



Florida Retirement System

YOUR Money YOUR Choice



INVESTMENT PLAN

Quarterly Newsletter

• July 2016 •

| | |
|--|---|
| Quarterly Fund Performance Summary | 2 |
| Investment Plan Fund Name Change..... | 2 |
| Free Employee Workshop Webcasts | 5 |
| Lifetime Annuity Quotes — \$100,000 Premium..... | 5 |
| What's the Right Way to Use a Retirement Date Fund?..... | 6 |
| About Your Annual Fee Disclosure Statement | 6 |

Check Up on Your Financial Advisor

To view the employment history, certifications, licenses, and possible violations or complaints against your broker or investment or financial advisor, use BrokerCheck, a free online tool provided by the Financial Industry Regulatory Authority. To check an advisor, go to brokercheck.finra.org.

2016 Legislative Update

In the April 2016 issue of this newsletter, we indicated that several bills had passed that will affect the Florida Retirement System (FRS). All bills discussed in the April newsletter have now been signed into law. Additional information can be found on the “2016 Legislation” page in the “Alerts & Hot Topics” box on the MyFRS.com home page.

How to Access Trusted Financial Advisors (for Free)

When it comes to seeking professional financial advice, how do you know you can trust the guidance you get? Is the financial advisor acting in your best interest, or is he or she just looking to score a big commission by steering you to an expensive investment? The answer lies in whether or not the advisor has a fiduciary responsibility to you, and many American adults (41%) don't know whether their financial advisor is a fiduciary or not. Almost half (46%) mistakenly believed that all financial advisors were required to put their clients' interests first when it comes to retirement.¹

A fiduciary is someone you can trust, someone who acts in your best interest at all times. In financial matters, a fiduciary's responsibilities are both ethical and legal. When an advisor enters into a fiduciary relationship with you, he or she is expected to manage your assets for *your* benefit rather than for his or her own profit.

Recently, the Department of Labor finalized a new rule requiring financial advisors who provide advice on retirement assets to serve as fiduciaries. But, as a member of the Florida Retirement System (FRS), you've had access to professional, unbiased financial planners — at no cost — all along.

The MyFRS Financial Guidance Program provides you free access to EY financial planners. These planners do not sell any investment or insurance products, and they do not receive a commission for the work they do with you. They will always put your interests first.

Similarly, Financial Engines, who provides guidance and online tools for MyFRS.com, is a fiduciary to the FRS. Financial Engines discharges its duties solely in the interest of FRS members and does not directly or indirectly receive any benefit from recommendations it makes to you through the online ADVISOR® SERVICE tool.

To take advantage of the unbiased financial planners and tools available to FRS members, call the MyFRS Financial Guidance Line toll-free at 1-866-446-9377, Option 2.

¹ *In Whose Best Interest?*, Financial Engines, March 2016, <https://corp.financialengines.com/docs/Financial-Engines-Best-Interest-Report-040416.pdf>.



Quarterly Fund Performance Summary

Overview

The Performance Summary is organized by asset classes: Retirement Date Funds, money market funds, real assets funds, bond funds, U.S. stock funds, and foreign and global funds. Retirement Date Funds are a special asset class that provides a diversified mixture of various asset classes. A 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 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).

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.

Retirement Date Funds

These funds are particularly good for “one-stop shopping.” Each Retirement Date Fund is a diversified portfolio of other FRS Investment Plan funds and uses an asset allocation concept called “target date funds.” The mix of funds in each Retirement Date Fund is based on the amount of time you have before retirement, and the mix gradually changes as you approach retirement. 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 a global investment consulting firm and a fiduciary to the FRS.

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 and may not keep pace with inflation. Money market funds are not FDIC-insured or guaranteed.

Real Assets Funds

These funds invest in a diversified array of assets that may help offset inflationary pressures. The funds seek long-term real (net of inflation) returns to preserve the future purchasing power of accumulated assets. You could lose money over short or long periods by investing in this fund. The fund’s price and return will vary over a wide range.

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 investing in stocks has been much higher than bonds. However, over long periods of time, stocks have generally done better than bonds, which is 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 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.

The 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*.

