

# Knox County Retirement & Pension Board: Basics of Investing

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2023



# Agenda

- Investments 101-Asset Classes
- Diversification & Asset Allocation
- Your Investment Options
- Market Timing
- Contact Information



**The information provided in this presentation is an overview of your Plan's features and benefits. The Summary Plan Description ("SPD") provides greater detail and other important information concerning your participation in the plan.**

**Keep in mind that if there is a discrepancy between this and the information in the SPD, the SPD will govern.**

**This presentation has been prepared for general educational purposes only and is not designed to be a comprehensive analysis of any topic discussed herein. It should not be relied upon as the only source of information, and is not intended to represent advice or a recommendation specific to your situation. Prior to action, we recommend that you seek independent advice specific to your situation from a qualified legal/tax/investment professional. Investors should consider their financial situation, time horizon and risk tolerance before making an investment decision.**

# Essentials of investing

You are responsible for how your account is invested (and for any gains/losses which may result from your investment choices). The material that has been provided is for your information and education. This is not to be considered investment advice.

You should consider the investment objectives, risks, and charges and expenses of the investment options carefully before investing. The prospectuses and other comparable documents contain this and other information about the investment options. They may be obtained by visiting USI Consulting Group's website at [www.USICG.com](http://www.USICG.com). You should read the prospectuses and/or other comparable documents carefully before investing.

# Investments 101: Some Basic Definitions\*

- **What is a bond?**
  - Debt investment
  - Investor loans money to a corporation or governmental entity
  
- **What is a stock?**
  - Ownership in a corporation
  - Represents a claim on part of the assets and earnings

\*Please see page 31 for asset class definitions.

# Investments 101: Asset Classes

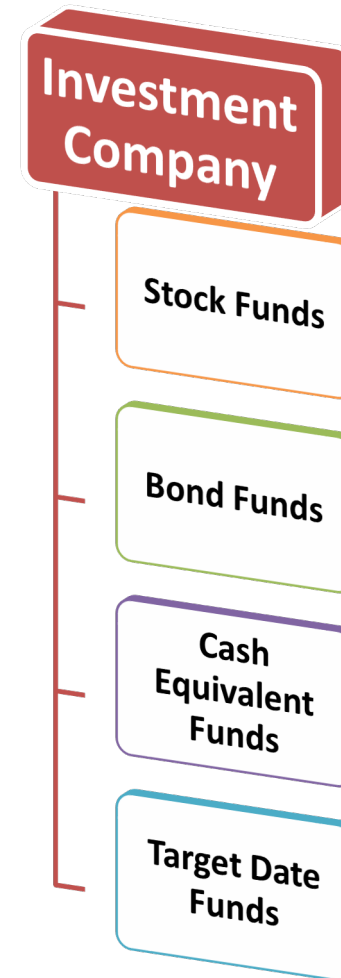
Cash Equivalents*	Fixed Income* (Bonds)	Equities* (Stocks)
<ul style="list-style-type: none"> <li>• Money Market               <ul style="list-style-type: none"> <li>- CD's</li> <li>- T-Bills</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Issuer               <ul style="list-style-type: none"> <li>- US Government (federal, state, local)</li> <li>- Corporations</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Market Capitalization               <ul style="list-style-type: none"> <li>- large cap → &gt; \$10 billion</li> <li>- mid cap → \$2 billion - \$10 billion</li> <li>- small cap → less than \$2 billion</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• Stable Value (a collective trust, not a mutual fund)</li> </ul> <p>seeks to provide income and price stability</p>	<ul style="list-style-type: none"> <li>• Maturity               <ul style="list-style-type: none"> <li>- short term → less than 2 yrs</li> <li>- intermediate term → 2 – 10 yrs</li> <li>- long term → 10 -30 yrs</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Style               <ul style="list-style-type: none"> <li>- growth</li> <li>- value</li> <li>- blend</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>• Quality               <ul style="list-style-type: none"> <li>- investment grade / high quality</li> <li>- high yield / low quality</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>•Type               <ul style="list-style-type: none"> <li>- domestic</li> <li>- foreign</li> <li>- world</li> </ul> </li> </ul>

\*Please see pages 31-33 for important information regarding these items.

# Investments 101: Mutual Funds

## Mutual Funds

- A portfolio of investments managed by a registered investment company (for a fee) that pools money from many people and invests in accordance with a particular stated objective (each having varying degrees of risk).
- They may invest in stocks, bonds and/or other assets.
- Each investor owns shares of the fund, which represent an ownership interest in the portfolio holdings.\*



\*Please see pages 13-14 for information about disclosures and risk regarding mutual fund investments.

# Diversification & Asset Allocation

## DIVERSIFICATION:

- Diversification involves spreading your assets among several investments with the intent of lowering overall volatility and risk.
- Simply stated, diversification is the concept of “not putting all your eggs in one basket.”
- While diversification does not guarantee against a loss, and there is no guarantee that a diversified portfolio will outperform a non-diversified portfolio, it is an effective strategy to help you manage risk.

