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## Investment Plan Fund Lineup Changes

### Summary of Changes

Effective July 1, 2014, the Investment Plan fund lineup is changing. These changes, which have been approved by the State Board of Administration's Investment Advisory Council and Trustees (Governor, Chief Financial Officer, and Attorney General), are being made to simplify the existing fund lineup and offer you the opportunity to grow retirement assets over the long term. Some of the current funds are being combined to create new funds, and a slate of Retirement Date Funds is replacing the FRS Select Balanced Funds. The changes are summarized in the table below.

Affected Funds Prior to July 1, 2014	New Funds as of July 1, 2014
<b>Inflation-Protected Security Fund</b>	<b>Real Assets Fund</b>
<ul style="list-style-type: none"> <li>• FRS Select U.S. Treasury Inflation-Protected Securities Index Fund (T10)</li> </ul>	<ul style="list-style-type: none"> <li>• FRS Real Assets Fund (300)</li> </ul>
<b>Bond Funds</b>	
<ul style="list-style-type: none"> <li>• FRS Select High Yield Fund (B50)</li> <li>• PIMCO Total Return Fund (B20)</li> </ul>	<ul style="list-style-type: none"> <li>• FRS Core Plus Fixed Income Fund (310)</li> </ul>
<b>U.S. Stock Funds</b>	
<ul style="list-style-type: none"> <li>• FRS Select U.S. Large Value Stock Active Fund (S25)</li> <li>• FRS Select U.S. Large Growth Stock Active Fund (S30)</li> <li>• Fidelity Growth Company Fund (S80)</li> </ul>	<ul style="list-style-type: none"> <li>• FRS U.S. Large Cap Equity Fund (320)</li> </ul>
<ul style="list-style-type: none"> <li>• Prudential Mid-Cap Quantitative Core Equity Fund (S40)</li> <li>• American Beacon Small-Cap Value Fund (S99)</li> <li>• T. Rowe Price Small-Cap Stock Fund (S97)</li> <li>• Fidelity Low-Priced Stock Fund (S90) (closed and assets transferred)</li> </ul>	<ul style="list-style-type: none"> <li>• FRS U.S. Small/Mid Cap Equity Fund (330)</li> </ul>
<b>Balanced Funds</b>	<b>Retirement Date Funds</b>
<b>Transferred based on date closest to normal retirement age</b>	
<ul style="list-style-type: none"> <li>• FRS Select Conservative Balanced Fund (A10)</li> <li>• FRS Select Moderate Balanced Fund (A20)</li> <li>• FRS Select Aggressive Balanced Fund (A30)</li> </ul>	<ul style="list-style-type: none"> <li>• FRS Retirement Income Fund (2000)</li> <li>• FRS 2015 Retirement Date Fund (2015)</li> <li>• FRS 2020 Retirement Date Fund (2020)</li> <li>• FRS 2025 Retirement Date Fund (2025)</li> <li>• FRS 2030 Retirement Date Fund (2030)</li> <li>• FRS 2035 Retirement Date Fund (2035)</li> <li>• FRS 2040 Retirement Date Fund (2040)</li> <li>• FRS 2045 Retirement Date Fund (2045)</li> <li>• FRS 2050 Retirement Date Fund (2050)</li> <li>• FRS 2055 Retirement Date Fund (2055)</li> </ul>

Continues on page 5



# Quarterly Fund Performance Summary

## Overview

The Performance Summary is organized by these asset classes: money market funds, inflation-protected securities funds, bond funds, U.S. stock funds, and foreign funds. A special asset class, balanced funds, provides a diversified mixture of various asset classes. The Self-Directed Brokerage Account (SDBA) is also available.

Asset classes are groups of similar investments whose values react to changes in the economy the same basic way. Organizing funds according to asset classes is a way to simplify how you invest and improve the odds of meeting your retirement goals. Investing in a mix of asset classes (also called "diversifying") helps you control your risk, because the different asset classes typically react to market volatility in different ways.<sup>1</sup>

Before you select any investment funds or make an election, you should also review the Fund Profiles, the Investment Fund Summary, and the Annual Fee Disclosure Statement posted in the "Investment Funds" section on *MyFRS.com*. The asset class descriptions below are general in nature and should not be relied on as your sole source of information regarding a specific fund(s).

