

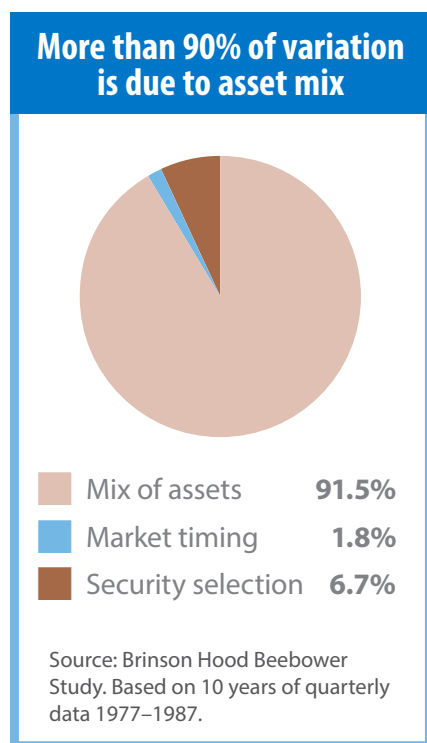
# Asset Allocation

## The power of asset allocation

Asset allocation is a rational strategy for investment selection. Simply put, it is the process of diversifying your investment dollars across different asset classes. It enables you to optimize your return potential while reducing your risk.

- How your investments are diversified depends on your willingness to tolerate risk. In general, the greater the risk, the greater the potential return.

By diversifying your portfolio, you can pursue attractive performance potential while simultaneously spreading out your investment risk.



## How important is asset allocation to your investment success?

Industry research has shown that more than 90% of the variation in portfolio return is determined by asset allocation.

In short, while picking specific investments and deciding when to buy and sell those investments can have an impact on your overall return, a well-diversified portfolio may be the critical factor in determining how well your portfolio performs in the long run.

## A personal asset allocation strategy is built on two key elements:

- **Your time horizon** — A shorter time horizon, for example, would result in a more conservative portfolio strategy (to reduce volatility).
- **Your risk tolerance** — For example, an aggressive portfolio may not be suitable for a person with a low tolerance for risk — even if he or she has a long-term time horizon.

## Determining your investment type

The questionnaire on Pages 4–5 will help you determine your investment style. It was developed by Wilshire Associates, a nationally recognized investment management firm. If you're not sure whether your investment style is conservative, moderate or aggressive, the questionnaire results can help you determine which portfolio model may be right for you.

Just complete the questionnaire on the following pages to review your investment style, fund asset classes and investment options. Allocation choices may be listed for reference, but you will have to select the allocation you prefer on your *Retirement Plan Selection Form* or through your Online Personal Account.

# Questionnaire | What Type of Investor Are You?

To complete the questionnaire, circle the number next to the response that most resembles yours. Circle only one number per question.

## 1. Your current age is:

Circle one

- 1 | Over 70
- 4 | 60–70
- 8 | 50–59
- 12 | 35–49
- 16 | 34 or younger

## 2. When do you anticipate taking regular cash distributions from your account?

Circle one

- 2 | Less than five years
- 5 | Five to nine years
- 7 | 10 to 15 years
- 10 | More than 15 years, or I do not anticipate taking cash distributions

## 3. In addition to your current employer-sponsored retirement plan, do you have other retirement plan benefits such as a defined benefit pension or defined contribution profit-sharing plan?

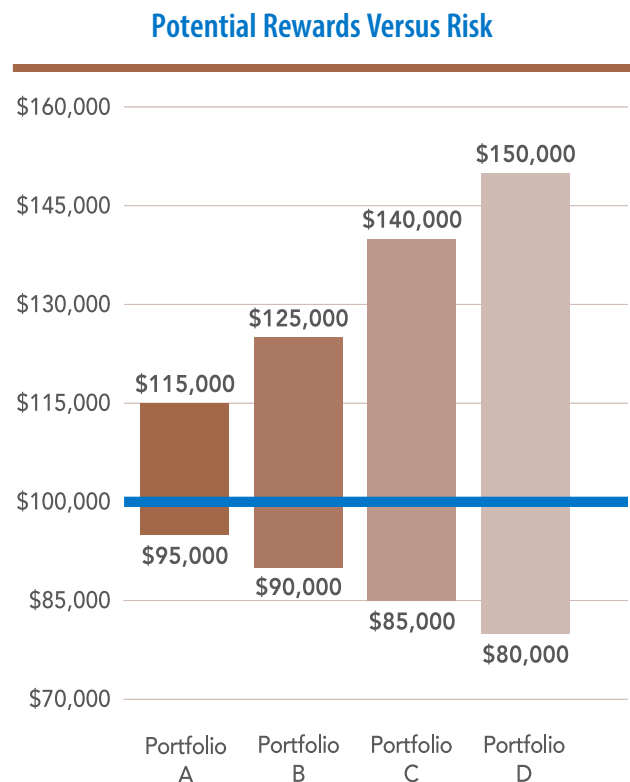
Circle one

- 0 | No
- 20 | Yes

## 4. The chart below shows the possible performance range of four different sample portfolios. Let's say you invested \$100,000 at the beginning of the year. Each bar shows the range of potential values at the end of one year. Which portfolio best describes your tolerance for risk?