## ASSET ALLOCATION:

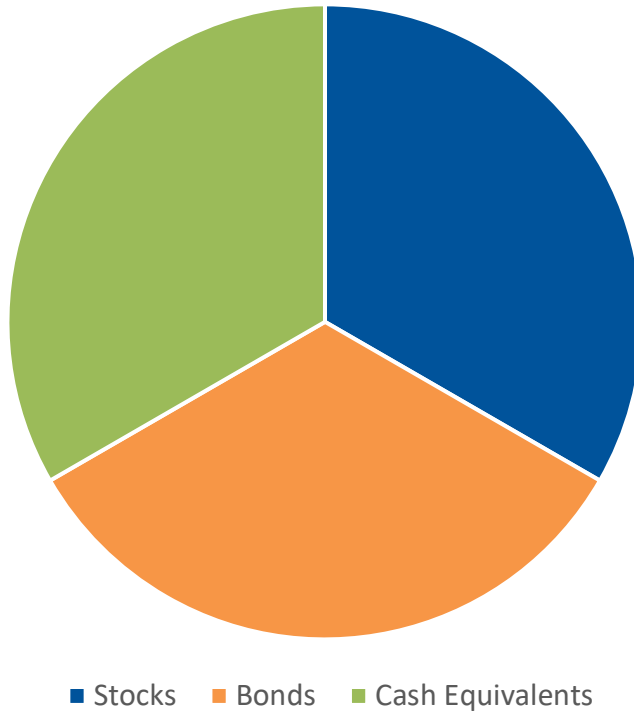
- Asset Allocation involves spreading your assets among several **types** or **categories** of investments with the intent of lowering overall volatility and risk.
- Asset allocation does not guarantee against a loss, and there is no guarantee that an allocated portfolio will outperform a non-allocated portfolio.
- In other words, Asset Allocation is a way to diversify your investments among asset categories. The three major asset categories are stocks, bonds, and cash equivalents. Additionally, there are many sub-categories within these major asset classes (e.g., large company stock, small company stock, international stock, treasury bonds, investment grade corporate bonds, high yield bonds, global bonds, etc.).

*No single approach is right for everyone. Your approach should be based on your specific financial goals, time horizon for meeting those goals, and risk tolerance.*

Please see Appendix page 31 for more information on diversification and asset allocation.

# What is Asset Allocation?

## Asset Allocation



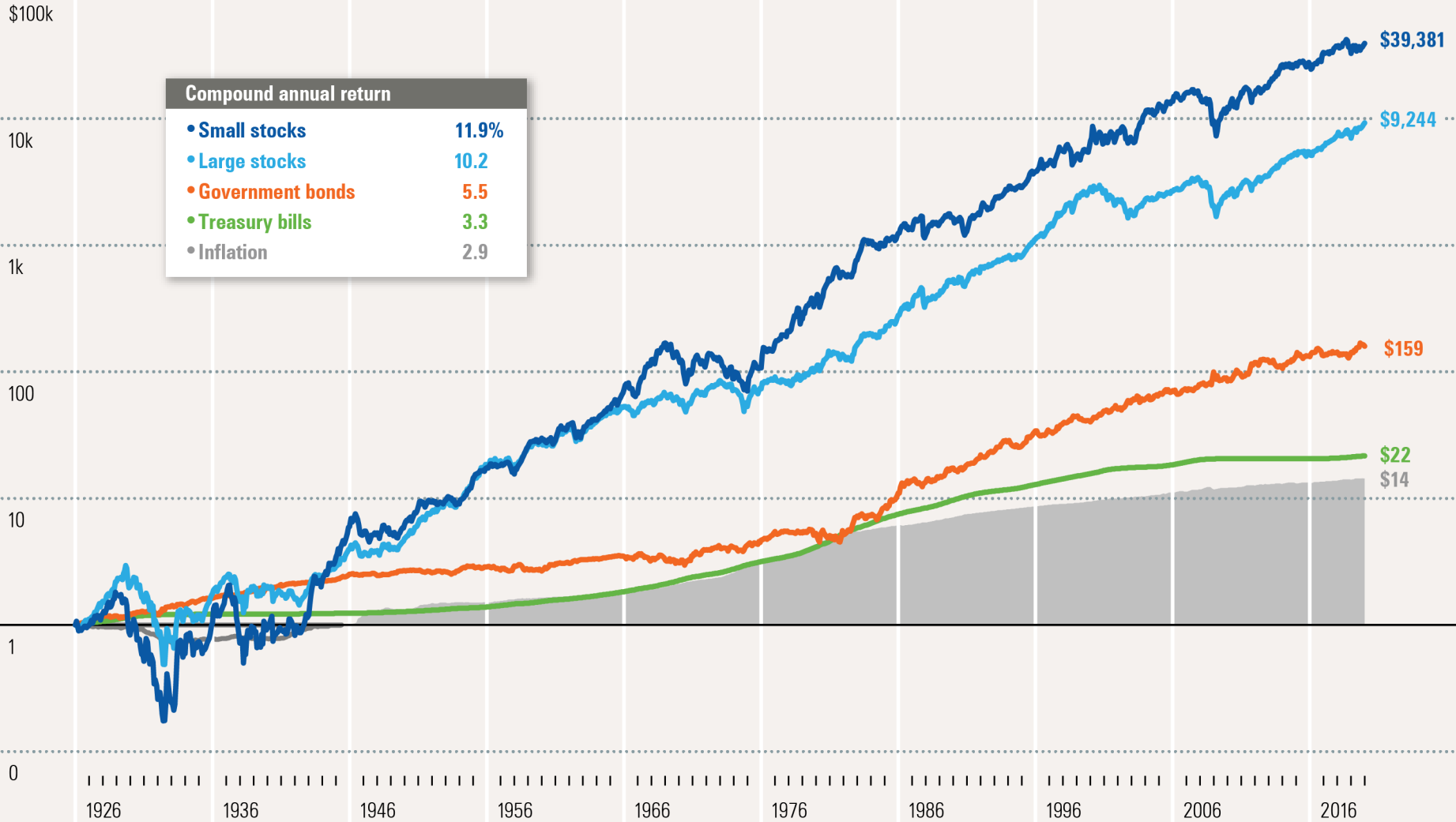
**Process of combining asset classes such as stocks, bonds, and cash in a portfolio designed to meet your goals and help you manage risk.\***

