



Florida Retirement System

YOUR Money YOUR Choice



INVESTMENT PLAN

Quarterly Newsletter

• July 2014 •

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Legislative Update: Bill Revises Employer Contribution Rates

During the 2014 session, the Florida Legislature passed House Bill 5005 (Chapter 2014-54, Laws of Florida), changing employer contribution rates in the Florida Retirement System effective July 1, 2014. **No change was made to the total amount paid into your Investment Plan account or to the 3% contribution rate you pay.** The Investment Plan contribution rates will remain the same.

The Legislature also passed CS/CS/House Bill 7055 (Chapter 2014-162, Laws of Florida), removing youth custody officers employed with the Department of Juvenile Justice from the Special Risk Class effective July 1, 2014.

Of note, two major retirement bills proposed by the Senate did **not** pass. Senate Bill 1114 would have created an FRS Cash Balance Plan, changed the default retirement plan election from the Pension Plan to the Investment Plan, closed the Pension Plan to members initially enrolled on or after July 1, 2015 (except for members whose first covered position was in the Special Risk Class), and created an additional election opportunity for existing Investment Plan or Pension Plan members to switch to the proposed Cash Balance Plan. CS/CS/Senate Bill 1114 would have changed the default retirement plan election from the Pension Plan to the Investment Plan, delayed the Pension Plan's vesting from 8 years to 10 years, permitted renewed membership for selected employees who retired prior to July 1, 2010, and required mandatory Investment Plan membership for members whose first covered position was in the Senior Management Service Class or the Elected Officers' Class (excluding judges).

For More Information

Additional information about all these bills can be found on the "2014 Legislation" page in the "Alerts & Hot Topics" box on the *MyFRS.com* home page. If you have questions about any of this legislation, please call the MyFRS Financial Guidance Line between 9:00 a.m. and 8:00 p.m. ET, Monday through Friday, toll-free at 1-866-446-9377, Option 2 (TRS 711).

Telecommunications Relay Service 711

Members who are deaf, hard of hearing, or speech-impaired can communicate with the FRS using a national service called Telecommunications Relay Service (TRS) 711.

Annual Fee Disclosure Statement

Effective July 1, 2014, the Investment Plan fund lineup changed. The enclosed Annual Fee Disclosure Statement reflects only those funds available as of July 1, 2014.

The Annual Fee Disclosure Statement provides information about the Investment Plan's structure, administrative and individual expenses, and investment funds, including performance, benchmarks, fees, and expenses. The purpose of the statement is to provide you with information in simple terms that will help you make better investment decisions. If you have any questions about the Annual Fee Disclosure Statement, call the MyFRS Financial Guidance Line toll-free at 1-866-446-9377, Option 2 (TRS 711).



Quarterly Fund Performance Summary

Overview

The Performance Summary is organized by these asset classes: money market funds, inflation-protected securities funds, bond funds, U.S. stock funds, and foreign funds. A special asset class, balanced funds, provides a diversified mixture of various asset classes. The Self-Directed Brokerage Account (SDBA) is also available.

Asset classes are groups of similar investments whose values react to changes in the economy the same basic way. Organizing funds according to asset classes is a way to simplify how you invest and improve the odds of meeting your retirement goals. Investing in a mix of asset classes (also called “diversifying”) helps you control your risk, because the different asset classes typically react to market volatility in different ways.¹

Before you select any investment funds or make an election, you should also review the Fund Profiles, the Investment Fund Summary, and the Annual Fee Disclosure Statement posted in the “Investment Funds” section on *MyFRS.com*. The asset class descriptions below are general in nature and should not be relied on as your sole source of information regarding a specific fund(s).

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, which 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

This fund invests in United States Treasury inflation-protected securities (TIPS). TIPS are U.S. government bonds and, like other bonds, pay a fixed rate of interest based on the face value of the bond when issued. TIPS bonds are designed to provide long-term inflation protection by attaching the face value of the bond to changes in inflation. When inflation increases, the face value of the bond will also increase. If inflation were to become negative, the adjusted face value would decrease. As with all bonds, TIPS are a promise of payment at a point in the future. As actual and anticipated interest rates and inflation rise and fall, the current value of those future payments will rise and fall as well. You could lose money over short or long periods by investing in this fund.

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 and Global 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.

Self-Directed Brokerage Account

The Self-Directed Brokerage Account (SDBA) allows you to invest in thousands of different investments in addition to the Investment Plan's primary investment funds. An SDBA is **not** suitable for all members and you assume the full risk and responsibility for the investments you select. Additional information on the SDBA is available in the “Investment Funds” section on *MyFRS.com*.

