

## **FAQS FOR PLAN PARTICIPANTS**

### **Types of funds Offered in Retirement Plans**

#### **What are the fund categories and what do they do?**

***Guaranteed Funds:*** The fund promises to pay a predetermined rate of return over a stated period of time. This protects the investor from loss and is the most conservative option.

***Fixed Income Funds:*** These funds invest in bonds, which are loans to corporations or government agencies. These funds may also invest in preferred stock, which is a special type of stock that pays dividends at a declared interest rate. Fixed income funds can go up and down in value each day and are particularly sensitive to interest rates.

***Balanced Funds:*** These funds combine stock and fixed income components into one fund in order to “balance” the interest income from fixed income investments with the growth potential of stock investments. As a result, these funds typically do not experience the full ups and downs of the stock market.

***Target Date Funds:*** These funds are offered to investors who want to “check-the-box” and put it in the hands of a fund family to manage the funds based on targeted retirement age. These funds tend to be more aggressive than participants understand them to be and can very often be misunderstood.

***Allocation Funds*** – Like the Target Date Funds, these “check-the-box” funds allow an investor to choose a “conservative”, “moderate”, or “aggressive” fund. The fund is managed as a “funds to funds” approach, which typically equates to higher fund expense ratios.

***Stock Funds:*** Stock funds invest in stock of companies and provide a chance for investors to participate in the profits and losses of those companies. Stock funds have the potential for higher returns, but they carry higher risk than other options. There are many types of stock funds, categorized by Size/Investment Style/Risk as follows.

Size (as defined by Market Capitalization which is the current outstanding share price multiplied by the number of shares outstanding)

- Large Cap: over \$10 billion
- Mid Cap: \$2 billion to \$10 billion
- Small Cap: under \$2 billion

Generally speaking, the larger the market capitalization, the less market risk there is with a stock, but there also tends to be less chance for higher returns.

**FAQS FOR PLAN PARTICIPANTS**  
**Types of funds Offered in Retirement Plans**  
**(continued)**

Investment Style

- Growth: The stocks are expected to grow faster than the economy.
- Value: These stocks base their valuation on assets owned by the company.
- Blend: The fund has a combination of growth and value stocks.

Risk

- Market Risk: Market risk refers to the chance that an investor will lose money due to a decline in the price of their investments. For example, an investor takes a risk by investing their money in stocks because there is the possibility that the fund's share price could go down. Stock funds, both domestic and foreign, are most affected by this type of risk.
- Diversification: The spreading of investment dollars in different asset classes so to reduce overall risk. Diversification further reduces risk by combining a variety of investments, which are unlikely to move in the same direction at the same time. The ultimate goal of diversification is to reduce the risk in a portfolio.