\*Please see Appendix (page 31) for more information on diversification and asset allocation. Asset Allocation or diversification does not guarantee against a loss, and there is no guarantee that a diversified portfolio will outperform a non-diversified portfolio.



# Ibbotson® SBBI®

## Stocks, Bonds, Bills, and Inflation 1926–2019



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**Past performance is no guarantee of future results.** Hypothetical value of \$1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar 2020. All Rights Reserved.

# Asset-Class Winners and Losers

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Highest return (%)	21.5	22.8	17.8	60.7	20.2	13.5	26.3	11.2	25.9	31.8	31.3	27.1	18.2	45.1	24.7	1.4	25.6	25.0	1.8	31.5
	5.9	3.8	1.6	38.6	18.4	7.8	16.2	9.9	1.6	28.1	15.1	2.8	17.3	32.4	13.7	0.0	12.0	21.8	-0.6	22.0
	0.1	3.7	-6.4	28.7	11.8	7.0	15.8	5.5	-17.9	26.5	12.9	2.1	16.0	22.8	7.3	-0.7	8.1	13.0	-4.4	20.6
	-3.6	-0.6	-13.3	26.1	10.9	5.7	12.9	5.2	-36.7	14.3	10.1	0.0	11.0	17.5	2.9	-0.7	1.8	11.2	-5.7	17.7
	-9.1	-11.9	-15.9	1.4	8.5	4.9	4.8	4.7	-37.0	0.1	7.8	-3.3	3.4	0.0	0.0	-0.8	1.0	6.2	-11.6	12.2
Lowest return (%)	-14.2	-21.4	-22.1	1.0	1.2	3.0	1.2	-5.2	-43.4	-14.9	0.1	-12.1	0.1	-12.8	-4.9	-3.6	0.2	0.8	-13.8	2.1

• Small stocks

• Large stocks

• International stocks

• Long-term government bonds

• Treasury bills

• Diversified portfolio

PRIYLO9

**Past performance is no guarantee of future results.** This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. The diversified portfolio is equally weighted between small stocks, large stocks, long-term government bonds, Treasury bills, and international stocks (20% each). © Morningstar. All Rights Reserved.

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9 of 33

# Your Investment Options

## Knox County Retirement & Pension Board DC Plan

38 different investment options representing  
a broad mix of investment styles and strategies\*

- Stable Value Fund\*\* (a collective trust, not a mutual fund)}
- Fixed Income Mutual Funds
- Equity Mutual Funds
- Model Portfolio's\*\*\*
- Target Date Funds\*\*\*\*

\*Please see the following page for important investment disclosures.

\*\*Please see Appendix (page 31) for Asset Class Definitions.

\*\*\*The **model portfolios** are not mutual funds or securities in and of themselves, rather they are asset allocation models comprised of several complementary investments (the names and percentage allocation of the investments that comprise these models can be found in the Enrollment Book).  
The principal value of the fund(s) is not guaranteed at any time.

\*\*\*\*Target date funds are intended as long-term investments which involve risk, including the possible loss of principal.  
The principal value of the fund(s) is not guaranteed at any time, including at the target date.

# Investment Disclosures

1. You should consider the **investment objectives, risks, and charges and expenses** of the investment options carefully before investing. The prospectuses and other comparable documents contain this and other information about the investment options. They may be obtained by visiting USI Consulting Group's website at [www.USICG.com](http://www.USICG.com). You should read the prospectuses and/or other comparable documents carefully before investing.
2. The **stable value** funds identified are collective trust funds and are not mutual funds; consequently, they are not registered with or regulated by the U.S. Securities and Exchange Commission. They are typically operated and offered by Banks and/or Trust Companies or their affiliates and are regulated by banking regulators. For a copy of the trust's "Summary Information Booklet," please visit USI Consulting Group's website at [www.USICG.com](http://www.USICG.com).
3. The **model portfolios** are not mutual funds or securities in and of themselves, rather they are asset allocation models comprised of several complementary investments (the names and percentage allocation of the investments that comprise these models are shown within the chart).
4. The underlying investment mix of **target date funds** is designed to change as you get closer to your retirement date. The portfolio moves from a more aggressive, growth-oriented strategy during your accumulation phase to a more conservative, preservation oriented strategy as you near retirement. Target date funds are intended as long-term investments which involve risk, including the possible loss of principal. The principal value of the fund(s) is not guaranteed at any time, including at the target date.

