



# EMPLOYEE RETIREMENT & ASSET ACCUMULATION PROGRAM

## **Investment Options**

This insert outlines the Blended Investment Options as well as the Individual Investment Options available under the Employee Retirement & Asset Accumulation Program. These descriptions are only a brief overview of the investment options. For more detailed information, you may request a prospectus or other comparable documents from USI Consulting Group (865-523-8353).

The Knox County Retirement Board reserves the right to add, remove or change designated investment menu options and asset allocations from time to time.

January 2012

# Knox County Retirement - Fund List Disclosures

## IMPORTANT DISCLOSURES:

**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 calling USI Consulting Group at (865) 523-8353 (or visiting [www.USICG.com](http://www.USICG.com)). You should read the prospectuses and/or other comparable documents carefully before investing.**

**An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to maintain the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.**

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 call USI Consulting Group at (865) 523-8353.

## INVESTMENT RISKS:

Investing in mutual funds, which are intended as long-term investments, involves risk, including the possible loss of principal. It is important to understand that certain types of securities and/or investment strategies employed by mutual funds may expose an investor to additional inherent risks. Investments in **foreign securities** are subject to special additional risks, including currency risk, political risk, and risk associated with varying accounting standards. Funds invested in **emerging markets** may accentuate these risks. **Sector funds** (those funds that invest exclusively in one sector or industry), such as 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. **Non-diversified funds**, which invest more of their assets in a single issuer, may experience substantial volatility due to the increased concentration of investments. Funds that invest in **small or mid-capitalization** companies may experience a greater degree of market volatility, and potential for business failure, than those of large-capitalization stocks and are riskier investments. **Bond funds** have the same interest rate, inflation, and credit risks as 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. Funds that invest in lower-rated debt securities, commonly referred to as **high yield or junk bonds**, have additional risks and may be subject to greater market fluctuations and risk of loss of income and principal (relative to higher-rated securities), due to the lower credit quality of the securities and increased risk of default. Bear in mind that higher return potential is accompanied by higher risk.

Although diversification is not a guarantee against loss, it is an effective strategy to help you manage risk. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio. There are no assurances that your investment objectives will be achieved.

Neither USI nor its affiliates and/or employees/agents/registered representatives offer legal or tax advice. Please seek independent advice, specific to your situation, from a qualified legal/tax professional.

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**USI Securities, Inc. and/or its agents/registered representatives do not provide personalized investment-related advice/counseling in relation to the assets maintained in a plan participant's retirement account.**

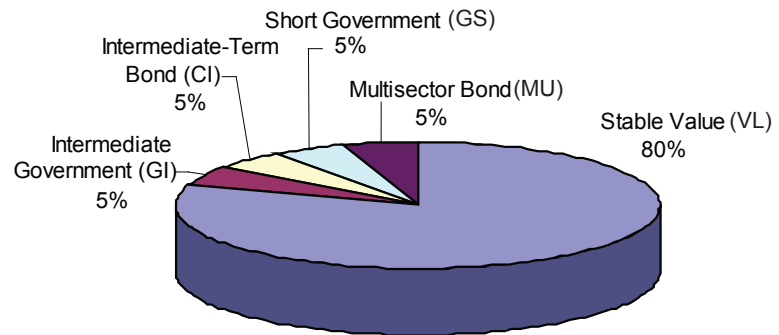
# Knox County Blended Model Portfolio Investment Options

The Model Portfolios identified below are not mutual funds or securities in and of themselves, rather they are asset allocation models comprised of several complementary investments. The individual allocation of these component investments, as a percentage of the Model Portfolio, are shown below. The Plan Sponsor makes the Model Portfolios available for the convenience of Plan Participants; however, the Plan Sponsor generally does not permit Plan Participants to invest contributions in the individual investments that constitute the models. Definitions for each Morningstar Category can be found in the back of this document.

## Fixed Income Investment Style

The fixed income investment style portfolio is comprised of several underlying investments with a primary focus on preservation of principal. This portfolio is designed for investors seeking stable current income. The targeted asset allocation in this portfolio will be 100% in fixed income instruments.

