

# A Quick Guide to the Investment Funds You Can Choose



	PRODUCT CATEGORY	FOR A \$10,000 INVESTMENT				
		Annual Fees	Long-Term Fees	Average Result in 10 Years	Downside Result in 10 Years	Upside Result in 10 Years
<b>BALANCED FUNDS</b>						
FRS Select Conservative Balanced Fund (A10)	Core/Balanced	\$10	\$305	\$13,500	\$9,600	\$17,100
FRS Select Moderate Balanced Fund (A20)	Core/Balanced	\$12	\$367	\$15,800	\$8,500	\$27,100
FRS Select Aggressive Balanced Fund (A30)	Core/Balanced	\$18	\$555	\$16,600	\$7,600	\$33,200
<b>MONEY MARKET FUND</b>						
FRS Select Yield Plus Money Market Fund (M10)	Core/Broad Cash	\$7	\$212	\$11,600	\$10,100	\$12,700
<b>INFLATION-PROTECTED SECURITIES FUND</b>						
FRS Select U.S. Treasury Inflation-Protected Securities Fund (T10)	Core/Broad TIPS	\$2	\$60	\$12,400	\$9,500	\$14,100
<b>BOND FUNDS</b>						
FRS Select U.S. Bond Enhanced Index Fund (B10)	Core/Broad Bonds	\$5	\$151	\$13,400	\$9,000	\$16,700
PIMCO Total Return Fund (B20)	Core/Broad Bonds	\$56	\$1,835	\$13,000	\$8,600	\$16,300
Fidelity Intermediate Duration Pool Fund (B35)	Specialty/Intermediate Bonds	\$20	\$619	\$12,800	\$9,300	\$15,200
PIMCO High Yield Fund (B55)	Specialty/High Yield	\$50	\$1,623	\$13,400	\$8,400	\$19,500
<b>U. S. STOCK FUNDS</b>						
FRS Select U.S. Stock Market Index Fund (S10)	Core/Broad U.S. Stocks	\$2	\$60	\$17,200	\$6,800	\$39,700
Pioneer Fund (S20)	Core/Broad U.S. Stocks	\$70	\$2,346	\$15,700	\$6,600	\$34,500
FRS Select U.S. Large Growth Stock Active Fund (S30)	Specialty/Large Cap Growth	\$15	\$445	\$16,500	\$5,900	\$41,800
American Funds Investment Company of America (S35)	Specialty/Large Cap Value	\$35	\$1,109	\$16,500	\$7,600	\$32,600
Prudential Mid Cap Quantitative Core Equity Fund (S40)	Specialty/Broad Small-Mid Cap	\$35	\$1,109	\$17,100	\$6,600	\$40,800
T Rowe Price Small Cap Stock Fund (S97)	Specialty/Broad Small-Mid Cap	\$96	\$3,356	\$15,000	\$5,700	\$36,100
Fidelity Growth Company (S80)	Specialty/Small-Mid Cap Growth	\$60	\$1,979	\$15,500	\$4,300	\$46,700
American AAdvantage Small Cap Value Fund (S99)	Specialty/Small-Mid Cap Value	\$89	\$3,076	\$15,100	\$5,400	\$39,300
<b>FOREIGN AND GLOBAL STOCK FUNDS</b>						
FRS Select Foreign Stock Index Fund (F10)	Core/Broad Foreign	\$2	\$60	\$16,100	\$6,500	\$36,100
Fidelity Diversified International Fund (F30)	Core/Broad Foreign	\$99	\$3,478	\$15,500	\$6,500	\$33,500
American Funds New Perspective (F40)	Specialty/Broad Global	\$59	\$1,943	\$16,500	\$7,000	\$35,100

## DEFINITIONS

**Core Funds** invest in a very broad portion of an asset class and can help you form the “core” of your portfolio.

**Specialty Funds** invest in a portion of an asset class and can help you “fine-tune” your portfolio.

**Annual Fees** are the current fees the fund charges to cover its management, operating and marketing expenses. The table shows the fees that would apply to a \$10,000 account (divide the annual fees shown by 10,000 to put them on a percentage basis). Actual fees are proportional to the amount you invest in that fund. For example, if the annual fee for a \$10,000 investment in a fund is \$2 but you only invest \$1,000, you would be charged  $(\$1,000 \div \$10,000) \times \$2$ , or 20 cents for a year. Fees may change in the future.

**Long-Term Fees** are the value in “Today’s Dollars” of the total fees that would be charged over 30 years, assuming a \$10,000 initial investment.