**Investment Advice for institutional retirement plans provided by USI Advisors, Inc.  
Securities offered to the plan through USI Securities, Inc. Member FINRA/SIPC  
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USI Consulting Group is an affiliate company of both USI Securities, Inc. and USI Advisors, Inc.**

# A Word About Risk

Investing in mutual funds, which are intended as long-term investments, involves risk, including the possible loss of principal. Investments in foreign securities and sector funds, including technology or real estate stocks, are subject to substantial volatility due to adverse political, economic, or other developments and may carry additional risk resulting from lack of industry diversification. Funds that invest in small or mid-capitalization companies may experience a greater degree of market volatility than those of large-capitalization stocks and are riskier investments. Bond funds have the same interest rate, inflation, and credit risks associated with the underlying bonds owned by the fund. Generally, the value of bond funds rises when prevailing interest rates fall and falls when interest rates rise. Investing in lower-grade debt securities may be subject to greater market fluctuations and risk of loss of income and principal than securities in higher rated categories. Bear in mind that higher return potential is accompanied by higher risk.

# Investment Options: Fixed Income (Bonds)

Investment Name	Investment Category*
Standard Stable Value 3	Stable Value
Lord Abbett Short Duration Income A	Short Government Bond
MFS® Total Return Bond A	Intermediate-Term Bond
Vanguard Total Bond Market Index Adm	Intermediate Term Bond
JPMorgan High Yield A	High Yield Bond

\*Morningstar®.

Please see Appendix (pages 32 and 33) for investment category definitions.

# Investment Options: Equities (Stocks)

Investment Name	Investment Category*
MFS Value R3	Large Value
JP Morgan Large Cap Growth A	Large Growth
Vanguard 500 Index Admiral	Large Blend
Vanguard Total Stock Market Index Adm	Large Blend
Touchstone Large Cap Focused A	Large Blend
JHancock Disciplined Value Mid Cap A	Mid-Cap Value
AB Discovery Growth A	Mid-Cap Growth
Vanguard Mid Cap Index Adm	Mid-Cap Blend
Delaware Small Cap Value A	Small Value
PGIM Jennison Small Company A	Small Growth

\*Morningstar®.

Please see Appendix (pages 32 and 33) for investment category definitions.

# Investment Options: International Equities (Stocks)

Investment Name	Investment Category*
Vanguard Total International Stock Market Index Adm	Foreign Large Blend
Dodge & Cox International Stock A	Foreign Large Blend
Invesco Opp International Growth A	Foreign Large Growth
BNY Mellon International Small-Mid Co A	Foreign Small/Mid Growth
American Funds New Perspective A	World Stock
Wells Fargo Emerging Markets Equity A	Diversified Emerging Markets

\*Morningstar®.

Please see Appendix (pages 32 and 33) for investment category definitions.



# Investment Options: Sector Funds (Stocks)

Investment Name	Investment Category*
Ivy Science & Technology A	Technology
Vanguard Health Care Adm	Health Care
Invesco Real Estate A	Real Estate

\*Morningstar®.

Please see Appendix (pages 32 and 33) for investment category definitions.

# Investment Options: Target Date Funds

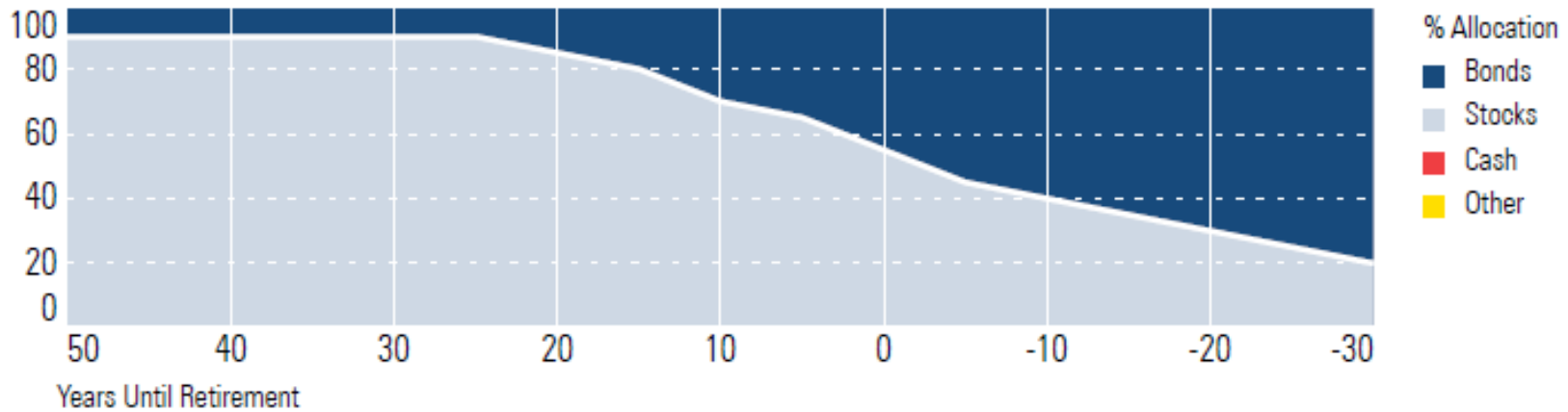
Investment Name	Investment Category*
T. Rowe Price Retirement 2020 R	Target Date 2020
T. Rowe Price Retirement 2030 R	Target Date 2030
T. Rowe Price Retirement 2040 R	Target Date 2040
T. Rowe Price Retirement 2050 R	Target Date 2050
T. Rowe Price Retirement 2060 R	Target Date 2060