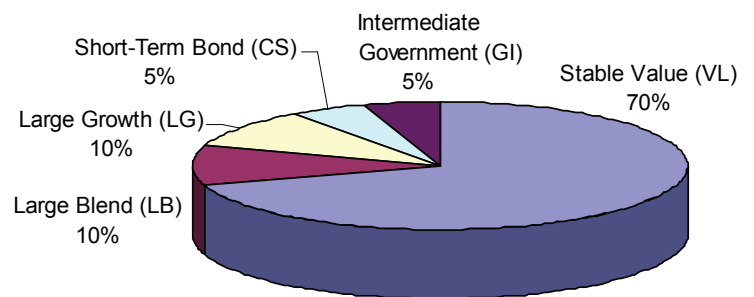
Target %	Investment Name	Morningstar Category
80%	Morley Stable Value III	VL
5%	ING GNMA Income A	GI
5%	JPMorgan Core Bond A	CI
5%	Eaton Vance Government Obligations A	GS
5%	Pioneer Strategic Income A	MU
100%	Fixed Income Investment Style	



## Conservative Investment Style

The conservative investment style portfolio is comprised of several underlying investments with a primary focus on preservation of principal. This portfolio is designed for investors seeking stable current income. The targeted asset allocation in this portfolio will be 80% in fixed income instruments with 20% exposure to the equity markets. The equity exposure will be in companies that maintain a record of stable dividends, but will provide an opportunity for modest capital appreciation.

Target %	Investment Name	Morningstar Category
70%	Diversified Stable Value	VL
10%	American Funds Invmt Co of Amer A	LB
10%	American Funds New Economy A	LG
5%	American Funds Interm Bond Fd of Amer A	CS
5%	Franklin U.S. Government Secs A	GI
100%	Conservative Investment Style	

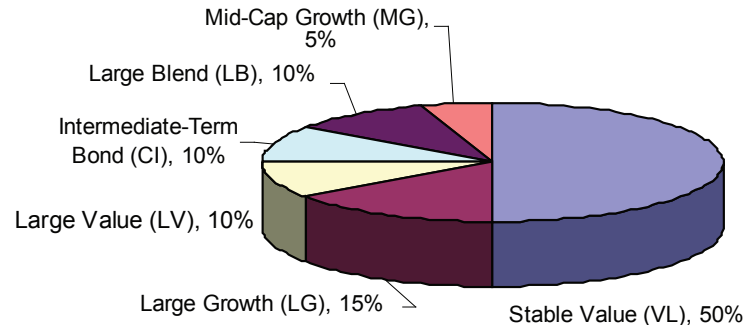


# Knox County Blended Model Portfolio Investment Options

## Moderate Investment Style

The moderate investment style portfolio is comprised of several underlying funds with a primary focus on current income with some opportunity for capital appreciation. The targeted asset allocation in this portfolio will be 60% in fixed income instruments with 40% exposure to the equity markets. The fixed income exposure will be in stable value funds, corporate and government bonds with a moderate degree of income. The equity exposure will be in domestic and foreign companies with consistent earnings potential.

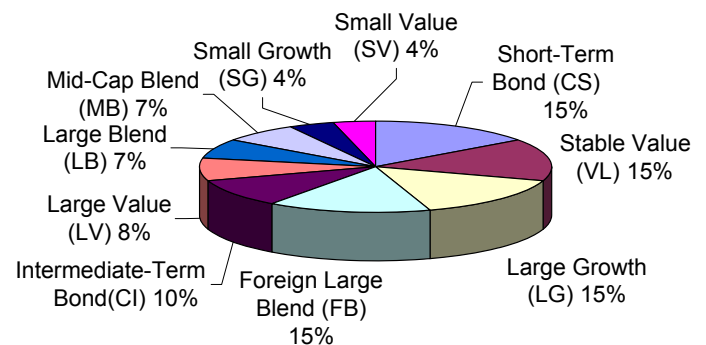
Target %	Investment Name	Morningstar Category
50%	Federated Capital Preservation Fund	VL
15%	Calvert Equity A	LG
10%	Pioneer Bond A	CI
10%	T.Rowe Price Equity Income R	LV
10%	Pioneer A	LB
5%	Franklin Small-Mid Cap Growth A	MG
<b>100%</b>	<b>Moderate Investment Style</b>	



## Balanced Investment Style

The balanced investment style portfolio is comprised of several underlying mutual funds with a primary focus on balancing current income with the opportunity for capital appreciation. The targeted asset allocation in this portfolio will be 40% in fixed income instruments with 60% exposure to the equity markets. The fixed income exposure will be in corporate bonds with a high degree of income. The equity exposure will be in domestic and foreign companies with consistent earnings growth.

