

FRS Investment Plan Detailed Fund Operations ***FRS Select U.S. Bond Enhanced Index Fund (B15)***

The FRS Select U.S. Bond Enhanced Index Fund was developed for the FRS Investment Plan and may use multiple institutional investment managers that serve in a fiduciary capacity. Each manager has a target share, which may be periodically changed based on funding levels and other considerations. Index managers are expected to be used as the primary liquidity vehicle to facilitate initial funding, daily transfers and rebalancing.

The historical performance and fee data for the FRS Select Funds was derived using the following approach. The FRS received historical monthly gross of fees return data for the individual investment managers or bundled provider products (for the FRS Select Balanced Funds). Historical monthly gross returns for the individual managers were adjusted for the fees applicable to the FRS. The fees used to calculate net returns were based on the highest fee tier, representing the fees charged against the first dollar invested in the Fund. This “worst case” fee scenario was also used in other fee presentations (e.g. ***Fund Profile, Investment Funds Summary***, etc.). For the FRS Select Enhanced Index Funds (i.e with multiple investment managers), the FRS calculated a weighted average of the underlying managers’ historical net returns according to the target manager allocations identified in each ***Detailed Fund Operations***.

Restrictions on Transfers:

Investment funds in the FRS Investment Plan are subject to excessive trading restrictions as detailed in the FRS Investment Plan Summary Plan Description and FRS Excessive Fund Trading Policy.

A table in this document includes detailed information on the operations of the investment managers:

Barclays Global Investors
45 Fremont Street
34th Floor
San Francisco, CA 94105

Prudential Investment Management Inc.
2 Gateway Center, 4th Floor
Newark, New Jersey 07102-5096

Investment Manager: Barclays Global Investors (U.S. Debt Bond Index Product)

Targeted Share of Fund	50% (actual share will vary)	
Asset Class and Objective	Core Bond Fund	
Product Benchmark	Lehman Aggregate Bond Index	
Marketing Company	None	
Restrictions on Transfers	Investment funds in the FRS Investment Plan are subject to excessive trading restrictions as detailed in the FRS Investment Plan Summary Plan Description and FRS Excessive Fund Trading Policy.	
Investment Philosophy	Barclays Global Investors' (BGI) objective in managing the fund is to deliver a high quality and cost-effective index-based portfolio to institutional investors.	
Research Process	See Security Selection and Portfolio	
Security Selection	Optimization is used to select a subset of the index securities to minimize tracking error while controlling rebalancing costs.	
Portfolio Construction	<p>The US Debt Bond Index Fund shall be invested and reinvested primarily in a portfolio of debt securities with the objective of approximating as closely as practicable the total rate of return of the market for debt securities as defined by the Lehman Brothers Aggregate Bond Index. Debt securities shall include obligations issued or guaranteed by the United States government, its agencies or instrumentalities; investment grade obligations of United States corporations and dollar denominated debt obligations of other issuers included in the Index; mortgage-backed securities issued or guaranteed by the United States government or its agencies or instrumentalities; commercial mortgage-backed securities; and, investment grade asset-backed securities. When deemed appropriate by BGI, BGI may invest a portion of the Fund in interest rate futures contracts for the purpose of acting as a temporary substitute for investment in debt securities. No Fund will engage in speculative futures transaction.</p> <p>The US Debt Bond Index funds are "superfunds" which invest in six underlying funds: long corporate, long government, intermediate corporate, intermediate government, mortgage-backed securities and asset-backed securities funds.</p> <p>Futures and Options: BGI does not use futures to add value; futures are used only to decrease tracking error. Futures contracts are employed within the collective funds to "equitize" cash flows. These flows are generated from dividends and other cash flows associated with securities in the portfolio. Futures contracts are purchased to provide immediate market exposure proportionate to the size of both cash flows and residual cash within the portfolio. The goal is to reduce the overall portfolio tracking error that would be incurred should cash remain uninvested in the portfolio. Cash in excess of 0.15% would be equitized using Lehman Aggregate futures contracts.</p> <p>Securities Lending: This fund participates in securities lending. BGI lends all major asset classes and is present in all major markets. As part of the Global Index and Markets Group (GIMG), the securities lending activities are closely linked to the index management services, cash management, trading and risk management groups.</p> <p>BGI currently deals with only 34 counterparties. Their philosophy on borrower selection is to concentrate their lending to highest credit quality borrowers of those who meet stringent capital, financial and risk requirements and who are able to meet their obligations within the terms of the lending contract. Their risk management controls include:</p> <ul style="list-style-type: none"> -Credit screening of borrowers to determine capital adequacy, liquidity/operations efficiency. -Collateral requirements that govern receipt and monitoring of collateral received in lieu of securities borrowed. BGI accepts only cash, obligations of the US Government and irrevocable letters of credit. -A minimum of 102% and 105% of the market value for domestic and international loans is required at the outset, respectively. -A daily mark-to-market procedure. -Investment policy controls applied to the investment of cash received as collateral. -Record-keeping guidelines, written agreements and regulatory reporting managed in compliance with all applicable regulatory controls of the securities lending programs of financial institutions. 	
Sell Discipline	Not applicable	
Portfolio Manager(s)		
Name	Investment Experience	Experience Last 5 Years
Matt Tucker	11 years	Head of Enhanced and Index Fixed Income Strategy; at BGI since 1996
Lee Sterne	16 years	Senior Portfolio Manager; at BGI since 1996
Marcus Tom	16 years	Portfolio Manager; at BGI since 2000
Peter Knez	18 years	CIO, Global Fixed Income; at BGI since 2003



