



Florida Retirement System

YOUR Money YOUR Choice



INVESTMENT PLAN

Quarterly Newsletter

• January 2014 •

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Self-Directed Brokerage Account Now Available

The Florida Retirement System (FRS) Investment Plan is now offering a new option that allows you to invest in thousands of different investments in addition to the investment funds already offered in the Investment Plan. This new investment option is called a Self-Directed Brokerage Account (SDBA) and became available on January 2, 2014.

An SDBA is **not** suitable for all members. It's for experienced investors who want the flexibility to invest in a variety of options beyond those available in the FRS Investment Plan.

To participate in the SDBA, you must maintain a balance of at least \$5,000 in the Investment Plan's primary investment funds. You must also pay all trading fees, commissions, administrative fees, and any other expenses associated with participating in the SDBA. All transfers into the SDBA must be at least \$1,000.

To open an SDBA, you must complete the following steps:

- Log in to *MyFRS.com*.
- Choose *Manage My Benefits > Manage Investments > Open Brokerage Account*.
- On the site, complete the enrollment form online OR print the form and submit a hard copy via mail or fax. (Hard-copy forms are also available by calling the Investment Plan Administrator.)

The SDBA will be established within one to two business days of receipt of the enrollment form. Once the account is established, a welcome email will be sent with information on accessing and using the SDBA.

You can visit the "Investment Funds" page on *MyFRS.com* for detailed instructions on how to open an SDBA, an SDBA summary brochure, a fees and commission schedule, a member agreement, a listing of no-transaction fee funds (additional expenses/fees may be applicable), an SDBA access guide, and other SDBA information. If you have any questions about the SDBA, please call the MyFRS Financial Guidance Line between 9:00 a.m. and 8:00 p.m. ET, Monday through Friday, toll-free at 1-866-446-9377, Option 4 (TRS 711) and ask to speak with an SDBA specialist.



Be sure to download the SDBA summary brochure for more information.



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.¹

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 at 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.

¹ 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.



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 December 31, 2013

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 ¹			
	Annual Fees ²	Long-Term Fees	Previous Quarter ³	Previous Year	Previous 5 Years	Previous 10 Years
TOTAL FRS INVESTMENT PLAN						
PB: Investment Plan Total Index	—	—	5.02%	15.22%	10.91%	6.37%
BALANCED FUNDS						
PB: Investment Plan Total Balanced Index	—	—	4.24%	12.27%	9.67%	5.95%
FRS Select Moderate Balanced Fund (A20) A	\$0.40	\$12	4.19%	12.30%	9.41%	5.77%
PB: Moderate Balanced Aggregate Index	—	—	4.46%	13.22%	10.26%	6.12%
FRS Select Aggressive Balanced Fund (A30) A	\$0.49	\$15	4.37%	13.21%	9.90%	5.86%
PB: Aggressive Balanced Aggregate Index	—	—	6.26%	19.66%	12.46%	6.67%
FRS Select Conservative Balanced Fund (A10) A	\$0.56	\$17	6.30%	19.86%	12.45%	6.73%
PB: Conservative Balanced Aggregate Index	—	—	1.22%	2.58%	5.23%	4.43%
MONEY MARKET FUND						
FRS Select Yield Plus Money Market Active Fund (M10) A	\$0.58	\$17	1.18%	2.53%	4.94%	4.05%
PB: Institutional Money Market Average Index	—	—	0.05%	0.24%	0.26%	1.91%
INFLATION-PROTECTED SECURITIES FUND						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund (T10) P	\$0.20	\$6	-1.92%	-8.51%	5.69%	4.91%
PB: Barclays Capital TIPS Index	—	—	-2.00%	-8.61%	5.63%	4.85%
BOND FUNDS						
PB: Investment Plan Total Bond Index	—	—	0.18%	-1.06%	6.11%	5.11%
FRS Select U.S. Bond Enhanced Index Fund (B15) P	\$0.50	\$15	0.12%	-1.19%	5.30%	4.68%
PB: Barclays Capital Aggregate Bond Index	—	—	-0.10%	-1.98%	4.65%	4.73%
Pyramis Intermediate Duration Pool Fund (B35) A	\$1.11	\$34	-0.14%	-2.02%	4.44%	4.55%
PB: Barclays Capital Intermediate Aggregate Bond Index	—	—	0.10%	-0.50%	5.77%	4.38%
FRS Select High Yield Fund (B50) A	\$4.60	\$148	-0.14%	-2.02%	4.18%	4.31%
PB: Barclays Capital US HiYld Ba/B-1% Issuer Cap	—	—	3.13%	6.09%	15.42%	8.20%
PIMCO Total Return Fund (B20) A	\$5.70	\$187	-0.08%	-2.05%	6.77%	5.90%
PB: Barclays Capital Aggregate Bond Index	—	—	-0.14%	-2.02%	4.44%	4.55%

