *(In Millions)*			
Rollovers	**$ 627**	$ 629	$ 699
All other	**470**	441	449
Total benefit payments	**$ 1,097**	$ 1,070	$ 1,148

Contribution Rates

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

Membership Class	Employee Rate FYs 2016-18	Employer Rate[1] FYs 2016-18
Regular	**3.00%**	**3.30%**
Special risk	**3.00**	**11.00**
Special risk: administrative support	**3.00**	**4.95**
Legislators	**3.00**	**6.38**
Governor, Lt. Governor, cabinet officers	**3.00**	**6.38**
State Attorney, public defenders	**3.00**	**6.38**
Justices, judges	**3.00**	**10.23**
County and local elected officers	**3.00**	**8.34**
Senior management service	**3.00**	**4.67**

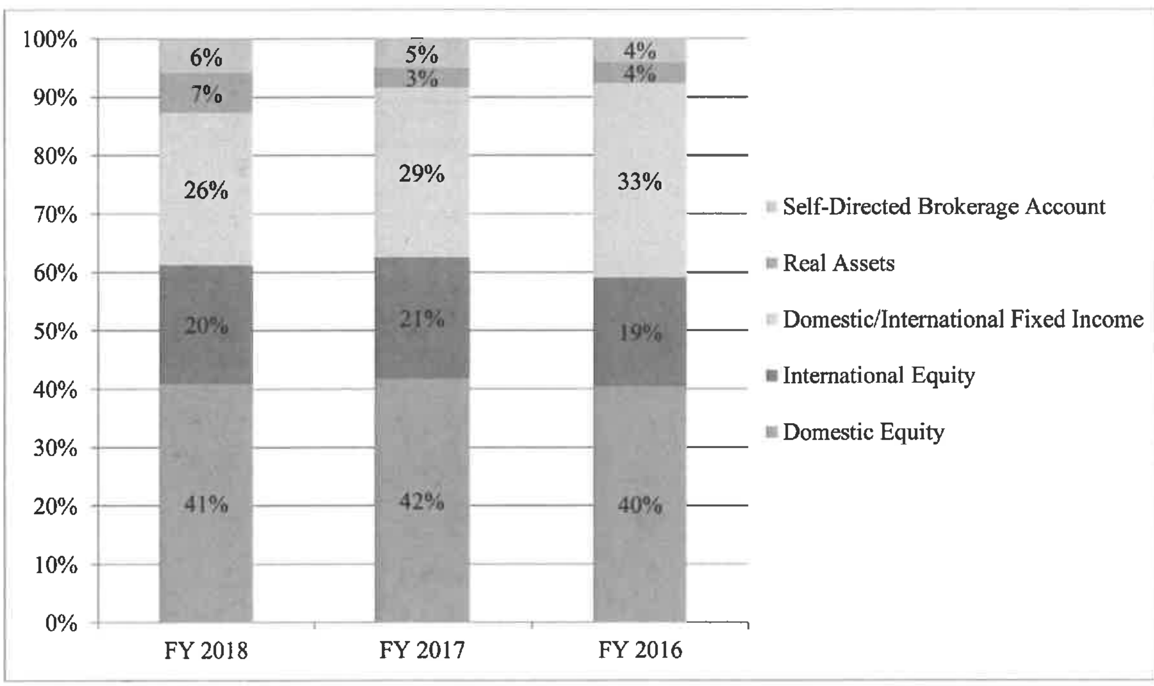
[1] Employer rates presented in this table do not include employer contributions for the Health Insurance Subsidy (1.66% for FYs 2018, 2017 and 2016), plan administrative/educational expense (.06% for FYs 2018 and 2017 and .04% for FY 2016) or the disability and in line-of-duty death programs (varies by membership class) as these amounts are not deposited into the Trust.