**Average Result** is an estimate in “Today’s Dollars” of what an investment of \$10,000 might grow to over a 10-year period. There is a 50% chance that \$10,000 would grow to this amount or more in 10 years.

**Downside Result** is an estimate in “Today’s Dollars” of how poorly an investment of \$10,000 today might do over a 10-year period. There is a 5% chance that \$10,000 would grow or decline to this amount or less in 10 years.

**Upside Result** is an estimate in “Today’s Dollars” of how well an investment of \$10,000 today might do over a 10-year period. There is a 5% chance that \$10,000 would grow to this amount or more in 10 years.

These figures are shown in “Today’s Dollars” so that you can make a realistic comparison of the different funds in terms of what you could buy with the results today, rather than in the future when inflation will decrease the value of your account. These estimates are described in more detail on page 2 in the box labeled, “About Financial Engines and Their 10-Year Estimates of Investment Fund Results.”

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# What is an Asset Class?

*Thinking about asset classes is a very effective way to simplify investing and improve the odds of meeting your retirement goals. Asset classes are groups of similar investments whose values react to changes in the economy in the same basic way. Investing in a mix of asset classes, or diversifying, helps you control your risk. Experts say that 90% of your investment success will be based on getting the right mix of investments in your retirement savings. In this Quick Guide we use five asset classes: **money market, inflation-protected securities, bonds, U.S. stocks and foreign stocks.** We also have a special category called **balanced funds** that are a mixture of the various asset classes.*

**Balanced 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 risks. 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 update investment fund mixes to the FRS that they believe will provide the best trade-off between expected risk and return.

**Money Market 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, the returns may have been modest, basically keeping pace with inflation. Money market funds are not FDIC insured or guaranteed.

**Inflation Protected Securities Funds** invest in United States Treasury inflation-protected securities or “TIPS.” TIPS are a relatively new type of investment and provide two types of return. First, there is a fixed interest rate that’s been around 2% to 4% since TIPS were first issued in 1997. Second there is a return of principal (the starting amount of your investment) and interest (the additional

earnings you get over time) that is “protected” or indexed to inflation. As Inflation rises, so does the amount of principal and interest you receive. So if the fixed rate is 3% and inflation is 3% you receive the total interest rate of about 6%. The day-to-day value of inflation-protected securities varies with the changes in inflation and interest rates, but these funds offer a promise of keeping up with inflation that is unique to this type of investment.

**Bond 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 person making the loan). The quality of a bond is reflective 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 a bond 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 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 Stock Funds** invest primarily in equity shares or stocks issued by foreign companies. Compared to U.S. stocks, 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 risks (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.

## ABOUT FINANCIAL ENGINES AND THEIR 10-YEAR ESTIMATES OF INVESTMENT FUND RESULTS

Financial Engines is a federally registered investment advisor that serves the FRS in a fiduciary capacity. Under Florida law, this means that they are held to the highest standards of expertise and conduct on behalf of participants in the FRS. Financial Engines has no vested interest in which investment funds are chosen and currently serves millions of users outside of the FRS. Its services are based on the Nobel Prize-winning work of Professor Bill Sharpe and have been widely recognized in the media for their value to individual investors. Financial Engines uses sophisticated financial models to identify how different investment funds might perform under a wide range of possible economic and financial scenarios. Inflation, interest rates, 15 asset categories, a fund’s specific investment attributes, fees and risk are all taken into consideration through a combination of historical experience and expert judgment. These models generate roughly 10,000 possible future scenarios to show investors a realistic range of future performance for individual investment funds.

The Average Result, Downside Result and Upside result assume a hypothetical investment of \$10,000, net of any applicable fees or charges. The Average Result, Downside Result and Upside Result are not guarantees of future results, but only reasonable estimates based upon forward-looking models of the economy and securities markets that use such data as historical returns, historical correlations, expected growth rates and calculated-risk premiums. Since past performance is not always an accurate predictor of the future, and reliance on historical and current data necessarily involves certain inherent limitations, you must understand that the future performance estimates are only a tool to be used in evaluating your portfolio and not a substitute for your informed judgment. Fees and styles may change.

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- > Free guidance and in-depth information on all investment funds offered under the FRS Investment Plan, including Financial Engines’ Fund Score Cards and the Fund Profiles, Fund Details and Investment Fund Summary, which are updated regularly. These reports discuss the fees, investment strategies and other factors that may significantly affect the fund’s performance.
- > The status of investment funds under the investment manager monitoring guidelines.
- > The Excessive Fund Trading Policy, including transfer restrictions.