



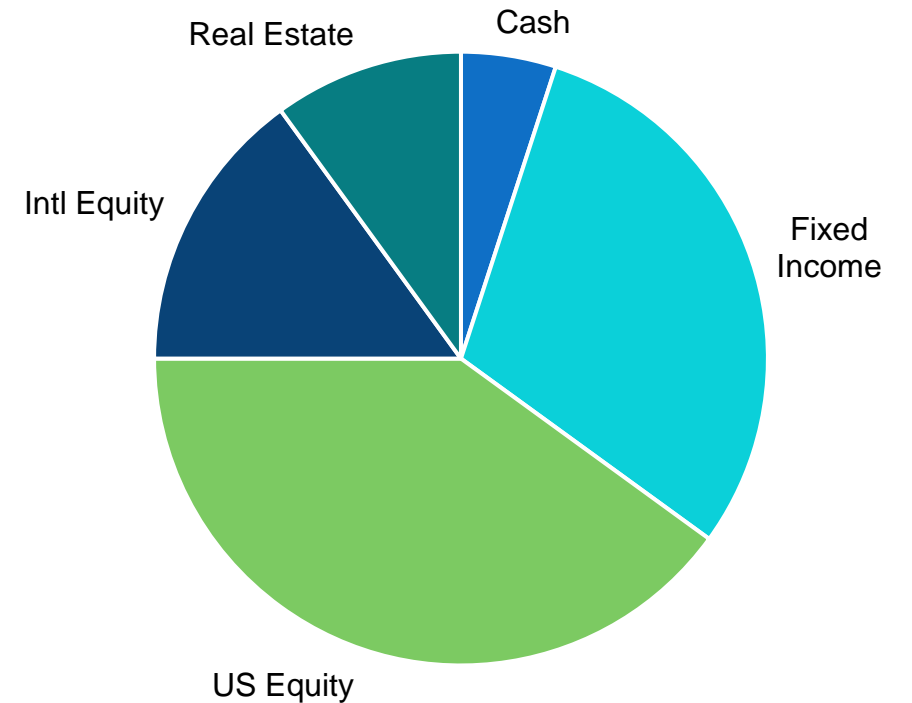
# MAJOR ASSET CLASSES

Daniel Johnson, FPPTA Education Committee

# ASSET ALLOCATION

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- Investment strategy of investing in multiple asset classes with the objective of balancing total portfolio risk and returns.





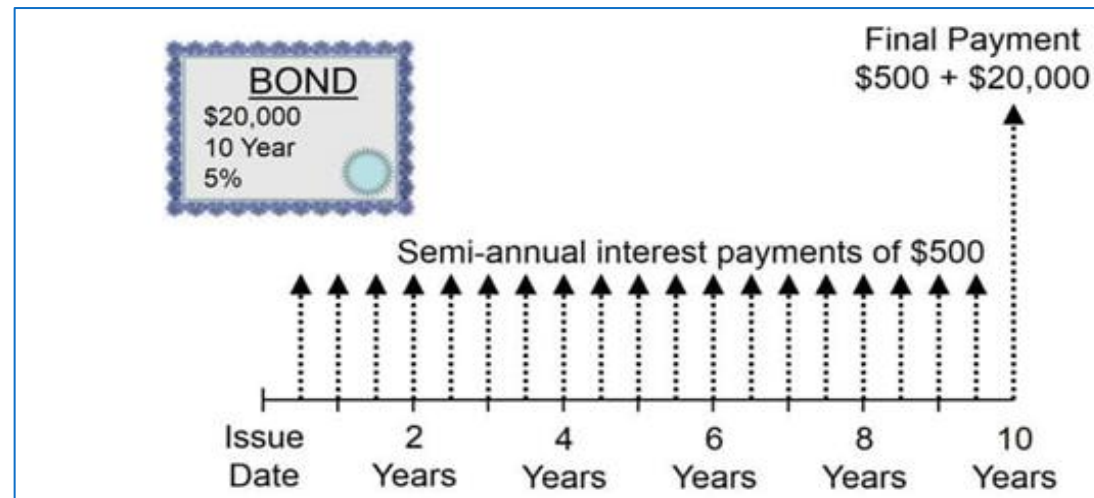
# CASH AND EQUIVALENTS

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- Short term investments that provide capital preservation and earn interest (i.e. money market funds, certificates of deposits).
- All plans need access to cash periodically for expenses, pension payments, etc.
- Used via money market funds.

