

# Ohio Deferred Compensation Disclosure Statement and Explanation of Terms

The Investment Profile is authorized for Ohio Deferred Compensation Program participant use only, and it is supplemented by this Disclosure Statement and Explanation of Terms, a current plan performance summary, and a prospectus, if applicable. These can be obtained at Ohio457.org and should be read carefully before investing or sending money. Principal value and investment return will fluctuate, such that an investor's shares when redeemed may be worth more or less than the original investment. Portfolio statistics change over time. The investment options in the Program are not FDIC-insured, may lose value and is not guaranteed by a bank or other financial institution.

## Total Annual Operating Expense

Morningstar gathers the gross expense ratio from the investment option's most recent prospectus or custodian. This is the percentage of the investment option assets paid for operating expenses and management fees. The expense ratio may include the following types of fees: accounting, administrator, advisor, auditor, board of directors, custodial, distribution (12b-1), legal, organizational, professional, registration, shareholder reporting, sub-advisor, and transfer agency. In contrast to the net expense ratio, the gross expense ratio does not reflect any fee waivers in effect during the time period.

## Morningstar Rating™

The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods.

For private funds, the Morningstar Rating presented is hypothetical, because Morningstar does not independently analyze private funds. Rather, this rating is assigned as a means to compare these funds with the universe of mutual funds that Morningstar rates. The evaluation of this investment does not affect the retail mutual fund data published by Morningstar.

## Morningstar Return

This statistic is a measurement of a fund's excess return over a risk-free rate (the return of the 90-day Treasury bill), after adjusting for all applicable loads and sales charges. In each Morningstar Category, the top 10% of funds earn a High Morningstar Return, the next 22.5% Above Average, the middle

35% Average, the next 22.5% Below Average, and the bottom 10% Low. Morningstar Return is measured for up to three time periods (three-, five-, and 10-years). These separate measures are then weighted and averaged to produce an overall measure for the fund. Funds with less than three years of performance history are not rated.

## Morningstar Risk

This statistic evaluates the variations in a fund's monthly returns, with an emphasis on downside variations. In each Morningstar Category, the 10% of funds with the lowest measured risk are described as Low Risk, the next 22.5% Below Average, the middle 35% Average, the next 22.5% Above Average, and the top 10% High. Morningstar Risk is measured for up to three time periods (three-, five-, and 10-years). These separate measures are then weighted and averaged to produce an overall measure for the fund. Funds with less than three years of performance history are not rated.

## Risk Measures

The risk measures include the following:

- R-squared reflects the percentage of a fund's movements that are explained by movements in its benchmark index, showing the degree of correlation between the fund and the benchmark.
- Beta is a measure of a fund's sensitivity to market movements. A portfolio with a beta greater than 1 is more volatile than the market, and a portfolio with a beta less than 1 is less volatile than the market.
- Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk (as measured by beta).
- Sharpe ratio uses standard deviation and excess return to determine reward per unit of risk.
- Standard deviation is a statistical measure of the volatility of the fund's returns.

## Morningstar Style Box™

The Morningstar Style Box™ reveals a fund's investment style as of the date noted on this report.

For equity funds the vertical axis shows the market capitalization of the long stocks owned and the horizontal axis shows investment style (value, blend, or growth).

For fixed-income funds, the vertical axis shows the credit quality of the long bonds owned and the horizontal axis shows interest rate sensitivity as measured by a bond's effective duration.

Morningstar seeks credit rating information from fund companies on a periodic basis (e.g., quarterly). In compiling credit rating information Morningstar accepts credit ratings reported by fund companies that have been issued by all Nationally Recognized Statistical Rating Organizations (NRSROs). For a list of all NRSROs, please visit <http://www.sec.gov/divisions/marketreg/ratingagency.htm>. Additionally, Morningstar accepts foreign credit ratings from widely recognized or registered rating agencies. If two rating organizations/agencies have rated a security, fund companies are to report the lower rating; if three or more organizations/agencies have rated a security, fund companies are to report the median rating, and in cases where there are more than two organization/agency ratings and a median rating does not exist, fund companies are to use the lower of the two middle ratings. PLEASE NOTE: Morningstar, Inc. is not itself an NRSRO nor does it issue a credit rating on the fund. An NRSRO or rating agency ratings can change from time-to-time.

