

FRS Investment Plan Detailed Fund Operations

PIMCO High Yield Fund (B55)

Asset Class and Objective	Specialty high-yield bond fund
Fund Benchmark	Lehman Intermediate BB High Yield Bond Credit Index
Investment Manager	Pacific Investment Management Company, 840 Newport Center Drive, Newport Beach, CA 92660
Marketing Company	AIG-Valic
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	<p>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 <i>Fund Profiles</i> and other plan materials.</p> <p>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.</p> <p>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.</p>
Investment Philosophy	Pacific Investment Management Company's (Pimco) high yield approach attempts to maximize return while preserving capital. This is accomplished by selecting bonds with high coupon income and good prospects for price gains due to tightening spreads.
Research Process	For evaluating corporate credit, they place primary importance on independent analysis. Their team of analysts internally rates every issue in their portfolios. Their 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 meet with company management as necessary to remain current on the financial condition of the company. They concentrate their efforts on issuers that have strong underlying businesses as well as strong competitive positions within their industries.
Security Selection	Pimco's credit research group focuses its resources on the subset of the B, BB and split BB/BBB rated issues that appear to offer attractive spreads relative to comparably rated issues and/or are in sectors that they are targeting. Rigorous in-house research identifies issues that they believe will exhibit improving or stable credit profiles. Securities that offer the best risk/return characteristics of that subset, or the best credit for the lowest price, are selected. Since many high yield issues have embedded options, option adjusted spread analysis is integral to their evaluation process. Pimco will also consider investments in the mortgage and international sectors that offer favorable risk/return tradeoff.

Portfolio Construction	Portfolio construction is a total return bottom-up strategy. Sector exposure is generally a residual of the security selection process. They do not target industry weights versus a benchmark, but rather focus on selecting the bonds with the most compelling risk/return profile. However, sector themes that emanate from Pimco's macroeconomic forecasting process will, from time to time, influence sector concentrations. Pimco's High Yield portfolios will consistently exhibit certain sector biases, such as underweighting the retail sector, based on the belief that it is unwise for certain cyclical businesses with low margins to carry highly levered balance sheets.	
Sell Discipline	Current holdings are constantly re-evaluated for their relative attractiveness versus 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 structural strategies in the portfolio.	
Portfolio Manager(s)	Investment Experience	Experience Last 5 Years
Ben Trosky	33 years	Managing Director. Joined Pimco as a portfolio manager in 1990
Raymond Kennedy	15 years	Not available