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## FRS Offers a New Way to Invest: Self-Directed Brokerage Accounts

The Florida Retirement System (FRS) Investment Plan will begin offering a new investment option that will allow you to invest in thousands of different investments in addition to those investment funds already offered in the Investment Plan (called primary investment funds). This new investment option is called a self-directed brokerage account (SDBA) and will be available in January 2014.

An SDBA is **not** suitable for all members. It's for experienced investors who want the flexibility to invest in a variety of options beyond those available in the FRS Investment Plan.

To participate in the SDBA, you must maintain a balance of at least \$5,000 in the Investment Plan's primary investment funds. You must also pay all trading fees, commissions, administrative fees, and any other expenses associated with participating in the SDBA. All transfers into an SDBA must be at least \$1,000.

See the list below of investment options available in the SDBA. Additional information will be posted on *MyFRS.com*, and a letter will be mailed to your home address in November.

### SDBA Investment Options

**Available options include:**

- Stocks listed on a Securities Exchange Commission (SEC) regulated national exchange
- Exchange-traded funds (except for leveraged exchange-traded funds)
- Mutual funds (except for any of the Investment Plan's primary investment funds)
- Fixed income products

**Options not permitted include:**

- Illiquid investments
- OTC Bulletin Board® securities
- Pink Sheet® securities
- Leveraged exchange-traded funds
- Direct ownership of foreign securities
- Derivatives, including (but not limited to) futures and options contracts on securities, market indexes, and commodities
- Limited partnerships
- Private placements
- Buying or trading on margin
- Investment Plan primary investment funds
- Any investment that would jeopardize the Investment Plan's tax-qualified status



# 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. A new investment option, a self-directed brokerage account (SDBA), will be available beginning January 2, 2014.

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.<sup>1</sup>

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 at [MyFRS.com](http://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

Beginning January 2, 2014, a new investment option, a self-directed brokerage account (SDBA), will be available to you. The SDBA will allow 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 will be included in an upcoming mailing and in the “Investment Funds” section on [MyFRS.com](http://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.

## 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.

<sup>1</sup> 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](http://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](http://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 September 30, 2013

**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 <sup>1</sup>			
	Annual Fees <sup>2</sup>	Long-Term Fees	Previous Quarter <sup>3</sup>	Previous Year	Previous 5 Years	Previous 10 Years
<b>TOTAL FRS INVESTMENT PLAN</b>	--	--	4.88%	11.18%	7.07%	6.68%
<i>PB: Investment Plan Total Index</i>	--	--	4.59%	10.59%	6.46%	6.29%
<b>BALANCED FUNDS</b>	--	--	4.37%	9.25%	6.23%	6.39%
<i>PB: Investment Plan Total Balanced Index</i>	--	--	4.40%	9.12%	5.98%	6.23%
FRS Select Moderate Balanced Fund (A20) <b>A</b>	\$0.40	\$12	4.64%	10.04%	6.65%	6.51%
<i>PB: Moderate Balanced Aggregate Index</i>	--	--	4.71%	9.90%	6.33%	6.31%
FRS Select Aggressive Balanced Fund (A30) <b>A</b>	\$0.48	\$14	5.97%	14.83%	6.99%	7.17%
<i>PB: Aggressive Balanced Aggregate Index</i>	--	--	5.98%	14.71%	7.02%	7.32%
FRS Select Conservative Balanced Fund (A10) <b>A</b>	\$0.56	\$17	1.87%	2.16%	4.18%	4.68%
<i>PB: Conservative Balanced Aggregate Index</i>	--	--	1.79%	1.98%	3.81%	4.27%
<b>MONEY MARKET FUND</b>						
FRS Select Yield Plus Money Market Active Fund (M10) <b>A</b>	\$0.56	\$17	0.06%	0.26%	0.32%	1.93%
<i>PB: Institutional Money Market Average Index</i>	--	--	0.01%	0.04%	0.32%	1.95%
<b>INFLATION-PROTECTED SECURITIES FUND</b>						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund (T10) <b>P</b>	\$0.20	\$6	0.74%	-6.07%	5.40%	5.28%
<i>PB: Barclays Capital TIPS Index</i>	--	--	0.70%	-6.10%	5.31%	5.23%
<b>BOND FUNDS</b>	--	--	0.83%	-0.69%	6.57%	5.15%
<i>PB: Investment Plan Total Bond Index</i>	--	--	0.73%	-0.89%	5.77%	4.74%
FRS Select U.S. Bond Enhanced Index Fund (B15) <b>P</b>	\$0.50	\$15	0.56%	-1.71%	5.66%	4.78%
<i>PB: Barclays Capital Aggregate Bond Index</i>	--	--	0.57%	-1.68%	5.41%	4.59%
Pyramis Intermediate Duration Pool Fund (B35) <b>A</b>	\$1.10	\$34	0.89%	-0.20%	5.74%	4.41%
<i>PB: Barclays Capital Intermediate Aggregate Bond Index</i>	--	--	0.76%	-0.71%	4.95%	4.37%
FRS Select High Yield Fund (B50) <b>A</b>	\$4.60	\$148	2.02%	5.64%	11.54%	8.37%
<i>PB: Barclays Capital US HiYld Ba/B-1% Issuer Cap</i>	--	--	2.14%	6.13%	12.77%	8.51%
PIMCO Total Return Fund (B20) <b>A</b>	\$5.70	\$187	1.15%	-0.86%	7.82%	5.98%
<i>PB: Barclays Capital Aggregate Bond Index</i>	--	--	0.57%	-1.68%	5.41%	4.59%