## Balanced Funds

These funds are particularly good for "one-stop shopping." They seek favorable long-term returns by keeping costs low and investing across multiple asset classes to diversify and control risk. They invest in various investment funds in different proportions to keep their overall level of risk relatively steady over time. The proportions and specific funds included in each balanced fund may change over time. Financial Engines, a federally registered investment advisor and fiduciary to the FRS, will periodically provide updated investment fund mixes to the FRS, which they believe will provide the best balance between expected risk and return.

## Money Market Funds

These funds invest in short-term securities (financial instruments or obligations) that are high-quality and can be sold quickly with little loss of value. The funds have limited risk of declining in value; however, over the long term, returns have been modest, basically keeping pace with inflation. Money market funds are not FDIC-insured or guaranteed.

## Inflation-Protected Securities Funds

This fund invests in United States Treasury inflation-protected securities (TIPS). TIPS are U.S. government bonds and, like other bonds, pay a fixed rate of interest based on the face value of the bond when issued. TIPS bonds are designed to provide long-term inflation protection by attaching the face value of the bond to changes in inflation. When inflation increases, the face value of the bond will also increase. If inflation were to become negative, the adjusted face value would decrease. As with all bonds, TIPS are a promise of payment at a point in the future. As actual and anticipated interest rates and inflation rise and fall, the current value of those future payments will rise and fall as well. You could lose money over short or long periods by investing in this fund.

## Bond Funds

These funds invest primarily in bonds, which are like IOUs; a company or government agency borrows money and pays it back with interest to the bondholder (the entity making the loan). The quality of a bond is reflected in the credit rating of the company or agency that issues the bond. The short-term risk of bond funds is relatively low. However, over time, the value of a bond is affected by interest rates, inflation, and other factors. When inflation or interest rates go up, the value of bonds goes down because they pay a fixed rate of interest (the market sees other investments as being more attractive). Therefore, bonds and bond funds don't always protect the value of your retirement savings against inflation.

## U.S. Stock Funds

These funds invest primarily in equity shares or stocks issued by U.S. companies. The short-term risk of stocks has been much higher than bonds. However, over long periods of time, stocks have generally done better than bonds, one of the main reasons that stocks are typically recommended for retirement investing. Some risk is necessary to achieve long-term investment growth.

## Foreign and Global Stock Funds

These funds invest primarily in equity shares or stocks issued by foreign companies. Foreign stocks are affected by additional risk factors, such as foreign laws and regulations, differences in accounting practices, political risk (foreign governments are sometimes unstable), and currency risk (differences in the relative value of domestic and foreign money). Over the long term, foreign stocks have not done quite as well as U.S. stocks, but they have provided diversification benefits.

## Self-Directed Brokerage Account

The Self-Directed Brokerage Account (SDBA) allows you to invest in thousands of different investments in addition to the Investment Plan's primary investment funds. An SDBA is **not** suitable for all members and you assume the full risk and responsibility for the investments you select. Additional information on the SDBA is available in the "Investment Funds" section on *MyFRS.com*.

This Performance Summary is intended for use in connection with the FRS Investment Plan, pursuant to Florida law, and is not intended for use by other investors. Sections 121.4501(8)(b)4 and 121.4501(15)(b), Florida Statutes, incorporate the federal law concept of participant control, established by regulations of the U.S. Department of Labor under Section 404(c) of the Employee Retirement Income Security Act of 1974. If you exercise control over the assets in your Investment Plan account, including the Self-Directed Brokerage Account, pursuant to Section 404(c) regulations and all applicable laws governing the operation of the Investment Plan, no program fiduciary shall be liable for any loss to your account which results from your exercise of control.

## Telecommunications Relay Service 711

Members who are deaf, hard of hearing, or speech-impaired can communicate with the FRS using a national service called Telecommunications Relay Service (TRS) 711.

<sup>1</sup> Note that there can be risk in holding a large portion of your account balance in a single fund (unless that fund is a reasonably diversified fund, such as a balanced fund). For further information about diversifying your account, please call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2, or call the Telecommunications Relay Service (TRS 711), or visit *MyFRS.com*. Additional information about investing and diversification can be found on the U.S. Department of Labor's website at [www.dol.gov/ebsa/investing.html](http://www.dol.gov/ebsa/investing.html).



## What's in the Summary?

Below you'll find a brief description of the information in the Performance Summary.

**Long-Term Fees** are the value in today's dollars of the total fees that would be charged over 30 years, assuming a \$1,000 initial investment.

**"PB"** stands for "performance benchmark." It allows you to see how well the fund is doing relative to the performance of the market sector it is trying to beat. Note that index funds are designed to approximate the returns of their benchmarks. Benchmarks do not have costs.