\* Morningstar® .

The underlying investment mix is designed to change as you get closer to your retirement date. The portfolio moves from a more aggressive, growth-oriented strategy during your accumulation phase to a more conservative, preservation oriented strategy as you near retirement. Target date funds are intended as long-term investments which involve risk, including the possible loss of principal. The principal value of the fund(s) is not guaranteed at any time, including at the target date. Please see Appendix (pages 32 and 33) for investment category definitions.

# T. Rowe Price Target Date Funds Retirement Glidepath\*

## Allocation of Assets



The underlying investment mix is designed to change as you get closer to your retirement date. The portfolio moves from a more aggressive, growth-oriented strategy during your accumulation phase to a more conservative, preservation oriented strategy as you near retirement. Target date funds are intended as long-term investments which involve risk, including the possible loss of principal.

\*T. Rowe Price Investments Glide Path Comparison 1/2020

# Investment Options: LifeStyle Funds

Investment Name	Investment Category*
Vanguard Life Strategy Income Inv	Allocation – 15% to 30% Equity
Vanguard Life Strategy Conservative Growth Inv	Allocation – 30% to 50% Equity
Vanguard Life Strategy Growth Inv	Allocation – 70% to 85% Equity

\* Morningstar® .  
Please see Appendix (pages 32 and 33) for investment category definitions.

# Investment Options: Model Portfolios

Investment Name	Investment Category*
Ultra Aggressive Portfolio	100% Stocks
Aggressive Portfolio	80% Stocks – 20% Fixed Income
Balanced Portfolio	60% Stocks – 40% Fixed Income
Moderate Portfolio	40% Stocks – 60% Fixed Income
Conservative Portfolio	20% Stocks – 80% Fixed Income
Fixed Income Portfolio	100% Fixed Income

\*The **Model Portfolios** are not mutual funds or securities in and of themselves, rather they are asset allocation models comprised of several complementary investments (the names and percentage allocation of the investments that comprise these models can be found in the Enrollment Book). Please see Appendix (pages 32 and 33) for asset class definitions.

# Investment Option Overview

A brief overview of each investment can be found in the:

- Investment Options Booklet
- Knox County Retirement & Pension Board Website ([www.knoxcounty.org/retirement](http://www.knoxcounty.org/retirement))
- Your online account at [www.usicg.com](http://www.usicg.com)

# Market Timing

- **Definition of Market Timing**

1. The act of *attempting to predict the future* direction of the market, typically through the use of technical indicators or economic data.
2. The practice of *switching among mutual fund asset classes* in an *attempt to profit from the changes* in their market outlook.

It's *very difficult to be successful at market timing* continuously over the long-run. For the average investor who doesn't have the time (or desire) to watch the market on a daily basis, *there are good reasons to avoid market timing and focus on investing for the long-run.*

# Building Your Portfolio

## Your Unique Investment Position:

Before you can make intelligent elections, you must first identify a number of personal factors that will influence your optimal portfolio:

- **Time Horizon:**

If you are 4 years from retirement you will have a different asset mix than if you are 40 years from retirement.

- **Financial Need at Retirement:**

What will your lifestyle in retirement be? When do you plan to retire?

