



Florida Retirement System

YOUR Money YOUR Choice



INVESTMENT PLAN

Quarterly Newsletter

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CitiStreet Purchased by ING

CitiStreet, the FRS Plan Choice Administrator and FRS Investment Plan Administrator, was purchased by ING on July 1, 2008. ING is one of the top 20 global financial institutions. CitiStreet will be referred to as ING starting this month. Other than the name change, the transition will be seamless; CitiStreet's staff, current processes, contact information, and the quality of service provided to FRS members will remain the same.

Legislative Update

The Florida Legislature passed several bills affecting the Florida Retirement System during its 2008 session. The effective date for the following bills is July 1, 2008, unless noted otherwise.

House Bill 5063 (relating to FRS contribution rates, university medical center faculty, and non-integrated optional retirement programs), Chapter 2008-139, Laws of Florida, provides the following:

- No changes will be made to the current employer contribution rates (the current rates will remain in effect through June 30, 2009). The allocation to Investment Plan member accounts will also remain the same (i.e., 9% for Regular Class, 20% for Special Risk Class, etc.).
- Any person appointed to a faculty position in a college at a state university system that has a faculty practice plan may not participate in the FRS.
- A window period is provided from January 1, 2009 through December 31, 2009 for former members of the Community College System Optional Retirement Program (CCORP) and State University System Optional Retirement Program (SUSORP) who are now actively participating in the FRS Pension Plan to buy their CCORP or SUSORP service in the FRS. (Periods for which a distribution was received or for mandatory SUSORP participation may not be purchased.)
 - If the member elects to purchase this service, the cost is the actuarial accrued liability for the period of service. The member will receive service credit in the FRS for the time they participated in the CCORP or SUSORP. The member will be required to pay for this service with the money in their CCORP or SUSORP account. If the member doesn't have sufficient funds available in their account, they must make up the difference using other financial resources

House Bill 531 (relating to the Special Risk Class), Chapter 2008-77, Laws of Florida, revises the Special Risk Class eligibility requirements for members employed in forensic positions by the Florida Department of Law Enforcement, Division of State Fire Marshal, local government law enforcement agency, or Medical Examiner's office. Also provides for the upgrade of prior service to Special Risk Class service for those employees meeting the new criteria and provides that the local government employer can pay for the service credit upgrade if the employee has been employed for 3 or more years (upgrades are available only to Pension Plan members).

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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 provide a diversified mixture of various asset classes.

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 because it is imperative for the SBA to have the ability to identify Investment Plan members properly and definitively.

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.

* 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 on diversifying your account, please call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2, or TTY 1-888-429-2160, or visit MyFRS.com. Additional information on 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.

- **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.

Performance Summary as of June 30, 2008

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
BALANCED FUNDS						
Core Balanced Funds						
FRS Select Conservative Balanced Fund PB: Conservative Balanced Aggregate Index	\$11 —	\$335 —	-0.48% -0.33%	4.20% 3.50%	6.20% 5.70%	5.34% 4.45%
FRS Select Moderate Balanced Fund PB: Moderate Balanced Aggregate Index	\$5 —	\$155 —	-1.43% -1.57%	-5.44% -5.75%	8.79% 8.83%	6.46% 5.40%
FRS Select Aggressive Balanced Fund PB: Aggressive Balanced Aggregate Index	\$9 —	\$269 —	-0.23% -0.27%	-8.13% -8.23%	10.81% 11.15%	6.30% 5.32%
MONEY MARKET FUNDS						
Core Money Market Funds						
FRS Select Yield Plus Money Market Active Fund PB: Institutional Money Market Average Index	\$7 —	\$212 —	0.57% 0.71%	4.13% 4.44%	3.51% 3.53%	3.94% 3.89%
INFLATION-PROTECTED SECURITIES FUNDS						
Core Inflation-Protected Securities Funds						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund PB: Lehman Brothers TIPS Index	\$2 —	\$60 —	-0.25% -0.28%	15.30% 15.09%	5.98% 5.98%	— —
BOND FUNDS						
Core Bond Funds						
FRS Select U.S. Bond Enhanced Index Fund PB: Lehman Brothers Aggregate Bond Index	\$5 —	\$151 —	-1.05% -1.02%	7.51% 7.12%	3.92% 3.85%	5.76% 5.68%
PIMCO Total Return Fund PB: Lehman Brothers Aggregate Bond Index	\$56 —	\$1,835 —	-1.34% -1.02%	10.68% 7.12%	4.56% 3.85%	6.30% 5.68%

