

Introduction to General Investment Concepts



Table of Contents

Developing an Investment Strategy	1
Asset Allocation	1
Establishing a Goal	1
Time Horizon	2
Market Risk	2
Inflation Risk	2
Investment Return	2
Asset Classes	3
Diversification	3
Asset Class Summary Chart	4
Sample Asset Allocation Models	5
More Information	5

The information presented in this document is intended to provide participants with a general introduction to investments. The information is not intended to be, and should not be construed as, investment advice. Each participant should consult with an investment advisor and refer to other investment materials to learn more about investments and investment strategy.

Developing an Investment Strategy

A participant is responsible for making all investment decisions for his or her Plan account. These decisions will directly impact how much earnings a participant's account will gain and will determine the amount of income that will be available to the participant from the account during retirement.

Therefore, it is very important that a participant develop a long-term investment strategy that is capable of taking advantage of upswings and surviving downturns in the financial markets.

Creating a long-term investment strategy does not require a participant to become an expert financial analyst. However, creating a long-term investment strategy does require a participant to become familiar with general investment terms and concepts.

Asset Allocation

Asset allocation refers to the distribution of investment funds among categories of assets, such as stocks, bonds, and cash equivalents. Asset allocation affects both risk and return. It is a central concept in personal financial planning and investment management.

How a participant chooses to invest his or her account will affect the amount of retirement income that will accumulate in the account. Choosing the right balance between different types of assets requires a participant to:

- 1) Establish a goal for the amount of assets that participant will need for retirement;
- 2) Determine the participant's time horizon; and
- 3) Understand the differences between stocks, bonds, and money market funds.

A participant should review how assets are allocated in his or her account on a periodic basis. However, very frequent asset allocation changes may be harmful to the participant's long-term investment strategy. Some common reasons a participant might change his or her asset allocation are:

- 1) The participant's time horizon changes significantly.
- 2) The value of the participant's other sources of retirement income changes dramatically.
- 3) The percentage of a certain class of assets in the account changes significantly due to an increase or decrease in value.

Establishing a Goal

Income during retirement years typically comes from five sources: 1) Social Security, 2) employer-funded retirement plans, 3) salary deferral plans, 4) personal savings and assets, and 5) a full or part-time job.

Determining the amount of retirement income a participant expects from each of the five main sources is an essential step in developing an overall strategy of retirement planning. Therefore, it is important that the participant establish a goal for the amount of assets he or she expects to receive from his or her Plan account. The goal will help the participant create an investment strategy for the account. The investment strategy could be preservation of contributions and accumulations or maximizing gains or a combination both depending the participant's goal.

Time Horizon

Time horizon is the period of time available to the participant for investing his or her Plan account before the participant will need to begin taking distributions from the account for retirement income.

The longer the time horizon, the more opportunity there is to take advantage of upswings and survive downturns in the financial markets. A participant with a long time horizon may be concerned with maximizing gains. For example, a younger participant has a long time horizon and may invest his or her account heavily in stocks to maximize the potential for gains (i.e., higher risk – higher potential for gains).

The shorter the time horizon, the less opportunity there is to take advantage of upswings and survive downturns in the financial markets. A participant with a short time horizon may be concerned with preserving a specific account balance. For example, an older participant has a short time horizon and may invest his or her account heavily in bonds and money market funds to preserve the account balance (i.e., lower risk – less potential for losses).

Some assets in a participant's account will have a longer time horizon than others because the participant may only need to take a partial distribution from his or her account. Therefore, the time horizon for some assets in a participant's account may be based on the participant's expected date of retirement, while the time horizon for other assets may be based on a later date.

Market Risk

Market risk is risk that is common to all types of assets of the same general class (e.g., stocks). Market risk cannot be eliminated by diversification. In other words, market risk is the fact that all asset funds will fluctuate in value.

Each fund's stated investment objective will provide insight into the amount of anticipated market risk of that fund.

