

# Asset Classes

Print

## Stability of Principal

Investment options in this category have a relative risk rating of "Conservative." Assets are invested in conservative investment options that seek - but not necessarily guarantee - to hold the principal value of an investment stable through all market conditions. These options may credit a stated rate of return or minimum periodic interest rate that may vary. Dividend rates and income levels fluctuate with market conditions and are not guaranteed. These investment options, including money market portfolios, are neither insured nor guaranteed by the U.S. government. While an objective of money market portfolios includes the preservation of capital, it is possible to lose money in money market funds.

## Bonds

Funds in this category run the spectrum of relative risk from "Conservative" to "Moderate" to "Aggressive." Risk is assessed in relative terms among fixed income instruments, not in relation to more volatile equities. Investors here are primarily seeking income or growth of income, with less emphasis on capital appreciation. Aggressive fixed-income funds are those that may have significant investments in below-investment grade bonds ("junk bonds") or bonds of foreign issuers. The investment style for such funds would be high yield or international bond. Funds with a "Moderate" risk evaluation can invest in investment grade corporate bonds, mortgages, government bonds and, to a lesser degree, preferred stock, foreign or convertible bonds. Conservative funds are short-term bond funds focusing solely on Treasury Bills and other highly-rated, short-term (e.g. 90 day) securities. The value of debt may fall when interest rates rise. Debt securities with longer maturities tend to be more sensitive to changes in interest rates, usually making them more volatile than debt securities with shorter maturities. For all bonds there is a risk that the issuer will default.

## Large Cap Value/Blend

Funds in this category have a relative risk rating of "Moderate." Funds seek long-term growth of capital or a combination of growth and income by investing primarily in stocks of larger, mature companies. The investment styles exhibited are value and "blend." Stocks are selected for price appreciation and for the value of the current income provided through dividends. These funds generally exhibit a lower level of price volatility, due to the types of companies they favor, such as those able to pay dividends.

## Large Cap Growth

Funds in this category can have a relative risk rating of "Moderate" or "Aggressive." Funds with fewer holdings and a relatively narrow focus merit the risk level of "Aggressive." Overall, these funds invest primarily in stocks of larger U.S. companies, employing an investment style of growth or "blend." The funds seek long-term growth of capital. Funds emphasizing growth stocks will typically have higher price/earnings ratios and make little or no dividend payments. Large capitalization companies tend to be more established, with lower relative volatility, than more aggressive small and mid-cap stock funds.

## **Small / Mid / Specialty**

Funds in this category carry the highest relative risk rating of "Aggressive." Small cap, mid cap and "specialty" funds are in this category, employing investment styles of growth, value or "blend." These funds seek capital appreciation by investing primarily in stocks of small-and medium-sized companies. Generally, these companies are striving to develop new products or markets and have above-average earnings growth potential. Because of their smaller size, these companies may face greater business risk, and investments in these funds generally carry much higher risk than other domestic equity funds. "Specialty" or "sector" funds invest in stocks of companies in a particular industry. This narrow focus can significantly increase the risk and volatility of such funds.

## **Global / International**

Funds in this category carry the highest relative risk rating of "Aggressive." There are three main types of funds in this category. International funds have an investment style of Foreign Stock. These funds invest in stocks of companies outside of the United States. Global funds carry an investment style of World Stock. These funds invest in stocks of companies in the United States and developed countries outside of the United States. Emerging Markets funds invest in securities of developing countries and demonstrate the greatest volatility of performance due to the unstable nature of their economies, political structures and currencies. International investing may provide greater diversification benefits to a U.S.-based portfolio than investing in domestic securities alone. However, foreign investing does involve additional risks not present in U.S. securities.

## **Asset Allocation**

Fund in this category are also known as "LifeStyle" or "LifeCycle" funds. They invest in a combination of assets such as aggressive stocks, international stocks, large-company stocks, government bonds, foreign bonds or money markets. The allocation percentage to each asset type may be fixed, bounded by a range, or determined at the discretion of the manager. Managers of these funds review market conditions regularly and refine the asset allocation mixture they believe will achieve the best risk adjusted performance based on the stated objectives and "target" allocations of the particular fund. Different constructs can be based on risk tolerance or length of time to investment goal.