Management's Discussion and Analysis

Asset Allocation

The asset allocation of the Trust is a function of the members' investment decisions across the various investment options offered. Equity investments (domestic and international combined) remained the largest allocation, as members looked to capitalize on the long-term growth prospects of these assets. Allocations to fixed income investments have steadily declined over the last three fiscal years, due in part to performance expectations relative to other investment options. A new institutional real estate managed account was added to the Trust's real asset allocation in 2018. This managed account made-up the bulk of the FY 2018 increase in real asset investments and is available only within the Retirement Date Funds. Members continued to increase their allocation to the Self-Directed Brokerage Account, which allows for additional investment flexibility. Note 3 to the financial statements describes the Plan's Investment Policy Statement (IPS) and oversight of the Trust's investments.

By Percentage of Invested Assets[1]



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

Management's Discussion and Analysis

Investment Returns[1]

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

	As of June 30		
Investment Type	**2018**	2017	2016
Retirement Date Funds[2]	**8.4 %**	13.2 %	(0.8) %
Short-term	**1.7**	0.9	0.4
Real assets	**5.6**	3.5	(2.4)
Fixed income	**0.2**	2.1	5.3
Domestic equity	**15.9**	20.1	0.6
International equity	**9.2**	21.0	(8.4)
Total Trust return	**9.6 %**	13.4 %	(0.9) %
Total Trust aggregate benchmark	**8.8**	12.6	(0.4)
Over (under) benchmark	**0.8 %**	0.8 %	(0.5) %

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

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

The Trust's total return for fiscal years 2018 and 2017 was 9.6% and 13.4%, respectively. The investment gains were driven primarily by strong performance in both domestic and international equities along with overall positive returns across all the asset classes.

As of June 30, 2018, the Trust outperformed its aggregate benchmark over the trailing one-, three-, five-, and ten-year periods. The Trust's overall performance compared with its benchmark reflects the weighted performance for the underlying fund options in which members are investing. More detailed information and analysis of the Trust's performance can be obtained from the SBA's Annual Investment Report, which can be found at www.sbafla.com. Performance for the Self-Directed Brokerage Account is not included since there is no comparable benchmark. Members assume the full risk and responsibility for the investments selected in the Self-Directed Brokerage Account and for monitoring the performance of these investments.

Management's Discussion and Analysis

Economic Factors

The 2018 fiscal year generated another period of solid capital market returns, as optimism regarding the global economy helped investors overcome ongoing geopolitical tensions throughout the year. The year began on a strong note, as risky assets continued their climb supported by a healthy global economy, the approval of the most sweeping overhaul of the U.S. tax system in over three decades, and modest, yet still supportive, policy changes from global central banks. Bond yields moved gradually higher and oil prices rallied to a two-year high. Emerging market equities were the greatest beneficiaries during the first half of the year, benefitting from strong global growth, rising oil prices, and supportive central bank policies. Gains were not without headwinds, however. Ongoing tensions between the U.S. and North Korea, concerns over the potential economic impact of two major hurricanes hitting the U.S., pending roll back of central bank easing measures, and ongoing political uncertainty, particularly across the U.S., Germany, and Italy, all tempered returns.

The second half of the year began strong through January, but equity markets quickly came under pressure once in February and then again in March. Positive economic momentum and rising inflationary pressure ignited fears of a more hawkish Federal Reserve, causing U.S. bond yields to spike to a four-year high and equity markets to sell-off sharply in February. Though stocks recovered some losses, markets experienced another correction in March due to fears of a global trade-war ignited by the Trump administration's decision to impose tariffs on various imports. The re-emergence of volatility across capital markets triggered a more cautious sentiment and less risky assets fared better for a period. Though ongoing geopolitical tensions and escalating fears of a global trade war continued to distract investors, markets ended the year on a positive note, as U.S. earnings continued to be encouraging and commodity prices continued to rise.