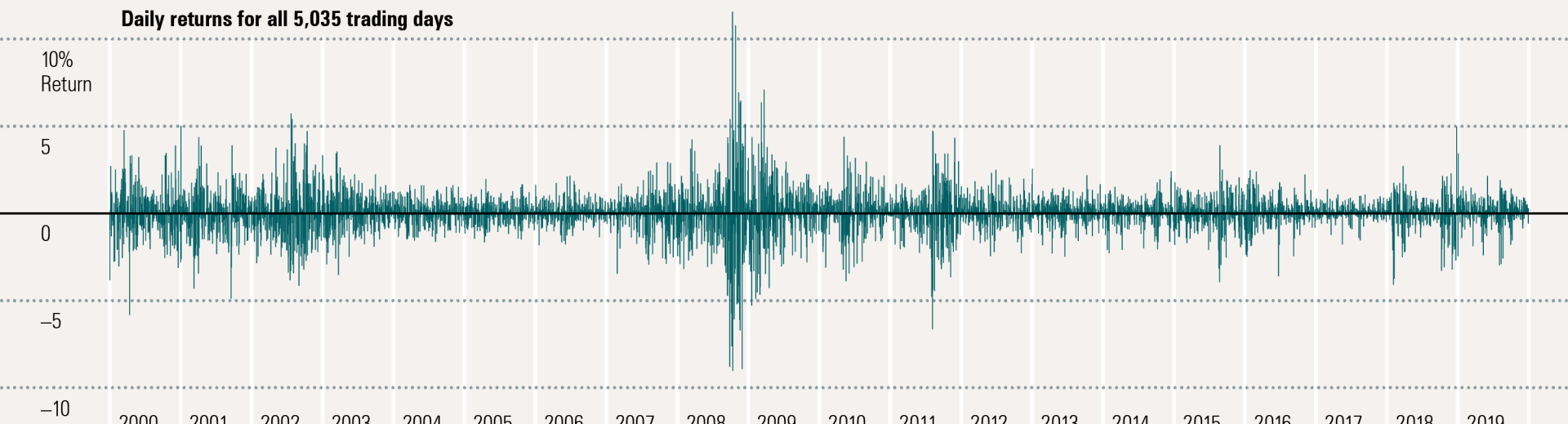
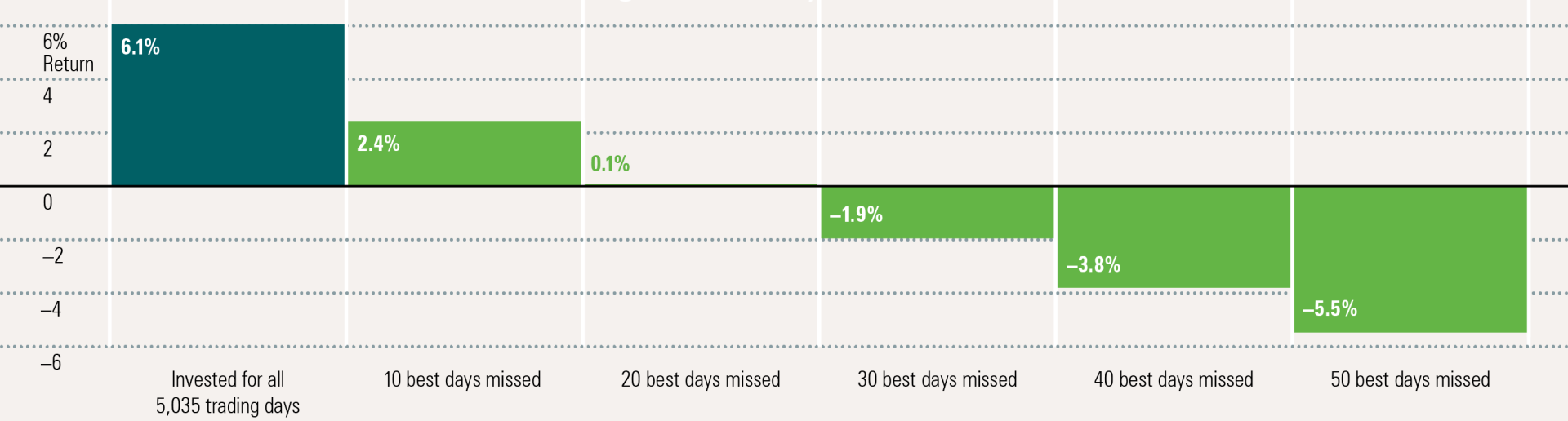
- **Risk Tolerance:**

Your risk tolerance or risk aversion is a personal choice, and dictates which investments would be appropriate for your risk profile