Investment Plan Fund Name Change

The FRS Retirement Income Fund (2000) has changed its name to “FRS Retirement Fund (2000).” The fund’s benchmark has also changed its name from “Retirement Income Custom Index” to “Retirement Custom Index.” Although the names have changed, there has been no change to the management company, fund objectives, investment strategy, or portfolio management team. If you have questions, please call the MyFRS Financial Guidance Line toll-free at 1-866-446-9377, Option 2 (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 Retirement Date 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 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 June 30, 2016

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 | | — | — | 1.69% | -0.88% | 5.51% | 4.87% |
| PB: Investment Plan Total Index | | — | — | 1.81% | -0.36% | 5.37% | 4.50% |
| RETIREMENT DATE FUNDS | | — | — | 1.81% | -0.76% | — | — |
| PB: Total Retirement Custom Index | | — | — | 1.68% | -0.68% | — | — |
| FRS 2055 Retirement Date Fund ⁴ (2055) | A | \$0.70 | \$21 | 1.44% | -2.04% | — | — |
| PB: 2055 Retirement Custom Index | | — | — | 1.40% | -2.36% | — | — |
| FRS 2050 Retirement Date Fund ⁴ (2050) | A | \$0.70 | \$21 | 1.43% | -2.06% | 6.59% | — |
| PB: 2050 Retirement Custom Index | | — | — | 1.40% | -2.36% | 6.35% | — |
| FRS 2045 Retirement Date Fund ⁴ (2045) | A | \$0.70 | \$21 | 1.45% | -2.03% | 6.60% | — |
| PB: 2045 Retirement Custom Index | | — | — | 1.40% | -2.36% | 6.35% | — |
| FRS 2040 Retirement Date Fund ⁴ (2040) | A | \$0.70 | \$21 | 1.48% | -2.02% | 6.60% | — |
| PB: 2040 Retirement Custom Index | | — | — | 1.41% | -2.22% | 6.38% | — |
| FRS 2035 Retirement Date Fund ⁴ (2035) | A | \$0.80 | \$24 | 1.62% | -1.66% | 6.60% | — |
| PB: 2035 Retirement Custom Index | | — | — | 1.51% | -1.84% | 6.40% | — |
| FRS 2030 Retirement Date Fund ⁴ (2030) | A | \$1.00 | \$30 | 1.70% | -0.85% | 6.04% | — |
| PB: 2030 Retirement Custom Index | | — | — | 1.63% | -0.95% | 5.85% | — |
| FRS 2025 Retirement Date Fund ⁴ (2025) | A | \$1.20 | \$37 | 1.87% | -0.41% | 5.37% | — |
| PB: 2025 Retirement Custom Index | | — | — | 1.74% | -0.34% | 5.18% | — |
| FRS 2020 Retirement Date Fund ⁴ (2020) | A | \$1.30 | \$40 | 2.05% | -0.08% | 4.69% | — |
| PB: 2020 Retirement Custom Index | | — | — | 1.87% | 0.30% | 4.52% | — |
| FRS 2015 Retirement Date Fund ⁴ (2015) | A | \$1.50 | \$46 | 2.23% | 0.38% | 4.04% | — |
| PB: 2015 Retirement Custom Index | | — | — | 2.01% | 1.00% | 3.84% | — |
| FRS Retirement Fund ⁴ (2000) | A | \$1.50 | \$46 | 2.30% | 0.70% | 3.84% | — |
| PB: Retirement Custom Index | | — | — | 2.03% | 1.30% | 3.52% | — |
| MONEY MARKET FUND | | | | | | | |
| FRS Money Market Fund (60) | A | \$0.60 | \$18 | 0.14% | 0.38% | 0.25% | 1.23% |
| PB: iMoneyNet Money Fund Average | | — | — | 0.06% | 0.15% | 0.06% | 1.22% |
| REAL ASSETS FUND | | | | | | | |
| FRS Real Assets Fund ⁴ (300) | A | \$4.50 | \$145 | 3.73% | -2.92% | 0.44% | — |
| PB: FRS Custom Real Assets Index | | — | — | 3.03% | -0.23% | -0.11% | — |

