

## FRS Investment Plan Detailed Fund Operations

### *Davis NY Venture Fund (\$60)*

<b>Asset Class and Objective</b>	Specialty U.S. stock fund, focusing on value-oriented large capitalization stocks
<b>Fund Benchmark</b>	S&P 500 Index
<b>Investment Manager</b>	Davis Selected Advisers, L.P., 2949 East Elvira Road, Suite 101, Tucson, AZ 85706
<b>Marketing Company</b>	Nationwide Retirement Solutions
<b>Restrictions on Transfers</b>	<b>Investment funds in the FRS Investment Plan are subject to excessive trading restrictions as detailed in the FRS Investment Plan Summary Plan Description and FRS Excessive Fund Trading Policy.</b>
<b>How mutual fund fees work</b>	<p>On an annual basis, marketing companies estimate the fees that FRS Investment Plan participants will pay as a percentage of their mutual fund account assets; e.g., 0.50% per year. These figures reflect any rebates or reductions negotiated by the State Board of Administration and are published in the <i>Fund Profiles</i> and other plan materials.</p> <p>However, the actual fees you would pay as an investor in a mutual fund are not guaranteed and will vary over time when expressed as a percent of asset values. Mutual fund boards of directors can change fees without the FRS's permission. Changes occur throughout the year in the day-to-day expenditures made by mutual funds to cover their operating expenses and these changes are passed through to shareholders. The amount of assets under management changes from period to period and so fees expressed as a ratio of assets will vary, even if the actual dollar expenditures do not. Also, some mutual funds have fees that can rise or fall depending on performance compared to a benchmark.</p> <p>The actual expenses paid for mutual funds included in the FRS Investment Plan are detailed in their annual or semi-annual reports for previous periods. These reports are available free of charge by calling the MyFRS Financial Guidance Line (1-866-466-9377). Please note that these reports will not reflect any rebates or reductions negotiated by the State Board of Administration.</p>
<b>Investment Philosophy</b>	<ol style="list-style-type: none"> <li>1. Davis Advisors invests in high-quality, well-managed, large capitalization companies with strong potential for long-term earnings growth.</li> <li>2. We adhere to a rigorous price discipline, and pay careful attention to the intrinsic valuations and earnings multiples of every company we own or consider for investment.</li> <li>3. We believe in long-term, patient investment practices, and are wary of investment "fads." For this reason, we concentrate on the underlying economic and business fundamentals of each investment.</li> <li>4. As money managers, we recognize that our success is determined by our ability to both grow and preserve wealth. Therefore, managing risk is the key to delivering superior long-term investment results. Before we consider how much we might earn on a new investment, we always consider how much we might lose.</li> </ol>
<b>Research Process</b>	<p>Davis strongly believes in first-hand, fundamental research. Close to 100% of all research used to make investment decisions is conducted and completed by Davis professionals. Davis currently employs four dedicated Research Analysts. The Analyst team is divided according to market sector and specialty: technology, health care, energy/chemicals/ natural resources, and consumer products companies. Additionally, Senior Research Advisor (and former Portfolio Manager) Shelby M.C. Davis acts as a generalist analyst. Davis strongly believes in first hand, fundamental research, through a disciplined review of company financials, industry/competitive analysis, and meetings with company management.</p> <p>Rather than using "stock screens" or computer models to sort large universes of stocks, the Davis investment team confines its research to a select universe of high quality, large companies. Analysts and portfolio managers will carefully review financial statements and publicly available documents (10ks, 10qs, annual reports, regulatory documents, and press releases) to gain perspective on a company's financial strength and quality of its accounting.</p>



**IMPORTANT NOTE: The information on investment philosophy, research process, security selection, portfolio construction, sell discipline and personnel was provided to the FRS by product marketing companies or investment managers. The FRS has taken this information as given for the purposes of this document.**