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, including the Self-Directed Brokerage 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.

Regarding This Performance Summary

This quarterly performance summary reflects the investment funds available through June 30, 2014. The next quarterly newsletter will incorporate the new investment funds effective July 1, 2014.

¹ 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 about diversifying your account, please call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2, or call the Telecommunications Relay Service (TRS 711), or visit *MyFRS.com*. Additional information about 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.

Long-Term Fees are the value in today's dollars of the total fees that would be charged over 30 years, assuming a \$1,000 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.

Total Index is a combination of all the market benchmarks in each market sector and is based on the asset amounts of each fund in each market sector.

Management Type is the type of investment strategy used by a fund.

P **Passively Managed** (or index) funds follow a strategy to produce the same level and pattern of investment returns generated in a market index (such as the S&P 500® index) by buying and holding the same securities as the index itself. Index funds carry a very low fee.

A **Actively Managed** funds try to predict securities price movements in order to beat a market index. The higher fees associated with actively managed funds are used to support the research needed to predict market changes.

Performance Summary as of June 30, 2014

P = Passively Managed Type

A = Actively Managed Type

Refer to page 2 for a definition of these asset classes.

	Fees per \$1,000		Annual Average Investment Returns After Deducting Fees ¹			
	Annual Fees ²	Long-Term Fees	Previous Quarter ³	Previous Year	Previous 5 Years	Previous 10 Years
TOTAL FRS INVESTMENT PLAN						
PB: Investment Plan Total Index	--	--	3.27%	15.51%	11.02%	6.58%
BALANCED FUNDS						
PB: Investment Plan Total Balanced Index	--	--	3.47%	14.34%	10.01%	6.18%
FRS Select Moderate Balanced Fund (A20) A	\$0.39	\$12	3.42%	14.31%	9.84%	6.01%
PB: Moderate Balanced Aggregate Index	--	--	3.59%	15.10%	10.67%	6.36%
FRS Select Aggressive Balanced Fund (A30) A	\$0.52	\$16	3.55%	15.07%	10.44%	6.13%
PB: Aggressive Balanced Aggregate Index	--	--	4.29%	19.54%	12.89%	6.94%
FRS Select Conservative Balanced Fund (A10) A	\$0.57	\$17	4.23%	19.63%	12.89%	6.99%
PB: Conservative Balanced Aggregate Index	--	--	2.00%	6.28%	5.22%	4.60%
MONEY MARKET FUND						
FRS Select Yield Plus Money Market Active Fund (M10) A	\$0.59	\$18	1.93%	6.09%	5.00%	4.21%
PB: Institutional Money Market Average Index	--	--	0.04%	0.18%	0.24%	1.86%
INFLATION-PROTECTED SECURITIES FUND						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund (T10) P	\$0.20	\$6	3.88%	4.62%	5.64%	5.32%
PB: Barclays Capital TIPS Index	--	--	3.81%	4.44%	5.55%	5.25%
BOND FUNDS						
PB: Investment Plan Total Bond Index	--	--	2.02%	4.88%	5.90%	5.47%
FRS Select U.S. Bond Enhanced Index Fund (B15) P	\$0.50	\$15	1.99%	4.70%	5.33%	5.04%
PB: Barclays Capital Aggregate Bond Index	--	--	2.14%	4.54%	5.01%	5.13%
Pyramis Intermediate Duration Pool Fund (B35) A	\$1.12	\$34	2.04%	4.37%	4.85%	4.93%
PB: Barclays Capital Intermediate Aggregate Bond Index	--	--	1.39%	3.70%	5.16%	4.64%
FRS Select High Yield Fund (B50) A	\$4.60	\$148	1.62%	3.48%	4.23%	4.57%
PB: Barclays Capital US HiYld Ba/B-1% Issuer Cap	--	--	2.27%	10.89%	12.03%	8.60%
PIMCO Total Return Fund (B20) A	\$5.70	\$187	2.43%	11.24%	12.69%	8.85%
PB: Barclays Capital Aggregate Bond Index	--	--	2.35%	4.76%	6.25%	6.24%
	--	--	2.04%	4.37%	4.85%	4.93%

