FRS Investment Plan Detailed Fund Operations
Pimco Total Return Fund (B20)

Asset Class and Objective	Core broad bond fund
Fund Benchmark	Lehman Aggregate Bond Index
Investment Manager	Pacific Investment Management Company, 840 Newport Center Drive, Newport Beach, CA 92660
Marketing Company	Nationwide Retirement Solutions
Restrictions on Transfers	**Investment funds in the FRS Investment Plan are subject to excessive trading restrictions as detailed in the FRS Investment Plan Summary Plan Description and FRS Excessive Fund Trading Policy.**
How mutual fund fees work	On an annual basis, marketing companies estimate the fees that FRS Investment Plan participants will pay as a percentage of their mutual fund account assets; e.g., 0.50% per year. These figures reflect any rebates or reductions negotiated by the State Board of Administration and are published in the *Fund Profiles* and other plan materials. However, the actual fees you would pay as an investor in a mutual fund are not guaranteed and will vary over time when expressed as a percent of asset values. Mutual fund boards of directors can change fees without the FRS's permission. Changes occur throughout the year in the day-to-day expenditures made by mutual funds to cover their operating expenses and these changes are passed through to shareholders. The amount of assets under management changes from period to period and so fees expressed as a ratio of assets will vary, even if the actual dollar expenditures do not. Also, some mutual funds have fees that can rise or fall depending on performance compared to a benchmark. The actual expenses paid for mutual funds included in the FRS Investment Plan are detailed in their annual or semi-annual reports for previous periods. These reports are available free of charge by calling the MyFRS Financial Guidance Line (1-866-466-9377). Please note that these reports will not reflect any rebates or reductions negotiated by the State Board of Administration.
Investment Philosophy	Pacific Investment Management Company (Pimco) emphasizes adding value by rotating through the major sectors of the domestic and international bond markets. They also seek to enhance returns through duration management.
Research Process	Pimco's portfolio construction process is top-down, driven largely by fundamentals. Research focuses on identifying important long-term or secular forces that will influence the economy and capital markets. They will explicitly forecast a long-term (3- to 5-year) range for interest rates that determines a duration range for portfolios, relative to their benchmarks. A shorter-term, cyclical forecast determines a target within that range. Views on interest rate volatility, future yield curve shape, credit spreads, etc., also emanate from the macroeconomic forecasting process and are refined further by the portfolio management group, who is responsible for creating model portfolio structures to achieve the duration target. Selection of securities, which on aggregate, achieve the target risk attributes of our model portfolio structures, hinges on two types of analysis: quantitative and credit. Research is focused on those issues that show improving credit profiles and the potential for upgrades by the rating agencies and, therefore, greater capital appreciation potential. They also place an emphasis on financial flexibility. Pimco's research is conducted primarily in-house. All fixed income portfolio managers, credit analysts and quantitative analysts work on a team basis to generate portfolio strategies. Extensive resources have been devoted to the in-house development of computer modeling software. This software assists in the valuation of various fixed income securities and in testing how these issues will perform under a variety of interest rate, yield curve, and volatility scenarios. Credit research is focused primarily on finding a select group of issuers whose credit profiles are improving.
Security Selection	The major macro or structural strategies for portfolios are set by the fixed income group on a team basis. All portfolios are then structured with securities that, on average, optimally achieve the targeted characteristics. Individual security selection is determined by an

	assessment of security specific risks, namely credit risk, option risk, and/or convexity. Individual bond ideas are recommended by sector specialists.	
Portfolio Construction	Pimco's portfolio construction process is top-down, driven largely by fundamentals. Research focuses on identifying important long-term or secular forces that will influence the economy and capital markets. They will explicitly forecast a long-term (3- to 5- year) range for interest rates that determines a duration range for portfolios, relative to their benchmarks. A shorter-term, cyclical forecast determines a target within that range. Views on interest rate volatility, future yield curve shape, credit spreads, etc., also emanate from the macroeconomic forecasting process and are refined further by the portfolio management group, who is responsible for creating model portfolio structures to achieve the duration target. Selection of securities, which on aggregate, achieve the target risk attributes of their model portfolio structures, hinges on two types of analysis: quantitative and credit. Research is focused on those issues that show improving credit profiles and the potential for upgrades by the rating agencies and, therefore, greater capital appreciation potential. They also place an emphasis on financial flexibility.	
Sell Discipline	Pimco does not have any systematic selling procedures. Current holdings are constantly re-evaluated for their relative attractiveness versus potential investments available in the marketplace. Securities are sold when they individually no longer represent good value, when superior risk/return potential exists in substitute positions (factoring in transaction costs), or when they no longer fit with the macro or structural strategies in the portfolio.	
Portfolio Managers	**Investment Experience**	**Experience Last 5 Years**
William Gross	34 years	Managing Director and founder.