Global equity markets generated solid returns over the one-year period ending June 30, 2018. U.S. equities led markets, supported by continued strong company earnings, renewed merger and acquisition activity and the approved U.S. tax reform in the beginning of the year. The broad U.S. equity market, as represented by the Dow Jones U.S. Total Stock Market Index, returned 14.8%. Developed international markets lagged the U.S., as political uncertainty across several countries and trade tensions with the U.S. negatively impacted economic data and equity market returns. The MSCI EAFE Index returned 6.8%. Emerging markets started the year off strong due to optimism over the health of the global economy. However, fears of a global trade war, rising U.S. interest rates, and a strengthening U.S. dollar triggered significant outflows toward the end of the year. Still outpacing international developed markets, the MSCI Emerging Markets Equity Index posted an 8.2% return. As U.S. yields rose throughout the year, the U.S. bond market, as represented by the Bloomberg Barclays Aggregate Bond Index, declined 0.4%. The mostly risk-on mentality drove spread sectors of the bond market to outpace safe haven treasuries, with the Bloomberg Barclays High Yield Index returning 2.6%.

Management's Discussion and Analysis

Contacting the Trust's Financial Management

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

Statements of Net Position

	As of June 30	
	2018	2017
	(In Thousands)	
Assets		
Cash and cash equivalents	**$ 21**	$ –
Investments:		
Fixed income	**2,834,472**	2,912,003
Equity	**6,654,141**	6,249,586
Real assets	**740,128**	334,393
Self-Directed brokerage account	**633,004**	510,859
Total investments	**10,861,745**	10,006,841
Receivables:		
Accounts receivable	**13**	80
Interest and dividends	**3,491**	2,614
Due from DMS	**41,934**	37,411
Investments sold, but not settled	**53,214**	42,951
Total receivables	**98,652**	83,056
Total assets	**10,960,418**	10,089,897
Liabilities		
Accounts payable and accrued liabilities	**2,588**	2,748
Investments purchased, but not settled	**86,267**	78,139
Total liabilities	**88,855**	80,887
Net position held in trust	**$ 10,871,563**	$ 10,009,010

See accompanying notes to the financial statements.

Statements of Changes in Net Position

	Fiscal Years Ended June 30	
	2018	2017
	(In Thousands)	
Additions		
Investment income:		
Dividend income	**$ 38,790**	$ 25,950
Interest and other investment income	**8,728**	7,953
Net increase/(decrease) in fair value of investments	**902,461**	1,133,580
Total investment income	**949,979**	1,167,483
Investment expenses:		
Bank fees	**(462)**	(435)
Investment management fees	**(4,383)**	(3,857)
Total investment expense	**(4,845)**	(4,292)
Net investment income/(loss)	**945,134**	1,163,191
Contributions and other additions:		
Employer/employee contributions received from DMS	**433,372**	396,928
Member-directed benefits received from the FRS Trust Fund	**597,010**	568,912
Member-directed rollover deposits	**61,592**	69,095
Total contributions and other additions	**1,091,974**	1,034,935
Total additions	**2,037,108**	2,198,126
Deductions		
Benefit payments to members	**1,097,066**	1,070,371
Member-directed benefits sent to the FRS Trust Fund	**70,597**	71,110
Administrative expenses	**6,892**	7,543
Total deductions	**1,174,555**	1,149,024
Change in net position	**862,553**	1,049,102
Net position held in trust		
Beginning of year	**10,009,010**	8,959,908
End of year	**$ 10,871,563**	$ 10,009,010

See accompanying notes to the financial statements.

Notes to the Financial Statements

1. Financial Reporting Entity

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

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

The Trust is a separate legal entity within the State of Florida. These financial statements and notes include only the net position and changes in net position of the Trust and do not purport to, and do not, present fairly the net financial position of the State of Florida, the SBA, or the Plan as of June 30, 2018 and 2017, and the changes in their net financial position for the years then ended, in conformity with accounting principles generally accepted in the United States (GAAP).