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.

Investment Manager: *Prudential U.S. Fixed Income Enhanced Index Fund*

Targeted Share of Fund	50% (actual share will vary)	
Asset Class and Objective	Core broad bond fund	
Fund Benchmark	Lehman Aggregate Bond Index	
Marketing Company	Prudential Retirement Services	
Restrictions on Transfers	Investment funds in the FRS Investment Plan are subject to excessive trading restrictions as detailed in the FRS Investment Plan Summary Plan Description and FRS Excessive Fund Trading Policy.	
Investment Philosophy	Prudential Fixed Income's objective is to consistently achieve total return of 15-20 bps over a broad market index through active security selection and trading across government, mortgage and corporate bonds.	
Research Process	<p>Research is a major competitive advantage for Prudential Fixed Income. A 31 person in-house research staff, with senior members averaging 14 years of investment experience, conducts intensive, fundamental credit research.</p> <p>Fifteen domestic and foreign analysts are dedicated to investment grade corporate research. These analysts cover approximately 40 corporate subsectors as well as structured and asset-backed products. They follow 800 investment grade U.S. and Yankee issuers, with approximately 350 of those receiving priority coverage.</p>	
Security Selection	The bulk of Prudential Fixed Income's deviations from the benchmark in individual security weightings will be in the corporate market. They begin by assigning priority coverage to the top 350 issuers in the corporate bond market. A financial analysis is developed, with projections, and each analyst assigns a credit score based on their rating option. This credit score is one of six factors loaded into Prudential Fixed Income's corporate Bond Relative Value Matrix. The Matrix also considers yield spread, liquidity, equity performance and equity volatility when assigning an overall ranking to each issue and subsector in their universe. The overall ranking is one of the tools used in security selection.	
Portfolio Construction	Portfolio Guidelines and Rules: Sector allocation: +/- 2% from the benchmark. Corporate subsector allocation: +/- 3% from the benchmark. The yield curve is divided into 10 different duration "cells" (1-3 years, 3-5 years, etc.) keeping each within +/-3% of the benchmark. Duration: +/- one-tenth of a year of the benchmark. Individual Issue Weightings: one-half of one percent over or under the (corporates) benchmark weight. Quality: +/- 3% for AAA, +/- 2% for AA-BAA.	
Sell Discipline	<p>For corporate bonds, Prudential Fixed Income's sell decisions are generally predicated on one of three factors: 1) A bond has reached its target price set when it was purchased. 2) The company's fundamentals seem likely to deteriorate. 3) There is an opportunity to improve the overall portfolio.</p> <p>For U.S. Government and mortgage-backed securities, a security is generally sold if the models indicate that the security has become rich to fair value, and a cheaper alternative security can be identified.</p>	
Portfolio Manager(s)	Investment Experience	Experience Last 5 Years
Jim Herbst	16 years	Portfolio Manager of the fund
Kay Willcox	21 years	Portfolio Manager of the fund