



• October 2006 •

### Newly Redesigned Publications

Welcome to the first issue of the newly redesigned FRS quarterly employee newsletter. This design reflects the new look of all of the MyFRS Financial Guidance Program materials. We hope you like it.

All About Fees ..... 1

Quarterly Fund-  
Performance Summary .... 2

What's In The  
Summary? ..... 3

New Web Authentication  
Procedures ..... 5

## Get Familiar with Fees

As a member of the FRS Investment Plan, you have the opportunity to choose from a wide variety of investment funds. Each of the available funds charges an **investment management fee**—the cost for managing your money. The exact amount of the fees you pay are based on the funds you select. Note that the FRS makes it possible to invest your money at a lower fee than you might pay as a private investor. (After your employment under the FRS ends, you will also pay a quarterly plan-administrative charge of \$6.)

## How Fees Work

The Performance Summary table that starts on page 3 of this newsletter lists each FRS Investment Plan fund, along with the annual investment management fees you would pay during the first year. These annual fees assume that you had invested \$10,000 in that fund. The investment management fees, which are automatically deducted from your account, are based on a percentage of your account value. We have converted the percentages to dollar amounts so you can compare them more easily. Larger balances will have higher total fees; lower balances will have lower total fees. Keep in mind that even “low” fees can add up over time. For example, over 30 years, an annual fee of 0.50% on a fund (\$50 per \$10,000 account balance) can add up to about 15% of your final account balance. That is why the Performance Summary table also shows the long-term fees for each fund, along with the annual fees. When making your investment decisions, be sure to check the “Long-Term Fees” column of the table. This shows, in “today’s dollars,” the value of the total fees that would be charged over 30 years, assuming a \$10,000 initial investment.

## How To Determine Your Fees

Along with focusing on the right mix of investment funds to meet your goals and risk tolerance, you should periodically look at the total cost of your investments—the investment management fees for all of the funds you’re invested in.

The table on page 5 shows how you can calculate the total fees for your mix of investments. For this example, let’s assume you have an account balance of \$30,000, and you’ve chosen to invest \$20,000 in the FRS Select US Stock Market Index Fund and \$10,000 in the FRS Select US Bond Enhanced Index Fund.

Continues on page 5



# Quarterly Fund-Performance Summary

## Overview

This Performance Summary is organized by 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. In this Summary, 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 various asset classes.

### 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 that 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

These funds invest in United States Treasury inflation-protected securities (TIPS). TIPS provide two types of return. First, there’s a fixed interest rate that’s been around 2% to 4% since TIPS were first issued in 1997. Second, there’s 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 a total interest rate of about 6%. The day-to-day value of inflation-protected securities varies with 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

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 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.



## What's In The Summary?

Below you'll find a brief description of the information in the Performance Summary.

- **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.
- **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.
- **“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.

## FRS Fund Gets A New Name

Fidelity Investments recently created a subsidiary named Pyramis Global Advisors to handle its institutional investor business. As a result, the name of the Fidelity Intermediate Duration Pool Fund has been changed to the Pyramis Intermediate Duration Pool Fund, effective October 1, 2006. No other feature of the fund has changed (e.g., fund manager, objective, etc.).

## Performance Summary as of September 30, 2006

Refer to page 2 for an explanation of these asset classes.	Fees Per \$10,000 Account		Annual Average Investment Returns After Deducting Fees			
	Annual Fees	Long-Term Fees	Previous Quarter*	Previous Year	Previous 5 Years	Previous 10 Years
<b>BALANCED FUNDS</b>						
<b>Core/Balanced Funds</b>						
FRS Select Conservative Balanced Fund <i>PB: Conservative Balanced Aggregate Index<sup>##</sup></i>	\$11	\$323	3.13%	6.04%	5.20%	6.56%
FRS Select Moderate Balanced Fund <i>PB: Moderate Balanced Aggregate Index<sup>##</sup></i>	\$7	\$206	4.12%	10.34%	8.86%	9.68%
FRS Select Aggressive Balanced Fund <i>PB: Aggressive Balanced Aggregate Index<sup>##</sup></i>	\$13	\$410	3.97%	12.49%	9.77%	10.12%
	---	---	4.36%	12.74%	9.98%	9.06%
<b>MONEY MARKET FUNDS</b>						
<b>Core Money Market Funds</b>						
FRS Select Yield Plus Money Market Active Fund <i>PB: Institutional Money Market Average Index</i>	\$7	\$212	1.36%	4.86%	2.54%	4.13%
	---	---	1.34%	4.82%	2.46%	4.02%
<b>INFLATION-PROTECTED SECURITIES FUNDS</b>						
<b>Core Inflation-Protected Securities Funds</b>						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund <i>PB: Lehman Brothers TIPS Index</i>	\$2	\$60	3.63%	1.92%	---	---
	---	---	3.63%	1.91%	---	---
<b>BOND FUNDS</b>						
<b>Core Bond Funds</b>						
FRS Select U.S. Bond Enhanced Index Fund <i>PB: Lehman Brothers Aggregate Bond Index</i>	\$5	\$151	3.83%	3.68%	4.85%	6.46%
	---	---	3.81%	3.67%	4.81%	6.42%
Pimco Total Return Fund <i>PB: Lehman Brothers Aggregate Bond Index</i>	\$56	\$1,835	3.85%	3.42%	5.19%	6.91%
	---	---	3.81%	3.67%	4.81%	6.42%