Inflation Risk

Inflation risk, also called purchasing-power risk, is the risk that the return the participant will earn after adjusting for inflation will be negative. In other words, inflation risk is the fact that the value of all investment returns will be lower when adjusted for inflation. If inflation exceeds an asset fund's rate of return, a participant may actually be losing money even though the asset fund has a "positive" return.

Investment Return

Investment return is a measure of how much an investment earns during a specific period of time. Investment return can come from cash payments (e.g., dividends and interest payments), changes in an investment fund's market value, or a combination of both. Generally, a fund's total return is the sum of its interest or dividend payments plus any changes in its market value.

Asset Classes

Five general types of assets classes are: 1) stocks; 2) bonds; 3) real estate; 4) guaranteed investment contracts; and 5) money market funds.

A “stock” is a share of ownership in a corporation and a claim on the corporation’s earnings and assets. Stocks are often used to substantially grow the value of a participant’s account.

A “bond” is a loan to a corporation, government, or municipality which pays a specified rate of interest on the loan until the original loan amount is repaid on a specified date in the future. Bonds are often used to add a stream of current income and stability to a participant’s account.

A “real estate” fund invests in a diverse array of real estate such as shopping centers, medical facilities, nursing homes, office buildings, apartment complexes, industrial warehouses, and hotels. Real estate fund returns traditionally parallel inflation and tend to rise and fall more slowly than stock and bond returns.

A “guaranteed investment contract” is a contract between an insurance company and a participant that guarantees a specific rate of return on the invested principal over the life of the contract. Guaranteed investment contracts are often used to preserve principal and simultaneously provide at least a specified minimum return.

A “money market fund” is a short-term debt instrument usually in the form of commercial paper, United States Treasury bills, government securities, and certificates of deposit. Money market funds are often used to preserve the value of assets that will be distributed to a participant in the very near future.

Diversification

Diversification is an investment technique that spreads risk by investing an account among different types of assets such as stocks, bonds, fixed annuities, and cash equivalents. Diversification helps protect investments from a single, devastating loss.

The potential return of an investment fund directly relates to its level of risk. The higher the risk, the higher the potential return. Diversifying investments helps reduce risk associated with high risk assets. Although diversification does not guarantee a certain amount of return or ensure against loss, it can help a participant pursue long-term investment goals while protecting against market risk. Losses to one investment are likely offset by gains from another investment.

Diversification can take place simultaneously in several ways, such as:

- 1) Spreading investments across multiple types of businesses. This type of diversification is automatically done in the Plan. All investment funds available under the Plan are annuity or mutual funds that represent assets of numerous businesses and securities to achieve a specified fund objective.
- 2) Spreading investments across different asset classes. A participant must take steps to achieve this type of diversification by investing portions of his or her account in different types of assets (e.g., stocks, bonds, and money market funds).
- 3) Spreading investments across different kinds of stocks and bonds. Investing in multiple stock funds that have different objectives (e.g., domestic vs. international stocks) and bond funds that have different maturity periods (e.g., 5 years vs. 10 years) helps spread risk.

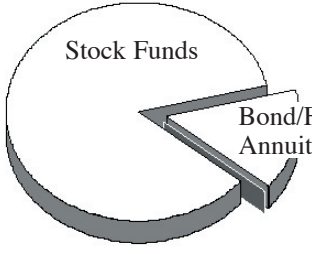
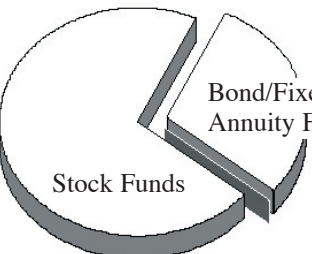
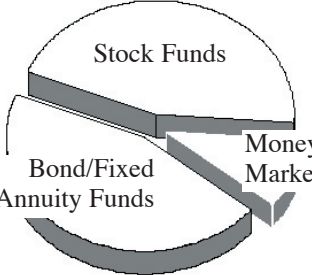
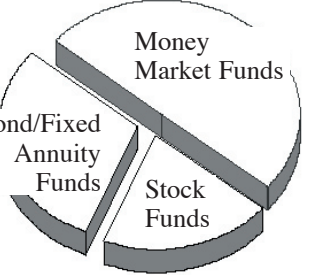
Asset Class Summary Chart

The chart summarizes the general tendencies of each asset class previously described. Asset class tendencies are only generalizations and should not be relied upon as absolute statements.