For credit quality, Morningstar combines the credit rating information provided by the fund companies with an average default rate calculation to come up with a weighted-average credit quality. The weighted-average credit quality is currently a letter that roughly corresponds to the scale used by a leading NRSRO. Bond funds are assigned a style box placement of "low", "medium", or "high" based on their average credit quality. Funds with a low credit quality are those whose weighted-average credit quality is determined to be less than "BBB-"; medium are those less than "AA-", but greater or equal to "BBB-"; and high are those with a weighted-average credit quality of "AA-" or higher. When classifying a bond portfolio, Morningstar first maps the NRSRO credit ratings of the underlying holdings to their respective default rates (as determined by Morningstar's analysis of actual historical default rates). Morningstar then averages these default rates to determine the average default rate for the entire bond fund. Finally, Morningstar maps this average default rate to its corresponding credit rating along a convex curve.

For interest-rate sensitivity, Morningstar obtains from fund companies the average effective duration. Generally, Morningstar classifies a fixed-income fund's interest-rate sensitivity based on the effective duration of the Morningstar Core Bond Index (MCBI), which is currently three years. The classification of Limited (Ltd) will be assigned to those funds whose average effective duration is between 25% to 75% of MCBI's average effective duration; funds whose average effective duration is between 75% to 125% of the MCBI will be classified as Moderate (Mod); and those that are at 125% or greater of the average effective duration of the MCBI will be classified as Extensive (Ext).

For municipal bond funds, Morningstar also obtains from fund companies the average effective duration. In these cases, static breakpoints are utilized. These breakpoints are as follows: (i) Limited: 4.5 years or less; (ii) Moderate: more than 4.5 years but less than 7 years; and (iii) Extensive: more than 7 years. In addition, for non-US taxable and non-US domiciled fixed income funds static duration breakpoints are used: (i) Limited: less than or equal to 3.5 years; (ii) Moderate: greater than 3.5 and less than equal to 6 years; (iii) Extensive: greater than 6 years.

## Portfolio Statistics

**Price/Earnings Ratio.** The price to prospective earnings yield for a fund is the asset-weighted average of the prospective earnings yields of all the domestic stocks in the fund's portfolio as of the date of the portfolio. A stock's prospective earnings yield is calculated by dividing the company's estimated earnings per share for the current fiscal year by the company's month-end share price as of the portfolio date. In computing the fund's average, Morningstar weights each portfolio holding by the percentage of domestic equity assets it represents; therefore, larger positions have proportionately greater influence on the fund's aggregate earnings yield. The reciprocal can also be expressed as a price/prospective earnings ratio. We display the value for the investment and the relative value of a broad market benchmark (as defined) and the investment's Morningstar Category.

**Price/Book Ratio.** The price to prospective book value yield for a fund is the asset-weighted average of the prospective book value yields of all the domestic stocks in the fund's portfolio as of the date of the portfolio. A stock's prospective book value yield is calculated by dividing the company's estimated shareholders' equity per share for the current fiscal year by the

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company's month-end stock price as of the portfolio date. In computing the fund's average, Morningstar weights each portfolio holding by the percentage of domestic equity assets it represents; therefore, larger positions have proportionately greater influence on the fund's aggregate book value yield. The reciprocal can also be expressed as a price/book ratio. We display the value for the investment and the relative value of a broad market benchmark (as defined) and the investment's Morningstar Category.

**Price/Cash Ratio:** The price to prospective cash flow represents the weighted average of the price/cash-flow ratios of the stocks in a fund's portfolio. Price/cash-flow represents the amount an investor is willing to pay for a dollar generated from a particular company's operations. Price/cash-flow shows the ability of a business to generate cash and acts as a gauge of liquidity and solvency. Because accounting conventions differ among nations, reported earnings (and P/E ratios) may not be comparable across national boundaries. Price/cash-flow attempts to provide an internationally-standard measure of a firm's stock price relative to its financial performance. The reciprocal can also be expressed as a price/cash ratio. We display the value for the investment and the relative value of a broad market benchmark (as defined) and the investment's Morningstar Category.

**Geometric Average Cap \$mil:** Morningstar defines the overall "size" of a stock fund's portfolio as the geometric mean of the market capitalization for all of the stocks it owns. It's calculated by raising the market capitalization of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization. We display the value for the investment and the relative value of a broad market benchmark (as defined) and the investment's Morningstar Category.

