FRS Investment Plan Excessive Fund Trading Policy

November 2003 (revised July 2014)

1. Foreign and global investment funds are subject to a minimum holding period of 7-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:
   a. FRS Foreign Stock Index Fund (200)
   b. American Funds EuroPacific Growth Fund (220)
   c. American Funds New Perspective Fund (210)

2. All investment funds (except for money market funds and funds within the Self-Directed Brokerage Account[1]) are subject to the following controls in order to mitigate excessive fund trading:
   a. Members that engage in one or more Market Timing Trades (as defined in the Definitions section below) in authorized funds 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 engaging in one or more Market Timing Trades and who have previously received a warning letter will be sent a direction letter by courier (i.e. UPS, FedEx, etc.). The SBA may 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 may require members to conduct trades via paper trading forms mailed certified/return-receipt to the SBA for all trades involving the Investment Plan primary funds. Automated trade instructions include the Internet. Automated trading will be allowed in, out or within the SDBA.
   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 their account automatically rebalanced once they have no trading restrictions.

3. Definitions:
   a. *Member* - is a person who has an account established in the FRS Investment Plan as a result of:
      i. Current or previous employment with an FRS-covered employer;
      ii. Being designated as an alternate payee due to a qualified domestic relations order ("QDRO"); or
      iii. 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; 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 this policy.
   c. *Market Timing Trade* - is 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[2], 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 fund to the SDBA and a trade from the SDBA to an Investment Plan primary fund.

[1] 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 policy.
[2] 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.

e. *Excessive Fund Trading* - involves 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)* – account that allows a member access to additional investment opportunities that are not available in Investment Plan primary funds.

4. <u>Examples are listed below. This list is not intended to be comprehensive and other transactions may meet the definition of Market Timing Trades or Excessive Trading.</u>
   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 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 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 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 FRS Investment Plan account and is the subject of a QDRO with the result that the member's spouse becomes entitled to half of the member's FRS Investment Plan account. A total of $125,000 is transferred from the member's account to a newly-established account for the member's spouse and the funds are put into a foreign stock fund on December 1. On December 5, the member's spouse rolls over the entire $125,000 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 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 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 day period.

5. Trading Restrictions of Specific Funds:
   Effective October 16, 2007, the Securities and Exchange Commission (SEC) under Rule 22c-2 of the Investment Company Act of 1940 is permitting all open-end mutual funds either to impose trading restrictions or levy monetary penalties on members' conducting market timing transactions. The FRS Investment Plan has been granted exemptions from the mutual fund companies within the FRS Investment Plan.
6. Recordkeeping:
   Information from the Administrator's member recordkeeping database shall be used to identify Market Timing Trades, specific fund trading restrictions, and track the mandatory 7-calendar day holding period requirements for certain funds.