Target %	Investment Name	Morningstar Category
15%	Calvert Short Duration Income A	CS
15%	Transamerica Stable Value	VL
15%	American Funds AMCAP A	LG
15%	Ivy International Core Equity A	FB
10%	Calvert Income A	CI
8%	Pioneer Equity Income A	LV
7%	Sit Dividend Growth S	LB
7%	Sentinel Mid Cap Value A	MB
4%	AllianceBernstein Small Cap Growth A	SG
4%	Columbia Small Cap Value Fund I Class A	SV
<b>100%</b>	<b>Balanced Investment Style</b>	

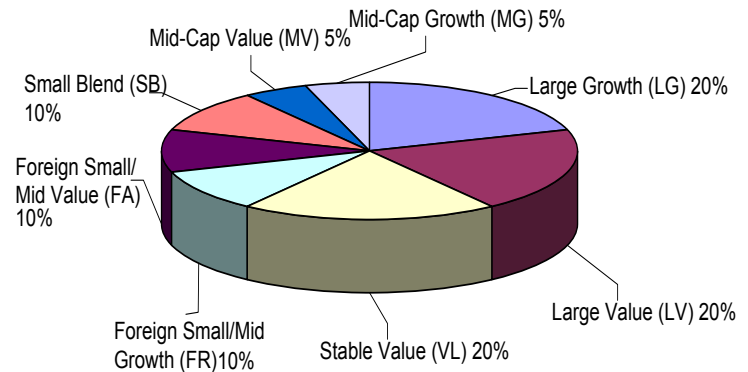


# Knox County Blended Model Portfolio Investment Options

## Aggressive Investment Style

The aggressive investment style portfolio is comprised of several underlying mutual funds with a focus on capital appreciation. The targeted asset allocation in this portfolio will be 20% in fixed income instruments with 80% exposure to the equity markets. The fixed income exposure will be in stable value funds. The equity exposure will be in domestic, foreign and emerging markets. These companies will tend to exhibit high degrees of expected earnings growth, but will likely have a high variability of returns.

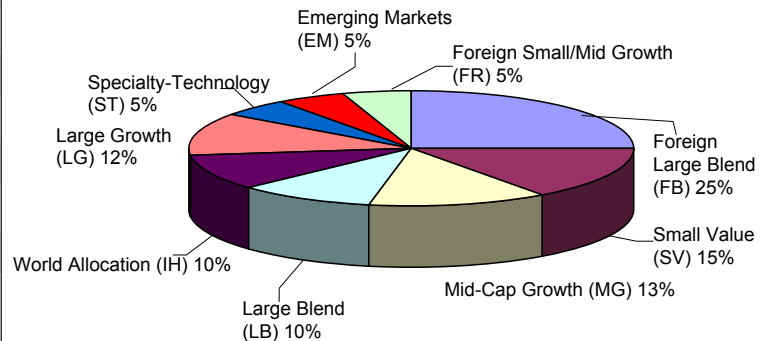
Target %	Investment Name	Morningstar Category
20%	T.Rowe Price Growth Stock R	LG
20%	JHancock3 Disciplined Value A	LV
20%	Invesco Stable Value	VL
10%	Invesco International Small Company A	FR
10%	First Eagle Overseas A	FA
10%	Oppenheimer Main Street Small & Mid Cap A	SB
5%	Columbia Mid Cap Value A	MV
5%	Ivy Mid Cap Growth A	MG
<b>100%</b>	<b>Aggressive Investment Style</b>	



## Ultra Aggressive Investment Style

The ultra aggressive investment style portfolio is comprised of several underlying equity mutual funds with aggressive investment styles. The targeted asset allocation in this portfolio will be 100% exposure to the equity markets. The primary focus of this portfolio will be on growth of capital. The underlying mutual funds will tend to invest in companies with little or no dividend payments, and therefore will produce little current income. The equity exposure will be in domestic, foreign and emerging markets. These companies will tend to exhibit high degrees of expected earnings growth, but will likely have a high variability of returns.

Target %	Investment Name	Morningstar Category
25%	American Funds EuroPacific Gr A	FB
15%	Columbia Multi-Advisor Sm Cp Value A	SV
13%	Nuveen Mid Cap Growth Opp A	MG
10%	American Funds Fundamental Investors A	LB
10%	First Eagle Global A	IH
7%	Dreyfus Research Growth A	LG
5%	Ivy Large Cap Growth A	LG
5%	Columbia Seligman Communications & Information A	ST
5%	Oppenheimer Developing Markets A	EM
5%	Columbia Acorn International A	FR
<b>100%</b>	<b>Ultra-Aggressive Investment Style</b>	



# Individual Investment Options

## Fixed-Income Style Investment Options

### Morley Stable Value II

#### Stable Value

The Morley Capital Stable Value Fund II seeks to provide a consistent rate of return while preserving capital and minimizing risk. The fund is composed of high-quality investments that carry less risk than stocks. Investments include contracts issued by insurance companies and other financial institutions. The fund is diversified among very high-quality stable value assets to minimize the impact of any one investment performing poorly. Note regarding Morley Stable Value accounts: Transfers to non-competing investment options, such as equity funds, balanced funds, and long-term bond funds are permitted at any time. Transfers to competing investment options with similar investment characteristics (such as any money market, stable value, short- or intermediate-term bond fund with a duration less than 3 years) must be held in a non-competing investment option for a minimum of 90 days before a subsequent transfer to a competing option may occur.