# The Cost of Market-Timing

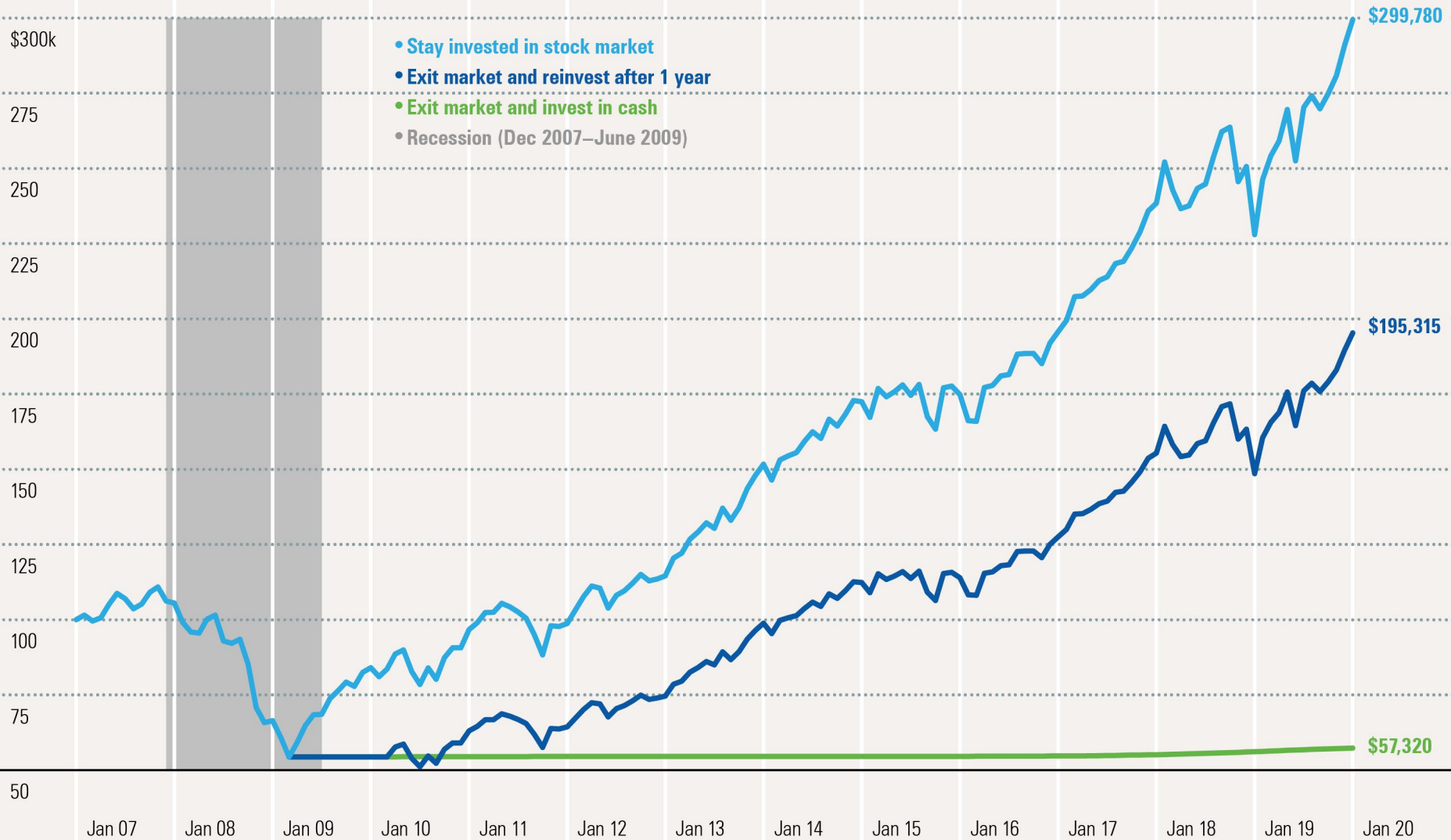
## The Risk of Missing the Best Days in the Market, 2000-2019



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# The Importance of Staying Invested

## Ending Wealth Values After a Market Decline



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## In Summary: What to Do?

### 1. Find out what you will need at retirement, what is your goal?

- Use the retirement calculators available to you

### 2. Start saving, use all the tools available to you:

- Use the retirement savings plan that your employer offers you
- Take advantage of the tax benefits
- Consolidate your plans

### 3. Invest wisely:

- Read about your funds (online or enrollment book)
- Diversify your portfolio
- Rebalance
- Use Morningstar® Retirement ManagerSM

### 4. And ..... ASK QUESTIONS!



# Your Connections with USICG

## Direct Line

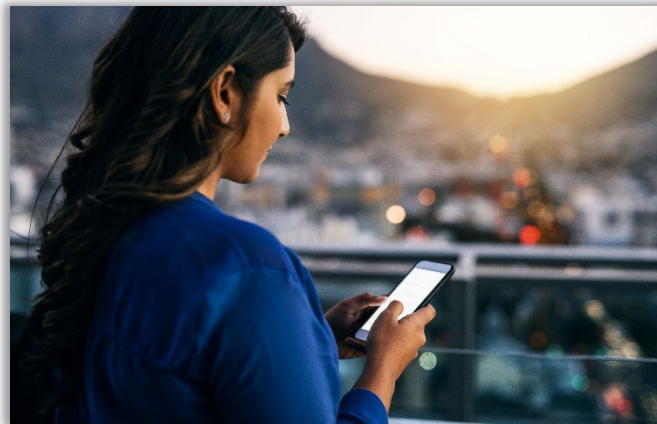
24 hours/day  
7 days/week  
1-877-220-8997



## Direct Access

[www.usicg.com](http://www.usicg.com)  
Forms Code: Kno

## Professional Service Team



Monday-Friday  
8am to 5pm ET

1-866-305-8846  
Plan Code: 524



# Knox County Retirement & Pension Board

*Here for you and your Nest Egg!*

**K N  X C O U N T Y**  
**RETIREMENT & PENSION BOARD**

**(865) 215-2323**

Room 371

City-County Building or at  
retirement@knoxcounty.org

- **General Plan Information**
- **Change withholding amounts**
- **Address changes**
- **Investment Information**
- **Life Event Changes**
- **Access Distribution and Estimate Portal**

# Appendix: Asset Class Definitions

## ASSET CLASSES

There are three basic investment categories or asset classes: Equity Investments, Fixed Income Investments, and Cash Equivalents.

**Equity Investments** involve the direct or indirect ownership (e.g., through mutual funds or other types of pooled portfolios) of company stock. Owning stock in a corporation is represented by holding share certificates that are a claim on a corporation's earnings and assets; therefore, stockholders are owners of the corporation. Equity investments have historically had the highest return potential, but also the greatest level of risk amongst the asset classes.

