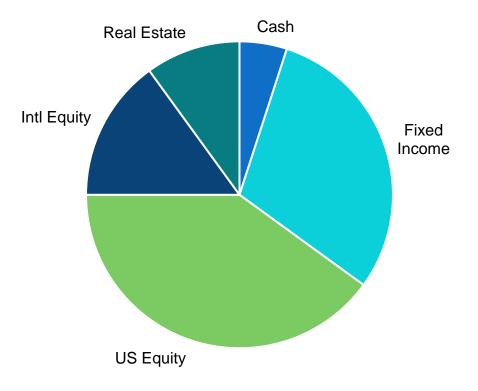


MAJOR ASSET CLASSES

Daniel Johnson, FPPTA Education Committee

ASSET ALLOCATION

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



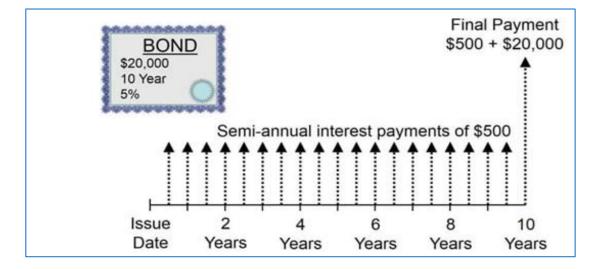


CASH AND EQUIVALENTS

- 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.



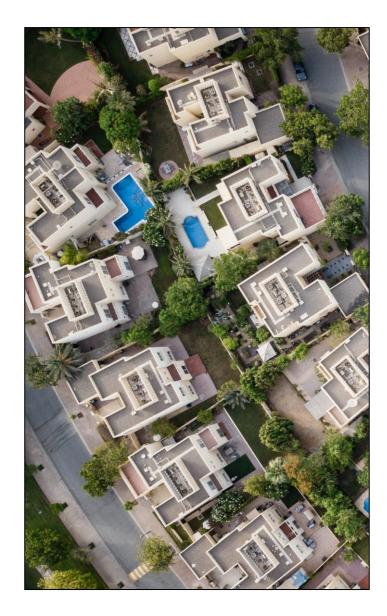


EQUITY/STOCKS

- 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

- 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.



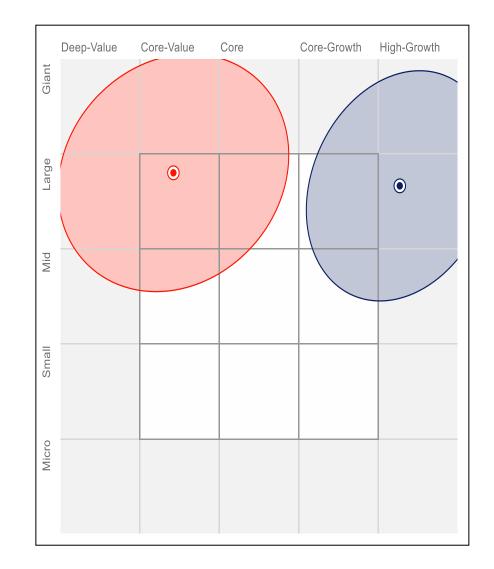


ALTERNATIVE ASSET CLASSES

- 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)

IDENTIFYING INVESTMENT PARAMETERS

Statute 175 or 185 as well as Statute 112.

STATE STATUTES

LOCAL ORDINANCE

BOARD ADOPTED

- 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.

Section 1. All legislative Fores herein grante bresentatives Un I. The Hayse of Representatives shall be remposed of Mi in each State + halt have Qualifications requisite for Clerton of the most numer No Poron shut be a Representative who shall not have attained i and abe shall not, when clubed be an Inhabitant of that State on which hear Representatives and dered fores chall be apportioned among the sever Sumiers which shall be determined by adding to the whole Sumber of free St not tourd, three fifthe of all other Besens . The actual Courseration shall , within every subsequent Element ten grass, a such Manner as they. Thousand, but each State shall have at Seast one Acpresentative; a huse three, Mapachusell's cight & Thede sistand and Pro are one, Maryland sie, Disginia ton; North Carolina five 21. vacancies happen in the Representation from any shall the House of Representatives shall churse their Speaker and other of Settion. 3. The Sanate of the United States shall be composed of love len Inalor shall have one Dole Immediately after they shall be afterbled in Consequence of the of the Chinators of the first Class shall be vacated at the Oxperation of the un Chips at the Equination of the math Gras, in that one third may be charmoner, Richo of the Squitation of any state, the Constine Honey may the tong with Vacancies No Person shall be artomater who shall not have attained to the of

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
Total Equity	65%	55% - 75%	
Broad Market Fixed Income	30%	20% - 40%	Barclays Capital Aggregate
Total Fixed Income	30%	20% - 40%	
Real Estate	5%	0% - 10%	NFI-ODCE Fund Index
Total Non-Traditional Assets	5%	0% - 10%	

EACH INVESTMENT HAS A ROLE

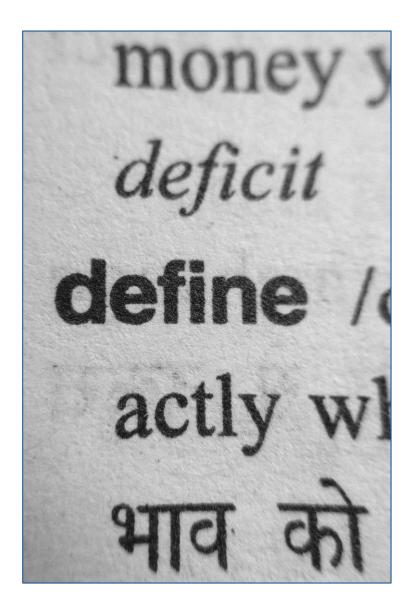
- Clear target allocations for each asset class
- Compliment the target allocations with allowable investment ranges in each asset class.











KEY TERMINOLOGY

- 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.