# FIXED INCOME/BONDS

- Most commonly in the form of bonds.
- Debt instruments with defined interest rates (fixed or variable rates) and maturities; the investor is entitled to interest and repayment of the principal. The investments are typically issued by corporations or governments and includes pools of fixed income investments.







## EQUITY/STOCKS

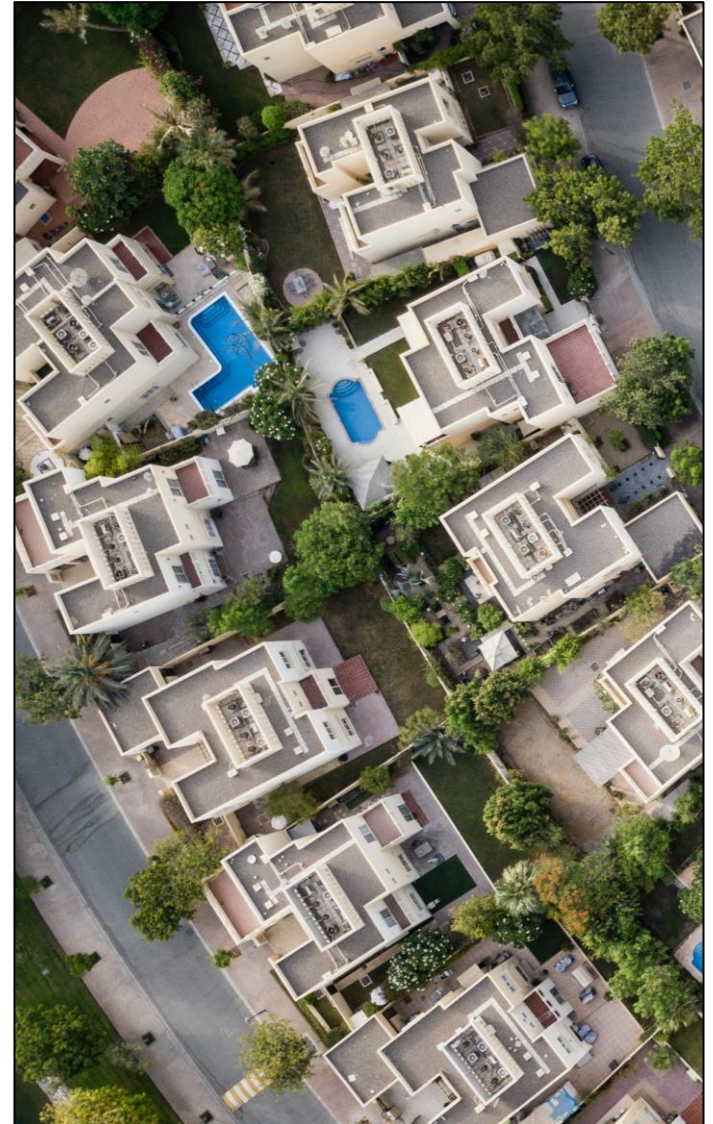
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- Large allocation for pension plans, allocated across many different areas.
- Publicly traded securities that represent ownership in a corporation (holders are entitled to the company's earnings and assets); investors may profit from dividends (distributions of the company's profits) and increases in the value of the stock.