**Total Index** is a combination of all the market benchmarks in each market sector and is based on the asset amounts of each fund in each market sector.

**Management Type** is the type of investment strategy used by a fund.

**P** **Passively Managed** (or index) funds follow a strategy to produce the same level and pattern of investment returns generated in a market index (such as the S&P 500® index) by buying and holding the same securities as the index itself. Index funds carry a very low fee.

**A** **Actively Managed** funds try to predict securities price movements in order to beat a market index. The higher fees associated with actively managed funds are used to support the research needed to predict market changes.

## Performance Summary as of March 31, 2014

**P** = Passively Managed Type

**A** = Actively Managed Type

Refer to page 2 for a definition of these asset classes.

	Fees per \$1,000		Annual Average Investment Returns After Deducting Fees <sup>1</sup>			
	Annual Fees <sup>2</sup>	Long-Term Fees	Previous Quarter <sup>3</sup>	Previous Year	Previous 5 Years	Previous 10 Years
<b>TOTAL FRS INVESTMENT PLAN</b>						
PB: Investment Plan Total Index	--	--	1.55%	11.77%	12.31%	6.24%
<b>BALANCED FUNDS</b>						
PB: Investment Plan Total Balanced Index	--	--	1.57%	9.83%	11.30%	5.80%
FRS Select Moderate Balanced Fund (A20) <b>A</b>	\$0.39	\$12	1.64%	10.50%	12.17%	5.95%
PB: Moderate Balanced Aggregate Index	--	--	1.68%	10.50%	11.76%	5.72%
FRS Select Aggressive Balanced Fund (A30) <b>A</b>	\$0.52	\$16	1.79%	14.93%	14.85%	6.54%
PB: Aggressive Balanced Aggregate Index	--	--	1.87%	15.00%	14.77%	6.61%
FRS Select Conservative Balanced Fund (A10) <b>A</b>	\$0.56	\$17	1.05%	2.51%	5.46%	4.28%
PB: Conservative Balanced Aggregate Index	--	--	1.06%	2.51%	5.23%	3.92%
<b>MONEY MARKET FUND</b>						
FRS Select Yield Plus Money Market Active Fund (M10) <b>A</b>	\$0.58	\$18	0.04%	0.22%	0.25%	1.88%
PB: Institutional Money Market Average Index	--	--	0.00%	0.03%	0.15%	1.89%
<b>INFLATION-PROTECTED SECURITIES FUND</b>						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund (T10) <b>P</b>	\$0.20	\$6	1.93%	-6.42%	4.97%	4.59%
PB: Barclays Capital TIPS Index	--	--	1.95%	-6.49%	4.91%	4.53%
<b>BOND FUNDS</b>						
PB: Investment Plan Total Bond Index	--	--	1.78%	0.37%	6.30%	5.03%
FRS Select U.S. Bond Enhanced Index Fund (B15) <b>P</b>	\$0.50	\$15	1.79%	0.45%	5.52%	4.61%
PB: Barclays Capital Aggregate Bond Index	--	--	1.89%	-0.09%	4.96%	4.65%
Pyramis Intermediate Duration Pool Fund (B35) <b>A</b>	\$1.12	\$34	1.84%	-0.10%	4.80%	4.46%
PB: Barclays Capital Intermediate Aggregate Bond Index	--	--	1.27%	0.36%	5.71%	4.25%
FRS Select High Yield Fund (B50) <b>A</b>	\$4.60	\$148	1.20%	0.01%	4.24%	4.20%
PB: Barclays Capital US HiYld Ba/B-1% Issuer Cap	--	--	3.05%	7.01%	14.35%	8.23%
PIMCO Total Return Fund (B20) <b>A</b>	\$5.70	\$187	2.91%	6.82%	15.31%	8.33%
PB: Barclays Capital Aggregate Bond Index	--	--	1.28%	-1.36%	6.73%	5.76%
	--	--	1.84%	-0.10%	4.80%	4.46%