Fixed-Income Style			
Short	Int	Long	
			High
			Medium
			Low

### Sentinel Short Maturity Govt A

#### Short Government

The Fund's objective is high current income and limited fluctuations in principal value. The Fund invests mainly in a portfolio of U.S. government bonds with average lives at the time of purchase of three years or less.

Fixed-Income Style			
Short	Int	Long	
			High
			Medium
			Low

### Vanguard Total Bond Market Index Signal

#### Intermediate-Term Bond

The Fund's objective is to track the performance of a broad, market-weighted bond index. The Fund invests at least 80% of its total assets in bonds represented in the Index. The Fund also maintains a dollar-weighted average maturity of between five and ten years.

Fixed-Income Style			
Short	Int	Long	
			High
			Medium
			Low

### MFS Research Bond A

#### Intermediate-Term Bond

The Fund's objective is total return. The Fund invests at least 80% of its total assets in fixed income securities which include, U.S. investment-grade corporate fixed income securities, U.S. high yield fixed income securities, foreign fixed income securities and mortgage-backed and asset-backed securities.

# Individual Investment Options

## Fixed-Income Style Investment Options

Fixed-Income Style		
Short	Int	Long

### J.P. Morgan High Yield A High Yield Bond

The Fund's objective is a high level of current income. The Fund invests in a diversified portfolio of debt securities which are rated below investment-grade or unrated. Capital appreciation is a secondary objective. The Fund invests in all types of high-yield, high-risk debt securities.

## Allocation Style Investment Options

Fixed-Income Style		
Short	Int	Long

### Vanguard LifeStrategy Income Conservative Allocation

The Fund's objective is to provide current income and some growth of capital. The Fund invests in other Vanguard mutual funds according to a fixed formula that over time should reflect an allocation of about 60% of assets to bonds, 20% to short-term fixed-income investments, and 20% to common stocks.

Equity Style		
Value	Blend	Growth

Fixed-Income Style		
Short	Int	Long

### Vanguard LifeStrategy Conservative Growth Conservative Allocation

The Fund's objective is to provide current income and low to moderate growth. The Fund invests in other Vanguard mutual funds according to a fixed formula that typically results in an allocation of about 60% of assets to bonds, 20% to short-term fixed-income investments, and 20% to common stocks.

Equity Style		
Value	Blend	Growth

Fixed-Income Style		
Short	Int	Long

### Vanguard LifeStrategy Growth Aggressive Allocation

The Fund's objective is to provide growth of capital and some current income. The Fund invests in other Vanguard mutual funds according to a fixed formula that over time should reflect an allocation of about 80% of assets to common stocks and 20% to bonds.

Equity Style		
Value	Blend	Growth

# Individual Investment Options

## Equity Style Investment Options

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

### Pioneer Cullen Value A

#### Large Value

The Fund's objective is long-term capital appreciation and current income. The Fund invests primarily in equity securities of medium- and large-capitalization companies. Investments generally will have below average price/earnings ratio and above average projected earnings growth as compared to that of the S&P 500.

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

### Vanguard 500 Index Signal

#### Large Blend

The Fund aims to track the performance of the Standard & Poor's 500 Index, which is dominated by the stocks of large U.S. companies. The Fund invests substantially all of its assets in the stocks that make up the Index.

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

### Sentinel Common Stock A

#### Large Blend

The Fund's objective is a combination of growth of capital, current income, growth of income and relatively low risk as compared with the stock market as a whole. The Fund invests primarily in a diverse group of common stocks of well-established companies.

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

### JP Morgan Large Cap Growth A

#### Large Growth

The Fund seeks long-term capital appreciation and growth of income by investing primarily in equity securities. The Fund normally invests at least 80% of assets in equity securities of large companies with market capitalizations equal to those within the universe of the Russell 1000 Growth Index at the time of purchase.

