



OHIO DEFERRED COMPENSATION

# 457 FOCUS

877-644-6457

Ohio457.org

First Quarter 2017

## Make your next heroic move using Ohio DC's planning tools

Whether your retirement is next year or in 30 years, Ohio Deferred Compensation offers the tools and insights to help you take control of your retirement planning. These can be found by clicking on the "Resources" link on our website. As a current participant, you have access to:

### **My Interactive Retirement Planner<sup>SM</sup>**

Use this online tool for a simple, complete view of your retirement outlook. The tool helps you quickly identify retirement income gaps and discover how your financial decisions, assets, and planning may affect your future.

### **My Health Care Estimator<sup>®</sup>**

Assess your projected retirement health care costs in three easy steps and develop a plan to fit these costs into your retirement budget.

### **Professor Penny Videos**

Explore this series of short informational videos on a range of topics from Retirement Planning to the Importance of Fees. You'll even find videos that cover catch-up contributions and investment performance.

### **Online Webinars**

For those approaching retirement, participate in one of our live webinars offered in the spring and fall, or view prerecorded webinars to help you make informed retirement decisions.

Take control of your retirement savings.



Visit [Ohio457.org](http://Ohio457.org) to learn more.



A publication of the Ohio Deferred Compensation Board

# Message from the Executive Director...

## Fiduciary Rule Update

Last year we notified everyone about the Department of Labor's (DOL) Conflict of Interest Rule, also known as the Fiduciary Rule, that was scheduled to become effective April 10, 2017.

The rule is intended to protect retirement investors by requiring that advisors adhere to a fiduciary standard and provide advice that is in the investor's best interest. So far the rule has withstood legal challenges by the financial industry.

However, President Trump directed the DOL to delay the effective date to conduct a review of the regulation, so DOL extended the effective date to June 9, 2017. Nevertheless, many firms plan to adhere to the new fiduciary rule and act in the best interest of their clients.

**Keith Overly**  
*Executive Director*

## The Stable Value Option and Future Interest Rate Changes

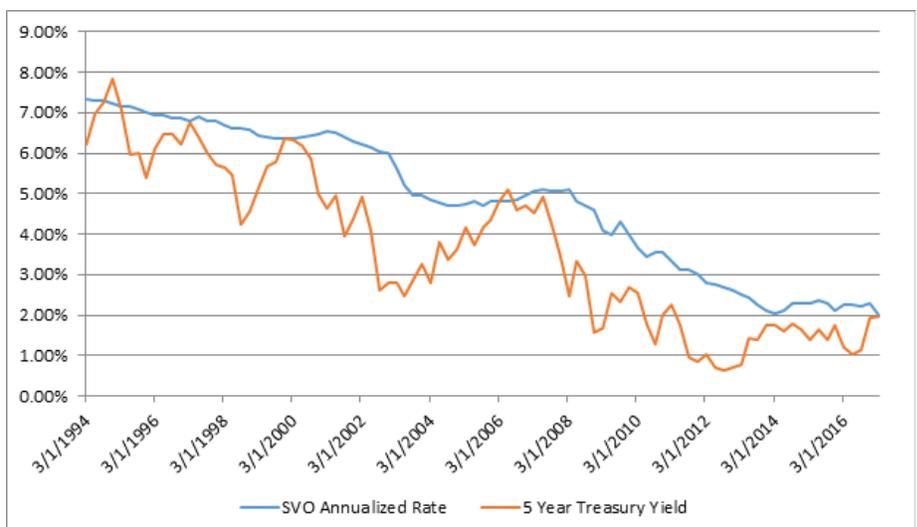
The investment objectives of our Stable Value Option (SVO) are preservation of principal and a relatively stable rate of return compared to intermediate fixed income yields. This strategy is intended to enable participants invested in the SVO to minimize the potential for losses and realize positive returns throughout difficult market environments.

Our SVO yields have gone down over time, following the overall interest rate's downward trend. The graph below compares the annualized SVO crediting rates with yields on 5-year U.S. Treasury bonds. SVO crediting rates have been higher than 5-year U.S. Treasury yields over most of this period and have not moved up and down as much. Changes to the SVO crediting rate generally respond slower or "lag" the overall changes in interest rates. Until more SVO investments mature and are reinvested at current interest rates, the SVO rate generally reflects older investment rates.