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting

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

Investment Valuation

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

- Money market funds – at amortized cost
- Commingled funds – at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments.
- Other investments – the most recent market price at the close of the markets on June 30, or the most recent market close of each fiscal year, if the markets are closed on June 30. If a market price is not readily determinable, alternative pricing methodologies may be used to determine fair value. Alternative pricing may include methodologies such as matrix-pricing, stale pricing, broker bids, or cost/book value.

Income Recognition

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

Administrative Expenses

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

Use of Estimates

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

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Reclassifications

In the financial statements and notes, certain prior year amounts have been reclassified to conform to the current year presentation, which was changed to provide more consistent information reporting by asset class. These reclassifications had no effect on the Trust's net position or changes in net position.

New Accounting Standards

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75)*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 75, as the Trust is not an OPEB plan.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements (GASB 81)*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of GASB 81 are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 81, as the Trust is not a beneficiary of irrevocable split-interest agreements.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

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

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017 (GASB 85)*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of GASB 85 are effective for periods beginning after June 15, 2017. The adoption of GASB 85 had no material impact on the statements of net position and the statements of changes in net position.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues (GASB 86)*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of GASB 86 are effective for reporting periods beginning after June 15, 2017. The adoption of GASB 86 had no material impact on the statements of net position and the statements of changes in net position.

Notes to the Financial Statements

3. Deposits and Investments

Deposits

At fiscal year end June 30, 2018, the recorded carrying amount of deposits totaled $21 thousand. These deposits were below insured limits. There were no deposits held at fiscal year end June 30, 2017.

Investments

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

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

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

The Plan offers eleven customized Retirement Date Funds that consist of mixtures of various asset classes. At the end of fiscal year 2018, 83% of the Plan's members had allocated at least some of their assets to one or more of the available Retirement Date Funds. Approximately 44% of total Trust assets were held in the Retirement Date Funds, which are constructed using the various investment funds offered in the Plan.

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Self-Directed Brokerage Account

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

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

The SDBA provides access to the following investment instruments:

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

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

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

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

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

3. Deposits and Investments (continued)

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

Fund Lineup Changes

During fiscal year 2018, one institutional commercial real estate separate account was added to the manager allocations in the Retirement Date Funds.

Investment Performance

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

3. Deposits and Investments (continued)

The following schedule discloses the Trust's investments, by type, at June 30, 2018 and 2017.

Investment type [1]	As of June 30 2018	2017
	(In Thousands)	
Fixed income:		
Money market funds	**$ 903,511**	$ 940,661
Domestic	**297,356**	304,707
International	**15,734**	20,575
Domestic commingled funds	**1,617,871**	1,646,060
Total fixed income	**2,834,472**	2,912,003
Equity:		
Domestic	**575,542**	520,514
International	**21,873**	17,900
Domestic commingled/mutual funds	**3,871,793**	3,652,352
International commingled/mutual funds	**2,184,933**	2,058,820
Total equity	**6,654,141**	6,249,586
Commingled real asset funds	**740,128**	334,393
Self-Directed Brokerage Account	**633,004**	510,859
Total investments	**$ 10,861,745**	**$ 10,006,841**

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

3. Deposits and Investments (continued)

Fair Value Hierarchy

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

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

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

Level 3 - Investments reflect prices based upon unobservable inputs for an asset or liability.

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

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

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

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

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

Certain investments, such as money market funds, are carried at cost, and not priced at fair value. Mutual funds are valued at the quoted price traded on the exchanges. Commingled investments are measured at the net asset value (NAV) per share (or its equivalent) as provided by the investment manager.