Performance Summary as of December 31, 2013 – continued

P = Passively Managed Type

A = Actively Managed Type

	Fees per \$1,000		Annual Average Investment Returns After Deducting Fees ¹			
	Annual Fees ²	Long-Term Fees	Previous Quarter ³	Previous Year	Previous 5 Years	Previous 10 Years
U.S. STOCK FUNDS	—	—	9.68%	35.20%	20.09%	8.80%
<i>PB: Investment Plan Total U.S. Equities Index</i>	—	—	9.73%	33.98%	19.04%	8.27%
FRS Select U.S. Stock Market Index Fund (S10) P	\$0.20	\$6	10.14%	33.58%	18.81%	7.96%
<i>PB: Russell 3000 Index</i>	—	—	10.10%	33.55%	18.71%	7.88%
FRS Select U.S. Large Value Stock Active Fund (S25) A	\$1.93	\$60	10.23%	34.79%	17.07%	8.25%
<i>PB: Russell 1000 Value Index</i>	—	—	10.01%	32.53%	16.67%	7.58%
FRS Select U.S. Large Growth Stock Active Fund (S30) A	\$2.89	\$91	11.56%	36.62%	20.86%	8.36%
<i>PB: Russell 1000 Growth Index</i>	—	—	10.44%	33.48%	20.39%	7.83%
Prudential Mid-Cap Quantitative Core Equity Fund (S40) A	\$3.50	\$111	9.08%	35.62%	23.53%	11.45%
<i>PB: S&P Mid-Cap 400 Index</i>	—	—	8.33%	33.50%	21.89%	10.36%
Fidelity Low-Priced Stock Fund ⁴ (S90) A	\$5.50	\$180	7.93%	34.63%	21.99%	10.92%
<i>PB: Russell 2500 Value Index</i>	—	—	8.83%	33.32%	19.61%	9.29%
Fidelity Growth Company Fund (S80) A	\$6.50	\$216	8.07%	37.92%	23.10%	10.96%
<i>PB: Russell 3000 Growth Index</i>	—	—	10.25%	34.23%	20.56%	7.95%
American Beacon Small-Cap Value Fund (S99) A	\$9.20	\$320	10.12%	40.06%	21.75%	9.78%
<i>PB: Russell 2000 Value Index</i>	—	—	9.30%	34.52%	17.64%	8.61%
T. Rowe Price Small-Cap Stock Fund (S97) A	\$9.20	\$320	8.58%	37.65%	24.39%	10.97%
<i>PB: Russell 2000 Index</i>	—	—	8.72%	38.82%	20.08%	9.07%
FOREIGN AND GLOBAL STOCK FUNDS	—	—	6.39%	21.62%	13.69%	7.99%
<i>PB: Investment Plan Total Foreign/Global Equities Index</i>	—	—	5.75%	20.59%	12.70%	6.81%
FRS Select Foreign Stock Index Fund ⁵ (F10) P	\$0.20	\$6	5.61%	20.54%	12.56%	7.37%
<i>PB: MSCI World ex U.S. Index</i>	—	—	5.56%	21.02%	12.49%	7.07%
American Funds New Perspective Fund ⁵ (F40) A	\$4.50	\$145	8.57%	27.07%	17.27%	9.45%
<i>PB: MSCI All Country World Index</i>	—	—	7.31%	22.80%	14.40%	6.79%
American Funds EuroPacific Growth Fund ⁵ (F20) A	\$5.00	\$162	7.72%	20.59%	13.90%	9.25%
<i>PB: MSCI All Country World ex U.S. Index</i>	—	—	4.81%	15.78%	11.73%	6.81%

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

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

³ Not annualized.

⁴ This fund was closed to new money effective August 1, 2004.

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



About Fund Transfers

The FRS Investment Plan generally permits you to change your investment options daily (some funds restrict your ability to move your money under certain circumstances under an Excessive Fund Trading Policy). Transfer requests processed before 4:00 p.m. ET (or market close, if earlier) will be effective on the day the request is made. Transfer requests received after that time will be processed the next business day. You can change or cancel your request at any time before market close by logging in to *MyFRS.com* or calling the FRS Investment Plan Administrator at 1-866-446-9377, Option 4. If your completed request is delayed for any reason, it will be processed as soon as administratively feasible.

Inactive Account Maintenance Fee

Inactive FRS Investment Plan members with account balances of more than \$1,000 are subject to a \$6 per quarter account administrative fee. If applicable, this fee will appear on your quarterly statement after it has been applied to your FRS Investment Plan account. Further information is available in the "FRS Investment Plan Summary Plan Description" on *MyFRS.com*.