	Fees Per \$10,000 Account		Annual Average Investment Returns After Deducting Fees			
	Annual Fees	Long-Term Fees	Previous Quarter*	Previous Year	Previous 5 Years	Previous 10 Years
<b>BOND FUNDS - continued</b>						
<b>Specialty Bond Funds</b>						
Pyramis Intermediate Duration Pool Fund###	\$20	\$619	3.30%	4.14%	4.90%	6.35%
<i>PB: Lehman Brothers Intermediate Aggregate Bond Index^</i>	---	---	3.41%	3.84%	4.45%	6.12%
Pimco High Yield Fund	\$50	\$1,623	3.81%	6.84%	9.02%	7.18%
<i>PB: Merrill Lynch BB/B High Yield Index</i>	---	---	4.07%	7.45 %	9.22%	6.75%
<b>U.S. STOCK FUNDS</b>						
<b>Core U.S. Stock Funds</b>						
FRS Select U.S. Stock Market Index Fund	\$2	\$60	4.67%	10.27%	8.10%	8.60%
<i>PB: Russell 3000 Index</i>	---	---	4.64%	10.22%	8.08%	8.57%
Pioneer Fund	\$65	\$2,161	5.55%	13.68%	7.82%	10.39%
<i>PB: S&amp;P 500 Index</i>	---	---	5.67%	10.79%	6.97%	8.59%
<b>Specialty U.S. Stock Funds</b>						
American Funds Investment Company of America Fund	\$31	\$976	4.15%	12.87%	8.82%	10.99%
<i>PB: Russell 1000 Value Index^^</i>	---	---	6.22%	14.62%	10.73%	11.20%
Prudential Mid-Cap Quantitative Core Equity Fund	\$35	\$ 1,109	-1.11%	7.59%	14.33%	14.16%
<i>PB: S&amp;P Mid-Cap 400 Index</i>	---	---	-1.08%	6.56%	13.09%	13.37%
FRS Select U.S. Large Growth Stock Active Fund	\$47	\$1,510	4.48%	4.45%	3.91%	---
<i>PB: Russell 1000 Growth Index</i>	---	---	3.94%	6.04%	4.42%	---
Fidelity Growth Company Fund	\$67	\$2,235	0.36%	7.44%	8.45%	9.13%
<i>PB: Russell 3000 Growth Index</i>	---	---	3.44%	6.05%	4.83%	5.27%
Fidelity Low-Priced Stock Fund***	\$71	\$2,383	2.16%	9.52%	17.23%	15.60%
<i>PB: Russell 2500 Value Index^^^</i>	---	---	2.27%	11.13%	16.98%	13.79%
American Beacon Small-Cap Value Fund	\$87	\$2,997	0.05%	6.43%	18.90%	---
<i>PB: Russell 2000 Value Index</i>	---	---	2.55%	14.01%	16.96%	---
T. Rowe Price Small-Cap Stock Fund	\$92	\$3,195	-0.03%	9.19%	13.04%	10.92%
<i>PB: Russell 2000 Index</i>	---	---	0.44%	9.92%	13.78%	9.06%
<b>FOREIGN STOCK FUNDS</b>						
<b>Core Foreign Stock Funds</b>						
FRS Select Foreign Stock Index Fund**	\$2	\$60	3.71%	18.79%	14.85%	---
<i>PB: MSCI World ex U.S. Index</i>	---	---	3.72%	18.65%	14.63%	---
American Funds Euro-Pacific Growth Fund**	\$53	\$1,728	5.07%	20.47%	15.46%	11.02%
<i>PB: MSCI EAFE Index</i>	---	---	3.99%	19.65%	14.70%	7.18%
<b>Global Stock Funds</b>						
American Funds New Perspective Fund**	\$54	\$1,764	4.51%	16.05%	12.73%	12.10%
<i>PB: MSCI World Index</i>	---	---	4.47%	14.30%	10.44%	7.66%

\* Not annualized.

\*\* These funds may have restrictions on your ability to trade. Please review the excessive fund trading policy. Prior to July 2002, actual historical performance data has been adjusted for fees and/or designs for multiple manager designs specific to the FRS.

\*\*\* This fund is closed to new money effective 8/1/04.