# Individual Investment Options

Equity Style		
Value	Blend	Growth

## Franklin Flex Cap Growth A Fund

### Large Growth

The Fund's objective is capital appreciation. The Fund invests substantially in equity securities of companies across the entire market capitalization spectrum that the manager believes have the potential for capital appreciation.

Equity Style		
Value	Blend	Growth

## JHancock3 Disciplined Value Mid Cap A

### Mid-Cap Value

The Fund seeks long-term growth of capital with current income as a secondary objective. The Fund invests at least 80% of net assets (including borrowings for investment purposes) in a diversified portfolio consisting primarily of equity securities, such as common stocks, of issuers with medium market capitalizations and identified by the subadviser as having value characteristics.

Equity Style		
Value	Blend	Growth

## Vanguard Mid Capitalization Index Signal

### Mid-Cap Blend

The Fund's objective is to track the performance of the MSCI US Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U.S. companies. The Fund invests all or substantially all of its assets in the stocks that make up the Index.

Equity Style		
Value	Blend	Growth

## Columbia Acorn A

### Mid-Cap Growth

The Fund's objective is long-term growth of capital. The Fund invests primarily in the stocks of small- and medium-sized companies. The Fund generally invests in the stocks of companies with market capitalizations of less than \$5 billion at the time of purchase.

# Individual Investment Options

## Equity Style Investment Options (continued)

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

### Delaware Small Cap Value A Small Value

The Fund's objective is long-term capital appreciation. The fund invests primarily in investments of small companies whose stock prices appear low relative to their underlying value or future potential. It invests at least 80% of assets in investments of small-capitalization companies.

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

### Sentinel Small Company A Small Growth

The Fund's objective is growth of capital. The Fund invests mainly in common stocks of small companies, which have, at the time of purchase, market capitalizations of less than \$3 billion.

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

### American Funds New Perspective World Stock

The Fund's objective is long-term capital growth and, secondarily, income. The Fund invests primarily in common stocks, including growth-oriented stocks, on a global basis. The Fund invests in undervalued securities that represent good long-term investment opportunities.

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

### \*Dodge & Cox International Stock Foreign Large Value

The Fund's objective is long-term growth of principal and income. The Fund invests primarily in a diversified portfolio of medium-to-large well-established, non-U.S. companies from at least three different foreign countries, including emerging markets.

\* Morningstar categories and fund style boxes may not match because they examine different time periods. The style box is based on the most recent portfolio provided to Morningstar. The Morningstar category is based on an average of three and five years of portfolio data (12 quarterly portfolios or 36 monthly portfolios if available).

# Individual Investment Options

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

## Oppenheimer International Growth A Foreign Large Growth

The Fund's objective is long-term capital appreciation. The Fund invests mainly in common stocks of growth companies that are domiciled outside the United States or have their primary operations outside the US. It can invest in emerging markets as well as developed markets throughout the world.

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

## Templeton Developing Markets A Diversified Emerging Markets

The Fund's objective is long-term capital appreciation. The Fund invests mainly in equity securities in developing market countries. These countries are typically located in the Asia-Pacific region, Eastern Europe, Central and South America, and Africa.

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

## Invesco Real Estate A Specialty Real Estate

The Fund's objective is high total return. The Fund invests at least 80% of its total assets in securities of real estate and real estate-related companies, including equity REITs that own property and mortgage REITs which make short-term construction and development mortgage loans.

Equity Style		
Value	Blend	Growth

Large  
Mid  
Small

## Vanguard Health Care Adm Specialty Health Care

The Fund's objective is long-term capital appreciation. The Fund invests at least 80% of its assets in the stocks of companies principally engaged in the development, production, or distribution of products and services related to the health care industry.