Proposed Investment Fund Changes

Changes are being proposed to the current Investment Plan fund lineup. If approved by the State Board of Administration's Investment Advisory Council and Trustees (Governor, Chief Financial Officer, and Attorney General), these changes will take effect July 1, 2014. The goals of the proposed changes are to simplify the existing fund lineup and offer you the opportunity to grow retirement assets over the long term. Some existing funds may be combined to create new funds, and a slate of "target date" funds is being considered to replace the current FRS Select Balanced Funds. More information on these changes will be provided in upcoming newsletters.

Your Opinions, Please!

An important survey is enclosed with this newsletter. It asks about your level of satisfaction with the services provided by the FRS Investment Plan. Your responses will help the FRS pinpoint any areas that need improving. Please complete and return the survey today.

2014 Employee Workshop Webcasts

The FRS offers free financial planning workshop webcasts for FRS-covered employees. The 2014 schedule is shown below. You may attend as many workshops as you wish. Register by calling 1-866-446-9377, Option 2, or by visiting *myfrs-workshops.com* and following these steps:

1. Once on the site (*myfrs-workshops.com*), register and/or log in.
2. Click on the "Select County" drop-down and select "EMPLOYEE WEBINARS."
3. Click "Select Workshop" and select the webcast you would like to attend.
4. Click on "Select Program" and select "FRS Financial Planning Workshops."
5. Click "Find Open Time Slots" and "Select" the webcast date you would like to attend.
6. Finalize your registration by clicking "Finalize Workshop."

If you cannot attend one of the live webcasts, you can access recorded webcasts, as well as videos, by clicking the "FRS Video Library" link on the *MyFRS.com* home page. Topics include new hire plan choice, financial planning, plan provisions, and more.

2014 Dates	10:00 a.m. to Noon ET	1:00 to 3:00 p.m. ET
January 28	Using the FRS to Plan for Retirement	Investment Planning for Everyone – The Basics
January 29	Nearing Retirement in the FRS	Income Tax Planning: Smart Planning for Your Taxes
April 29	Using the FRS to Plan for Retirement	Estate Planning: Caring for Your Loved Ones
April 30	Nearing Retirement in the FRS	FRS Investment Plan: Understanding Your Benefits
July 22	Using the FRS to Plan for Retirement	Cash and Debt Management: Smart Spending & Saving for Retirement
July 23	Nearing Retirement in the FRS	Estate Planning: Protecting Your Family
October 21	Using the FRS to Plan for Retirement	Investment Planning for Everyone – The Details
October 22	Nearing Retirement in the FRS	New Employee Retirement Plan Choice

Excessive Fund Trading Policy Revised

The FRS Investment Plan Excessive Fund Trading Policy was revised to include the Self-Directed Brokerage Account, effective January 2014. Be sure to review the updated policy on *MyFRS.com* by clicking on “Investment Funds” in the toolbar, then clicking on the “Excessive Fund Trading Policy” PDF.

Keep Your Name and Address Current

Please be sure to report any change in your name or mailing address to your employer to ensure you receive important information from your employer and the FRS. All active FRS-covered employees must change their personal information through their FRS employer. Inactive or retired Investment Plan members can make an address change online.

For name changes, send a letter to Aon Hewitt, the Investment Plan Administrator. The letter should include your old name, your new name, the last four digits of your Social Security number, and a copy of the court order, marriage certificate, or driver’s license reflecting your new name.

Members’ Social Security Numbers

FRS Investment Plan member records are filed according to the member’s Social Security number. The State Board of Administration of Florida (SBA) collects member Social Security numbers to ensure the SBA has the ability to identify Investment Plan members properly and definitively.

Annual Fee Disclosure Statement Updated

We recently updated the Annual Fee Disclosure Statement to include information on the Self-Directed Brokerage Account. The statement provides information about the Investment Plan’s structure, administrative and individual expenses, and investment funds, including performance, benchmarks, fees, and expenses.

The Annual Fee Disclosure Statement is posted online in the “Investment Funds” section of *MyFRS.com*. If you have any questions about the statement, please call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2.

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 it (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.

Why You May Receive a Tax Form From the FRS

If you took a distribution from your Investment Plan account during 2013, a 1099-R form(s) will be mailed to your address of record by Friday, January 31, 2014. Please allow two or three weeks to receive your form. If you don’t receive your form or if you misplace it, you can request a replacement form starting February 17, 2014.

- **By Phone:** Call Aon Hewitt at 1-866-446-9377, Option 4.
- **Online:** Log in to *MyFRS.com*, click on “Manage My Benefits,” then “Manage Investments.” On the landing page, click on “FRS Investment Plan,” then “Forms and Materials,” and then checkmark “1099-R Reprint.”

Required Minimum Distribution Reminder for Those Age 70½ in 2014

If you are an inactive member and are or will be turning age 70½ in 2014, you may be required to take a required minimum distribution this year. You should have received a letter in January 2014 notifying you of the amount that may be paid to you in December 2014. Please review the letter carefully and call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 4, if you have any questions.