	Stocks	Real Estate	Bonds	Guaranteed Income Contracts (GICs)	Money Market Funds
Time Horizon	<u>Long.</u> A participant needs a long time horizon to take advantage of upswings and survive downturns in the markets.	<u>Moderate to Long.</u> A participant needs a moderate to long time horizon to realize a substantial return.	<u>Short to Moderate.</u> A participant needs a short to moderate time horizon to realize a return while avoiding losses due to inflation.	<u>Short.</u> A participant needs a short time horizon to preserve his or her account balance while realizing a return.	<u>Very Short.</u> A participant needs a very short time horizon to preserve his or her account balance.
Market Risk	<u>High.</u> Stocks have high market risk, but offer a greater potential return.	<u>Moderate.</u> Real estate funds have a moderate risk for loss that is not necessarily tied to the financial markets.	<u>Low to Moderate.</u> Bonds have low to moderate market risk, but may offer less return than stocks.	<u>Low.</u> GICs will pay the participant a stated rate of return subject to the financial stability of the insurance company.	<u>Low.</u> Money market funds have very low market risk.
Inflation Risk	<u>Low.</u> Stocks have low inflation risk, but high market risk.	<u>Low.</u> Real estate funds have low inflation risk. Returns tend to at least parallel inflation.	<u>Moderate.</u> Bonds have moderate inflation risk, but low to moderate market risk.	<u>High.</u> The rate of return for GICs may not keep pace with inflation.	<u>High.</u> Money market funds have very high inflation risk.
Investment Return	<u>High.</u> The potential return for stocks is high. However, stocks also have a high potential for loss.	<u>Moderate.</u> The potential return for real estate funds is generally moderate.	<u>Moderate.</u> The potential return for bonds is moderate.	<u>Low.</u> The rate of return for GICs may be low as compared with other asset classes.	<u>Low.</u> The rate of return for money market funds is very low.

Sample Asset Allocation Models

The following asset allocation models are only samples. The asset allocation models are generic and are only provided as examples. How a participant invests his or her account may be very different from the samples, because each participant's time horizon, income goal, and investment strategy are unique.

<p>Aggressive: This model's objective is to achieve long-term growth. This model is characterized by heavy investment in growth and value stocks. This model might be attractive to a participant with a very long time horizon (e.g., 15 years or more).</p>	 <p>A 3D pie chart where the largest slice is labeled 'Stock Funds' and a much smaller slice is labeled 'Bond/Fixed Annuity Funds'.</p>
<p>Growth: This model's objective is to achieve long-term growth while providing some protection against loss. This model is characterized by moderately heavy investment in stocks and moderate investment in bonds. This model might be attractive to a participant with a medium time horizon (e.g., 10 years or more).</p>	 <p>A 3D pie chart with two slices of similar size: 'Stock Funds' and 'Bond/Fixed Annuity Funds'.</p>
<p>Conservative Growth: This model's objective is to achieve a balance between growth and protection against loss. This model is characterized by moderate investment in stocks, bonds, and money markets. This model might be attractive to a participant who has a short time horizon (e.g., 5 years or less).</p>	 <p>A 3D pie chart with three slices: 'Stock Funds', 'Bond/Fixed Annuity Funds', and 'Money Market Funds', all of similar size.</p>
<p>Conservative: This model's objective is to achieve safety and stability. This model is characterized by heavy investment in money market funds. This model might be attractive to a participant who has a very short time horizon (e.g., 2 years or less).</p>	 <p>A 3D pie chart where the largest slice is 'Money Market Funds', with smaller slices for 'Bond/Fixed Annuity Funds' and 'Stock Funds'.</p>

More Information

Representatives from TIAA-CREF and Fidelity Investments are available to meet with a participant to discuss general investment strategies, concepts, and information.