**Return on Equity:** The percentage a company earns on its shareholders' equity in a given year (Year 1, 2, etc.). The calculation is net income divided by end-of-year net worth. The resulting figure is multiplied by 100. For a mutual fund, ROE represents a weighted median figure such that approximately 50% of the domestic stocks in the portfolio will have a greater ROE and roughly 50% of these domestic stocks will have a lower ROE than the weighted median. We display the value for the investment and the relative value of a broad market benchmark (as defined) and the investment's Morningstar Category.

## Principal Risks

**Active Management:** The investment is actively managed and subject to the risk that the advisor's usage of investment techniques and risk analyses to make investment decisions fails to perform as expected, which may cause the portfolio to lose value or underperform investments with similar objectives and strategies or the market in general.

**Asset Allocation:** The asset allocation model may not effectively maximize returns or minimize risk, or be appropriate for every investor seeking a particular risk profile. The model developed by BTC could result in underperformance as compared to funds with similar investment objectives and strategies.

**Bank Loans:** Investments in bank loans, also known as senior loans or floating-rate loans, are rated below-investment grade and may be subject to a greater risk of default than are investment-grade loans, reducing the potential for income and

potentially leading to impairment of the collateral provided by the borrower. Bank loans pay interest at rates that are periodically reset based on changes in interest rates and may be subject to increased prepayment and liquidity risks.

**Capitalization:** Concentrating assets in stocks of one or more capitalizations (small, mid, or large) may be subject to both the specific risks of those capitalizations as well as increased volatility because stocks of specific capitalizations tend to go through cycles of beating or lagging the market as a whole.

**Commodity:** Investments in commodity-related instruments are subject to the risk that the performance of the overall commodities market declines and that weather, disease, political, tax, and other regulatory developments adversely impact the value of commodities, which may result in a loss of principal and interest. Commodity-linked investments face increased price volatility and liquidity, credit, and issuer risks compared with their underlying measures.

**Country or Region:** Investments in securities from a particular country or region may be subject to the risk of adverse social, political, regulatory, or economic events occurring in that country or region. Country- or region-specific risks also include the risk that adverse securities markets or exchange rates may impact the value of securities from those areas.

**Credit and Counterparty:** The issuer or guarantor of a fixed-income security, counterparty to an OTC derivatives contract, or other borrower may not be able to make timely principal, interest, or settlement payments on an obligation. In this event, the issuer of a fixed-income security may have its credit rating downgraded or defaulted, which may reduce the potential for income and value of the portfolio.

**Currency:** Investments in securities traded in foreign currencies or more directly in foreign currencies are subject to the risk that the foreign currency will decline in value relative to the U.S. dollar, which may reduce the value of the portfolio. Investments in currency hedging positions are subject to the risk that the value of the U.S. dollar will decline relative to the currency being hedged, which may result in a loss of money on the investment as well as the position designed to act as a hedge. Cross currency hedging strategies and active currency positions may increase currency risk because actual currency exposure may be substantially different from that suggested by the portfolio's holdings.

**Derivatives:** Investments in derivatives may be subject to the risk that the advisor does not correctly predict the movement of the underlying security, interest rate, market index, or other financial asset, or that the value of the derivative does not correlate perfectly with either the overall market or the underlying asset from which the derivative's value is derived. Because derivatives usually involve a small investment relative to the magnitude of liquidity and other risks assumed, the resulting gain or loss from the transaction will be disproportionately magnified. These investments may result in a loss if the counterparty to the transaction does not perform as promised.

**Emerging Markets:** Investments in emerging- and frontier-markets securities may be subject to greater market, credit, currency, liquidity, legal, political, and other risks compared with assets invested in developed foreign countries.

**Equity Securities:** The value of equity securities, which include

common, preferred, and convertible preferred stocks, will fluctuate based on changes in their issuers' financial conditions, as well as overall market and economic conditions, and can decline in the event of deteriorating issuer, market, or economic conditions.

**ETF:** Investments in exchange-traded funds generally reflect the risks of owning the underlying securities they are designed to track, although they may be subject to greater liquidity risk and higher costs than owning the underlying securities directly because of their management fees. Shares of ETFs are subject to market trading risk, potentially trading at a premium or discount to net asset value.

**Extension:** The issuer of a security may repay principal more slowly than expected because of rising interest rates. In this event, short- and medium-duration securities are effectively converted into longer-duration securities, increasing their sensitivity to interest-rate changes and causing their prices to decline.

**Fixed-Income Securities:** The value of fixed-income or debt securities may be susceptible to general movements in the bond market and are subject to interest-rate and credit risk.