## Performance Summary as of September 30, 2013 – continued

**P** = Passively Managed Type

**A** = Actively Managed Type

	Fees per \$1,000		Annual Average Investment Returns After Deducting Fees <sup>1</sup>			
	Annual Fees <sup>2</sup>	Long-Term Fees	Previous Quarter <sup>3</sup>	Previous Year	Previous 5 Years	Previous 10 Years
<b>U.S. STOCK FUNDS</b>	--	--	7.67%	24.19%	11.88%	9.07%
<i>PB: Investment Plan Total U.S. Equities Index</i>	--	--	6.94%	23.05%	10.76%	8.59%
FRS Select U.S. Stock Market Index Fund (S10) <b>P</b>	\$0.20	\$6	6.34%	21.58%	10.67%	8.17%
<i>PB: Russell 3000 Index</i>	--	--	6.35%	21.60%	10.58%	8.11%
FRS Select U.S. Large Value Stock Active Fund (S25) <b>A</b>	\$1.93	\$60	4.68%	23.63%	9.49%	8.68%
<i>PB: Russell 1000 Value Index</i>	--	--	3.94%	22.30%	8.86%	7.99%
FRS Select U.S. Large Growth Stock Active Fund (S30) <b>A</b>	\$3.15	\$99	11.14%	21.09%	12.73%	8.12%
<i>PB: Russell 1000 Growth Index</i>	--	--	8.11%	19.27%	12.07%	7.82%
Prudential Mid-Cap Quantitative Core Equity Fund (S40) <b>A</b>	\$3.50	\$111	7.51%	29.97%	14.48%	11.74%
<i>PB: S&amp;P Mid-Cap 400 Index</i>	--	--	7.54%	27.68%	13.08%	10.84%
Fidelity Low-Priced Stock Fund <sup>4</sup> (S90) <b>A</b>	\$6.30	\$209	8.07%	28.83%	14.71%	11.52%
<i>PB: Russell 2500 Value Index</i>	--	--	6.43%	27.58%	11.07%	10.03%
Fidelity Growth Company Fund (S80) <b>A</b>	\$6.50	\$216	13.10%	24.62%	14.91%	11.11%
<i>PB: Russell 3000 Growth Index</i>	--	--	8.48%	20.30%	12.16%	7.99%
American Beacon Small-Cap Value Fund (S99) <b>A</b>	\$9.20	\$320	9.15%	32.57%	12.56%	10.52%
<i>PB: Russell 2000 Value Index</i>	--	--	7.59%	27.04%	9.13%	9.29%
T. Rowe Price Small-Cap Stock Fund (S97) <b>A</b>	\$9.20	\$320	9.55%	29.00%	15.88%	11.49%
<i>PB: Russell 2000 Index</i>	--	--	10.21%	30.06%	11.15%	9.64%
<b>FOREIGN AND GLOBAL STOCK FUNDS</b>	--	--	10.58%	21.31%	7.27%	8.87%
<i>PB: Investment Plan Total Foreign/Global Equities Index</i>	--	--	10.57%	20.18%	6.29%	7.78%
FRS Select Foreign Stock Index Fund <sup>5</sup> (F10) <b>P</b>	\$0.20	\$6	11.34%	21.78%	6.16%	8.45%
<i>PB: MSCI World ex U.S. Index</i>	--	--	11.31%	21.45%	6.12%	8.18%
American Funds EuroPacific Growth Fund <sup>5</sup> (F20) <b>A</b>	\$5.00	\$162	9.56%	18.27%	7.53%	9.89%
<i>PB: MSCI All Country World ex U.S. Index</i>	--	--	10.17%	16.98%	5.88%	8.00%
American Funds New Perspective Fund <sup>5</sup> (F40) <b>A</b>	\$5.30	\$173	8.33%	21.94%	10.40%	10.15%
<i>PB: MSCI All Country World Index<sup>6</sup></i>	--	--	7.90%	17.72%	7.39%	7.47%

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

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

<sup>3</sup> Not annualized.

<sup>4</sup> This fund was closed to new money effective August 1, 2004.

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

<sup>6</sup> In November 2012, the benchmark was changed from MSCI World Index to MSCI All Country World Index ACWI). For periods prior to November 30, 2012, the performance benchmark reflects the MSCI World Index.



