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Start 2007 With the Right Investments

The beginning of the year is a great time to review your retirement accounts and make sure you have the right mix of funds for your situation. To get personalized help, call the toll-free MyFRS Financial Guidance Line at 1-866-446-9377 (TTY 1-888-429-2160), Option 1, and speak with an experienced, unbiased financial planner. The financial planners have access to state-of-the-art planning tools, like Financial Engines' Personal Online ADVISOR SERVICE (also available by logging onto MyFRS.com).

How Are Other People Investing?

It's natural to wonder how your investment decisions compare with choices others have made. Financial Engines' Personal Online ADVISOR SERVICE can show you:

- How much risk the average U.S. investor in your age group takes
- The combination of FRS Investment Plan funds that can match that risk level
- The combination of investment funds with the highest expected returns, after deducting fees, based on other risk levels you can choose
- Your projected total retirement income, including Social Security and FRS benefits

Within the FRS Investment Plan, the three FRS Select Balanced Funds are among the seven most utilized investment funds. (The FRS Select Moderate Balanced Fund is the most popular fund with over 22% of all member assets.)

Your "mix" of investment products (asset allocation) is one of the most important factors in determining the value of your investments, both in the long and short term. Take a look at the table below to see how Investment Plan participants are investing:

Average Asset Allocation By Age

FRS Investment Plan Participants as of 9/30/06

	Under 35	35-44	45-54	55-65	Over 65
Money Market	5%	8%	12%	17%	21%
Inflation-Protected Securities	2%	2%	3%	5%	6%
Bonds (Fixed Income)	18%	15%	16%	17%	18%
Stocks (U.S. and Foreign)	76%	75%	69%	61%	55%

May add to more than 100% due to rounding.

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.

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, e.g., balanced funds). For further information on diversifying your account, please call the MyFRS Financial Guidance Line at 1-866-44MyFRS (1-866-446-9377; TTY 1-888-429-2160), or visit MyFRS.com.



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 December 31, 2006

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	\$322	2.33%	7.10%	4.83%	6.43%
FRS Select Moderate Balanced Fund <i>PB: Moderate Balanced Aggregate Index##</i>	\$7	\$204	5.55%	14.16%	8.43%	9.62%
FRS Select Aggressive Balanced Fund <i>PB: Aggressive Balanced Aggregate Index##</i>	\$13	\$410	7.09%	17.60%	9.12%	10.14%
	---	---	7.69%	18.58%	9.62%	9.21%
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%	5.17%	2.68%	4.12%
	---	---	1.36%	5.17%	2.61%	4.02%
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	-1.30%	0.53%	7.10%	---
	---	---	-1.30%	0.41%	7.19%	---
BOND FUNDS						
Core Bond Funds						
FRS Select U.S. Bond Enhanced Index Fund <i>PB: Lehman Brothers Aggregate Bond Index</i>	\$5	\$151	1.19%	4.30%	5.07%	6.28%
	---	---	1.24%	4.33%	5.06%	6.24%
PIMCO Total Return Fund <i>PB: Lehman Brothers Aggregate Bond Index</i>	\$56	\$1,835	0.89%	3.88%	5.33%	6.62%
	---	---	1.24%	4.33%	5.06%	6.24%

	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### <i>PB: Lehman Brothers Intermediate Aggregate Bond Index^</i>	\$20	\$619	1.17%	4.76%	5.14%	6.21%
	---	---	1.26%	4.58%	4.70%	5.98%
PIMCO High Yield Fund <i>PB: Merrill Lynch BB/B High Yield Index</i>	\$50	\$1,623	3.73%	9.48%	8.98%	7.13%
	---	---	3.86%	10.70%	8.92%	6.73%
U.S. STOCK FUNDS						
Core U.S. Stock Funds						
FRS Select U.S. Stock Market Index Fund <i>PB: Russell 3000 Index</i>	\$2	\$60	7.07%	15.72%	7.18%	8.58%
	---	---	7.12%	15.72%	7.17%	8.59%
Pioneer Fund <i>PB: S&P 500 Index</i>	\$65	\$2,161	5.58%	16.88%	7.03%	10.16%
	---	---	6.70%	15.78%	6.19%	8.42%
Specialty U.S. Stock Funds						
American Funds Investment Company of America Fund <i>PB: Russell 1000 Value Index^^</i>	\$33	\$1,042	5.43%	16.17%	8.32%	10.76%
	---	---	8.00%	22.25%	10.86%	11.00%
Prudential Mid-Cap Quantitative Core Equity Fund <i>PB: S&P Mid-Cap 400 Index</i>	\$35	\$1,109	6.69%	11.94%	12.59%	13.99%
	---	---	6.99%	10.32%	10.89%	13.47%
FRS Select U.S. Large Growth Stock Active Fund <i>PB: Russell 1000 Growth Index</i>	\$46	\$1,472	4.76%	4.08%	2.54%	---
	---	---	5.93%	9.07%	2.69%	---
Fidelity Growth Company Fund <i>PB: Russell 3000 Growth Index</i>	\$71	\$2,383	8.53%	9.83%	5.82%	9.69%
	---	---	6.16%	9.46%	3.02%	5.34%
Fidelity Low-Priced Stock Fund*** <i>PB: Russell 2500 Value Index^^^</i>	\$70	\$2,346	9.84%	18.04%	15.87%	15.54%
	---	---	9.14%	20.18%	15.51%	13.70%
American Beacon Small-Cap Value Fund <i>PB: Russell 2000 Value Index</i>	\$87	\$2,997	8.56%	14.68%	16.11%	---
	---	---	9.03%	23.48%	15.37%	---
T. Rowe Price Small-Cap Stock Fund <i>PB: Russell 2000 Index</i>	\$92	\$3,195	6.66%	12.78%	10.53%	11.36%
	---	---	8.90%	18.37%	11.39%	9.44%
FOREIGN STOCK FUNDS						
Core Foreign Stock Funds						
FRS Select Foreign Stock Index Fund** <i>PB: MSCI World ex U.S. Index</i>	\$2	\$60	10.11%	25.88%	15.48%	---
	---	---	10.12%	25.71%	15.25%	---
American Funds Euro-Pacific Growth Fund** <i>PB: MSCI EAFE Index</i>	\$53	\$1,728	8.74%	22.27%	15.31%	11.25%
	---	---	10.40%	26.86%	15.43%	8.06%
Global Stock Funds						
American Funds New Perspective Fund** <i>PB: MSCI World Index</i>	\$53	\$1,728	8.18%	20.12%	12.09%	12.16%
	---	---	8.37%	20.07%	10.38%	8.03%

