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New Excessive Fund Trading Restrictions

The April 2007 issue of this newsletter included an article about the addition of new excessive fund trading restrictions. The new restrictions became effective on October 16, 2007. These changes are the result of the Securities and Exchange Commission's adoption of Rule 22c-2 under the Investment Company Act of 1940, which permits all open-end mutual funds to impose trading restrictions and to levy monetary penalties on investors conducting market-timing transactions. These changes will impact Investment Plan members with assets in the PIMCO High Yield, Fidelity Growth Company, and T. Rowe Price Small-Cap Stock funds¹ (see additional details in Chart A on page 5) offered by the FRS Investment Plan on or after October 16, 2007.

If requested, CitiStreet, the FRS Investment Plan Administrator, will be required to provide the above-listed mutual fund companies with access to information on Investment Plan members' trading activity in order to enforce trading restrictions. Monetary penalties imposed by the fund will be withdrawn from the member's Investment Plan account.

In an attempt to prevent Investment Plan members from having to pay monetary penalties or being blocked from making additional purchases, the Investment Plan's trading system will use its "best efforts" to block restricted trades from occurring in the three affected mutual funds. If a restricted trade is not blocked, **the member will be responsible for paying any monetary penalties and/or be subject to trading restrictions. It is the responsibility of the member to comply with the Rule 22c-2 trading restrictions.**

The Rule 22c-2 trading restrictions **do not** apply to Investment Plan funds that are classified as institutional funds or to mutual funds for which the FRS has received exemptions from the fund companies. The FRS Investment Plan has been granted exemptions for the following mutual funds:

- American Beacon Small-Cap Value Fund (S99)
- Pioneer Fund (S20)
- American Funds EuroPacific Growth Fund (F20)
- American Funds New Perspective Fund (F40)

¹ The April 2007 newsletter stated that there was an additional mutual fund, PIMCO Total Return, that would impose trading restrictions based on Rule 22c-2. However, effective July 31, 2007, the PIMCO Total Return Fund eliminated these restrictions. Note that the FRS Investment Plan Excessive Fund Trading Policy still applies to all funds.

Continues on page 5



Quarterly Fund-Performance Summary

Overview

This Performance Summary is organized by asset class. Thinking about asset classes is a very effective way to simplify investing and improve the odds of meeting your retirement goals. Asset classes are groups of similar investments whose values react to changes in the economy in the same basic way. Investing in a mix of asset classes, or diversifying, helps you control your risk. * In this Summary, we use five asset classes: money market, inflation-protected securities, bonds, U.S. stocks, and foreign stocks. We also have a special category called balanced funds that provide a diversified mixture of various asset classes.

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 because it is imperative for the SBA to have the ability to identify Investment Plan members properly and definitively.

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 that 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

These funds invest in United States Treasury inflation-protected securities (TIPS). TIPS provide two types of return. First, there's a fixed interest rate that's been around 2% to 4% since TIPS were first issued in 1997. Second, there's a return of principal (the starting amount of your investment) and interest (the additional earnings you get over time) that is "protected," or indexed to inflation. As inflation rises, so does the amount of principal and interest you receive. So if the fixed rate is 3% and inflation is 3%, you receive a total interest rate of about 6%. The day-to-day value of inflation-protected securities varies with changes in inflation and interest rates, but these funds offer a promise of keeping up with inflation that is unique to this type of investment.

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 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.

* 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 on diversifying your account, please call the MyFRS Financial Guidance Line at 1-866-446-9377 or TTY 1-888-429-2160, or visit MyFRS.com. Additional information on 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.

- **Core Funds** invest in a very broad portion of an asset class and can help you form the “core” of your portfolio.
- **Specialty Funds** invest in a portion of an asset class and can help you fine-tune your portfolio.
- **Long-Term Fees** are the value in today's dollars of the total fees that would be charged over 30 years, assuming a \$10,000 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.