## Proposed Investment Fund Changes Seek Greater Returns

Changes to the Investment Plan fund lineup are being proposed for July 2014. The goal of these changes is to offer you greater possible returns with less downside risk. It is not expected that any funds will be deleted from the current lineup, but some existing funds may be combined to create new funds. A slate of “target date” funds also is being considered as a replacement for the current FRS Select Balanced Funds. These changes are a result of a thorough review of all investment funds. Before any changes take effect, they must be approved by the State Board of Administration’s Trustees (Governor, Chief Financial Officer, and Attorney General). More information on these changes will be provided in upcoming newsletters.

### 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](http://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](http://MyFRS.com).

## The Investment Plan TIPS Fund Can Lose Value

After providing almost a 10% annualized return since October 2008, the Investment Plan’s FRS Select Treasury Inflation-Protected Securities Fund (TIPS) dropped over 8% during May and June 2013. Many Investment Plan members were surprised by the drop and contacted the MyFRS Financial Guidance Line. It’s important to know that TIPS is not guaranteed; like all Investment Plan funds, it can lose value.

TIPS are U.S. government obligations that provide a fixed interest rate, which is set at the time of issue. The value of TIPS securities is impacted by inflation and interest rates. When inflation goes up, the value of the TIPS goes up. When inflation goes down, so does the TIPS value. Interest rates have an opposite effect on TIPS value. When interest rates go up, TIPS go down and vice versa.

	UP	DOWN
<b>Inflation</b>	TIPS value increases	TIPS value decreases
<b>Interest Rates</b>	TIPS value decreases	TIPS value increases

If you purchase an individual TIPS security and hold it until it matures, you would receive the full value back at maturity. But holding an individual TIPS is different than investing in the FRS Select TIPS Fund, which holds many TIPS.

The daily net asset value (NAV or price) of the TIPS Fund reflects all interest income and changes in yield, as well as increases or decreases, caused by inflation. During the 2nd quarter of 2013, interest rates began to rise very quickly due to concerns about the U.S. economy. That had a negative impact on the value of TIPS. At the same time, inflation decreased, and this also pushed TIPS value down. This “perfect storm” of rising interest rates and falling inflation resulted in the TIPS Fund having a negative 2<sup>nd</sup> quarter.

Although you can lose money over short or long periods by investing in the TIPS Fund, historically, this fund has performed well. The FRS Select TIPS Fund has earned a 4.50% return over the last five years and a 5.24% return over the last 10 years.

If you have questions on the TIPS Fund, call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2, and speak with a financial planner.

## Updated: Help Keep Your Retirement Plan on Track

We recently updated the publication *Help Keep Your Retirement Plan on Track*, which explains how Financial Engines' ADVISOR® SERVICE can help both Pension Plan and Investment Plan members keep their retirement plans on track. It has been updated to include DROP members' access to the ADVISOR SERVICE and the availability of free guidance for all FRS Investment Plan, Pension Plan, and DROP members. You can download a copy by going to the *MyFRS.com* home page and selecting *Resources > Publications > Help Keep Your Retirement Plan on Track*.



### 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.

## Deadline for Requesting 2013 Tax Year Distributions

The deadline for requesting an Investment Plan distribution that will be considered a 2013 tax-year distribution is 1:00 p.m. on Tuesday, December 24, 2013. Any distribution requested after this deadline will be processed for the 2014 tax year.

## Lifetime Annuity Quotes – \$100,000 Premium

Annuity Type	Monthly Benefit
Single Life <sup>1</sup>	\$552.76
Joint and Survivor <sup>2</sup>	\$478.29

**Assumptions:** The monthly benefits listed in the examples above assume you used \$100,000 of your FRS Investment Plan balance to purchase a lifetime fixed annuity from Hartford Life, the FRS Investment Plan's annuity provider. The single life annuity example assumes a male, age 62; the joint and survivor annuity example assumes a female spouse, age 62. Cost-of-living increases are not included in these examples. The above examples are as of 11/01/2013. Your actual annuity quotes may vary based on your individual data and circumstances (e.g., age, marital status), the movement in the fixed income investment markets, and the date you purchase the annuity. A variety of fixed and variable annuities are available for you to choose. For additional details, call the MyFRS Financial Guidance Line at 1-866-446-9377, Option 2 (TRS 711).

- <sup>1</sup> By choosing a single life annuity, your monthly benefits are payable for your lifetime only. Upon your death, the annuity ends. Your survivors receive no further benefits.
- <sup>2</sup> By choosing a 100% joint and survivor annuity, monthly benefits are payable for your lifetime and the lifetime of your surviving joint annuitant. Upon your death, your surviving joint annuitant will receive a lifetime monthly benefit payment in the same amount (100%) as you were receiving.

## Final Employee Workshop Webinars

The last financial planning workshop webcasts for 2013 are listed below. If you are interested in attending a workshop, register by calling 1-866-446-9377, Option 2.

2013 Dates	10:00 a.m. to Noon ET	1:00 to 3:00 p.m. ET
October 22	Using the FRS to Plan for Retirement	Investment Planning for Everyone: The Details
October 23	Nearing Retirement in the FRS	New Employee Retirement Plan Choice