Time to EVALUATE the Asset Classes in the AACPS Supplemental Retirement Program

By now you have read and heard about the new investment providers and fund choices under the Anne Arundel County Public Schools Supplemental Retirement Program. Maybe you've even kicked the tires enough to know which investment provider (or providers) you prefer to manage your retirement savings. If so, great! Now the decisions get more complicated – with so many fund options, how do you choose the right investment funds to match your investing style, future financial needs, and time horizon for retirement?

This article takes some of the mystery out of those decisions by describing the various asset classes available under the Program and the types of funds that each class offers. Collectively, the four investment providers offer a mix of funds from Vanguard, T. Rowe Price, Morgan Stanley, and American Funds, just to name a few. Remember, you can always go online to the provider websites to learn more or contact your investment provider representative.

What Is an Asset Class?

Let's start at the beginning. Investopedia.com defines "asset class" as A group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. There are generally four types of overall asset classes available under the Program:

- Equities (stocks)
- Fixed-income (bonds)
- Cash equivalents (money market instruments)
- Balanced funds (a combination of all of the above)

Simple enough so far. Yet within each of these asset classes are numerous variations on fund types to match an investor's unique needs. These are described next.

Equities

An equity, or stock, is ownership in a company. These are generally broken down into categories based on the size of a company's market capitalization (or "cap") and include small, mid-size, and large. Several types of investments are available under the Supplemental Retirement Program in this asset class, including:

- Small Cap Value, Mid-Cap Value, Large Cap Value Funds—A value fund is compiled of stocks in companies that are currently trading at less than their perceived intrinsic value.
- Small Cap Growth, Mid-Cap Growth, Large Cap Growth Funds – A growth fund is compiled of stocks in companies that already have high valuation based upon expectations for future growth and tend to trade based on price momentum.
- Large Cap Index—An index fund is one that seeks to achieve the same return as a certain market index, such as the S&P 500 Index.
- Extended Market Index—A fund that seeks to mirror the returns of small and mid-size U.S. company stocks except those in the S&P 500.
- International—A fund that is primarily compiled of stock in overseas companies with limited exposure to domestic (U.S.) stocks.

Fixed Income (Bonds)

A bond is essentially a loan given by an investor to the government or a company, who pays back the loan at a pre-determined rate of interest. There are a few types of bond funds offered under the Supplemental Retirement Program, including:

- Short-Term Bond—A bond that seeks a high level of current income while offering minimal fluctuation in principal value and liquidity.
- Core Bond—This type of fund seeks to provide current income and preserve capital.

Balanced Fund

The goal of a balanced fund is to offer a relatively safe investment choice that provides some income and modest capital appreciation. The fund is "balanced" by a mix of stock, bond, and money market instruments.

Cash Equivalents

These types of funds are highly liquid and can be converted into cash relatively quickly. Within this asset class, the AACPS Supplemental Retirement Program offers money market funds which seek to earn interest while maintaining a net asset value (NAV) of $1 per share.

Lifecycle Funds

This type of fund represents a way to invest for retirement while leaving the responsibility for adjusting your asset allocation over time to the fund provider. For example, a lifecycle fund's portfolio will automatically adjust its proportion of asset classes over the course of the fund's time horizon to achieve a certain risk/return objective by a certain date in time (of course, there are no guarantees). These types of funds are sometimes appropriately referred to as "target-date" funds for this reason. So, someone who is 30 years old and selects a lifecycle fund with a target date of 2070 may have a portfolio today that is relatively high-risk. However, that same lifecycle fund 25 years from now will represent a much lower risk approach as that individual nears retirement age.

Knowing the differences among the various asset classes should put you one step closer toward choosing the investment funds that best suit your retirement savings goals. Remember to diversify your overall portfolio with a mix of low-to high-risk funds, based on the number of years you have to retirement and your level of risk tolerance. If you have questions, please contact the Human Resources Benefits Department at (410) 222-5221/5219 or via email at benefits@aacps.org.