Performance Summary as of September 30, 2007

Refer to page 2 for an explanation of these asset classes.	Fees Per \$10,000 Account		Annual Average Investment Returns After Deducting Fees			
	Annual Fees	Long-Term Fees	Previous Quarter*	Previous Year	Previous 5 Years	Previous 10 Years
BALANCED FUNDS						
Core Balanced Funds						
FRS Select Conservative Balanced Fund <i>PB: Conservative Balanced Aggregate Index^{##}</i>	\$11	\$334	2.88%	9.13%	7.68%	6.00%
FRS Select Moderate Balanced Fund <i>PB: Moderate Balanced Aggregate Index^{##}</i>	\$5	\$143	2.02%	14.46%	13.58%	8.55%
FRS Select Aggressive Balanced Fund <i>PB: Aggressive Balanced Aggregate Index^{##}</i>	\$10	\$310	1.83%	18.49%	16.81%	8.87%
	---	---	1.58%	18.07%	17.09%	7.90%
MONEY MARKET FUNDS						
Core Money Market Funds						
FRS Select Yield Plus Money Market Active Fund <i>PB: Institutional Money Market Average Index</i>	\$7	\$212	1.36%	5.49%	3.20%	4.10%
	---	---	1.37%	5.51%	3.14%	4.01%
INFLATION-PROTECTED SECURITIES FUNDS						
Core Inflation-Protected Securities Funds						
FRS Select U.S. Treasury Inflation-Protected Securities Index Fund <i>PB: Lehman Brothers TIPS Index</i>	\$2	\$60	4.63%	4.94%	5.29%	---
	---	---	4.54%	4.98%	5.36%	---
BOND FUNDS						
Core Bond Funds						
FRS Select U.S. Bond Enhanced Index Fund <i>PB: Lehman Brothers Aggregate Bond Index</i>	\$5	\$151	2.88%	5.18%	4.17%	6.02%
	---	---	2.84%	5.14%	4.13%	5.97%
PIMCO Total Return Fund <i>PB: Lehman Brothers Aggregate Bond Index</i>	\$56	\$1,835	4.55%	5.80%	4.85%	6.42%
	---	---	2.84%	5.14%	4.13%	5.97%

	Fees Per \$10,000 Account		Annual Average Investment Returns After Deducting Fees			
	Annual Fees	Long-Term Fees	Previous Quarter*	Previous Year	Previous 5 Years	Previous 10 Years
BOND FUNDS - continued						
Specialty Bond Funds						
Pyramis Intermediate Duration Pool Fund### PB: Lehman Brothers Intermediate Aggregate Bond Index^	\$20	\$619	1.91%	4.93%	4.39%	6.01%
	---	---	2.76%	5.33%	3.94%	5.77%
PIMCO High Yield Fund PB: PIMCO High Yield Custom Index^^^	\$50	\$1,623	1.06%	7.27%	11.80%	6.40%
	---	---	0.97%	7.39%	10.93%	6.00%
U.S. STOCK FUNDS						
Core U.S. Stock Funds						
FRS Select U.S. Stock Market Index Fund PB: Russell 3000 Index	\$2	\$60	1.52%	16.50%	16.18%	6.74%
	---	---	1.55%	16.52%	16.18%	6.74%
Pioneer Fund PB: S&P 500 Index	\$70	\$2,346	1.79%	16.29%	15.73%	8.11%
	---	---	2.03%	16.44%	15.45%	6.57%
Specialty U.S. Stock Funds						
FRS Select U.S. Large Value Active Stock Fund**** PB: Russell 1000 Value Index^^	\$19	\$595	-0.93%	13.82%	18.43%	9.91%
	---	---	-0.24%	14.45%	18.07%	8.80%
Prudential Mid-Cap Quantitative Core Equity Fund PB: S&P Mid-Cap 400 Index	\$35	\$1,109	-0.45%	21.24%	20.31%	12.38%
	---	---	-0.87%	18.76%	18.17%	11.60%
FRS Select U.S. Large Growth Stock Active Fund PB: Russell 1000 Growth Index	\$44	\$1,413	5.83%	17.26%	13.14%	5.44%
	---	---	4.21%	19.35%	13.84%	4.06%
Fidelity Growth Company Fund PB: Russell 3000 Growth Index	\$71	\$2,383	9.11%	29.25%	21.54%	9.30%
	---	---	3.85%	19.31%	14.19%	3.97%
Fidelity Low-Priced Stock Fund*** PB: Russell 2500 Value Index^^	\$70	\$2,346	-2.51%	16.96%	20.22%	13.52%
	---	---	-6.04%	8.79%	19.11%	10.77%
American Beacon Small-Cap Value Fund PB: Russell 2000 Value Index	\$82	\$2,802	-7.08%	10.68%	20.19%	---
	---	---	-6.26%	6.09%	18.70%	---
T. Rowe Price Small-Cap Stock Fund PB: Russell 2000 Index	\$91	\$3,155	-2.50%	11.59%	16.60%	9.21%
	---	---	-3.09%	12.34%	18.75%	7.22%
FOREIGN STOCK FUNDS						
Core Foreign Stock Funds						
FRS Select Foreign Stock Index Fund** PB: MSCI World ex U.S. Index	\$2	\$60	2.73%	26.13%	24.35%	---
	---	---	2.71%	25.85%	24.08%	---
American Funds Euro-Pacific Growth Fund** PB: MSCI EAFE Index	\$52	\$1,693	5.30%	27.97%	24.54%	11.22%
	---	---	2.23%	25.38%	24.05%	8.35%
Global Stock Funds						
American Funds New Perspective Fund** PB: MSCI World Index	\$51	\$1,658	5.20%	25.76%	21.97%	11.70%
	---	---	2.36%	21.09%	19.65%	7.35%