**Foreign Securities:** Investments in foreign securities may be subject to increased volatility as the value of these securities can change more rapidly and extremely than can the value of U.S. securities. Foreign securities are subject to increased issuer risk because foreign issuers may not experience the same degree of regulation as U.S. issuers do and are held to different reporting, accounting, and auditing standards. In addition, foreign securities are subject to increased costs because there are generally higher commission rates on transactions, transfer taxes, higher custodial costs, and the potential for foreign tax charges on dividend and interest payments. Many foreign markets are relatively small, and securities issued in less-developed countries face the risks of nationalization, expropriation or confiscatory taxation, and adverse changes in investment or exchange control regulations, including suspension of the ability to transfer currency from a country. Economic, political, social, or diplomatic developments can also negatively impact performance.

**Growth Investing:** Growth securities may be subject to increased volatility as the value of these securities is highly sensitive to market fluctuations and future earnings expectations. These securities typically trade at higher multiples of current earnings than do other securities and may lose value if it appears their earnings expectations may not be met.

**Income:** The investment's income payments may decline depending on fluctuations in interest rates and the dividend payments of its underlying securities. In this event, some investments may attempt to pay the same dividend amount by returning capital.

**Increase in Expenses:** The actual cost of investing may be higher than the expenses listed in the expense table for a variety of reasons, including termination of a voluntary fee waiver or losing portfolio fee breakpoints if average net assets decrease. The risk of expenses increasing because of a decrease in average net assets is heightened when markets are volatile.

**Index Correlation/Tracking Error:** A portfolio that tracks an index is subject to the risk that certain factors may cause the portfolio

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to track its target index less closely, including if the advisor selects securities that are not fully representative of the index. The portfolio will generally reflect the performance of its target index even if the index does not perform well, and it may underperform the index after factoring in fees, expenses, transaction costs, and the size and timing of shareholder purchases and redemptions.

**Inflation/Deflation:** A change of asset value may occur because of inflation or deflation, causing the portfolio to underperform. Inflation may cause the present value of future payments to decrease causing a decline in the future value of assets or income. Deflation causes prices to decline throughout the economy over time, impacting issuers' creditworthiness and increasing their risk for default, which may reduce the value of the portfolio.

**Inflation-Protected Securities:** Unlike other fixed-income securities, the values of inflation-protected securities are not significantly impacted by inflation expectations because their interest rates are adjusted for inflation. Generally, the value of inflation-protected securities will fall when real interest rates rise and rise when real interest rates fall.

**Interest Rate:** Most securities are subject to the risk that changes in interest rates will reduce their market value.

**Investment-Grade Securities:** Investments in investment-grade debt securities that are not rated in the highest rating categories may lack the capacity to pay principal and interest compared with higher-rated securities and may be subject to increased credit risk.

**Large Cap Investment Options:** Concentrating assets in large-capitalization stocks may subject the portfolio to the risk that those stocks underperform other capitalizations or the market as a whole. Large-cap companies may be unable to respond as quickly as small- and mid-cap companies can to new competitive pressures and may lack the growth potential of those securities. Historically, large-cap companies do not recover as quickly as smaller companies do from market declines.

**Loss of Money:** Because the investment's market value may fluctuate up and down, an investor may lose money, including part of the principal, when he or she buys or sells the investment.

**Management:** Performance is subject to the risk that the advisor's asset allocation and investment strategies do not perform as expected, which may cause the portfolio to underperform its benchmark, other investments with similar objectives, or the market in general. The investment is subject to the risk of loss of income and capital invested, and the advisor does not guarantee its value, performance, or any particular rate of return.

**Market Trading:** Because shares of the investment are traded on the secondary market, investors are subject to the risks that shares may trade at a premium or discount to net asset value. There is no guarantee that an active trading market for these shares will be maintained.

**Market/Market Volatility:** The market value of the portfolio's securities may fall rapidly or unpredictably because of changing economic, political, or market conditions, which may reduce the value of the portfolio.

**Maturity/Duration:** Securities with longer maturities or durations typically have higher yields but may be subject to increased interest rate risk and price volatility compared with securities with shorter maturities, which have lower yields but greater price stability.

**Mid-Cap Investment Options:** Concentrating assets in mid-capitalization stocks may subject the portfolio to the risk that those stocks underperform other capitalizations or the market as a whole. Mid-cap companies may be subject to increased liquidity risk compared with large-cap companies and may experience greater price volatility than do those securities because of more-limited product lines or financial resources, among other factors.