Performance Summary as of June 30, 2014 – continued

P = Passively Managed Type

A = Actively Managed Type

	Fees per \$1,000		Annual Average Investment Returns After Deducting Fees ¹			
	Annual Fees ²	Long-Term Fees	Previous Quarter ³	Previous Year	Previous 5 Years	Previous 10 Years
U.S. STOCK FUNDS	—	—	4.46%	26.05%	20.47%	9.06%
<i>PB: Investment Plan Total U.S. Equities Index</i>	—	—	4.46%	25.03%	19.67%	8.50%
FRS Select U.S. Stock Market Index Fund (S10) P	\$0.20	\$6	4.89%	25.26%	19.40%	8.30%
<i>PB: Russell 3000 Index</i>	—	—	4.87%	25.22%	19.33%	8.23%
FRS Select U.S. Large Value Stock Active Fund (S25) A	\$1.93	\$60	5.08%	24.51%	19.55%	8.57%
<i>PB: Russell 1000 Value Index</i>	—	—	5.10%	23.81%	19.23%	8.03%
FRS Select U.S. Large Growth Stock Active Fund (S30) A	\$2.71	\$85	4.59%	30.13%	18.88%	8.67%
<i>PB: Russell 1000 Growth Index</i>	—	—	5.13%	26.92%	19.24%	8.20%
Prudential Mid-Cap Quantitative Core Equity Fund (S40) A	\$3.50	\$111	5.38%	27.57%	23.87%	11.40%
<i>PB: S&P Mid-Cap 400 Index</i>	—	—	4.33%	25.24%	21.67%	10.50%
Fidelity Low-Priced Stock Fund ⁴ (S90) A	\$5.50	\$180	2.88%	22.49%	20.40%	10.68%
<i>PB: Russell 2500 Value Index</i>	—	—	4.20%	24.94%	21.58%	9.40%
Fidelity Growth Company Fund (S80) A	\$5.80	\$191	3.85%	30.30%	21.66%	11.06%
<i>PB: Russell 3000 Growth Index</i>	—	—	4.86%	26.75%	19.34%	8.27%
American Beacon Small-Cap Value Fund (S99) A	\$8.40	\$288	2.89%	25.72%	21.97%	9.41%
<i>PB: Russell 2000 Value Index</i>	—	—	2.38%	22.54%	19.88%	8.24%
T. Rowe Price Small-Cap Stock Fund (S97) A	\$9.20	\$320	2.15%	24.02%	23.16%	10.67%
<i>PB: Russell 2000 Index</i>	—	—	2.05%	23.64%	20.21%	8.70%
FOREIGN AND GLOBAL STOCK FUNDS	—	—	4.30%	23.58%	12.76%	8.11%
<i>PB: Investment Plan Total Foreign/Global Equities Index</i>	—	—	4.76%	23.46%	12.11%	6.94%
FRS Select Foreign Stock Index Fund ⁵ (F10) P	\$0.20	\$6	4.80%	24.22%	12.03%	7.43%
<i>PB: MSCI World ex U.S. Index</i>	—	—	4.61%	23.83%	11.67%	7.18%
American Funds New Perspective Fund ⁵ (F40) A	\$4.50	\$145	3.22%	21.84%	15.85%	9.51%
<i>PB: MSCI All Country World Index</i>	—	—	5.04%	22.95%	14.36%	7.03%
American Funds EuroPacific Growth Fund ⁵ (F20) A	\$5.00	\$162	2.97%	22.40%	12.01%	9.14%
<i>PB: MSCI All Country World ex U.S. Index</i>	—	—	5.25%	22.27%	11.21%	6.91%

¹ The performance information presented reflects past performance. Past performance is not necessarily an indication of future performance.

² Fees and expenses are only one of several factors that you should consider when making investment decisions.

³ Not annualized.

⁴ This fund was closed to new money effective August 1, 2004.

⁵ These funds may have restrictions on your ability to trade. Please review the Excessive Fund Trading Policy.



About Fund Transfers

The FRS Investment Plan generally permits you to change your investment options daily (some funds restrict your ability to move your money under certain circumstances under an Excessive Fund Trading Policy). Transfer requests processed before 4:00 p.m. ET (or market close, if earlier) will be effective on the day the request is made. Transfer requests received after that time will be processed the next business day. You can change or cancel your request at any time before market close by logging in to *MyFRS.com* or calling the FRS Investment Plan Administrator at 1-866-446-9377, Option 4. If your completed request is delayed for any reason, it will be processed as soon as administratively feasible.

Inactive Account Maintenance Fee

Inactive FRS Investment Plan members with account balances of more than \$1,000 are subject to a \$6 per quarter account administrative fee. If applicable, this fee will appear on your quarterly statement after it has been applied to your FRS Investment Plan account. Further information is available in the "FRS Investment Plan Summary Plan Description" on *MyFRS.com*.