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investments by fair value level	Total	As of June 30, 2018 Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Mutual funds and Self-Directed Brokerage Account				
Domestic equity mutual funds	$ 545,704	$ 545,704	$ -	$ -
International equity mutual funds	492,076	492,076	-	-
Self-Directed Brokerage Account	633,004	-	633,004	-
Total mutual funds and Self-Directed Brokerage Account	1,670,784	1,037,780	633,004	-
Fixed income				
U.S. government guaranteed obligations	115,261	-	115,261	-
Federal agencies	71,278	-	71,278	-
Domestic bonds and notes	110,817	-	110,661	156
International bonds and notes	15,734	-	15,734	-
Total fixed income	313,090	-	312,934	156
Equity				
Domestic	575,542	575,542	-	-
International	21,873	21,873	-	-
Total equity	597,415	597,415	-	-
Total investments by fair value level	$ 2,581,289	$ 1,635,195	$ 945,938	$ 156

Investments measured at the net asset value (NAV)		Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled fixed income funds[1]	$ 1,617,871	Daily	2 - 15 Days
Commingled domestic equity funds[2]	3,326,089	Daily	2 - 5 Days
Commingled international equity funds[3]	1,692,857	Daily	2 Days
Commingled real asset fund[4]	740,128	Daily	1 - 15 Days
Total investments measured at the NAV	7,376,945		
Other investments carried at amortized cost			
Money market funds	903,511		
Total investments	$ 10,861,745		

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

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

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

[4] *Commingled Real Asset Funds*: These two funds consist of various investments such as real estate, commodities, floating rate loans, energy industry Master Limited Partnerships, global infrastructure, and agriculture. The funds are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

3. Deposits and Investments (continued)

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

Investments measured at the net asset value (NAV)		Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled fixed income funds[1]	$ 1,646,060	Daily	2 - 15 Days
Commingled domestic equity funds[2]	3,120,467	Daily	2 - 5 Days
Commingled international equity funds[3]	1,621,320	Daily	2 Days
Commingled real asset funds[4]	334,393	Daily	1 Day
Total investments measured at the NAV	6,722,240		
Other investments carried at amortized cost			
Money market funds	940,661		
Total investments	$ 10,006,841		

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

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

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

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Investment Risks

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

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

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

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

Credit Risk

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

The mutual funds and commingled trust funds in the Trust are institutional funds and, as such, are not rated by the NSRSOs.

Notes to the Financial Statements

3. Deposits and Investments (continued)

The following tables disclose credit quality ratings related to credit risk on investments held in the Trust at June 30, 2018 and 2017.

Credit Quality Ratings
As of June 30, 2018

S&P[1]	Moody's[1]	Total	Money Market Funds	Federal Agencies[3]	Domestic Bonds and Notes	Commingled Fixed Income	International Bonds and Notes
			(In Thousands)				
AAA		$ 18,942	$ -	$ -	$ 18,942	$ -	$ -
AA		78,089	-	64,413	12,966	-	710
A		17,277	-	-	13,083	-	4,194
BBB		35,659	-	-	30,095	-	5,564
BB		1,438	-	-	1,223	-	215
	Aaa	24,092	-	-	24,092	-	-
	Aa	642	-	-	642	-	-
	A	2,357	-	-	584	-	1,773
	Baa	8,504	-	-	5,956	-	2,548
	Ba	3,553	-	-	2,954	-	599
NR	NR	2,528,658	903,511	6,865	280	1,617,871	131
		$ 2,719,211	$ 903,511	$ 71,278	$ 110,817	$ 1,617,871	$ 15,734

Ratings not applicable:	
U.S. guaranteed obligations[2]	$ 115,261
Domestic equities	575,542
International equities	21,873
Domestic equity funds	3,871,793
International equity funds	2,184,933
Real asset funds	740,128
Self-Directed Brokerage Account	633,004
Total Investments	$ 10,861,745

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

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

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Credit Quality Ratings
As of June 30, 2017

