

**Florida Retirement System  
Investment Plan Excessive Fund Trading Guidelines**

Effective: November 2003 (revised July 1, 2023)

The State Board of Administration (SBA) has developed guidelines to help protect all Investment Plan members by preventing any, short-term, excessive fund trading within the Investment Plan's primary funds. Excessive fund trading, in which members move money in and out of the Investment Plan's primary funds on a frequent basis to try to capture short-term gains, can have a negative impact on the funds involved. This type of behavior can escalate a fund's trading costs which increase costs to all fund shareholders. It can also complicate a fund's portfolio management and reduce the fund's investment returns.

All Investment Plan members are subject to these guidelines, including current members, previous members, members who have rolled over Deferred Retirement Option Program (DROP) funds into the Investment Plan from the Pension Plan, surviving beneficiaries, and other alternate payees. These guidelines apply to the transfers of monies between funds and does not affect any transaction initiated for purposes of depositing employer or employee retirement contributions, rollover of eligible funds into the plan from an outside retirement plan, processing a distribution, or any administrative transaction initiated by the Investment Plan Administrator such as processing a Qualified Domestic Relations Order (QDRO), or mapping assets from terminated funds. These types of activities are considered "exempt transactions." These guidelines do not apply to the trading of funds within the Self-Directed Brokerage Account (SDBA)<sup>1</sup>.

1. Foreign and Global Investment Funds

These funds are subject to a minimum holding period of seven calendar days following any non-exempt transfers into such funds. For example, if a member transfers \$5,000 into one of the funds listed below on November 4, the member will not be able to transfer the \$5,000 out of that fund until November 12, except for distributions out of the plan. Foreign and global funds include:

- FRS Foreign Stock Index Fund (200)
- FRS Global Stock Fund (210)
- FRS Foreign Stock Fund (220)

2. Investment Funds Guidelines

All investment funds (except for money market funds, stable value funds, and funds within the SDBA) are subject to the following guidelines in order to mitigate excessive fund trading:

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<sup>1</sup> The funds within the SDBA may have excessive trading rules that are applicable, however, these are separate and apart from the Investment Plan's Excessive Trading Guidelines and the SBA has no control over these rules since these are outside of the approved FRS investment funds.

- a. Members that engage in one or more Market Timing Trades (as defined in the definitions section below) in authorized funds and who have not previously received a warning letter, will receive a warning letter sent by U.S. mail. The warning letter will notify the member that Market Timing Trades have been identified in his/her account and any additional violations will result in a direction letter.
- b. Members that engage in one or more Market Timing Trades in authorized funds and who have previously received a warning letter will be sent a direction letter by courier (i.e. UPS, FedEx, etc.). The SBA will require non-automated trade instructions for at least one full calendar month following the date of the direction letter for all trades involving the Investment Plan primary funds. Subsequent violations will require members to conduct trades using the approved paper trading form, which is required to be mailed certified/return-receipt to the SBA for all trades involving the Investment Plan primary funds. Automated trade instructions include the Internet and requests made over the telephone through the Plan Administrator's call center. However, any automated (online) trading in, out, and SDBA is still available.
- c. Automatic account rebalancing will be canceled for any member who receives a warning or direction letter. The member will be allowed to choose to have his or her account automatically rebalanced once they have no trading restrictions.

### 3. Definitions

- a. *Member* - a participant who has an account established in the Investment Plan as a result of:
  - i. Current or previous employment with an FRS-participating employer;
  - ii. A rollover of DROP accumulation from the Pension Plan;
  - iii. Being designated as an alternate payee due to a qualified domestic relations order ("QDRO"); or
  - iv. Being a designated beneficiary when a member is deceased.
- b. *Exempt transaction* - any transaction that is initiated for purposes of depositing employer or employee payroll contributions; a rollover of eligible funds into the plan from an outside retirement plan; processing a distribution or any administrator initiated transaction (e.g., processing a QDRO, mapping assets from terminated funds, etc.). Exempt transactions are not included in any calculations for the purposes of these guidelines.
- c. *Market Timing Trade* - a member-directed series of trades that meet both of the following two criteria:
  - i. The series of transactions are Roundtrip Trades.
  - ii. The series of transactions are, in aggregate, \$75,000 or more within 30 calendar days (e.g., a purchase of fund shares for \$50,000 and a sale of \$35,000 of the same fund's shares the next day would be an aggregate trade amount of \$85,000).
- d. *Roundtrip Trade* - one or more transfers into an investment fund AND one or more transfers out of the same investment fund in either order (i.e., in/out or out/in) within a 30 calendar day period<sup>2</sup>, regardless of any multiple transfers from or to other different investment funds during the Roundtrip Trade. A roundtrip trade includes a trade from an Investment Plan primary

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<sup>2</sup> Roundtrip and Market Timing Trades are calculated using a rolling 30-calendar day time period. For example, if a trade occurs on May 15, the 30-calendar day period extends from May 16 through June 14.

fund to the SDBA, a trade from the SDBA to an Investment Plan primary fund, and any automatic rebalancing of primary funds within the account.