* 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.

^ 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.

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.



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How Age Impacts Your Investments

Financial planners typically suggest that younger people invest a higher portion in stocks than in other types of investments. They encourage older investors to decrease the portion invested in stocks and consider less volatile investments, such as money market funds, inflation-protected securities, and bonds. Why?

- **Stocks** carry more risk over the short term and typically show gains over a long period of time. Younger employees (under 45) can generally handle a higher degree of risk. But those over 65 have placed a larger percentage of their assets in more conservative investment options.
- **Money market funds** are a good example of a conservative investment option that carries little short-term risk. So, those over 65 have put about 21% of their account balances in the FRS Select Yield Plus Money Market Fund. Younger employees have wisely allocated only 5% to 8% to this Fund.
- **Inflation-protected securities** have a unique feature: Their principal (face value) is indexed to inflation. This means they provide a return that preserves or protects the purchasing power of FRS Investment Plan contributions over long time periods. Like bonds, inflation-protected securities also receive interest payments (average of 2.5% over the past year). Note that these investments are subject to short-term volatility and may decline in value over the short term.

Putting It To Work For You

Does this information mean that you should change all your investments to reflect these trends? No. What's right for the Smiths may not be right for you. Call the toll-free MyFRS Financial Guidance Line or log onto MyFRS.com and use the free resources to help you determine if you are making the most of your Investment Plan dollars.

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.

Rollovers From Former Investment Plan Members Now Permitted

Effective January 1, 2007, former FRS Investment Plan members (retirees) who terminated FRS employment and took a distribution from their Investment Plan account are permitted to roll eligible funds back into the FRS Investment Plan. They will have immediate access to these funds, subject to IRS rules and regulations, even if they return to FRS-covered employment.

Retirees who roll their funds back into the Investment Plan will be able to take advantage of the Investment Plan's low-cost investment funds and access unbiased financial planners available through the MyFRS Financial Guidance Program to help manage their retirement account. Fees for Investment Plan funds are typically lower than they are through some other plans. The \$6 per quarter administrative fee is also less than most other plans charge.

If you have additional questions, please call the MyFRS Financial Guidance Line toll-free at 1-866-446-9377, Option 1, or read the Questions and Answers on MyFRS.com (click the "FRS Programs" tab, scroll to "Investment Plan," and click on "Rollovers from Former Investment Plan Members").

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 **1-866-44MyFRS (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.

Foreign Stocks—Proceed with Caution

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 the enclosed Investment Plan Beneficiary Designation Form (also 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.

The past three years have been good for foreign stock funds. During this period, foreign funds have outperformed both U.S. stocks and bonds. Investment professionals typically recommend that investors hold a portion of their assets in foreign funds for diversification benefits. These funds have become increasingly popular with Investment Plan members.

Unfortunately, no asset class goes straight up forever, and using past performance can be dangerous to the future of your retirement nest egg. While no one can predict the future, it is very unlikely that foreign funds will continue to enjoy their 21% average annual return of the past three years. (Over the past 10 years, the average annual return has been closer to 7.6%.) All investments have some risk. Foreign funds are affected by 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).

Rather than seeking hot asset classes or hot investment funds, use the free resources listed in the green box above to find the right balance for your Investment Plan portfolio. Choose the portfolio that best meets your needs and reflects your individual circumstances.

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.