

# PLAN UPDATE



## UNDERSTANDING YOUR INVESTMENTS: MARKET CAPS AND BENCHMARKS

**Know your choices. Be confident in your decisions.**

As an Oregon Savings Growth Plan participant, you can choose from nine investment options. How do you select the ones that are right for you? One way is to understand the different categories of stocks: small-cap, medium-cap, and large-cap. We will define these categories, look at each option and its benchmark, and explain how they apply to your OSGP investment choices.

**Company size matters when it comes to stocks.**

“Market capitalization” (or simply “cap”) is a measure of a company’s overall size. It is determined by multiplying the number of shares outstanding times the share price. For example: Company A with 80 million shares selling for \$50 each will have a market cap of \$4 billion (80,000,000 X \$50 = \$4,000,000,000).

Stocks are generally classified into three sizes:

**Small-cap:** Under \$1 billion market capitalization

**Mid-cap:** \$1-5 billion market capitalization

**Large-cap:** Over \$5 billion market capitalization

In choosing stocks for a specific fund, an investment manager will often look for stocks with certain characteristics directly related to company size which may cause those stocks to respond differently to market conditions.

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## WHERE YOUR INVESTMENTS FIT

Option Name	“Cap” Size	Investments	Performance Benchmark
<b>Short-Term Fixed Option</b>	Not applicable because no stocks are included	Short-term money market securities	The 91-day Treasury Bill, a common benchmark for government security money market funds
<b>Stable Value Option</b>	Not applicable because no stocks are included	Primarily fixed income investments and agreements	The 91-day Treasury Bill*, which provides a good comparison of average maturity and credit risk for the investments in this option
<b>Intermediate-Term Fixed Income Option</b>	Not applicable because no stocks are included	Bonds, government securities, and similar investments	The Lehman Brothers Aggregate Bond Index, a standard comparison for high-quality bonds
<b>Large Company Value Stock Option</b>	Mostly large-cap with some mid-cap and small-cap stocks	Common stocks of large-cap, medium-cap, and small-cap U.S. companies; managers use a “value investing” style, which means they look for quality stocks at discount prices	The Russell 1000 Value Index that measures the performance of 1000 companies selling at discounts
<b>Stock Index Option</b>	3000 U.S. companies of all sizes	Common stocks of a very broad range of U.S. companies	The Russell 3000 Index that measures the performance of the 3000 largest U.S. companies
<b>Large Company Growth Stock Option</b>	Mostly large-cap with some mid-cap and small-cap stocks	Stocks of large-cap, medium-cap, and small-cap U.S. companies; managers use a “growth investing” style, which means they look for stocks with above-average growth and profitability potential	The Russell 1000 Growth Index that measures the performance of 1000 companies with high forecasted growth expectations
<b>International Stock Option</b>	Foreign stocks of all sizes	Stocks of established small-cap, medium-cap, and large-cap companies operating outside the United States, diversified among many countries and industries	The Morgan Stanley Europe, Asia, Far East Index (MSCI EAFE) that measures more than 1000 companies in 20 countries
<b>Small/Mid-Size Company Stock Option</b>	Mostly small-cap with some mid-cap stocks	Common stocks of small-cap and mid-cap companies; may also hold some large-cap companies	The Russell 2500 Index that looks beyond the 500 largest U.S. companies to measure the performance of companies ranked from 501-3000
<b>Balanced Fund Option</b>	Combined performance of all OSGP funds listed above, except for the Stable Value Option	<ul style="list-style-type: none"> <li>• 5% Short-Term Fixed</li> <li>• 35% Intermediate-Term Fixed Income</li> <li>• 10% Large Company Value Stock</li> <li>• 20% Stock Index</li> <li>• 10% Large Company Growth Stock</li> <li>• 10% International Stock</li> <li>• 10% Small/Mid-Size Company Stock</li> </ul>	Combines the seven benchmarks, in their respective weightings, of the options that comprise this fund

\*Recently identified as the benchmark for this option

**Small-cap:** Tend to be more volatile; are often start-ups or high-risk companies; can rise and fall sharply; can offer high long-term growth potential; can show faster improvement during economic rebounds; may decline more quickly and severely during economic downturns.