S&P[1]	Moody's[1]	Total	Money Market Funds	Federal Agencies[3]	Domestic Bonds and Notes	Commingled Fixed Income	International Bonds and Notes
			(In Thousands)				
AAA		$ 23,201	$ -	$ -	$ 23,201	$ -	$ -
AA		18,099	-	2,897	14,078	-	1,124
A		15,241	-	-	9,477	-	5,764
BBB		41,766	-	-	35,215	-	6,551
BB		1,133	-	-	361	-	772
	Aaa	23,305	-	-	22,526	-	779
	Aa	1,387	-	-	1,387	-	-
	A	4,924	-	-	3,956	-	968
	Baa	10,300	-	-	6,456	-	3,844
	Ba	3,172	-	-	2,399	-	773
NR	NR	2,664,088	940,661	72,421	4,946	1,646,060	-
		$ 2,806,616	$ 940,661	$ 75,318	$ 124,002	$ 1,646,060	$ 20,575

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

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

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

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

Custodial Credit Risk

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

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

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Trust did not hold any investments with a single issuer representing 5% or more of the Trust's fair value (amortized cost for short-term portfolios) at June 30, 2018 or 2017.

Interest Rate Risk

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

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

Notes to the Financial Statements

3. Deposits and Investments (continued)

The interest rate risk tables for the Trust as of June 30, 2018 and 2017, are presented below. Investment types, related to fixed come portfolios, are presented using effective weighted duration.

	As of June 30, 2018	
Investment type	**Total**	**Weighted Average Duration**
	(In Thousands)	*(In Years)*
Money market funds	$ 903,511	0.08
Fixed income funds/trusts	1,617,871	5.75
U.S. guaranteed obligations:		
Treasury bonds and notes	85,572	7.11
Bonds and notes	547	3.66
GNMA mortgage-backed	17,589	3.61
GNMA commitments to purchase (TBAs)	11,446	3.34
Mortgage-backed CMOs and CMBs	107	5.49
Federal agencies:		
Unsecured bonds and notes	663	1.26
Mortgage-backed (FNMA, FHLMC)	41,297	4.30
FNMA, FHLMC commitments to purchase (TBAs)	6,865	3.78
Mortgage-backed CMOs and CMBs	22,453	4.91
Domestic bond and notes:		
Corporate	53,364	7.98
Non-government asset and mortgage-backed	43,796	1.32
Non-government backed CMOs and CMBs	12,051	4.86
Municipal/provincial	1,606	15.79
International bonds and notes:		
Corporate	12,161	7.29
Government/regional	3,573	7.79
Total fixed income investments	**$ 2,834,472**	

3. Deposits and Investments (continued)

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

Foreign Currency Risk

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

Although the Trust's commingled funds are denominated in U.S. dollars, the international equity and real asset funds may have underlying investments exposed to foreign currency risk in various currencies. The fair values of the commingled international equity funds as of June 30, 2018 and 2017, were $2.18 billion and $2.06 billion, respectively. For fiscal years 2018 and 2017, the commingled real asset funds' fair values were $740 million and $334 million, respectively.

Notes to the Financial Statements

4. Contingencies and Litigation

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

5. Related-Party Transactions

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

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

The table below discloses significant transactions between the Trust, the DMS, and the FRS Trust Fund.

	As of June 30	
	2018	2017
	(In Thousands)	
Receivables:		
Due from DMS	**$ 41,934**	$ 37,411
Additions:		
Employer/employee contributions received from DMS	**433,372**	396,928
Member-directed benefits received from the FRS Trust Fund	**597,010**	568,912
Total additions	**$ 1,030,382**	$ 965,840
Deductions:		
Member-directed benefits sent to the FRS Trust Fund	**$ 70,597**	$ 71,110

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

The Board of Trustees
State Board of Administration of Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Florida Retirement System Investment Plan Trust Fund (the "Trust") administered by the State Board of Administration ("SBA") of Florida, as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2018. As discussed in Note 1, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the SBA of Florida or the Florida Retirement System, their changes in financial position, or, where applicable, their cash flows, in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Crowe LLP

Crowe LLP

Tampa, Florida
November 7, 2018