Performance Summary as of June 30, 2016 – 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 |
| BOND FUNDS | | | | | | |
| <i>PB: Investment Plan Total Bond Index</i> | — | — | 2.53% | 5.31% | 3.81% | 5.46% |
| FRS U.S. Bond Enhanced Index Fund ⁴ (80) P | \$0.50 | \$15 | 2.27% | 6.25% | 3.91% | 5.36% |
| <i>PB: Barclays Capital Aggregate Bond Index</i> | — | — | 2.21% | 6.00% | 3.76% | 5.13% |
| FIAM Intermediate Duration Pool Fund ⁴ (90) A | \$1.21 | \$37 | 2.03% | 4.69% | 3.30% | 4.65% |
| <i>PB: Barclays Capital Intermediate Aggregate Bond Index</i> | — | — | 1.44% | 4.36% | 2.96% | 4.66% |
| FRS Core Plus Fixed Income Fund ⁴ (310) A | \$2.40 | \$75 | 2.77% | 5.51% | 4.69% | — |
| <i>PB: FRS Custom Core Plus Fixed Income Index</i> | — | — | 2.61% | 5.21% | 4.70% | — |
| U.S. STOCK FUNDS | | | | | | |
| <i>PB: Investment Plan Total U.S. Equities Index</i> | — | — | 2.40% | 0.57% | 11.15% | 7.74% |
| FRS U.S. Stock Market Index Fund ⁴ (120) P | \$0.20 | \$6 | 2.65% | 2.30% | 11.68% | 7.49% |
| <i>PB: Russell 3000 Index</i> | — | — | 2.63% | 2.14% | 11.60% | 7.40% |
| FRS U.S. Large Cap Equity Fund ⁴ (320) A | \$3.30 | \$104 | 1.25% | -2.26% | 11.20% | — |
| <i>PB: Russell 1000 Index</i> | — | — | 2.54% | 2.93% | 11.88% | — |
| FRS U.S. Small/Mid Cap Equity Fund ⁴ (330) A | \$6.60 | \$220 | 3.02% | -0.22% | 10.71% | — |
| <i>PB: Russell 2500 Index⁵</i> | — | — | 4.01% | -2.10% | 7.84% | — |
| FOREIGN AND GLOBAL STOCK FUNDS | | | | | | |
| <i>PB: Investment Plan Total Foreign/Global Equities Index</i> | — | — | -0.28% | -8.44% | 2.74% | 3.27% |
| FRS Foreign Stock Index Fund ⁴ (200) P | \$0.30 | \$9 | -0.48% | -9.60% | 1.67% | 2.01% |
| <i>PB: MSCI ACWI ex US IMI Index</i> | — | — | -0.68% | -9.61% | 1.35% | 1.69% |
| American Funds EuroPacific Growth Fund ⁴ (220) A | \$4.90 | \$159 | -0.32% | -9.57% | 2.50% | 3.97% |
| <i>PB: MSCI ACWI ex US Index</i> | — | — | -0.40% | -9.80% | 0.56% | 1.45% |
| American Funds New Perspective Fund ⁴ (210) A | \$4.90 | \$159 | 0.84% | -1.60% | 8.00% | 6.95% |
| <i>PB: MSCI All Country World Index</i> | — | — | 0.99% | -3.73% | 5.69% | 3.97% |

¹ The performance information presented reflects past performance, which is not necessarily an indication of future performance. The most recent quarter, 1-, 5-, and 10-year performance returns are shown. The following applies to "FRS" labeled funds with an inception date of 7-1-2014: 1) the 5-year history, if available, is considered the return since inception; and 2) 1-year and 5-year historical performance is based on the target weight of the underlying managers/funds that would have been in place if the funds had been in place during these time periods.

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

³ Not annualized.

⁴ This fund is subject to an Excessive Fund Trading Policy, which may limit your ability to make investment changes involving this fund. The policy is available on the "Investment Funds" page of MyFRS.com.

⁵ Effective July 1, 2016, the benchmark changed from a custom benchmark, the FRS Custom Small/Mid Cap Index, to the Russell 2500 Index.



Change Your MyFRS.com Login Password Regularly

Security experts suggest you change your online passwords on a regular basis. You may want to consider changing your *MyFRS.com* Password each quarter. You can let your quarterly statement serve as your reminder. To change your *MyFRS.com* login Password, complete the following steps:

- Log in to *MyFRS.com* with your current User ID and Password.
- Once logged in, move your mouse cursor over your name in the top-right corner and select "My Profile."
- When the "My Profile" information page appears, enter your current Password and your new Password, confirm your new Password, and select "SAVE." Your Password will be changed.

Your Password is case-sensitive and must be between 8 and 32 characters in length. Special characters are allowed (except for " _ " underscore).

Beneficiary Designation Reminder

Your enclosed quarterly FRS Investment Plan Account Statement lists your current Investment Plan account beneficiary(ies). Please review these beneficiary(ies) to ensure they are correct. You can change your beneficiaries by logging in to *MyFRS.com* and clicking Manage Investment > Personal Information > Beneficiaries. Or you can complete an FRS Investment Plan Beneficiary Designation Form (IPBEN-I), which is also available online. You can also update your beneficiaries by calling the FRS Investment Plan Administrator at 1-866-446-9377, Option 4 (TRS 711).

Free Employee Workshop Webcasts

The FRS offers free financial planning workshop webcasts for FRS-covered employees. You may attend as many workshops as you wish.

Register Today!