# REAL ESTATE

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- Ownership in commercial, residential, or land.
- Investors are entitled to rental income and appreciation of the asset.
- Commonly used by pension plans through an investment fund where fund owns pool of commercial properties.
- The return is made up of income from rental activity and property appreciation or depreciation.







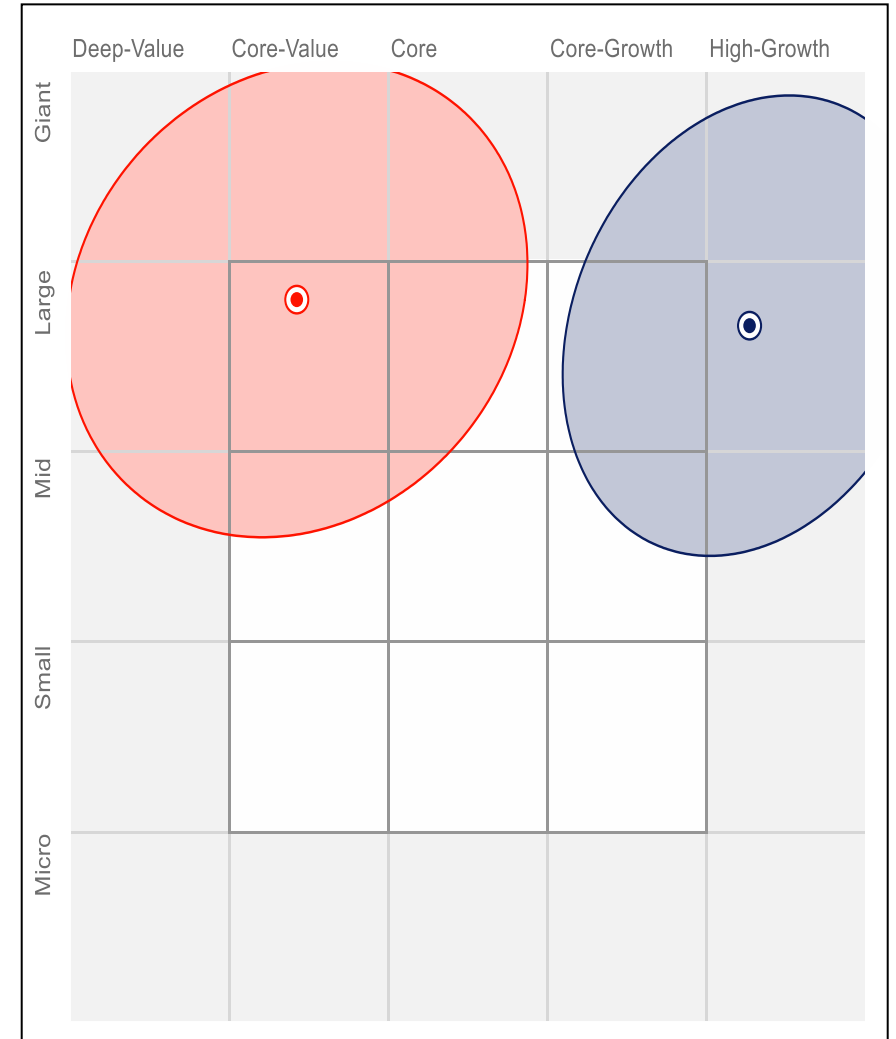
## ALTERNATIVE ASSET CLASSES

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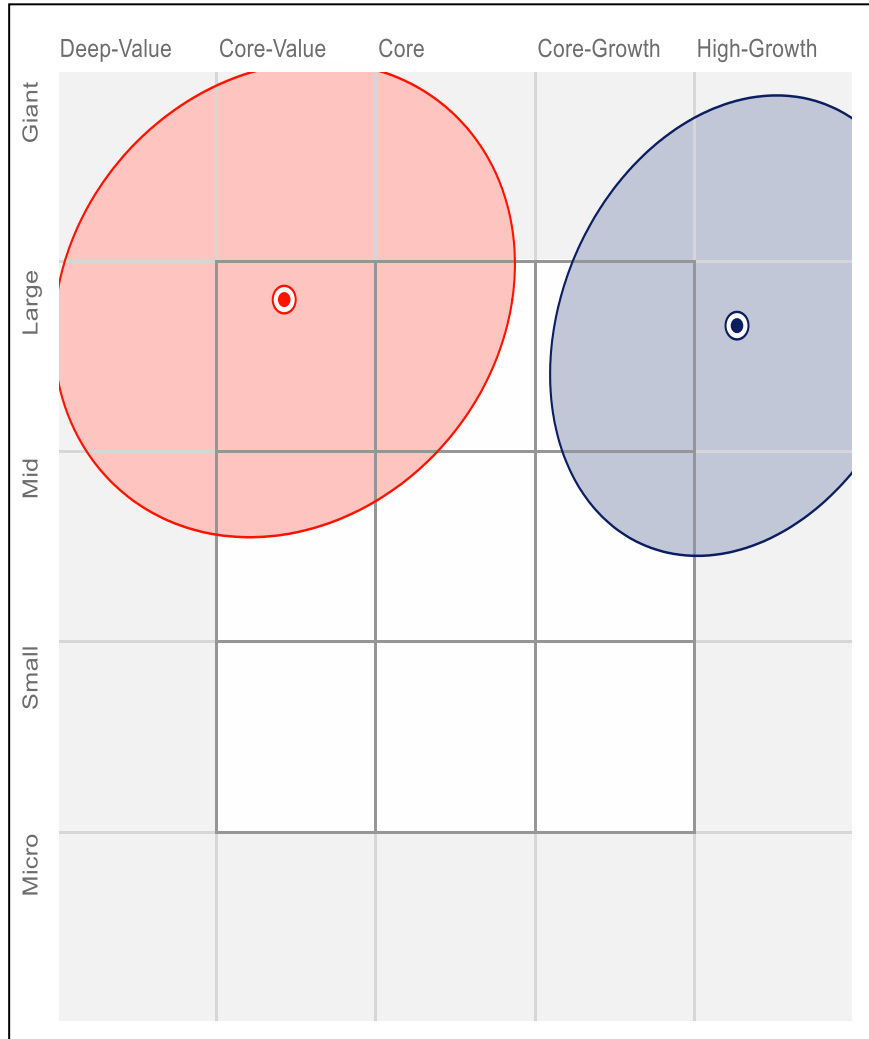
- **Hedge Funds:** A investment strategy that may invest across asset classes and generally has broader investment guidelines and an absolute return target. These strategies tend to invest in stocks, bonds, and derivatives.
- **Private Equity:** Ownership of a company that is not publicly traded on a stock exchange; the objective is to increase the value of the investment through management expertise.
- **Others:** Private Debt, Infrastructure, Timberlands/Farming, Commodities...

# INVESTMENT STYLES

- Utilizing a preferred approach within the selection process for investment decisions.
- Value
  - Stocks out of favor (underpriced)
  - High dividend
  - Low growth rates
  - Consumer staples, financials, utilities
- Growth
  - Fast growing companies
  - Low dividend – reinvesting
  - High sales and earnings growth
  - Technology, Health care, Telecom







# MARKET CAPITALIZATION

- The value of a company as calculated by the number of shares outstanding multiplied by the share price. General classifications include:
  - Large Caps (>\$10 Billion)
  - Mid Caps (\$2 Billion - \$10 Billion)
  - Small Caps (\$250 Million - \$2 Billion)