Excessive Fund Trading Policy Update

Large and frequent short-term trades in the Investment Plan can hurt all plan members by increasing administrative costs, interfering with the efficient management of the plan, and possibly diluting members' returns. The SBA's Excessive Fund Trading Policy is designed to protect all Investment Plan members from the potential impact of this type of activity. The policy has recently been updated to reflect the new investment fund lineup and trading restriction exemptions from the mutual fund companies within the Investment Plan. The updated policy is available on the "Investment Funds" page of *MyFRS.com*.

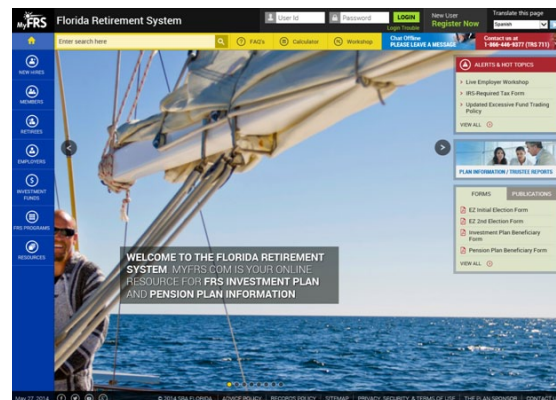
2014 Employee Workshop Webinars

The FRS offers free financial planning workshop webinars for FRS-covered employees. The remaining 2014 schedule is shown below. You can attend as many workshops as you wish. Register by calling 1-866-446-9377, Option 2. If you cannot attend one of the live webinars, you can access recorded webinars, as well as videos, by clicking on the *Workshop* link on the *MyFRS.com* home page. Topics include new hire plan choice, financial planning, plan provisions, and more.

Date	10:00 a.m. to Noon ET	1:00 to 3:00 p.m. ET
July 22	Using the FRS to Plan for Retirement	Cash and Debt Management: Smart Spending and Saving for Retirement
July 23	Nearing Retirement in the FRS	Estate Planning: Protecting Your Family
October 21	Using the FRS to Plan for Retirement	Investment Planning for Everyone: The Details
October 22	Nearing Retirement in the FRS	New Employee Retirement Plan Choice

New MyFRS.com Design

The *MyFRS.com* website was recently redesigned. The purpose of this change was to modernize the site and make it easier to find important items. We are using a responsive Web design approach, so the site's appearance adjusts automatically depending on the device that is being used to view the site (e.g., laptop, iPad, mobile phone). Because the traffic on *MyFRS.com* is high (exceeding 1.5 million visits and 800,000 unique visitors yearly), these changes should make the site easier for all FRS members who visit.



Screenshot of the New MyFRS.com Home Page

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 to ensure the SBA has the ability to identify Investment Plan members properly and definitively.

¿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.

Investment Plan Fund Lineup Changes

In the last edition of the FRS "Investment Plan Quarterly Newsletter," we notified you of changes to the Investment Plan's fund lineup effective July 1, 2014. If you had any balances in funds that were closed, these balances were automatically transferred into new funds after 4:00 p.m. ET on June 30, 2014.

Your enclosed quarterly statement reflects any changes that occurred. Please review your statement carefully and note any new funds you may be invested in. If you want to transfer your existing balances and future contributions to other fund(s), you may do so at any time. If you have questions or need assistance in making transfers, please call the MyFRS Financial Guidance Line toll-free at 1-866-446-9377, Option 4.

Detailed information on the investment funds offered in the Investment Plan is available in the "Investment Funds" section on *MyFRS.com*.

Beneficiary Designation Reminder

Your enclosed FRS Quarterly Investment Plan Statement lists your current Investment Plan account beneficiaries. Please review these beneficiaries to ensure they are correct. You can change your beneficiaries by logging in to *MyFRS.com* and clicking *Manage Investment*. Or, you can complete an FRS Investment Plan Beneficiary Designation Form (IPBEN-1), which is also available online. You can also update your beneficiaries by calling the FRS Investment Plan Administrator toll-free at 1-866-446-9377, Option 4 (TRS 711).

Keep Your Name and Address Current

Please be sure to report any change in your name or mailing address to your employer to ensure you receive important information from your employer and the FRS. All active FRS-covered employees must change their personal information through their FRS employer. Inactive or retired Investment Plan members can make an address change online.

For name changes, send a letter to Aon Hewitt, the Investment Plan Administrator. The letter should include your old name, your new name, the last four digits of your Social Security number, and a copy of the court order, marriage certificate, or driver's license reflecting your new name.