This lag has benefited the SVO crediting rate as overall interest rates have generally trended down over the past 23 years. The opposite will probably be true when overall interest rates eventually go up. As interest rates rise, the SVO crediting rate may lag and earn less than yields on comparable fixed income investments for some period.

The SVO seeks to preserve principal and provide a competitive rate of return. However, as with all investments, the SVO involves certain risks, such as inflation risk and credit risk. Please read the investment profile for more complete information.

### Ohio DC SVO Annualized Yield versus 5-Year U.S. Treasury Yield



Source: GSAM, United States Department of the Treasury website, as of 1/1/2017. Past performance does not guarantee future results, which may vary.

# Announcement of Investment Changes

Three changes to our investment lineup are scheduled for **June 2, 2017**. Changes affect options in the small-cap value, small-cap growth, and international categories. Our independent investment consultant recommended and the Ohio DC Board of Trustees approved moving participants to investment options with better potential risk/return, performance, and/or lower costs.

## Fund Changes

Two small-cap options will move from retail mutual funds to white-label separate accounts. Since they are new portfolios, these investment options will not initially have a fund profile or historical performance to report.

Old Investment Option	New Investment Option
FPA Capital (FPPTX) Net Expense Ratio: 0.72%	Ohio DC Small-Cap Value (managed by Westwood Management Corp.) Net Expense Ratio: 0.59%
Hartford Small Company (HIASX) Net Expense Ratio: 0.67%	Ohio DC Small-Cap Growth (managed by Westfield Capital Management Company & Apex Capital Management) Net Expense Ratio: 0.77%

Expense ratio information as of March 31, 2017

Investors in the FPA Capital or Hartford Small Company funds will receive a letter in April explaining these changes. Additional information is also available at [Ohio457.org](http://Ohio457.org).

## Share Class Change

Old Investment Option	New Investment Option
Templeton Foreign, Advisor Shares (TFFAX) Net Expense Ratio: 0.82%	Templeton Foreign, R6 Shares (FTFGX) Net Expense Ratio: 0.72%

Expense ratio information as of March 31, 2017

**Exchange Deadline:** To help us process the required fund exchanges on June 2, participants invested in these funds should make any of their own planned exchange requests before 4 p.m. on June 1. Once the mandatory exchanges are completed, a letter with detailed transaction information will be sent to affected participants.

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## Let Our Retirement Planning Specialists Come to You

Retirement Planning Specialists (RPSs) help Ohio DC participants with retirement planning at no charge and in a variety of ways—at the Service Center in Columbus, at meeting sites throughout Ohio, or over the phone. You must make an appointment for this service by calling 877-644-6457. RPSs will be available to meet with you in select cities on these dates:

### May 2017 Meetings:

May 3 Cleveland, Chagrin Falls Library  
May 10 City of Stow, Council Chambers  
May 16 Toledo, Waterville Library  
May 25 Cleveland, Strongsville Library

### June 2017 Meetings:

June 8 Cincinnati, Sharonville Library  
June 14 Cleveland, North Olmsted Library  
June 20 Canton, Perry Sippo Library  
June 28 Cleveland, Middleburg Heights Library

*Information presented by the RPS is for educational and planning purposes only and is not intended as investment advice. Neither Nationwide nor its representatives provide tax, legal, or investment advice. Please consult your professional advisor for such advice.*

## Ohio DC Selects New Investment Consultant

Ohio DC uses a professional investment consultant to monitor our investment options and, when necessary, to recommend replacement of investment managers. Having a team of experts dedicated to important topics like investment manager research, performance reporting, and investment policy, makes it possible for us to provide quality investment products consistent with retirement plan best practices.

Every five years, Ohio DC requests proposals from investment consultants. After receiving proposals from several qualified national firms, the Board of Trustees selected RVK, Inc., as our new independent investment consultant. In addition to monitoring and searching for investment managers, RVK will also provide guidance and recommendations regarding the Program's investment lineup, investment policies, plan design, and administration. RVK began its five-year term as investment consultant on April 1, 2017.