**Mortgage-Backed and Asset-Backed Securities:** Investments in mortgage-backed and asset-backed securities may be subject to increased price volatility because of changes in interest rates, issuer information availability, credit quality of the underlying assets, market perception of the issuer, availability of credit enhancement, and prepayment of principal. The value of ABS and MBS may be adversely affected if the underlying borrower fails to pay the loan included in the security.

**Not FDIC Insured:** The investment is not a deposit or obligation of, or guaranteed or endorsed by, any bank and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other U.S. governmental agency.

**Passive Management:** The investment is not actively managed, and the advisor does not attempt to manage volatility or take defensive positions in declining markets. This passive management strategy may subject the investment to greater losses during general market declines than actively managed investments.

**Portfolio Diversification:** Investments that concentrate their assets in a relatively small number of issuers, or in the securities of issuers in a particular market, industry, sector, country, or asset class, may be subject to greater risk of loss than is a more widely diversified investment.

**Prepayment (Call):** The issuer of a debt security may be able to repay principal prior to the security's maturity because of an improvement in its credit quality or falling interest rates. In this event, this principal may have to be reinvested in securities with lower interest rates than the original securities, reducing the potential for income.

**Real Estate-Related Investment Risk:** Real estate values can be negatively affected by many factors including both the general and local economies, the amount of new construction in a particular area, the laws and regulations affecting real estate, the costs of owning, maintaining and improving real estate, availability of mortgages, and changes in interest rates.

**Restricted/Illiquid Securities:** Restricted and illiquid securities may fall in price because of an inability to sell the securities when desired. Investing in restricted securities may subject the portfolio to higher costs and liquidity risk.

**Sampling:** Although the portfolio tracks an index, it maintains a smaller number of holdings than does the index. Use of this representative sampling approach may lead the portfolio to track the index less closely.

**Securities Lending Risk:** The Fund may engage in securities lending, which involves borrower credit risk, settlement risk, and cash collateral-related risks, such as the risk that the return on the cash collateral is insufficient to cover the fees the Fund is committed to pay and the risk that cash collateral may be invested in securities or other instruments that suffer losses or become illiquid.

**Small Cap Investment Options:** The investor should note that investment options that invest in stocks of small companies involve additional risks. Smaller companies typically have a higher risk of failure, and are not as well established as larger blue-chip companies. Historically, smaller-company stocks have experienced a greater degree of market volatility than the overall market average.

**Swaps:** Investments in swaps, such as interest-rate swaps, currency swaps and total return swaps, may increase volatility and be subject to increased liquidity, credit, and counterparty risks. Depending on their structure, swaps may increase or decrease the portfolio's exposure to long- or short-term interest rates, foreign currency values, corporate borrowing rates, security prices, index values, inflation rates, credit, or other factors.

**Target Date:** Target-date funds, also known as lifecycle funds, shift their asset allocation to become increasingly conservative as the target retirement year approaches. Still, investment in target date funds may lose value near, at, or after the target retirement date, and there is no guarantee they will provide adequate income at retirement.

**Underlying Fund/Fund of Funds:** A portfolio's risks are closely associated with the risks of the securities and other investments held by the underlying or subsidiary funds, and the ability of the portfolio to meet its investment objective likewise depends on the ability of the underlying funds to meet their objectives. Investment in other funds may subject the portfolio to higher costs than owning the underlying securities directly because of their management fees.

**Valuation Time:** Net asset value is not calculated on days and times when the U.S. exchange is closed, though foreign security holdings may still be traded. In this event, the net asset value may be significantly impacted when shareholders are not able to buy or sell shares. Conversely, performance may vary from the index if the NAV is calculated on days and times when foreign exchanges are closed.

**Value Investing:** Value securities may be subject to the risk that these securities cannot overcome the adverse factors the advisor believes are responsible for their low price or that the market may not recognize their fundamental value as the advisor predicted. Value securities are not expected to experience significant earnings growth and may underperform growth stocks in certain markets.

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## **Additional Information**

The information provided in the Investment Profile and this Disclosure Statement and Explanation of Terms should not be considered a recommendation to purchase or sell a particular investment.

For more information about funds in the Program, visit [Ohio457.org](http://Ohio457.org), or call 877-644-6457, to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a mutual fund are contained in the prospectus; read it carefully before investing. White-label and collective investment funds are privately offered. Prospectuses are not required and prices are not available in public locations. To obtain pricing information visit [Ohio457.org](http://Ohio457.org).

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