- **By Phone:** 1-866-446-9377, Option 2 (TRS 711)
- **Online:** tinyurl.com/zrsh8r6 (After login, select "Attend a Workshop," then "WEBINAR" under the County drop-down box, and then select the workshop you would like to attend.)

| 2016 Dates | 10:00 a.m. to Noon ET | 1:00 to 3:00 p.m. ET |
|------------|--------------------------------------|--|
| July 19 | Using the FRS to Plan for Retirement | Estate Planning: Caring for Your Loved Ones |
| July 20 | Nearing Retirement in the FRS | Insurance Planning: Protecting Your Loved Ones |
| October 5 | Using the FRS to Plan for Retirement | FRS Investment Plan: Understanding Your Benefits |
| October 6 | Nearing Retirement in the FRS | Investment Planning for Everyone - The Details |

Lifetime Annuity Quotes — \$100,000 Premium (As of 6/30/2016)

| Annuity Type | Monthly Benefit |
|--------------------|-----------------|
| Single Life | \$498 |
| Joint and Survivor | \$431 |

Assumptions: The monthly benefits listed in the examples above assume you used \$100,000 of your Investment Plan balance to purchase a lifetime fixed annuity from the Investment Plan's annuity provider.

The **Single Life Annuity** example assumes a female, aged 62. By choosing a single life annuity, she will receive fixed payments in the amount of \$498 for the rest of her life, no matter how long she lives. All income payments will cease upon her death and no further benefit payments will be due.

The **Joint and Survivor Annuity** example assumes a female, aged 62, has chosen her spouse, aged 62, as her survivor. By choosing a joint and survivor annuity, she will receive \$431 for the rest of her life. When she dies, if her spouse is still alive, then the spouse will continue to receive the \$431 for the rest of the spouse's life, no matter how long the spouse lives. You may name anyone as your survivor when you purchase a joint and survivor annuity.

Your actual annuity quotes may vary based on your individual data and other circumstances. Please note other annuity payment options and features are also available.

To find out if an annuity is right for you, or to purchase an annuity, please call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2 (TRS 711).

What's the Right Way to Use a Retirement Date Fund?

The Investment Plan's Retirement Date Funds are designed to make investing for your retirement simple. All you have to do is choose the one Retirement Date Fund that most closely matches the year you expect to retire from the FRS Investment Plan. Choosing just one Retirement Date Fund is the best way to get the most from it.

What makes this "one and done" approach possible is that each Retirement Date Fund is a diversified portfolio of other FRS Investment Plan funds. The mix of funds is based on the amount of time you have before retirement. As your retirement gets nearer, this mix gradually shifts — from growth to preservation — to match your changing investment needs.

Did You Know?

Happiness is being able to learn something new. Learning something new gives you knowledge, and with knowledge comes power. You have the power to control your retirement, and now is the perfect time to start. Learn something new today, set goals, and take control to ensure happiness in your retirement years. Many helpful tools are available on *MyFRS.com* to help you calculate your retirement needs to ensure you have the financial means to retire when the time comes. Speak with an EY planner for help to get started saving. Call today — it's never too soon!

A recent survey from Financial Engines, who provides guidance and online tools for *MyFRS.com*, found that many investors are not using Retirement Date Funds correctly.¹ Instead of investing in just one Retirement Date Fund, as recommended, many investors are investing in a Retirement Date Fund **plus** additional investment funds. Participants who mixed Retirement Date Funds with other funds saw median annual returns 2.11% lower than investors who held almost all of their funds in just one Retirement Date Fund.

If you are invested in more than one Retirement Date Fund or in a Retirement Date Fund plus additional investment funds, call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2, to discuss your investment goals and approach.

Pick One and Done!

Each Retirement Date Fund is a diversified portfolio of other FRS Investment Plan funds. To match your changing investment needs, the mix of funds gradually changes as retirement gets nearer.

| | |
|--------------------------------------|--------------------------------------|
| FRS Retirement Fund (2000) | FRS 2035 Retirement Date Fund (2035) |
| FRS 2015 Retirement Date Fund (2015) | FRS 2040 Retirement Date Fund (2040) |
| FRS 2020 Retirement Date Fund (2020) | FRS 2045 Retirement Date Fund (2045) |
| FRS 2025 Retirement Date Fund (2025) | FRS 2050 Retirement Date Fund (2050) |
| FRS 2030 Retirement Date Fund (2030) | FRS 2055 Retirement Date Fund (2055) |

For more information about Retirement Date Funds, visit the "Investment Funds" section on *MyFRS.com*.

¹ Not so simple: Why target-date funds are widely misused by retirement investors, Financial Engines, March 1, 2016, <https://corp.financialengines.com/docs/Financial-Engines-TDF-Report-022916.pdf>.

About Your Annual Fee Disclosure Statement

The Annual Fee Disclosure Statement for the FRS Investment Plan provides information concerning the Investment Plan's structure, administrative and individual expenses, and investment funds, including performance, benchmarks, fees, and expenses. This Statement is designed to set forth relevant information in simple terms to help you make better investment decisions. The Statement is available online in the "Investment Funds" section on *MyFRS.com*, or you can request a printed copy be mailed at no cost to you by calling the MyFRS Financial Guidance Line toll-free at 1-866-446-9377, Option 4 (TRS 711).