## Ohio DC Chair and Vice Chair Elected

The Ohio Deferred Compensation Board of Trustees elected Charles Latsa and Steve Toth as chair and vice chair, respectively, at the January Board meeting.



**Charles Latsa**  
Chair



**Steve Toth**  
Vice Chair



### Ohio Deferred Compensation Service Center

257 East Town Street, Suite 457  
Columbus, Ohio 43215-4626

**Walk-in hours: 8 a.m.–4:30 p.m.,** Monday–Friday

**Phone hours: 8 a.m.–5:30 p.m.,** Monday–Friday

**Automated Telephone System: 24/7**



**877-644-6457**



**Ohio457@Nationwide.com**



**Ohio457.org**



**Ohio Deferred Compensation**

### Ohio DC Board of Trustees

#### Elected

**Charles Latsa, Chair**

State College and University Employees

**Sean Loftus**

County Employees

**Christopher Mabe**

State Employees

**John W. Maurer**

Retired Group

**Cynthia Sledz**

Miscellaneous Employees

**Ken Thomas**

Municipal Employees

**Steve Toth, Vice Chair**

Retired Group

#### Statutory

**Robert Blair**

Director, Ohio Department of Administrative Services

**Kristin Boggs**

House of Representatives

**Jay Hottinger**

Senate

#### Appointed

**Herman H. Mollmann, Jr.**

Investment Expert

**Robert C. Smith**

Investment Expert

**James R. Tilling**

Investment Expert

**Keith Overly**

Executive Director

**Ohio Deferred Compensation Program** is a supplemental retirement benefit plan regulated by Section 457 of the Internal Revenue Code.

This newsletter is printed on recycled paper.



#### Holiday

#### Date Closed

#### Exchanges Processed

Good Friday	April 14	April 17
Memorial Day	May 29	May 30
Day before Independence Day	Open until 1 p.m.	After 1 p.m.
Independence Day	July 3	July 5
Independence Day	July 4	July 5

The Service Center and exchange processing will be affected by the New York Stock Exchange holiday schedule. Exchanges received on holidays will be processed as of the market close of the next business day.

# Ohio Deferred Compensation Investment Performance Report—As of March 31, 2017

The results shown represent past performance and should not be considered a representation of future performance or experience. Past performance cannot guarantee future results. Current investment results may be lower or higher than quoted in this report. The principal value and investment return of an investment will fluctuate so that an investor's units/shares, when redeemed, may be worth more or less than their original cost. Performance data current to the most recent month-end may be obtained by visiting [Ohio457.org](http://Ohio457.org). Although data is gathered from investment providers, the Program cannot guarantee completeness and accuracy. Please see other important disclosures at the end of this report. **Consider the investment objectives, risks, charges, and expenses carefully before investing by consulting your prospectuses, which contain this and other information. Prospectuses are available by calling 877-644-6457 or visiting [Ohio457.org](http://Ohio457.org). Read the prospectus carefully before investing.**

