

FRS Investment Plan Detailed Fund Operations

Lord Abnett Bond-Debenture Fund (B60)

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| Asset Class and Objective | Specialty high-yield bond fund |
| Fund Benchmark | CSFB High-Yield Corporate Bond Index |
| Investment Manager | Lord Abnett & Co., 90 Hudson Street, Jersey City, NJ 07302-3973 |
| Marketing Company | ING |
| Restrictions on Transfers | None |
| How 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 | The Fund's investment objective is to seek high current income and the opportunity for capital appreciation to produce a high total return. |
| Research Process | <p>Using fundamental, bottom-up research, we seek to identify undervalued securities. Key criteria evaluated in the research process include:</p> <ul style="list-style-type: none"> • Liquidity • Quality • Financial Strength and Stability • Depth of Management • Conversion Premium (for convertible securities) <p>Through our research efforts, we conduct traditional balance sheet analysis, assess the financial strengths of companies and perform on-site visits and meetings with company management to analyze their business plans and prospects.</p> |
| Security Selection | <p>To pursue this goal, the Fund normally invests in high yield and investment grade debt securities, securities convertible into common stock and preferred stocks. Under normal circumstances, the Fund invests at least 65% of its total assets in fixed income securities of various types. At least 20% of the Fund's assets must be invested in any combination of investment grade securities, U.S. Government securities and cash equivalents.</p> <p>We believe that a high total return (current income and capital appreciation) may be derived from an actively managed, diversified portfolio of investments. Through portfolio diversification, credit analysis and attention to current developments and trends in interest rates and economic conditions, we attempt to reduce the risks. We seek unusual values, using fundamental, bottom-up research to identify undervalued securities. In recent years, the Fund has found good value in high yield securities, sometimes called "lower-rated bonds" or "junk bonds," and has invested more than half its assets in those securities. Higher yield on debt securities can occur during periods of high inflation when the demand for borrowed money is high. Also, buying lower-rated bonds when we believe the credit risk is likely to decrease</p> |



IMPORTANT NOTE: The information on investment philosophy, research process, security selection, portfolio construction, sell discipline and personnel was provided to the FRS by product marketing companies or investment managers. The FRS has taken this information as given for the purposes of this document.

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| | <p>may generate higher returns.</p> <p>While typically fully invested, at times the Fund may invest temporarily in short-term fixed income securities, such as U.S. Government obligations, bank certificates of deposit, bankers' acceptances, commercial paper and repurchase agreements. This could reduce the benefit from any upswing in the market and prevent the Fund from achieving its investment objective.</p> | |
| Portfolio Construction | <p>Lord Abbett's flexible investment strategy seeks optimum bond market returns by investing primarily in high-yield, convertible and U.S. Government Bonds. The portfolio is constructed through a process of integrating the results of our research, coupled with attention to current trends in interest rates and economic conditions. This leads the team to construct a well-diversified portfolio within a typical range of 300 securities.</p> <p>Strategic allocation between the different assets classes occur based on factors such as:</p> <ul style="list-style-type: none"> ➤ Economic Environment ➤ Federal Reserve Policy ➤ Credit Conditions ➤ Monetary Policy ➤ Relative Value Assessment of Asset Classes | |
| Sell Discipline | <p>Securities are continuously monitored and evaluated for sale when:</p> <ul style="list-style-type: none"> ➤ There is a fundamental change in the business outlookPrice appreciation has fully incorporated "Good News" into valuation ➤ A more compelling alternative investment is identified through investment process ➤ Convertible securities characteristics approach pure equity | |
| Portfolio Manager(s) | Investment Experience | Experience Last 5 Years |
| Richard S. Szaro | 38 years | With the firm since 1983 |
| Christopher J. Towle | 22 years | Partner, with the firm since 1988 |
| Michael S. Goldstein | 12 years | With the firm since 1997 and previously a bond trader with Credit Suisse Asset Management Associates (1992-97) |
| Thomas J. Baade | 12 years | With the firm since 1998 and previously a credit analyst with Greenwich Street Advisors (1990-98) |