- e. *Excessive Fund Trading* - two or more occurrences of Market Timing Trades by a member over time.
- f. *Investment Plan primary funds* – investment funds offered under the Investment Plan. Does not include additional investment opportunities available under the SDBA.
- g. *Self-Directed Brokerage Account (SDBA)* – An account that allows a member access to additional investment opportunities that are not available in Investment Plan primary funds.

#### 4. Examples

The following are examples only. This is not an exhaustive list of all possible transactions. Members avoiding these examples will not necessarily avoid the impact of excessive fund trading since other transactions may meet the definitions of Market Timing Trades or Excessive Fund Trading.

- a. If Member A transfers \$50,000 out of Fund A and into Fund B on Monday and then transfers \$20,000 out of Fund B on Tuesday, the transaction is a Roundtrip Trade but is not a Market Timing Trade because the aggregate amount of \$75,000 specified in subsection 3.c.ii., above, has not been met.
- b. If Member A transfers \$50,000 out of Fund A and into Fund B on Monday and then transfers \$55,000 out of Fund B on the following Monday, the transaction is a Roundtrip Trade and a Market Timing Trade because the aggregate amount of all trades in and out of Fund B has exceeded \$75,000 (\$50,000 + \$55,000 = \$105,000) within a 30 calendar day period.
- c. If Member A transfers \$5,000 out of Fund A and into Fund B on November 1 and then transfers \$25,000 out of Fund A and into Fund B on November 3 and then transfers \$10,000 out of Fund A and into Fund B on November 5 and then transfers \$40,000 out of Fund B and into Fund A on November 15, the entire series of transactions constitutes a Roundtrip Trade and is a Market Timing Trade because the aggregate amount of all trades into and out of Funds A and B each exceeded \$75,000 within a 30 calendar day period.
- d. If Member A transfers \$5,000 out of Fund A and puts \$2,500 into Fund B and \$2,500 into Fund C on December 1 and then transfers \$25,000 out of Fund A and puts \$20,000 into Fund B and \$5,000 into Fund C on December 5, and then transfers \$10,000 out of Fund A and puts \$10,000 into Fund C on December 6 and then transfers \$23,000 out of Fund B into Fund A and \$20,000 out of Fund C into Fund A on December 16, the entire series of transactions constitutes a Roundtrip Trade and is a Market Timing Trade because the aggregate amount of all trades into and out of Fund A exceeded \$75,000 within a 30 calendar day period. It is irrelevant that money has come out of one fund and been transferred into two funds because the money has been returned to the original fund.
- e. Member A transfers \$50,000 out of Fund A and into a foreign stock fund, which already contains \$100,000, on October 1, so that on October 1, the foreign stock fund contains \$150,000. Member A cannot transfer the \$50,000 out of the foreign stock fund until October 9.
- f. A member has \$250,000 in his Investment Plan account and is the subject of a QDRO. The member's spouse becomes entitled to half of the member's Investment Plan account. On December 5, the member's spouse rolls over their entire balance into an IRA. This is neither a

Roundtrip Trade nor a Market Timing Trade because the transfer is an exempt transaction, as described in subsection 3.b., above.

- g. A member transfers \$32,000 into Fund A on August 5 and then transfers \$32,000 out of Fund A on August 11 and then transfers \$31,000 into Fund A on August 17. The entire series of trades are Roundtrip Trades and is a Market Timing Trade because the aggregate amount of all trades exceeded \$75,000 within a 30 calendar day period.
- h. If Member A transfers \$50,000 out of Fund A and into the SDBA on January 2, and then transfers \$35,000 from the SDBA into Fund A on January 25, the transaction is a Roundtrip Trade and a Market Timing Trade because the aggregate amount of all trades into and out of Fund A exceeded \$75,000 within a 30 calendar day period.
- i. If Member A transfers \$40,000 out of Fund B and into the SDBA on February 15, and then transfers \$55,000 from Fund C into Fund B on March 3, the transaction is a Roundtrip Trade and a Market Timing Trade because the aggregate amount of all trades into and out of Fund B exceeded \$75,000 within a 30 calendar day period.

#### 5. Trading Restrictions of Specific Funds

The Securities and Exchange Commission (SEC) under Rule 22c-2 of the Investment Company Act of 1940 permits all open-end mutual funds either to impose trading restrictions or levy monetary penalties on members' conducting market timing transactions. The Investment Plan has been granted exemptions from the mutual fund companies within the Investment Plan.

#### 6. Recordkeeping

Information from the Investment Plan Administrator's member recordkeeping database will be used to identify Market Timing Trades, specific fund trading restrictions, and track the mandatory seven calendar day holding period requirements for certain funds.