## Performance Summary as of March 31, 2014 – continued

**P** = Passively Managed Type

**A** = Actively Managed Type

	Fees per \$1,000		Annual Average Investment Returns After Deducting Fees <sup>1</sup>			
	Annual Fees <sup>2</sup>	Long-Term Fees	Previous Quarter <sup>3</sup>	Previous Year	Previous 5 Years	Previous 10 Years
<b>U.S. STOCK FUNDS</b>	—	—	2.18%	24.02%	23.34%	8.73%
<i>PB: Investment Plan Total U.S. Equities Index</i>	—	—	1.98%	22.66%	22.49%	8.15%
FRS Select U.S. Stock Market Index Fund (S10) <b>P</b>	\$0.20	\$6	1.97%	22.63%	22.01%	7.93%
<i>PB: Russell 3000 Index</i>	—	—	1.97%	22.61%	21.93%	7.86%
FRS Select U.S. Large Value Stock Active Fund (S25) <b>A</b>	\$1.93	\$60	2.69%	23.21%	22.07%	8.18%
<i>PB: Russell 1000 Value Index</i>	—	—	3.02%	21.57%	21.75%	7.58%
FRS Select U.S. Large Growth Stock Active Fund (S30) <b>A</b>	\$2.86	\$90	0.35%	27.49%	21.29%	8.39%
<i>PB: Russell 1000 Growth Index</i>	—	—	1.12%	23.22%	21.68%	7.86%
Prudential Mid-Cap Quantitative Core Equity Fund (S40) <b>A</b>	\$3.50	\$111	3.22%	22.52%	27.34%	11.01%
<i>PB: S&amp;P Mid-Cap 400 Index</i>	—	—	3.04%	21.24%	24.86%	10.14%
Fidelity Low-Priced Stock Fund <sup>4</sup> (S90) <b>A</b>	\$5.50	\$180	2.09%	24.44%	24.51%	10.51%
<i>PB: Russell 2500 Value Index</i>	—	—	3.52%	21.76%	24.81%	9.01%
Fidelity Growth Company Fund (S80) <b>A</b>	\$6.50	\$216	2.64%	30.42%	24.38%	10.90%
<i>PB: Russell 3000 Growth Index</i>	—	—	1.07%	23.53%	21.94%	7.95%
American Beacon Small-Cap Value Fund (S99) <b>A</b>	\$9.20	\$320	1.65%	25.21%	26.20%	9.09%
<i>PB: Russell 2000 Value Index</i>	—	—	1.78%	22.65%	23.33%	8.07%
T. Rowe Price Small-Cap Stock Fund (S97) <b>A</b>	\$9.20	\$320	2.06%	24.86%	27.43%	10.69%
<i>PB: Russell 2000 Index</i>	—	—	1.12%	24.90%	24.31%	8.53%
<b>FOREIGN AND GLOBAL STOCK FUNDS</b>	—	—	0.72%	17.51%	16.61%	7.64%
<i>PB: Investment Plan Total Foreign/Global Equities Index</i>	—	—	0.78%	15.97%	16.06%	6.51%
FRS Select Foreign Stock Index Fund <sup>5</sup> (F10) <b>P</b>	\$0.20	\$6	0.80%	16.80%	16.26%	7.02%
<i>PB: MSCI World ex U.S. Index</i>	—	—	0.75%	16.46%	15.88%	6.71%
American Funds New Perspective Fund <sup>5</sup> (F40) <b>A</b>	\$4.50	\$145	0.35%	20.00%	19.09%	9.14%
<i>PB: MSCI All Country World Index</i>	—	—	1.08%	16.55%	17.59%	6.62%
American Funds EuroPacific Growth Fund <sup>5</sup> (F20) <b>A</b>	\$5.00	\$162	0.73%	18.01%	15.95%	8.62%
<i>PB: MSCI All Country World ex U.S. Index</i>	—	—	0.61%	12.80%	15.26%	6.42%

<sup>1</sup> The performance information presented reflects past performance. Past performance is not necessarily an indication of future performance.

<sup>2</sup> Fees and expenses are only one of several factors that you should consider when making investment decisions.

<sup>3</sup> Not annualized.

<sup>4</sup> This fund was closed to new money effective August 1, 2004.

<sup>5</sup> These funds may have restrictions on your ability to trade. Please review the Excessive Fund Trading Policy.

### PIMCO Total Return Fund on Watch List

Because of organizational changes at PIMCO, the PIMCO Total Return Fund (B20) was placed on the State Board of Administration's Watch List in the fourth quarter of 2013. Watch List funds are monitored closely by the SBA. Being placed on the Watch List is an intermediate step toward either resolving the issue or terminating the manager. In January 2014, Mohamed El-Erian, the firm's CEO and co-CIO, announced his departure from the firm. Because of El-Erian's highly influential role in setting overall firm investment policy and direction, this change is considered to be material under the FRS Investment Plan Manager Monitoring Guidelines. Mercer Consulting, the SBA's investment fund consultant, will monitor the changes in upper management at PIMCO and make a recommendation if further action is warranted. Please note that in providing this information, the SBA is not in any way intending to influence or inform your investment decisions; we are only providing you information to help you manage your account.