Circle one

- |   |  |
|---|--|
| 1   Portfolio A<br>(\$95,000–\$115,000) | 7   Portfolio C<br>(\$85,000–\$140,000)  |
| 4   Portfolio B<br>(\$90,000–\$125,000) | 10   Portfolio D<br>(\$80,000–\$150,000) |



**5. While riskier than bond investments, stock investments offer the potential of higher long-term investment returns. What is your feeling about investing a portion of your money in stock investments?**

*Circle one*

- 1 | I am concerned that stock investments are too risky and would prefer a higher allocation to bonds
- 5 | I understand there is additional risk with stock investments and would consider a more balanced allocation to stocks and bonds
- 9 | I understand there may be some additional risks in stock investing, but the opportunity to achieve long-term growth with a higher allocation to equities is worth a serious consideration
- 12 | I understand the risks, but recognize there are growth opportunities in stock markets, and would like to maximize those opportunities

**6. Given the volatility of the capital markets, your account value will fluctuate over time. The three choices below show potential account value ranges after a three-year investment period. If you were to invest \$50,000, which portfolio would you select?**

*Circle one*

- 2 | Account value range of \$48,000–\$53,000
- 6 | Account value range of \$45,000–\$58,000
- 10 | Account value range of \$40,000–\$60,000

## INVESTMENT STYLE QUESTIONNAIRE RESULTS:

**Use your questionnaire scores to find your investment style**

Calculate Score		
Question 1		_____
Question 2	+	_____
Question 3	+	_____
Question 4	+	_____
Question 5	+	_____
Question 6	+	_____
<b>Total =</b>		_____

**Use your total score to find your investment style**

Point Total	Investment Style
0–16	Conservative
17–26	Moderately Conservative
27–39	Moderate
40–57	Moderately Aggressive
58–78	Aggressive

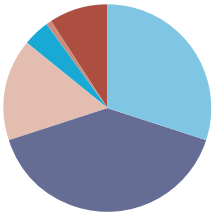
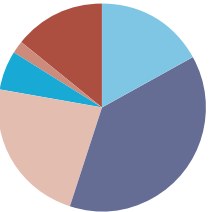
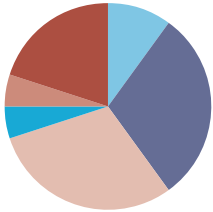
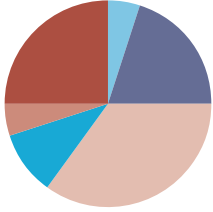
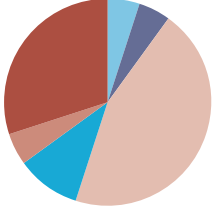
See Page 6 for sample portfolio models

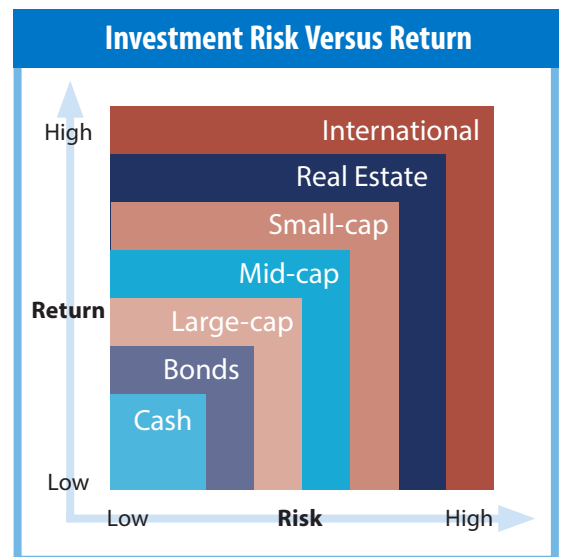
# Sample Portfolio Models

## Identifying an allocation strategy for your Defined Contribution Plan or Combined Plan

Asset mix is a critical factor in determining investment results. The chart below illustrates five potential portfolios Wilshire Associates has identified that spread holdings across six general asset classes. Now that you have identified your investment style, you can match it with an investment portfolio that

best fits your needs (based on your responses to the questionnaire). This can serve as a guide as you pursue your own allocation strategy. If any of the asset classes are unfamiliar to you, refer to the Glossary on Pages 23–24.