^ Effective July 1, 2005 the performance benchmark was changed from the Lehman Intermediate Government/Corporate Index to the Lehman Intermediate Aggregate Index for all time periods to more closely align with the Fund's investment process.

^^ Effective July 1, 2005 the performance benchmark was changed from the S&P 500 Index to the Russell 1000 Value Index for all time periods to more closely align with the Fund's investment process.

^^^ Effective July 1, 2005 the performance benchmark was changed from the Russell 2000 Index to the Russell 2500 Value Index for all time periods to more closely align with the Fund's investment process.

### Effective July 1, 2005 performance benchmarks for certain underlying funds were changed for all time periods to more closely align with the underlying funds' investment process. Please refer to the Fund Profiles for the current allocations to the underlying funds and their respective benchmarks.

### Formerly the Fidelity Intermediate Duration Pool Fund. There will be no change in the underlying product.



## How To Determine Your Fees Continued from page 1

1. To calculate the annual fee as a percentage, divide the annual fee listed in the Performance Summary table by 10,000.
2. Then, multiply the dollar amount invested in each fund by the fund's percentage annual fee to determine your total annual investment management fee for that fund.
3. Add up the fees for each fund.

### Want help with fees and investments?

**CALL** the toll-free MyFRS Financial Guidance Line  
**1-866-446-9377, Option 1**  
(TTY 1-888-429-2160)  
and  
**VISIT MyFRS.com**

Name of Fund	Amount Invested	Annual Fee (%)	Total Annual Fees (%)
FRS Select US Stock Market Index Fund	\$20,000	$\$2 \div \$10,000 = .02\%$	$\$20,000 \times .02\% = \$4$
FRS Select US Bond Enhanced Index Fund	\$10,000	$\$5 \div \$10,000 = .05\%$	$\$10,000 \times .05\% = \$5$
<b>Total</b>	<b>\$30,000</b>	<b>0.03%*</b>	<b>\$4 + \$5 = \$9</b>

\*  $\$9/\$30,000 = .03\%$  annual fee

While fees are only one factor to consider when choosing your investment, they are important because they are automatically deducted from your account balance, and even small amounts can add up over time. To see if you might be paying too much, compare the total cost of your portfolio to the FRS Select Balanced Fund with the most similar asset allocation (i.e., stocks versus bonds). Keep in mind that the average member of the FRS Investment Plan pays an annual fee of about 0.29%. You shouldn't shy away from a fund just because of a higher fee, but you should know what your investment fees are so you can make informed investment decisions.

## New Web Authentication Procedures in Effect

The FRS is committed to protecting the security of your personal information. To that end, we've taken a proactive approach and implemented new security standards for the MyFRS.com website. The new procedures became effective August 3, 2006.

With the new security enhancement, you will be required to create a unique User ID and Password to access your account. After your initial log in, you will no longer need to enter your Social Security Number (SSN) and PIN to log in.\*

Continues on page 6

**BEFORE YOU CHANGE YOUR INVESTMENT PLAN FUNDS, get professional guidance. Find out which funds fit your needs and risk tolerance. Remember, past performance of a fund does not guarantee future results!**

**CALL** the MyFRS Financial Guidance Line at **1-866-44MyFRS (1-866-446-9377; TTY 1-888-429-2160)**, and **Visit MyFRS.com** for:

- ✓ 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.
- ✓ A status of all the funds under the SBA's investment manager monitoring guidelines.
- ✓ Daily account transfers or withdrawals, if the fund does not have transfer restrictions.

## New Web Authentication Procedures in Effect Continued from page 5

We changed the login requirements based on research from a number of computer security organizations and a heightened awareness of identity theft. Specifically, the security enhancements will provide you with:

- The ability to choose your own unique User ID and Password.
- Upgraded MyFRS user-profile properties, complete with "secret questions" tied to your login information (in case you forget your new User ID or Password).
- The ability to retrieve User ID and Password information via a registered email in the event they're lost or forgotten, without waiting for a PIN Reminder (previously sent via U.S. mail) to access your account.
- Peace of mind that your personal information is protected and secure.

You can access an online user manual from the home page of MyFRS.com or call the MyFRS Financial Guidance Line (1-866-446-9377, option 1)\* for help with the login process.

\* While you'll use your newly created User ID and Password to access the MyFRS.com website, you will still need your SSN and PIN to call the MyFRS Financial Guidance Line, request a distribution from your Investment Plan account, and to re-establish your MyFRS.com account if you forget your new user ID or password. Be sure to keep your original PIN in a secure place.

### Overnight Delivery of Your Distribution Check Available

Starting January 1, 2007, you'll be able to receive your distribution check faster. Simply request expedited delivery when you call the FRS to ask for a distribution. The check will then be overnighted to your address of record and the \$20 courier cost will be deducted directly from your FRS Investment Plan account.

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, incorporates 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, 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.