Continued from page I

## Fidelity Low-Priced Stock Fund Closing

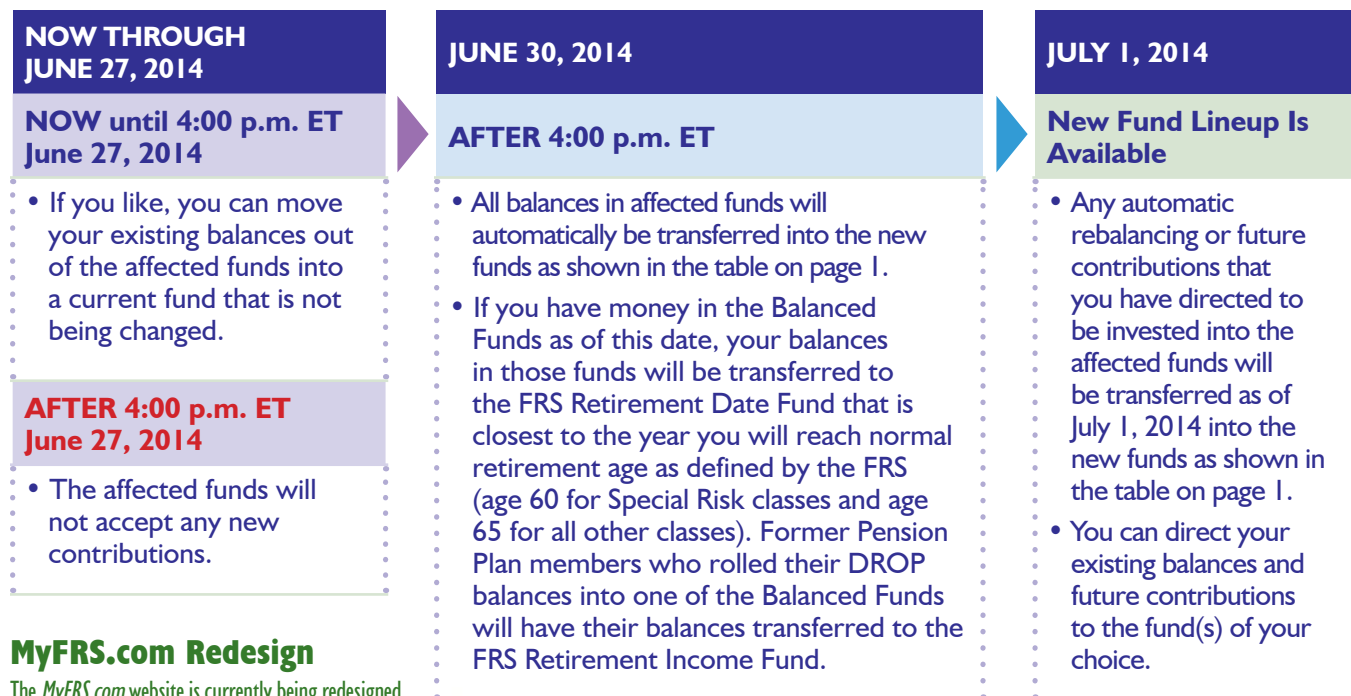
The Fidelity Low-Priced Stock Fund (S90) is being removed as an investment fund within the Investment Plan. This fund has been closed to new contributions since July 2004 and holds less than 0.03% of the total assets in the Investment Plan. If you have a balance in this fund as of June 30, 2014, your balance will automatically be transferred to the new FRS U.S. Small/Mid Cap Equity Fund.

## Other Fund Lineup Changes

Except for the fund name changes and fund ID changes shown below, no other changes are being made to the Self-Directed Brokerage Account or to the following funds:

- FRS Money Market Fund (60) *(formerly FRS Select Yield Plus Money Market Active Fund M10)*
- FRS U.S. Bond Enhanced Index Fund (80) *(formerly FRS Select U.S. Bond Enhanced Index Fund B15)*
- Pyramis Intermediate Duration Pool Fund (90) *(formerly B35)*
- FRS Foreign Stock Index Fund (200) *(formerly FRS Select Foreign Stock Index Fund F10)*
- American Funds EuroPacific Growth Fund (220) *(formerly F20)*
- American Funds New Perspective Fund (210) *(formerly F40)*
- FRS U.S. Stock Market Index Fund (120) *(formerly FRS Select U.S. Stock Market Index Fund S10)*

## What Happens When



## MyFRS.com Redesign

The MyFRS.com website is currently being redesigned and will soon have a new look. The purpose of this change is to modernize the site and make it easier to find important items. We are using a responsive Web design approach, so the site's appearance will adjust automatically depending on the device that is being used to view the site (e.g., laptop, iPad, mobile phone). Because the traffic on MyFRS.com is high (exceeding 1.5 million visits and 800,000 unique visitors yearly), these changes should make the site easier for all FRS members who visit.