* Not annualized.

** These funds may have restrictions on your ability to trade. Please review the excessive fund trading policy. Prior to July 2002, actual historical performance data has been adjusted for fees and/or designs for multiple manager designs specific to the FRS.

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

**** Replaced the American Funds Investment Company of America Fund, effective July 1, 2007.

^ Effective July 1, 2005 the performance benchmark was changed from the Lehman Intermediate Government/Corporate Index to the Lehman Intermediate Aggregate Index for all time periods to more closely align with the Fund's investment process.

^^ Effective July 1, 2005 the performance benchmark was changed from the S&P 500 Index to the Russell 1000 Value Index for all time periods to more closely align with the Fund's investment process.

^^^ Effective July 1, 2005 the performance benchmark was changed from the Russell 2000 Index to the Russell 2500 Value Index for all time periods to more closely align with the Fund's investment process.

**** The performance benchmark has been changed to a blended index comprised of the Merrill Lynch U.S. High Yield BB/B Rated Constrained Index for all monthly time periods on or after November 2005 and the Merrill Lynch U.S. High Yield BB/B Rated Index for all prior monthly time periods.

Effective July 1, 2005 performance benchmarks for certain underlying funds were changed for all time periods to more closely align with the underlying funds' investment process. Please refer to the Fund Profiles for the current allocations to the underlying funds and their respective benchmarks.

Formerly the Fidelity Intermediate Duration Pool Fund. There was no change to the underlying product.



Keep Your Name and Address Current

Please be sure to report any change in your name or mailing address to your employer, in order to ensure you receive important information from your employer and the FRS. All active FRS employees must change their personal information through their FRS employer. Inactive or retired Investment Plan members can send a notarized letter to CitiStreet, the Investment Plan Administrator. The letter should include your Social Security number and both your old and new addresses.

The Rule 22c-2 restrictions described on page 1 are in addition to the current trading restrictions that may be imposed on individual members who violate the FRS Investment Plan Excessive Fund Trading Policy (in effect since November 2003), as noted in Chart B.

Currently, the three FRS Balanced Funds do not include any of the three funds affected by Rule 22c-2. However, one or more of the affected funds could be included in the future, depending on changes to the makeup of the FRS Balanced Funds. If trading restrictions become necessary, you will be notified via a future newsletter.

Please review these policies carefully before making any Investment Plan transactions. You can review a copy of the recently updated FRS Investment Plan Excessive Fund Trading Policy (which includes miscellaneous changes and changes as a result of Rule 22c-2) by:

- clicking on the green dollar sign button in the upper right hand corner of the MyFRS.com website.
- then clicking on the Excessive Fund Trading Policy PDF located in the bottom right corner of the page.