**Fixed Income Investments** are a type of investment that pays a fixed rate of return. Typically, this category refers to bonds issued by governments or corporations. Bonds are essentially loans made by investors to issuers (i.e., the investor is a creditor and the issuing government/corporation is a debtor). The issuer is obligated to pay a fixed rate of interest periodically and to repay the principal amount of the loan at maturity. Bonds are generally less volatile than stocks, but offer more modest returns.

**Cash Equivalents** involve investments that are highly liquid and the safest asset category (e.g., stable value funds, money market mutual funds). In general the chances of losing money on an investment in this category is extremely low; however, the potential returns are also the lowest of the three major investment categories. The principal concern for those who invest in cash equivalents is inflation risk. Meaning that these lower returns, over time, will not keep pace with the rising cost of goods and services.

Source: <https://www.investor.gov/introduction-investing>

# Appendix: Investment Category Definitions

## Capitalization

**Large Cap:** Companies whose share price multiplied by the number of shares outstanding typically exceeds \$10 billion.

**Mid Cap:** Companies whose share price multiplied by the number of shares outstanding typically falls in the range of \$2 billion to \$10 billion.

**Small Cap:** Companies whose share price multiplied by the number of shares outstanding typically is less than \$2 billion.

## Investment Style

**Value:** An investment style that invests in the stocks of companies that are considered undervalued relative to a major unmanaged stock index based on statistics such as price-to-current-earnings, book value, asset value or other factors.

**Growth:** An investment style that invests in stocks of companies with long-term earnings expected to grow significantly faster than the earnings of the stocks represented in a major unmanaged index. These funds will normally have an above average price-to-earnings ratio, price-to-book ratios, and three-year earnings growth figure compared to the universe of funds.

**Blend:** An investment style that invests in a combination of Growth and Value oriented stocks.

**Sector/Specialty:** These portfolios may focus investments on certain economic sectors, thereby increasing vulnerability to any single economic, political or regulatory development. This may result in greater price volatility.

**Real Estate:** There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

**Global/World:** These types of funds invest primarily outside the United States but may invest some of their assets within the United States.

**Diversified Emerging Markets:** These portfolios will have at least 50% of assets in stocks invested in emerging markets.

**Foreign/International:** These funds typically will invest in foreign securities, and will not generally invest within the United States.

**Conservative Allocation:** A fund that invests in both stocks and bonds and maintains a relatively smaller position in stocks. The funds typically have 20% - 50% of assets in equities and 50% - 80% of assets in fixed income and cash.

**Moderate Allocation:** A fund that invests in both stocks and bonds and maintains a higher position in stocks. The funds typically have 50% - 70% of assets in equities and the remainder in fixed income and cash.

**Target Date Funds:** Target Date Funds are subject to the risks associated with their underlying funds, and are multi-fund portfolios that adjust their asset allocation to become more conservative as the target date approaches.

Source: Morningstar Category Classification Definitions & Investment Definitions. <https://www.usiadvisorsinc.com>

# Appendix: Investment Category Definitions

**Stable Value:** Stable-value portfolios seek to provide income while preventing price fluctuations. The most common stable-value portfolios invest in a diversified portfolio of bonds and enter into wrapper agreements with financial companies to guarantee against fluctuations in their share prices. These wrapper agreements typically provide price stability on a day-to-day basis, thereby insulating each portfolio's net asset value from interest-rate volatility. Therefore, the duration for each of these funds is essentially zero.

**Ultrashort Bond:** Used for funds with an average duration or an average effective maturity of less than one year. This category includes general and government-bond funds, and excludes any international, convertible, multisector, and high-yield bond funds.

**Short-Term Bond:** Short-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and have durations of one to 3.5 years (or, if duration is unavailable, average effective maturities of 1 to 4 years). These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations.

**Intermediate-Term Bond:** Intermediate-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed income issues and have durations of 3.5 to 6 years (or, if duration is unavailable, average effective maturities of 4 to 10 years). These portfolios are less sensitive to interest rates, and therefore less volatile, than portfolios that have longer durations.

**Long-Term Bond:** Long-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and have durations of more than six years (or, if duration is unavailable, average effective maturities greater than 10 years). Due to their long durations, these portfolios are exposed to greater interest rate risk.

**High-Yield Bond:** High-yield bond portfolios concentrate on lower-quality bonds, which are riskier than those of higher-quality companies. These portfolios generally offer higher yields than other types of portfolios, but they are also more vulnerable to economic and credit risk. These portfolios primarily invest in U.S. debt securities where at least 65% or more of bond assets are not rated or are rated by a major agency such as Standard and Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

**Multisector Bond:** Used for funds that seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, foreign bonds, and high-yield domestic debt securities.

**Bank Loan:** A fund that invests primarily in floating-rate bank loans instead of bonds. In exchange for their credit risk, they offer high interest payments that typically float above a common short-term benchmark.

Source: Morningstar Category Classification Definitions & Investment Definitions. <https://www.usiadvisorsinc.com>