

Quadrennial
Benefits
Conference



Investing 101

The Trailhead—Key Concepts



Wespath
BENEFITS | INVESTMENTS

Trail Map



- Understand investing principles
 - Risk and reward
 - Diversification and correlation
 - Time value of money
- Answer your questions

What Is Investing?



- The act of committing money or capital to an endeavor with the aim of obtaining additional income or profit
- Conscious act based on consideration of the risk of loss
- Different from speculation or saving

Source: Investopedia

Packing Your Bags

What is your investment goal?

What is your source of funds?

What is your time horizon?
(When do you need the money?)

How much can you afford to lose?

Risk and Return

- Investors require higher returns to compensate for taking more risk
- Risk premium—compensation for those who tolerate extra risk

Source: Investopedia



The Future Is Uncertain!



- Economy may tank
- Stock market may drop
- Inflation may increase
- May receive significant donation
- Economy may grow faster than expected

What Is Risk?



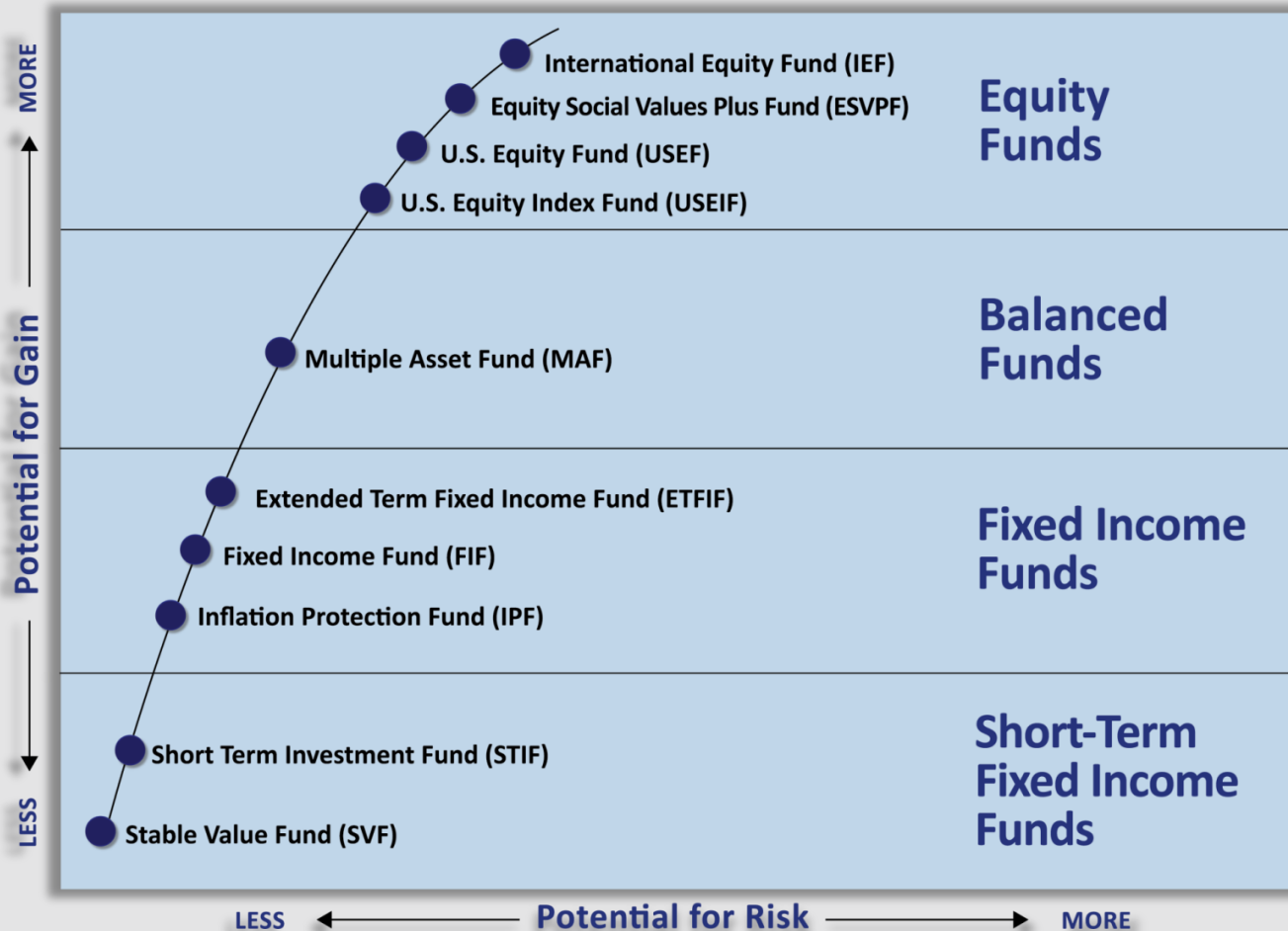
- The chance that an investment's actual return will be different than expected
- The possibility of losing some or all of the original investment
- The deviation of returns around the average return