CHART A • SEC Rule 22c-2 Trading Restrictions — Effective October 16, 2007

Fund Name	Restriction	Penalty
PIMCO High Yield (B55)	Prohibits selling out of the fund within 30 days of purchasing into the fund.	2% redemption fee of the Net Asset Value of fund shares sold or exchanged.
Fidelity Growth Company (S80)	<ul style="list-style-type: none"> • Limits two roundtrip transactions* within a rolling 90-day period. • Limits four roundtrip transactions within a rolling 12-month period. 	Blocked from making additional purchases for 85 days.
T. Rowe Price Small-Cap Stock (S97)	Prohibits buying in or selling out of the fund within 90 days of completing a roundtrip transaction.**	Blocked from making additional purchases for 90 days.

* Fidelity defines a roundtrip transaction as occurring when a member buys and then sells shares of a fund within 30 days.

** T. Rowe Price defines a roundtrip transaction as one purchase and one sale or one sale and one purchase of the same fund.

CHART B • FRS Investment Plan Excessive Fund Trading Policy — Effective November 2003

Fund Name	Restriction	Penalty
FRS Select Foreign Stock Index (F10) American Funds EuroPacific Growth (F20) American Funds New Perspective (F40)	Prohibits selling out of the fund within 7 calendar days of purchasing into the fund.	NA — The Investment Plan trading system automatically blocks these trades from occurring.
All Investment Plan funds except the FRS Select Yield Plus Money Market Active Fund (M10)	Prohibits multiple roundtrips*** in and out of any investment fund totaling \$75,000 or more within a 30-day period.	Restrictions are imposed on a member's ability to make future fund transfers.

***The FRS Investment Plan defines a roundtrip trade as one or more transfers into an investment fund and one or more transfers out of the same investment fund in either order (i.e., in/out or out/in) within a 30 calendar-day period.

N/A - Not applicable.

BEFORE YOU CHANGE YOUR INVESTMENT PLAN FUNDS, get professional guidance. Find out which funds fit your needs and risk tolerance. Remember, past performance of a fund does not guarantee future results!

CALL the MyFRS Financial Guidance Line at 1-866-446-9377 (TTY 1-888-429-2160), and Visit MyFRS.com for:

- ✓ Free guidance and in-depth information on all investment funds offered under the FRS Investment Plan, including Financial Engines' Fund Score Cards and the Fund Profiles, Fund Details, and Investment Fund Summary, which are updated regularly. These reports discuss the fees, investment strategies, and other factors that may significantly affect the fund's performance.
- ✓ A status of all the funds under the SBA's investment manager monitoring guidelines.
- ✓ Daily account transfers or withdrawals, if the fund does not have transfer restrictions.

Beneficiary Designation Reminder

Your enclosed FRS Quarterly Investment Plan Statement lists your current Investment Plan account beneficiary(ies). Please review these beneficiary(ies) to ensure they are current. If you wish to make a change, please complete and return an Investment Plan Beneficiary Designation Form (available on MyFRS.com or by calling CitiStreet at 1-866-446-9377, Option 4). If you name someone other than your spouse as a primary beneficiary, your spouse must sign the form where indicated. If you have any questions, please call CitiStreet.

Online and Direct Deposit Distributions Now Available

You can now request a distribution online or have your distributions electronically deposited into your bank account, providing you have terminated employment and meet the requirements for taking an Investment Plan distribution. For information and instructions, visit the MyFRS.com home page and scroll to the detailed article called "Online Distributions and ACH Direct Deposits Now Available" by clicking the "Read More" link.

Year-to-Date Personal Investment Performance

Your year-to-date Personal Investment Performance (PIP) will soon be listed on your Quarterly Investment Plan Statement, as shown in the following example:

Closing Value On September 30, 2007	\$31,197.03
Total change in value during this period	\$1,971.15
Current Period Personal Investment Performance	1.60%
Year-To-Date Personal Investment Performance	3.20%

For more information on your PIP, call 1-866-446-9377, Option 4. You can also refer to the Frequently Asked Questions about PIP by clicking on the green question mark icon in the upper right hand corner of the MyFRS.com website. Then click on the "Knowledge Base" tab, enter PIP in the "Search for" box, and click "Search."

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, 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.