**Mid-cap:** Can fit either the small-cap or large-cap profile but typically fall somewhere between the two.

**Large-cap:** Tend to be more stable; are often Fortune 500 or “blue-chip” companies; can grow more slowly; offer a high degree of long-term stability; can take longer to respond to economic rebounds; often have the “critical mass” to withstand economic downturns.

**Benchmarks matter, too.**

A benchmark is simply a basis of comparison used to measure the performance of specific investment types. By looking at its benchmark, you can quickly understand the nature and objectives of a particular investment. Comparing it against the benchmark, you can see how a fund or investment option is performing relative to similar investment types. OSGP performance results always show the performance of each of the nine investment options and their relative benchmarks. When comparing results be aware that the OSGP option performance is reported net of all fees while the benchmark is not.

As you can see, OSGP offers a range of small-cap, mid-cap, and large-cap stock investment options. Each of these investment types can be expected to respond differently to current market conditions and will have different levels of market risk. You have choices available to build a diversified portfolio according to your comfort level, long-term goals, and overall strategy. To learn more and review current performance of all OSGP investment options, visit the Web site at [osgp.csplans.com](http://osgp.csplans.com), choose “Select an Option,” choose “Plan Information,” then choose “Investment Information.” You may also call the OSGP Information Line at 800-365-8494.

**ADVISORY CORNER**

The Advisory Committee is pleased to announce that **Gay Lynn Bath** has been named manager of the Oregon Savings Growth Plan and the PERS Salem Center. Gay Lynn replaces Jon Springer who has retired from public service after serving as manager for nearly four years. Gay Lynn has most recently served as Defined Contribution Administrator for the state of Idaho.

Mark your calendar to attend our Deferred Compensation Advisory Committee open meetings in 2004:

Date	Location	Time
May 12	Tigard - PERS Headquarters	9:30 a.m.
August 11	Salem - Archives Building	9:30 a.m.
November 10	Tigard - PERS Headquarters	9:30 a.m.

**FEE REDUCTION, AGAIN**

We have reduced administrative costs to OSGP participants nearly every year since the plan began, and we are doing it again. The PERS portion of the administrative fee was reduced to 8 basis points (.08 percent) effective February 1, 2004. This is an 11 percent reduction from last year and a whopping 53 percent reduction since 1996. This means more money working for you!

**ASSET REALLOCATION VS. EXCESSIVE TRADING**

How has recent market performance affected your portfolio balance? Do you still have an appropriate allocation among the investment options to fit your risk tolerance and time horizon? Financial planners suggest you ask these questions at least annually and perhaps more often in volatile markets. For example, if at the beginning of 2003 you were appropriately invested with 60 percent of your account diversified in stock options in the plan and 40 percent in “fixed” investments, the performance in 2003 of the stock portion of your account may have caused stocks to grow to 70-75 percent of your portfolio. When this happens, investment advisors suggest that you rebalance by moving some of your assets from stocks to “fixed” investments to restore your 60/40 allocation. Long-term investors understand how this review and periodic rebalancing can enable you to be consistent in your investment strategy and maintain appropriate risk. OSGP customer service can assist you to easily do this on the participant Web site at [osgp.csplans.com](http://osgp.csplans.com) or on the Information Line at 800-365-8494.

If you are rebalancing your investments more frequently than a few times a year, you may be engaging in a practice that, while legal, is prohibited by contracts with our underlying investment providers. Each provider has trading policies that must be respected by our plan and its participants. Our current policy related to transfers between investment options states: “The Oregon Savings Growth Plan is designed for long-term investment and easy periodic adjustment of asset allocation. Transfer of assets between investment options can occur any day the stock market is open. General limitations on these transfers exist only in the Stable Value Option. Limitations on individual transfers may be imposed in any option if trading activity of any participant is deemed excessive by Plan administration or any underlying investment provider.” If you are engaging in frequent trading in any investment option, you may receive communication from the plan administration restricting your trading privileges. If you are periodically reallocating your investments, you are most likely respecting all trading policies and are using plan features to your benefit.

**Editorial Contributions**

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*This newsletter is not intended to provide legal, tax, or investment advice. For such advice, participants should contact legal, tax, or investment advisers.*