	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
BOND FUNDS - continued						
Specialty Bond Funds						
Pyramis Intermediate Duration Pool Fund PB: Lehman Brothers Intermediate Aggregate Bond Index	\$20	\$619	-0.72%	4.89%	3.58%	5.70%
	—	—	-0.96%	7.17%	3.85%	5.62%
PIMCO High Yield Fund PB: PIMCO High Yield Custom Index	\$50	\$1,623	0.01%	-0.38%	6.53%	5.54%
	—	—	1.56%	-0.01%	6.54%	5.15%
U.S. STOCK FUNDS						
Core U.S. Stock Funds						
FRS Select U.S. Stock Market Index Fund PB: Russell 3000 Index	\$2	\$60	-1.71%	-12.64%	8.40%	3.51%
	—	—	-1.69%	-12.69%	8.37%	3.47%
Pioneer Fund PB: S&P 500 Index	\$70	\$2,346	-2.57%	-12.15%	9.09%	4.53%
	—	—	-2.73%	-13.12%	7.58%	2.88%
Specialty U.S. Stock Funds						
FRS Select U.S. Large Value Stock Active Fund PB: Russell 1000 Value Index	\$19	\$595	-5.10%	-18.90%	9.56%	6.60%
	—	—	-5.31%	-18.78%	8.92%	4.91%
Prudential Mid-Cap Quantitative Core Equity Fund PB: S&P Mid-Cap 400 Index	\$35	\$1,109	5.17%	-8.84%	13.48%	10.23%
	—	—	5.43%	-7.33%	12.61%	9.86%
FRS Select U.S. Large Growth Stock Active Fund PB: Russell 1000 Growth Index	\$40	\$1,294	1.97%	-3.62%	7.08%	2.86%
	—	—	1.25%	-5.96%	7.32%	0.96%
Fidelity Growth Company Fund PB: Russell 3000 Growth Index	\$69	\$2,309	7.06%	4.19%	13.71%	7.73%
	—	—	1.51%	-6.38%	7.56%	1.08%
Fidelity Low-Priced Stock Fund** PB: Russell 2500 Value Index	\$72	\$2,421	-0.67%	-13.07%	13.10%	11.37%
	—	—	-1.24%	-19.91%	10.91%	8.12%
American Beacon Small-Cap Value Fund PB: Russell 2000 Value Index	\$81	\$2,763	-1.79%	-20.28%	10.87%	—
	—	—	-3.55%	-21.63%	10.02%	—
T. Rowe Price Small-Cap Stock Fund PB: Russell 2000 Index	\$91	\$3,155	0.85%	-17.62%	8.90%	6.75%
	—	—	0.58%	-16.19%	10.29%	5.53%
FOREIGN STOCK FUNDS						
Core Foreign Stock Funds						
FRS Select Foreign Stock Index Fund*** PB: MSCI World ex U.S. Index	\$2	\$60	-0.97%	-8.61%	17.46%	—
	—	—	-1.17%	-8.81%	17.32%	—
American Funds Euro-Pacific Growth Fund*** PB: MSCI EAFE Index	\$52	\$1,693	-2.25%	-3.87%	18.93%	9.69%
	—	—	-1.93%	-10.15%	17.16%	6.23%
Global Stock Funds						
American Funds New Perspective Fund*** PB: MSCI World Index	\$46	\$1,483	-1.78%	-4.14%	15.10%	9.33%
	—	—	-1.66%	-10.68%	12.25%	4.51%

Prior to July 2002, actual historical performance data has been adjusted for fees and/or designs for multiple manager designs specific to the FRS.

* Not annualized.

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

*** These funds may have restrictions on your ability to trade. Please review the excessive fund trading policy.



Continued from page 1

Keep Your Name and Address Current

Please be sure to report any change in your name or mailing address to your employer, in order to ensure you receive important information from your employer and the FRS. All active FRS employees must change their personal information through their FRS employer. Inactive or retired Investment Plan members can send a letter to ING, the Investment Plan Administrator. The letter should include your Social Security number and both your old and new addresses.