	<p>Much time will be devoted to studying industry economics, as well as the company's competitive position. Finally, meetings will be scheduled with senior and mid-level managers at prospective companies. The Davis investment discipline entails gaining conviction in the people who manage a business, and separating the "doers" from the "bluffers" (i.e., finding the few high quality executives with a talent for capital allocation and managing people). As much as possible, Davis will also meet with competitors, vendors, and clients to further understand the merits of a company. Davis will never invest in a company without first meeting or speaking directly to its senior executives.</p>
<b>Security Selection</b>	<p>Our investment staff has identified a series of characteristics, both quantitative and qualitative, that we believe foster sustainable long-term business growth. While few companies will exhibit all of these qualities, nearly every company in which we invest has a majority and appropriate mix of these traits:</p> <ol style="list-style-type: none"> <li>1. First Class Management: proven track record; significant personal ownership stake in business; intelligent allocators of capital; smart appliers of technology to improve business and lower costs</li> <li>2. Strong Financial Condition and Profitability: strong balance sheets; low cost structure/low debt; high after-tax returns on capital; high quality of earnings</li> <li>3. Strategic Positioning for the Long-Term: non-obsolete products/industries; dominant position in a growing market; global presence and brand names</li> </ol> <p><b>The Davis Valuation Method: "Owner Earnings Yield"</b></p> <p>At Davis Advisors we assess the value inherent in each company in a manner similar to what a private buyer would use to purchase a company in the private market. We pay careful attention to the "Owner Earnings Yield" of every prospective investment. This yield is determined by taking the net free cash flow of a business (adjusting for maintenance capital expenditures and the cost of employee stock option plans) and dividing it by the firm's total enterprise value (total debt plus shareholder equity). This calculated yield is compared to similar companies as well as the pre-tax risk-free rate. A high yield implies a high degree of current intrinsic value (and would imply a low price-to-free cash flow multiple).</p>
<b>Portfolio Construction</b>	<ol style="list-style-type: none"> <li>1. Portfolio managers and research analysts track a select universe of high quality, large capitalization companies. This universe closely corresponds to the larger, upper-tier members of the S&amp;P 500 Index, with an emphasis on businesses with strong international brand names.</li> <li>2. Our investment team attempts to define broader, long-term macroeconomic trends that influence the growth potential of prospective investments. Understanding long-term investment themes helps to direct and focus our on-going search for attractive businesses.</li> <li>3. Portfolio managers and analysts conduct intensive research into company fundamentals, reviewing financial statements, and regulatory documents. We insist on meeting and interviewing the management teams, employees, and competitors of prospective companies.</li> <li>4. After careful review, we will define an "approved list" of companies that we would purchase under the right circumstances and valuations.</li> <li>5. We will add positions to our portfolios from our "approved list" based on current company valuations. Once we have made an investment we will constantly re-evaluate the management, long-term earnings prospects, and valuations of our investments.</li> </ol> <p>Portfolio Managers will use their best judgment when selecting companies for investment. The sector weightings of the portfolio are a by-product of this process. As such, the portfolio's sector weights may look very different relative to a benchmark index, and may even exclude certain economic sectors. Davis does apply a maximum 25% guideline for any single industry.</p>

<b>Sell Discipline</b>	<p>Portfolio managers will pare or sell a position completely once it has appreciated into the upper level of its value or if it has appreciated meaningfully within the fund portfolio.</p> <p>We recognize that not all securities will be sold at a gain. In the negative case, positions will be strategically sold if the Davis investment team perceives a deterioration of company fundamentals, if there is a negative change in senior management, or if the prior thesis for owning an investment is no longer in place. In the case of misleading information or fraudulent business practices, a position in a company will be immediately sold.</p>	
<b>Portfolio Manager(s)</b>	<b>Investment Experience</b>	<b>Experience Last 5 Years</b>
Christopher C. Davis	17 years	Portfolio Manager of the fund since 1995
Kenneth C. Feinberg	10years	Portfolio Manager for the fund since 1998. Before managing this fund, he was a research analyst at Davis Selected Advisers.