	Inception Date	Ticker Symbol	1st Quarter	Average Annual Returns				Expense Ratio <sup>(1)</sup>
				1 Year	3 Year	5 Year	10 Year	
<b>LifePath Portfolios</b>								
LifePath Retirement <sup>(2)</sup>	8/26/2011	n/a <sup>(3)</sup>	2.75%	6.50%	3.63%	4.74%	4.81%	0.09%
LifePath 2020 <sup>(2)</sup>	8/26/2011	n/a <sup>(3)</sup>	3.25%	7.73%	4.01%	5.68%	4.45%	0.09%
LifePath 2025 <sup>(2)</sup>	8/26/2011	n/a <sup>(3)</sup>	3.82%	9.18%	4.39%	6.33%	4.55%	0.09%
LifePath 2030 <sup>(2)</sup>	8/26/2011	n/a <sup>(3)</sup>	4.35%	10.51%	4.75%	6.93%	4.61%	0.09%
LifePath 2035 <sup>(2)</sup>	8/26/2011	n/a <sup>(3)</sup>	4.86%	11.79%	5.05%	7.47%	4.66%	0.09%
LifePath 2040 <sup>(2)</sup>	8/26/2011	n/a <sup>(3)</sup>	5.31%	12.93%	5.32%	7.92%	4.68%	0.09%
LifePath 2045 <sup>(2)</sup>	8/26/2011	n/a <sup>(3)</sup>	5.57%	13.61%	5.48%	8.31%	4.66%	0.09%
LifePath 2050 <sup>(2)</sup>	8/26/2011	n/a <sup>(3)</sup>	5.66%	13.80%	5.54%	8.60%	4.30% <sup>(4)</sup>	0.09%
LifePath 2055 <sup>(2)</sup>	8/26/2011	n/a <sup>(3)</sup>	5.66%	13.78%	5.53%	8.83%	10.03% <sup>(4)</sup>	0.09%
<b>International Stock Funds</b>								
Templeton Foreign		TFFAX	7.70%	20.23%	-0.11%	6.20%	3.05%	0.97%
Vanguard International Growth		VWILX	12.67%	17.11%	2.80%	6.96%	3.50%	0.33%
Vanguard Total International Stock Index <sup>(5)</sup>		VTPSX	8.45%	13.75%	1.13%	4.87%	1.32%	0.07%
<b>Small-Cap Stock Funds</b>								
FPA Capital <sup>(6)</sup>		FPPTX	-3.73%	18.09%	-3.02%	3.73%	4.32%	0.77%
Hartford Small Company		HIASX	6.93%	20.54%	2.09%	8.98%	6.06%	0.72%
Vanguard Small-Cap Index <sup>(5)</sup>		VSCPX	3.74%	21.52%	7.44%	12.92%	8.23%	0.05%
<b>Mid-Cap Stock Funds</b>								
Vanguard Capital Opportunity		VHCAX	8.42%	23.94%	11.64%	17.35%	10.09%	0.38%
<b>Large-Cap Stock Funds</b>								
Dodge & Cox Stock		DODGX	4.97%	28.58%	9.44%	15.24%	6.26%	0.52%
Fidelity Contrafund CP <sup>(7)</sup>	1/17/2014	n/a <sup>(3)</sup>	9.98%	15.46%	9.61%	9.11% <sup>(4)</sup>	n/a	0.43%
Fidelity Growth Company CP <sup>(7)</sup>	12/13/2013	n/a <sup>(3)</sup>	10.43%	24.19%	12.40%	13.65% <sup>(4)</sup>	n/a	0.43%
Ohio DC Large-Cap Growth	8/1/2014	n/a <sup>(3)</sup>	10.39%	21.47%	11.32% <sup>(4)</sup>	n/a	n/a	0.38%
Vanguard Institutional Index		VIIIX	6.06%	17.15%	10.36%	13.29%	7.54%	0.02%
<b>Bond Funds</b>								
Ohio DC Intermediate Bond	1/30/2015	n/a <sup>(3)</sup>	0.89%	0.89%	0.74% <sup>(4)</sup>	n/a	n/a	0.25%
Vanguard Total Bond Market Index		VBMPX	0.93%	0.47%	2.63%	2.31%	4.27%	0.04%
<b>Stable Value</b>								
Ohio DC Stable Value Option		n/a <sup>(3)</sup>	0.49%	2.18%	2.23%	2.30%	3.16%	0.29%
				<b>(SVO Annualized Return)</b>	<b>1st Quarter 2017—2.00%</b>	<b>2nd Quarter 2017—2.05%</b>		

- <sup>(1)</sup> Investment performance has been reduced for expense ratios. These expense ratios may vary from period to period. Expense ratios do not include administrative fees or rebates of fee reimbursements.
- <sup>(2)</sup> Returns shown are of the respective LifePath Index L series, net of historical Program administrative expenses. Returns for periods prior to the inception of the L series are those of the respective LifePath Index F series, net of historical Program administrative expenses.
- <sup>(3)</sup> These options are not publicly traded mutual funds and do not have a ticker symbol or prospectus. The value of the securities held by the SVO will fluctuate. The SVO focuses on principal preservation and a stable rate of return.
- <sup>(4)</sup> Average annual return since inception date.
- <sup>(5)</sup> Returns include performance of a different share class achieved prior to the inception of the current share classes. Returns were not recalculated to reflect the fees of the prior share class.
- <sup>(6)</sup> Exchanges from this fund may be subject to a redemption fee. Please consult the Program website or fund prospectus for additional information.
- <sup>(7)</sup> The full fund names are Fidelity Contrafund Commingled Pool and Fidelity Growth Company Commingled Pool.