## What Are "Current," "Affected," and "Closed" Funds?

**Current funds** are the funds that are now available as investment options. Some of these funds will continue to be available after June 30, 2014. Others will close or be combined with other funds (multi-manager funds) to create new funds.

**Affected funds** are the current funds that are being closed or combined with other funds to create new funds as shown in the table on page I.

**Closed funds** are current funds that will be closed and no longer available as an investment option.

Continued from page 5

## For More Information About the Fund Lineup Changes

In addition to this newsletter, more information about these investment fund changes will be provided to you as follows:

- **1<sup>st</sup> Notification Letter.** We will mail you an official notification letter on May 19, 2014. We will also include an updated Annual Fee Disclosure Statement and a link to the “Investment Plan Fund Lineup Changes” brochure.
- **2<sup>nd</sup> Notification Letter.** We will mail you a second and final notification letter on June 16, 2014.
- **Employee Workshop.** A special workshop for you will be held on June 5, 2014 from 1:00 to 3:00 p.m. ET to discuss the investment fund changes. This workshop will be conducted both in person in Tallahassee and by live broadcast over the Internet. To register for the workshop, please call the toll-free MyFRS Financial Guidance Line (1-866-446-9377, Option 1). If you sign up to attend the online workshop, you will receive login and participation details a few days prior to the workshop.
- **“Investment Plan Fund Lineup Changes” Brochure.** This new brochure is currently available online in the “Investment Funds” section on *MyFRS.com*.
- **“Retirement Date Funds” Brochure.** This brochure, which describes the new Retirement Date Funds, will be posted online as soon as it is available.

### 2014 Employee Workshops

The FRS offers free financial planning workshop webcasts for all FRS-covered employees. A list of workshops and dates is posted on *MyFRS.com* > *Resources > Financial Planning & Counseling*. You can register by calling 1-866-446-9377, Option 2.

## What Are Retirement Date Funds?

Retirement Date Funds (also known as target date funds) make investing for your retirement simple. All you have to do is choose the fund that targets the year you expect to retire from the FRS Investment Plan. Diversification, asset allocation, and account rebalancing are all done for you.

Each Retirement Date Fund is a diversified portfolio of other FRS Investment Plan funds and uses the asset allocation concept called “target date funds.” The mix of funds in each “target date fund” is based on the amount of time you have before retirement, and the mix gradually changes as your retirement gets nearer. This gradual change follows a careful investment strategy called a “glide path.”

Each Retirement Date Fund’s glide path was developed for the FRS by investment experts.

There are 10 Retirement Date Funds replacing the three FRS Select Balanced Funds. If you have money in a Balanced Fund, it will be transferred to the appropriate Retirement Date Fund, based on your current age and your normal retirement age (age 60 for Special Risk/Special Risk Administrative Support Class and age 65 for all other classes). Former Pension Plan members who rolled their DROP accounts into one of the Balanced Funds will have their balances transferred to the FRS Retirement Income Fund.

Regular, Elected Officers', and Senior Management Service Classes	Special Risk and Special Risk Administrative Support Classes		Your FRS Select Balanced Fund Balances Will Be Transferred To
	Current Age	Current Age	
For more information on Retirement Date Funds, visit the “Investment Funds” section on <i>MyFRS.com</i> or call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2 (TRS 711). A publication on the Retirement Date Funds will be posted online as soon as it is available.	> 66	> 61	FRS Retirement Income Fund
	62–66	57–61	FRS 2015 Retirement Date Fund
	57–61	52–56	FRS 2020 Retirement Date Fund
	52–56	47–51	FRS 2025 Retirement Date Fund
	47–51	42–46	FRS 2030 Retirement Date Fund
	42–46	37–41	FRS 2035 Retirement Date Fund
	37–41	32–36	FRS 2040 Retirement Date Fund
	32–36	27–31	FRS 2045 Retirement Date Fund
	27–31	22–26	FRS 2050 Retirement Date Fund
	< 27	< 22	FRS 2055 Retirement Date Fund

As of July 1, 2014