Investment Style	Asset Classes (allocation)
<b>CONSERVATIVE</b>	 <ul style="list-style-type: none"> <li>■ Cash <b>30%</b></li> <li>■ Bonds <b>40%</b></li> <li>■ Large-cap stocks <b>16%</b></li> <li>■ Mid-cap stocks <b>4%</b></li> <li>■ Small-cap stocks <b>1%</b></li> <li>■ International stocks <b>9%</b></li> </ul>
<b>MODERATELY CONSERVATIVE</b>	 <ul style="list-style-type: none"> <li>■ Cash <b>17%</b></li> <li>■ Bonds <b>38%</b></li> <li>■ Large-cap stocks <b>23%</b></li> <li>■ Mid-cap stocks <b>6%</b></li> <li>■ Small-cap stocks <b>2%</b></li> <li>■ International stocks <b>14%</b></li> </ul>
<b>MODERATE</b>	 <ul style="list-style-type: none"> <li>■ Cash <b>12%</b></li> <li>■ Bonds <b>28%</b></li> <li>■ Large-cap stocks <b>30%</b></li> <li>■ Mid-cap stocks <b>7%</b></li> <li>■ Small-cap stocks <b>4%</b></li> <li>■ International stocks <b>19%</b></li> </ul>
<b>MODERATELY AGGRESSIVE</b>	 <ul style="list-style-type: none"> <li>■ Cash <b>7%</b></li> <li>■ Bonds <b>18%</b></li> <li>■ Large-cap stocks <b>37%</b></li> <li>■ Mid-cap stocks <b>9%</b></li> <li>■ Small-cap stocks <b>5%</b></li> <li>■ International stocks <b>24%</b></li> </ul>
<b>AGGRESSIVE</b>	 <ul style="list-style-type: none"> <li>■ Cash <b>3%</b></li> <li>■ Bonds <b>7%</b></li> <li>■ Large-cap stocks <b>44%</b></li> <li>■ Mid-cap stocks <b>11%</b></li> <li>■ Small-cap stocks <b>5%</b></li> <li>■ International stocks <b>30%</b></li> </ul>



# Making Your Own Investment Choices

STRS Ohio offers 17 choices to determine how your retirement funds will accumulate:

- All managed by the same STRS Ohio investment professionals who manage the system's defined benefit assets.
- These options vary in degrees of risk/return among different types of stock investments, bonds and cash equivalents.
- STRS Ohio has at least one corresponding choice available in each asset class identified by Wilshire Associates — plus a real estate option and target date options.

Asset Class	STRS Ohio Options
Cash	<a href="#">STRS Money Market Choice</a>
Bonds	<a href="#">STRS Bloomberg U.S. Universal Bond Index Choice</a>
Large-Cap	<a href="#">STRS Large-Cap Core Choice</a>
Large-Cap	<a href="#">STRS Russell 1000 Index Choice</a>
Mid-Cap	<a href="#">STRS Russell Midcap Index Choice</a>
Small-Cap	<a href="#">STRS Russell 2000 Index Choice</a>
International	<a href="#">STRS MSCI World ex USA Index Choice</a>
International	<a href="#">STRS MSCI ACWI ex USA Index Choice</a>
Real Estate	<a href="#">STRS REIT Index Choice</a>
Blend	<a href="#">STRS Target Choice Options</a>

Descriptions of each of these allocation choices begin on the following page, including:

- Investment Objective
- Investment Characteristics
- Investment Risk
- Composition, Sector Weightings and Top Holdings (if applicable)
- Asset Management Fees

## STRS Target Choice options

STRS Target Choice options consist of blends of domestic and international equities, fixed income and real estate investments. The investment mix changes over time. More information on these choices is provided on Pages 18–22.

## Completing your allocation choices

If you choose the Defined Contribution Plan or Combined Plan, you will indicate your initial allocations through your Online Personal Account.

On the following pages you'll find descriptions of each STRS Ohio allocation choice. As you review them, you will gain a better understanding of the potential return and risk of each one. You can indicate your initial allocations using one of these approaches:

- Follow the Wilshire Associates allocation model and develop a corresponding portfolio consisting of the appropriate STRS Ohio options; or
- Select your own combination of STRS Ohio options for your portfolio that you believe meets your personal needs; or
- Choose an STRS Target Choice option.

Once this selection information is received by STRS Ohio, your account will be established.