## Plan Restrictions & Reimbursements Related to Short-term Investment Trading

FUNDS	Short Term Redemption Fees charged by Fund Company	Transfer Trading Restrictions
*Knox County Blended Model Portfolio Investment Options		
Fixed Income Investment Style	None	If transfer \$5,000 or more OUT can't transfer \$5,000 or more IN for 30 days Transfer activity limited to 1 round-trip transfer within a 15-day period
Conservative Investment Style	None	If transfer \$5,000 or more OUT can't transfer \$5,000 or more IN for 30 days Limits transfer activity to 4 round-trip transfers within a 365 day period
**Moderate Investment Style	2% redemption fee if held less than 30 days	If transfer \$0.01 or more OUT can't transfer \$0.01 or more IN for 90 days
**Balanced Investment Style	2% redemption fee if held less than 30 days	If transfer \$5000 or more OUT can't transfer \$5000 or more IN for 30 days Transfer activity limited to 1 round-trip transfer within a 15-day period
**Aggressive Investment Style	2% redemption fee if held less than 60 days	If transfer \$0.01 or more OUT can't transfer \$0.01 or more IN for 90 days Transfer activity limited to 4 round-trip transfers within a 365-day period Transfer activity limited to 1 round-trip transfer within a 15-day period
**Ultra Aggressive Investment Style	2% redemption fee if held less than 60 days	If transfer \$5000 or more OUT can't transfer \$5000 or more IN for 30 days Transfer activity limited to 1 round-trip transfer within a 15-day period
<p>* The Model Portfolios identified above are not mutual funds or securities in and of themselves, rather they are asset allocation models comprised of several complementary investments. The individual investments and the allocation of these component investments can be found in the Knox County Retirement Investment Options booklet.</p> <p>** This fee may not apply to all of the underlying investments that comprise the Model Portfolio(s). Please call 1-865-523-8353 for specifics.</p>		

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## Plan Restrictions & Reimbursements Related to Short-term Investment Trading

FUNDS	Short Term Redemption Fees charged by Fund Company	Transfer Trading Restrictions
Individual Investment Options		
*Morley Capital Stable Value II	None	None
Sentinel Short Maturity Govt A	None	None
Vanguard Total Bond Market Index Signal	None	If transfer \$0.01 or more OUT can't transfer \$0.01 or more IN for 60 days
MFS Research Bond A	None	If transfer \$5,001 or more OUT can't transfer \$5,001 or more IN for 30 days
JP Morgan High Yield A	None	None
Vanguard Life Strategy Income	None	If transfer \$0.01 or more OUT can't transfer \$0.01 or more IN for 60 days
Vanguard Life Strategy Conservative Growth	None	If transfer \$0.01 or more OUT can't transfer \$0.01 or more IN for 60 days
Vanguard Life Strategy Growth	None	If transfer \$0.01 or more OUT can't transfer \$0.01 or more IN for 60 days
Pioneer Cullen Value A	None	None
Vanguard 500 Index Signal	None	If transfer \$0.01 or more OUT can't transfer \$0.01 or more IN for 60 days
Sentinel Common Stock A	None	None
JP Morgan Large Cap Growth A	None	None
Franklin Flex Cap Growth A Fund	None	None
JHancock3 Disciplined Value Mid Cap A	None	None
Vanguard Mid Capitalization Index Signal	None	If transfer \$0.01 or more OUT can't transfer \$0.01 or more IN for 60 days
Columbia Acorn A	None	Transfer activity limited to 1 round-trip transfer within a 15-day period
Delaware Small Cap Value A	None	If transfer \$0.01 or more OUT can't transfer \$0.01 or more IN for 30 days
Sentinel Small Company A	None	None
American Funds New Perspective	None	If transfer \$5,000 or more OUT can't transfer \$5,000 or more IN for 30 days
Dodge & Cox International Stock	None	Transfer activity limited to 1 round-trip transfer within a 90-day period
Oppenheimer International Growth A	None	None
Templeton Developing Markets A	None	None
Invesco Real Estate A	None	Transfer activity limited to 4 round-trip transfers within a 365-day period
Vanguard Health Care Adm	1% redemption fee if held less than 365 days	If transfer \$0.01 or more OUT can't transfer \$0.01 or more IN for 60 days

\* 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.

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# Morningstar Style Box Information and Definitions

## Morningstar Style Box Information and Definitions:

The Morningstar Style Box reveals a fund's investment strategy. For equity funds the vertical axis shows the market capitalization of the stocks owned and the horizontal axis shows investment style (value, blend, or growth). For fixed-income funds the vertical axis shows the average credit quality of the bonds owned, and the horizontal axis shows interest rate sensitivity as measured by a bond's duration (short, intermediate, or long).

### Equity Investments

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 (i.e., stocks, bonds, cash).

**Investment Style** – A method of investing utilizing specific criteria. **Value Investing** involves investing 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 Investing** involves investing 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 investments will normally have an above average price-to-earnings ratio, price-to-book ratio, etc. **Blend Investing** utilizes an investment strategy involving a combination of the Value and Growth styles.

**Market Capitalization** – A company's market capitalization is equal to the number of company shares outstanding multiplied by its current stock price. **Large-cap** stocks are often classified as companies with market capitalizations of more than \$10 billion; **Mid-cap** stocks between \$2 billion and \$10 billion; and **Small-cap** stocks with less than \$2 billion.

### Fixed Income Investments

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.