# STATE STATUTES

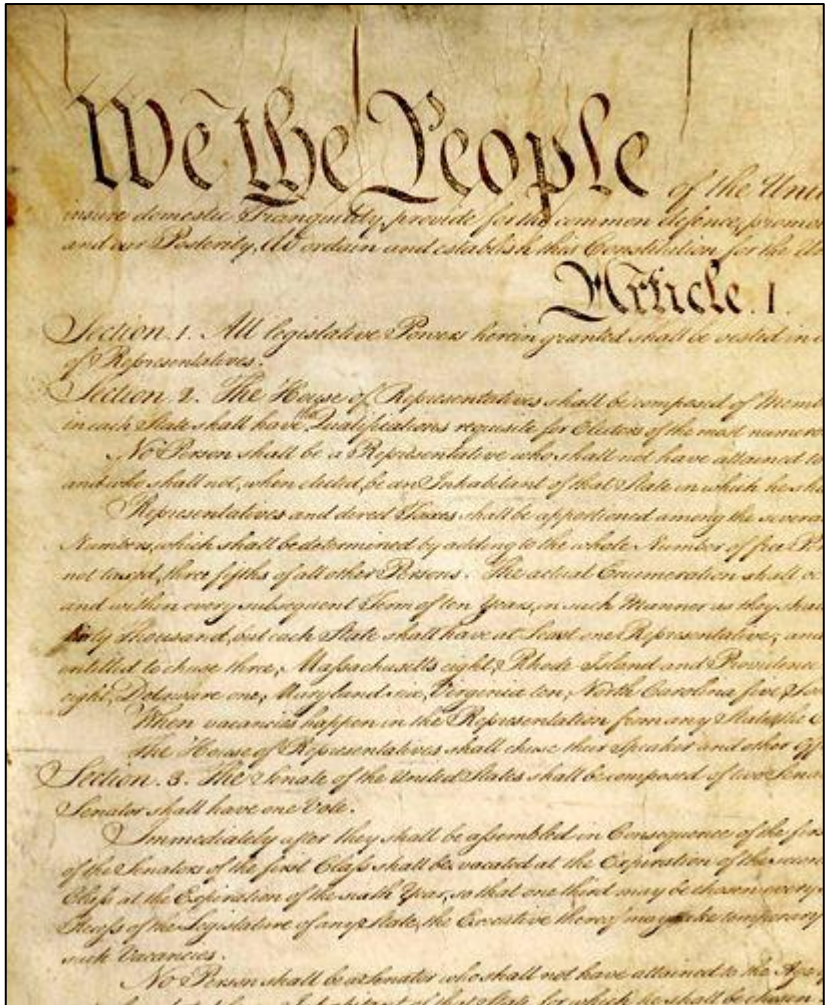
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graph TD; A[STATE STATUTES] --> B[LOCAL ORDINANCE]; B --> C[BOARD ADOPTED INVESTMENT POLICY STATEMENT];
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## LOCAL ORDINANCE

### BOARD ADOPTED INVESTMENT POLICY STATEMENT

## IDENTIFYING INVESTMENT PARAMETERS

- Statute 175 or 185 as well as Statute 112.
- Under these statutes, there is permissibility allowed to the plans to introduce more flexibility for their investment program.
- Plan can make these adjustments through modification of the local ordinance, but local ordinance dictates what the plan can invest in.
- Board can then adopt their own investment policy statement that dictates the Boards allowed investments, targeted asset allocation and other criteria for Boards investment objectives and goals.



## PURPOSE OF AN INVESTMENT POLICY STATEMENT

- Provide evidence of a prudent investment decision making process
- Serve as defense against potential fiduciary liability
- Supports continuity in decision making as plan fiduciaries change
- Protects sponsor from making decisions based on emotions

# ESTABLISH ASSET ALLOCATION TARGETS

- Clear target allocations for each asset class
- Compliment the target allocations with allowable investment ranges in each asset class.