Source: Investopedia

Common Risks



Risk/Gain Potential Fund Comparison



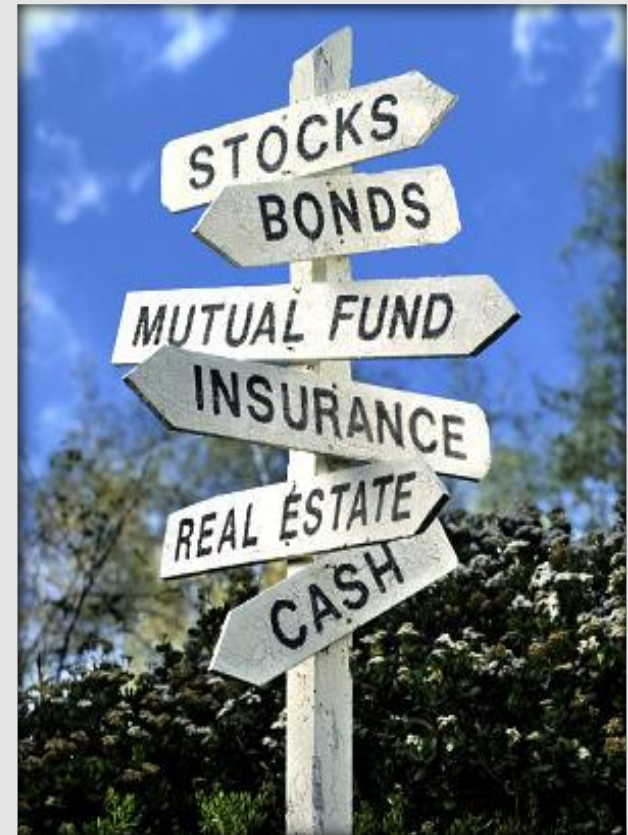
Diversification and Correlation

Diversification

A portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio

WHY?

Correlation—A statistical measure of how two securities move in relation to each other



Source: Investopedia

What? Please Explain That!

- Perfect positive correlation
- Perfect negative correlation
- Zero correlation
- Simple math behind power of diversification



Some say diversification is the only free lunch in investing!

Correlation in the Real World

	U.S. Large Cap	EAFE	EME	Bonds	Corp. HY	Munis	Currency.	EMD	Cmdty.	REITs	Hedge funds	Private equity	Ann. Volatility
U.S. Large Cap	1.00	0.89	0.80	-0.27	0.75	-0.10	-0.47	0.62	0.53	0.78	0.81	0.80	16%
EAFE		1.00	0.90	-0.13	0.79	0.00	-0.64	0.71	0.61	0.68	0.86	0.81	20%
EME			1.00	-0.05	0.85	0.07	-0.67	0.81	0.69	0.57	0.87	0.80	25%
Bonds				1.00	-0.04	0.78	-0.14	0.26	-0.11	0.01	-0.20	-0.24	3%
Corp. HY					1.00	0.15	-0.52	0.89	0.66	0.68	0.79	0.67	12%
Munis						1.00	-0.10	0.46	-0.09	0.07	-0.03	-0.15	4%
Currencies							1.00	-0.58	-0.68	-0.38	-0.49	-0.58	8%
EMD								1.00	0.58	0.61	0.67	0.58	8%
Commodities									1.00	0.40	0.72	0.70	21%
REITs										1.00	0.53	0.58	26%
Hedge funds											1.00	0.87	7%
Private equity												1.00	11%