## Investment Performance Report Notes

**LifePath Portfolios**—Each LifePath Portfolio is based on a target year (when you expect to begin using your money). Portfolios are designed to provide diversification and asset allocation across several types of investments and asset classes, primarily by investing in underlying funds. LifePath Portfolios are designed for people who plan to begin withdrawing funds during or near a specific year. Like other funds, LifePath Portfolios are subject to market risk and loss. Loss of principal can occur at any time, including before, at, or after the target year. There is no guarantee that LifePath Portfolios will provide enough income for retirement.

**International Stock Funds**—International funds involve risks not associated with investing solely in the United States, such as currency fluctuation, differences in accounting standards, and the limited availability of information. Over the long term, an investor should be willing to accept a high level of risk resulting from potentially higher market volatility.

**Small-Cap Stock Funds**—Small-cap funds contain stocks from companies with less than \$2 billion in capitalization, including many start-up companies. Small companies can grow much faster than big companies, but small company stocks tend to be more volatile than the stocks of larger companies. Over the long term, an investor should be willing to accept a high level of risk resulting from potentially higher market volatility.

**Mid-Cap Stock Funds**—Mid-cap funds contain stocks from companies with market values between \$2 billion and \$10 billion, and often include companies that are well established and growing. Over the long term, an investor should be willing to accept a moderate to high level of risk resulting from potentially higher market volatility.

**Large-Cap Stock Funds**—Large-cap funds contain stocks from companies with market values of more than \$10 billion, and they include blue-chip and Fortune 500 companies. They are typically more mature, diversified companies with many products and services. Over the long term, an investor should be willing to accept a moderate to high level of risk resulting from potentially higher market volatility.

**Bond Funds**—Bonds are loans or debt instruments issued by governments or corporations that need to raise money. Bond funds have the same interest rate, inflation, and credit risks associated with the underlying bonds owned by the fund. Bonds are generally a more conservative form of investment than stocks, and usually provide a more steady flow of income. Typically, bonds have a lower long-term total return than stocks.

**Stable Value**—These options own short to intermediate term, high-quality securities. Investors who seek safety of principal as well as a competitive rate of return compared to money market funds may invest in these options. The Ohio DC Stable Value Option returns are shown net of fees for investment management, custody, and principal protection. A fund profile can be obtained for the Ohio DC Stable Value Option by calling 877-644-6457 or at [Ohio457.org](http://Ohio457.org).

### **Investment Performance**

All reported mutual fund returns assume reinvestment of capital gains and dividends and reflect the fund's expense ratio, but not the deduction of the administrative fee or reinvestment of rebates. The LifePath Portfolios, Ohio DC Large-Cap Growth, Ohio DC Intermediate Bond, and Ohio DC Stable Value Option are not mutual funds or registered investment companies.

### **Administrative Fees**

An annual administrative fee of 0.0014 or 0.14% is charged to each participant. Administrative fees will be charged each quarter and are based on the total of a participant's account balance(s). Administrative fees will be waived if the total of a participant's account balance(s) is below \$5,000. Administrative fees will be capped at \$55 per quarter, per participant.

### **Rebates of Fee Reimbursements**

Many investment options have administrative fee reimbursements included in their expense ratios. Fee reimbursements received by Ohio DC will be rebated quarterly to the participant accounts invested in these options.

Investment decisions should not be made based on fee reimbursements. Before investing in a fund, carefully consider its objectives, risks, and charges and expenses. This information and other important facts can be found in the prospectus or fund profile at [Ohio457.org](http://Ohio457.org). Read them carefully before investing.

### **Fee Reimbursement Rates**

Investment Manager	Annual Rebate
Dodge & Cox	0.10%
Fidelity	0.00%
FPA	0.05%
Hartford	0.05%
Ohio DC	0.00%
Templeton	0.15%
Vanguard	0.00%