Senate Bill 1474 (relating to dissolution of marriage), Chapter 2008-46, Laws of Florida, provides for partial distributions of marital assets (including retirement benefits) during the dissolution of marriage process.

Senate Bill 1712 (relating to forfeiture of benefits due to sexual felonies), Chapter 2008-108, Laws of Florida, effective October 1, 2008, provides that retirement benefits may not be paid to any public officer or employee convicted of committing any felony as defined in s. 800.04 against a victim younger than 16, or any felony defined in chapter 794 against a victim younger than 18. The public officer or employee must have used or attempted to use his power, rights, privileges, duties, or position to commit the felony (for example, a teacher who commits such a felony against a student).

Senate Bill 2534 (relating to the Health Insurance Subsidy), Chapter 2008-32, Laws of Florida, effective May 21, 2008, provides that insurance coverage through the Cover Florida Health Care Access Program is considered health insurance coverage for the purposes of determining eligibility for the Health Insurance Subsidy.

House Bill 5083 (relating to teacher salary supplement payments), Chapter 2008-142, Laws of Florida, revises the FRS definition of "Compensation" to exclude salary supplements made to teachers who have a valid National Board for Professional Standards certificate, pursuant to s. 1012.72, F.S. This means teachers will no longer receive retirement credits for these payments.

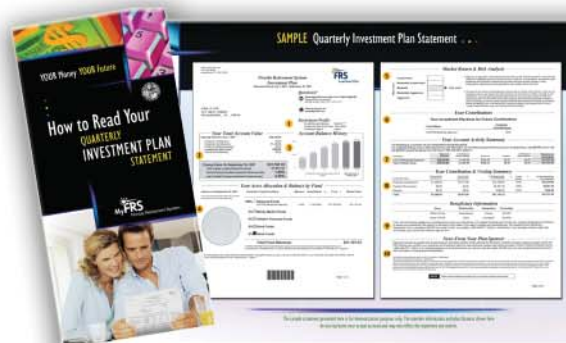
For more information on legislation passed during the 2008 session, please visit MyFRS.com, click on the "Resources" tab, and scroll to the "Legislation, The Law & Public Records" link.

Beneficiary Designation Reminder

Your enclosed FRS Quarterly Investment Plan Statement lists your current Investment Plan account beneficiary(ies). Please review these beneficiary(ies) to ensure they are current. If you wish to make a change, please complete and return an Investment Plan Beneficiary Designation Form (available on MyFRS.com or by calling ING at 1-866-446-9377, Option 4). If you name someone other than your spouse as a primary beneficiary, your spouse must sign the form where indicated. If you have any questions, please call ING.

How to Read Your Quarterly Investment Plan Statement

Enclosed is your quarterly Investment Plan statement, along with a copy of the updated brochure "How to Read Your Quarterly Investment Plan Statement." If you have any questions about your statement, call ING, FRS Investment Plan Administrator (formerly known as CitiStreet), at 1-866-446-9377, Option 4.



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 1-866-446-9377 (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.

Viewing Your Account Information Online

To see your FRS Investment Plan account information online, follow these steps:

1. Log onto MyFRS.com using your User ID and Password (or Social Security number and PIN, if it's your first time logging in).
2. Click on "Manage My Benefits," then click on "Manage Investments."

Habla Usted Español?

El Plan de Inversión tiene representantes bilingües disponibles para asistirle con sus preguntas. Llame a la Línea de Orientación Financiera (1-866-446-9377) de lunes a viernes, entre las 9:00 a.m. y 8:00 p.m. hora del Este:

- Marque 2 para hablar con un Planificador Financiero y reciba asesoramiento acerca de tu asuntos financieros.
- Marque 4 para hablar con el Administrador y tener acceso a su cuenta, modificar sus elecciones de fondos de inversión, y transferir saldos disponibles.

Linking to Quicken/Microsoft Money

If you are a registered Quicken® and Microsoft Money® user, you can automatically download your Investment Plan account balance and transactions to your Quicken or Microsoft Money program and download your updated Investment Plan information into your financial file.

Registered users will need to provide Quicken or Microsoft Money with permission to access their Investment Plan account information. Once you provide permission, your account information can easily be viewed and tracked through your Quicken or Microsoft Money program. For more information on how to use Quicken or Microsoft Money to track your Investment Plan assets, call ING today at 1-866-446-9377, Option 4.

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, 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.