**Duration** – A measurement of bond price volatility that measures the “length” of a bond. It is a weighted-average term-to-maturity of the bond's cash flows, the weights being the present value of each cash flow as a percentage of the bond's full price. For working purposes, duration can be defined as the approximate percentage change in price for a 100-basis-point change in yield. Investments with longer durations may experience more price volatility than those with short durations.

**Credit Quality** – A measurement of the credit risk of an investment, or the financial and moral risk that an obligation will not be paid and a loss will result. Investments involving low credit quality may have higher return potential, but are also subject to greater market fluctuations, risk of loss of income, and increased risk of default (i.e., loss of invested principal and/or earnings).

### Diversification

Diversification involves spreading your assets among several investments with the intent of lowering overall volatility and risk. Although diversification is not a guarantee against loss, it is an effective strategy to help you manage risk. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio. There are no assurances that your investment objectives will be achieved.

# Morningstar Category Classification Definitions

## Morningstar Category Classification Definitions:

**Morningstar Category Classifications:** Funds are distinguished and classified by what they own, instead of by the investment mandate from the prospectus. Each fund is assigned to a category based on its actual investment style as measured by the underlying portfolio holdings.

### U.S. Stock:

**Large Value (LV):** Large-value portfolios invest primarily in big U.S. companies that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

**Large Blend (LB):** Large-blend portfolios are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

**Large Growth (LG):** Large-growth portfolios invest in big U.S. companies that are projected to grow faster than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.

**Mid-Cap Value (MV):** Some mid-cap value portfolios focus on medium-size companies while others land here because they own a mix of small-, mid-, and large-cap stocks. All look for U.S. stocks that are less expensive or growing more slowly than the market. The U.S. mid-cap range for market capitalization typically falls between \$1 billion-\$8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

**Mid-Cap Blend (MB):** The typical mid-cap blend portfolio invests in U.S. stocks of various sizes and styles, giving it a middle-of-the-road profile. Most shy away from high-priced growth stocks, but aren't so price conscious that they land in value territory. The U.S. mid-cap range for market capitalization typically falls between \$1 billion-\$8 billion and represents 20% of the total capitalization of the U.S. equity market. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

**Mid-Cap Growth (MG):** Some mid-cap growth portfolios invest in stocks of all sizes, thus leading to a mid-cap profile, but others focus on midsize companies. Mid-cap growth portfolios target U.S. firms that are projected to grow faster than other mid-cap stocks, therefore commanding relatively higher prices. The U.S. mid-cap range for market capitalization typically falls between \$1 billion-\$8 billion and represents 20% of the total capitalization of the U.S. equity market. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

**Small Value (SV):** Small-value portfolios invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

**Small Blend (SB):** Small-blend portfolios favor U.S. firms at the smaller end of the market-capitalization range. Some aim to own an array of value and growth stocks while others employ a discipline that leads to holdings with valuations and growth rates close to the small-cap averages. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

**Small Growth (SG):** Small-growth portfolios focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

**Specialty-Health (SH):** Specialty-health portfolios focus on the medical and health-care industries. Most invest in a range of companies, buying everything from pharmaceutical and medical-device makers to HMOs, hospitals, and nursing homes. A few portfolios concentrate on just one industry segment, such as service providers or biotechnology firms.

# Morningstar Category Classification Definitions

**Specialty-Real Estate (SR):** Specialty-real estate portfolios invest primarily in real-estate investment trusts (REITs) of various types. REITs are companies that develop and manage real-estate properties. There are several different types of REITs, including apartment, factory-outlet, health-care, hotel, industrial, mortgage, office, and shopping center REITs. Some portfolios in this category also invest in real-estate operating companies.

**Specialty-Technology (ST):** Specialty-technology portfolios buy high-tech businesses in the U.S. or outside of the U.S. Most concentrate on computer, semiconductor, software, networking, and Internet stocks. A few also buy medical-device and biotechnology stocks and some concentrate on a single technology industry.

## International Stock:

**Foreign Large Value (FV):** Foreign large-value portfolios invest mainly in big international stocks that are less expensive or growing more slowly than other large-cap stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow). These portfolios typically will have less than 20% of assets invested in U.S. stocks.

**Foreign Large Blend (FB):** Foreign large-blend portfolios invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

**Foreign Large Growth (FG):** Foreign Large Blend (FB): Foreign large-blend portfolios invest in a variety of big international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

**Foreign Small/Mid Value (FA):** Foreign small-/mid-value portfolios invest in international stocks that are smaller and less expensive than other stocks. These portfolios primarily invest in stocks that fall in the bottom 30% of each economically integrated market (such as Europe or Asia ex-Japan). Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow). These portfolios typically will have less than 20% of assets invested in U.S. stocks.