Source: Barclays Inc., Bloomberg, Cambridge Associates, Credit Suisse/Tremont, FactSet, Federal Reserve, MSCI, NCREIF, Standard & Poor's, J.P. Morgan Asset Management.
 Indexes used – Large Cap: S&P 500 Index; Currencies: Federal Reserve Trade Weighted Dollar; EAFE: MSCI EAFE; EME: MSCI Emerging Markets; Bonds: Barclays Aggregate; Corp HY: Barclays Corporate High Yield; EMD: Barclays Emerging Market; Cmdty.: Bloomberg Commodity Index; Real Estate: NAREIT Equity REIT Index; Hedge Funds: CS/Tremont Hedge Fund Index; Private equity: Cambridge Associates Global Buyout & Growth Index. Private equity data are reported on a two quarter lag. All correlation coefficients and annualized volatility calculated based on quarterly total return data for period 6/30/06 to 6/30/16. This chart is for illustrative purposes only.
 Guide to the Markets – U.S. Data are as of July 31, 2016.

J.P.Morgan
 Asset Management

Time Value of Money

- The idea that money available now is worth more than the same amount in the future due to its potential earning capacity
- This core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received

Source: Investopedia



The 'Magic' of Compounding

- Simple interest
- Compound interest
- Power of reinvestment



**Albert Einstein called compound interest
“the greatest mathematical discovery of all time”**

Source: Investopedia

Investment Products

- Equity
- Fixed income
- Exchange Traded Funds (ETFs)
- Mutual funds
- Real estate
- Other investments—options, futures, foreign currency, gold, etc.



Investment Style

- Active management / active fund
- Passive management / index fund
- Fundamental asset selection
- Quantitative asset selection
- Technical asset selection

Style depends on the degree to which you believe the *efficient markets hypothesis*—current prices always incorporate and reflect all relevant information.

Source: Investopedia

Summing it Up



What is the investment goal?



What is the source of funds?

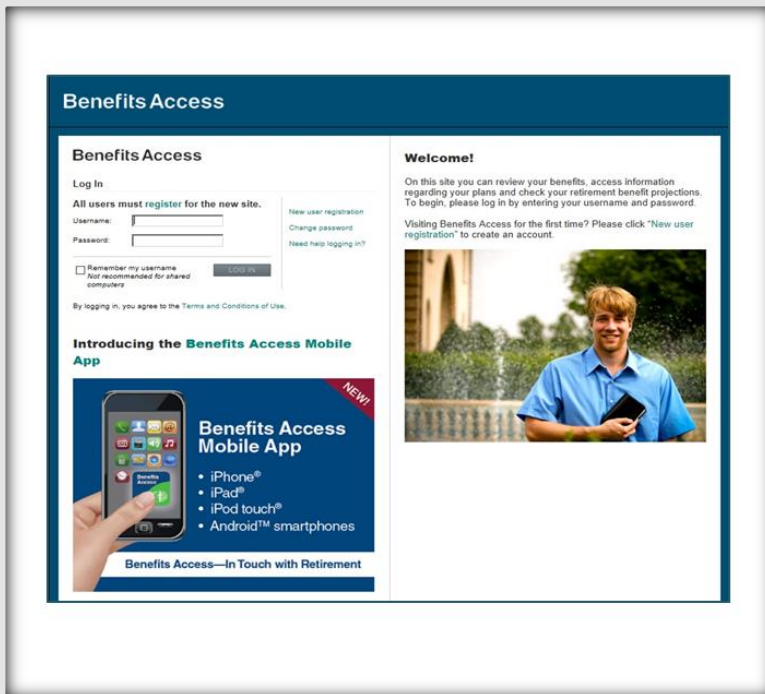


**What is the time horizon?
(When is the money needed?)**



How much can you afford to lose?

Benefits Access



- Participant benefits all in one place
- Projections for participants' financial futures
- Financial education
- So much more...

LifeStage Investment Management

- Convenient, one-step investment approach for managing your accounts
- Develops a customized investment mix based on age and other information, such as risk tolerance, etc.
- To attain a target mix, the service allocates account balances among six of Wespath's investment funds
- Throughout life, the service continues to:
 - Adjust investment mix as participants age
 - Adjust investment mix as participants' Personal Investment Profiles change
 - Rebalance investment portfolios, periodically as needed, to maintain target investment mix

EY Financial Planning Services

EY financial planners can provide no-cost* confidential and objective guidance on:

- Making investment decisions
- Saving for future
- Managing debt
- Understanding tax issues
- Evaluating insurance needs and options
- Buying a home
- So much more!

* **Costs for services are included in Wespath's operating expenses that are paid for by the funds.**





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