Asset Class	Target	Range	Benchmark Index
Domestic Equity	55%	45% - 65%	Russell 3000
International Equity	10%	5% - 15%	MSCI-ACW ex US
<b><i>Total Equity</i></b>	<b>65%</b>	<b>55% - 75%</b>	
Broad Market Fixed Income	30%	20% - 40%	Barclays Capital Aggregate
<b><i>Total Fixed Income</i></b>	<b>30%</b>	<b>20% - 40%</b>	
Real Estate	5%	0% - 10%	NFI-ODCE Fund Index
<b><i>Total Non-Traditional Assets</i></b>	<b>5%</b>	<b>0% - 10%</b>	

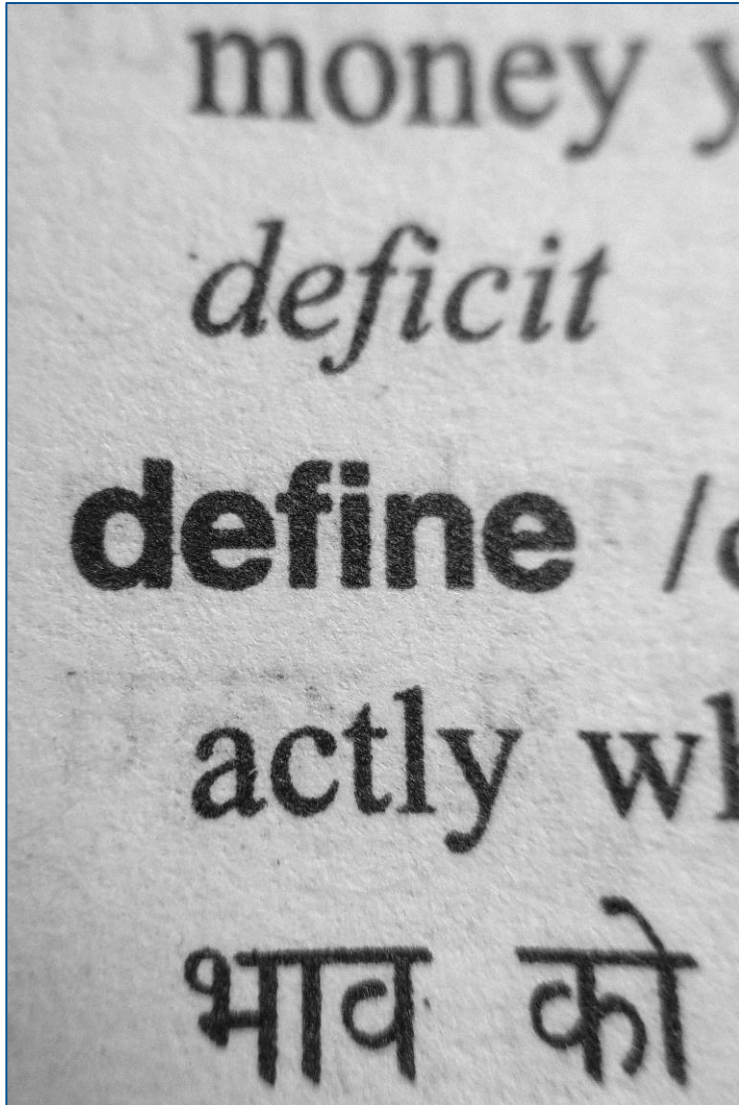


## EACH INVESTMENT HAS A ROLE

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- Clear target allocations for each asset class
- Compliment the target allocations with allowable investment ranges in each asset class.





## KEY TERMINOLOGY

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- Stocks - Publicly traded securities that represent ownership in a corporation
- Bonds – Debt instruments with defined interest rates (fixed or variable rates) and maturities
- Real Estates – Ownership in commercial, residential, or land.
- Style - Utilizing a preferred approach within the selection process for investment decisions.
- Market Capitalization - The value of a company as calculated by the number of shares outstanding multiplied by the share price.
- Asset Allocation - Investment strategy of investing in multiple asset classes with the objective of balancing total portfolio risk and returns  
Investment Policy Statement – A written document indicated how an investment program will be managed including investor objectives and constraints.