**Foreign Small/Mid Growth (FR):** Foreign small-/mid-growth portfolios invest in international stocks that are smaller, growing faster, and higher-priced than other stocks. These portfolios primarily invest in stocks that fall in the bottom 30% of each economically integrated market (such as Europe or Asia ex-Japan). Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). These portfolios typically will have less than 20% of assets invested in U.S. stocks.

**World Stock (WS):** World-stock portfolios have few geographical limitations. It is common for these portfolios to invest the majority of their assets in the U.S., Europe, and Japan, with the remainder divided among the globe's smaller markets. These portfolios typically have 20%-60% of assets in U.S. stocks.

**Diversified Emerging Mkts (EM):** Diversified emerging-markets portfolios tend to divide their assets among 20 or more nations, although they tend to focus on the emerging markets of Asia and Latin America rather than on those of the Middle East, Africa, or Europe. These portfolios invest at least 70% of total assets in equities and invest at least 50% of stock assets in emerging markets.

## Asset Allocation Investments

**Conservative Allocation (CA):** Conservative-allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold smaller positions in stocks than moderate-allocation portfolios. These portfolios typically have 20% to 50% of assets in equities and 50% to 80% of assets in fixed income and cash.

**Aggressive Allocation (AL):** Aggressive allocation portfolios invest between 70% and 85% of total assets in equity securities; remaining assets are allocated among bonds or cash. Portfolios in this group may focus on a wide range of market capitalization and valuation characteristics, though under normal market conditions they tend to maintain a fairly static asset allocation.

**World Allocation (IH):** World-allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. While these portfolios do explore the whole world, most of them focus on the U.S., Canada, Japan, and the larger markets in Europe. It is rare for such portfolios to invest more than 10% of their assets in emerging markets. These portfolios typically have at least 10% of assets in bonds, less than 70% of assets in stocks, and at least 40% of assets in non-U.S. stocks or bonds.

# Morningstar Category Classification Definitions

## Taxable Bond:

**Intermediate Government (GI):** Intermediate-government portfolios have at least 90% of their bond holdings in bonds backed by the U.S. government or by government-linked agencies. This backing minimizes the credit risk of these portfolios, as the U.S. government is unlikely to default on its debt. These portfolios have durations between 3.5 and six years (or, if duration is unavailable, average effective maturities between four and 10 years). Consequently, the group's performance—and its level of volatility—tends to fall between that of the short government and long government bond categories.

**Short Government (GS):** Short-government portfolios have at least 90% of their bond holdings in bonds backed by the U.S. government or by government-linked agencies. This backing minimizes the credit risk of these portfolios, as the U.S. government is unlikely to default on its debt. These portfolios have durations between one and 3.5 years (or, if duration is unavailable, average effective maturities between one and four years), so they have relatively less sensitivity to interest rates, and thus low risk potential.

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

**Short-Term Bond (CS):** 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 one to four years). These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations.

**Ultrashort Bond (UB):** Ultrashort bond portfolios invest primarily in investment-grade U.S. fixed-income issues and have durations of less than one year (or, if duration is unavailable, average effective maturities of less than one year). This category can include corporate or government ultrashort bond portfolios, but it excludes international, convertible, multisector, and high yield bond portfolios. Due to their focus on bonds with very short durations, these portfolios offer minimal interest rate sensitivity and therefore low risk and total return potential.

**Multisector Bond (MU):** Multisector bond portfolios seek income by diversifying their assets among several fixed income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds, and high-yield U.S. debt securities. These portfolios typically hold 35% to 65% of bond assets in securities that are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

**High Yield Bond (HY):** 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. high-income debt securities where at least 65% or more of bond assets are not rated or are rated by a major agency such as Standard & Poor's or Moody's at the level of BB (considered speculative for taxable bonds) and below.

**World Bond (IB):** World bond portfolios invest 40% or more of their assets in foreign bonds. Some world bond portfolios follow a conservative approach, favoring high-quality bonds from developed markets. Others are more adventurous, and own some lower-quality bonds from developed or emerging markets. Some portfolios invest exclusively outside the U.S., while others regularly invest in both U.S. and non-U.S. bonds.

## Money Market and Stable Value:

**Stable Value (VL):** 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. This category is only used in Morningstar's custom fund and separate account databases.

**Taxable Money Market (TM):** These portfolios invest in short-term money market securities in order to provide a level of current income that is consistent with the preservation of capital.





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