MAKING SENSE OF ACTIVE AND PASSIVE INVESTING

A LITTLE EXPLANATION CAN GO A LONG WAY TOWARD BUILDING YOUR CONFIDENCE AS AN INVESTOR

We all want to know how to best save for retirement. For instance, how do you determine whether to choose an active or passive investment option in your retirement plan? How do you know if an investment is active or passive? Or if one type is better than the other, why offer both? Before we answer the "why," let's take a quick look at the "what."

PASSIVE INVESTING

A passive strategy invests in a big group of stocks—or index—that all have something in common. One example is the S&P 500 Index, which contains the stocks of 500 very large US companies. There are lots of other stock indices—and indices for bonds, too. You'll be able to identify whether a fund is passive by its name: Typically, the investment option's name will contain the word "index." For example, "S&P 500 Index Fund."

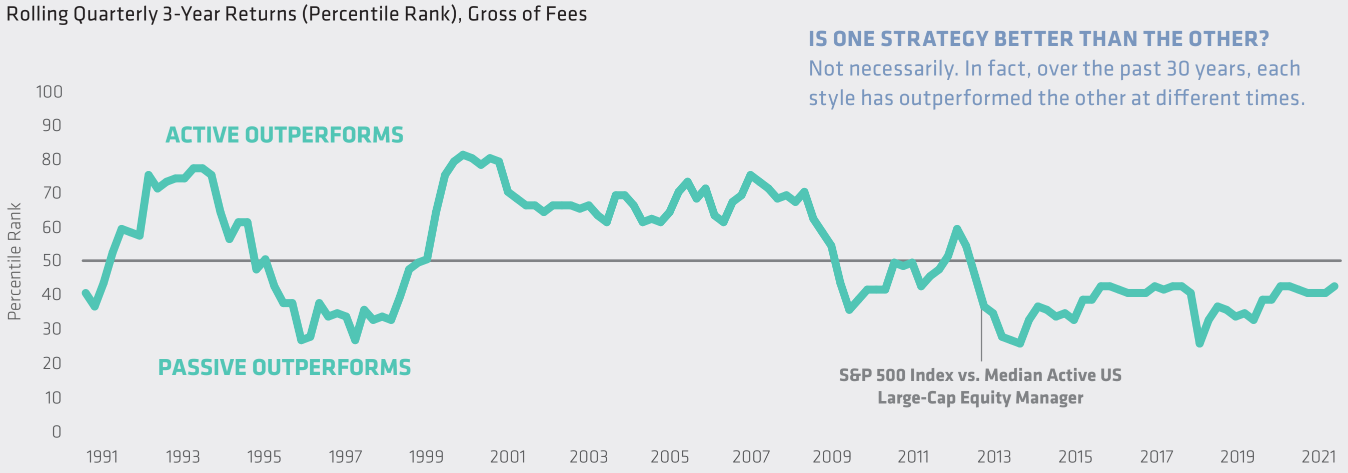
Most of us don't have the massive amount of money needed to invest directly in all the stocks within an index. Instead, an investment in this type of "index" option divvies up our investment so that it mimics (in miniature) the total percentage of each company's stock in a particular index—and therefore how much those stocks make or lose every day.

That's passive investing: no picking, no choosing, no fiddling—an index fund just replicates the content and movement of a particular index.

ACTIVE INVESTING

On the other hand, active investing requires picking and choosing and fiddling. But that's not your problem—it's what the investment-management company does (and gets paid for). Experienced portfolio managers may invest in companies that belong to the S&P 500, for example, but they'll do a lot of research and choose only 20 or 50 or 100 of those stocks—not all. Active managers believe that if they can do a good job of picking leaders rather than laggards, then their active strategy may produce better returns for investors.

THE UPS AND DOWNS OF ACTIVE AND PASSIVE STRATEGIES
Rolling Quarterly 3-Year Returns (Percentile Rank), Gross of Fees



Through December 31, 2021
Source: eVestment and Standard & Poor's

PASSIVE ADVANTAGES

+ **Simplicity.** Broad-based market index funds make asset allocation and global diversification easy across asset classes and market capitalizations.
+ **Greatest market exposure.** Your investment rises and falls with the market.
+ **Low cost.** Passive funds are less expensive than actively managed funds, as they simply replicate various indices.

ACTIVE ADVANTAGES

+ **Research-based.** Professional investment managers do a lot of homework to pick high-potential stocks or bonds.
+ **Seeks to outperform.** Managers aim to beat the performance of an index.
+ **Active risk management.** Managers can make changes during periods of market instability or volatility.

HOW CAN YOU BE SURE THAT YOUR RETIREMENT SAVINGS UTILIZES BOTH PASSIVE AND ACTIVE STRATEGIES?

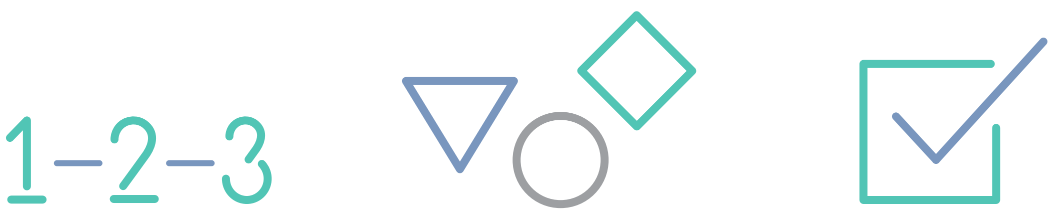
Target-date funds often use a wide range of investing strategies to temper market risk while keeping an eye on tomorrow's investing opportunities. Target-date funds offer a diversified mix of different investments, or asset classes—typically stocks to potentially generate higher growth and bonds to keep things steadier during difficult markets. Both active and passive approaches may be part of the mix—essentially adding another element of diversification within a portfolio.

TARGET-DATE FUNDS HAVE BUILT-IN DIVERSIFICATION

You could build your own diversified portfolio from your company's menu of active and passive investment options, but that takes a lot of time and effort, including monitoring and shifting those allocations as you near retirement. If you don't put in that time and effort, you might take on too much risk from short-term market fluctuations at a point when your savings will no longer have the time to recover.

Instead of going it alone, consider investing in your company's target-date fund. Diversification is exactly what it does. And your company's target-date fund may use a wide range of traditional and nontraditional strategies to reduce market risk, while keeping an eye on tomorrow's investing opportunities. "Target date" in a fund's name refers to the approximate year when a plan participant expects to retire and begin withdrawing from his or her account.

TARGET-DATE FUNDS ARE:



SIMPLE | **DIVERSIFIED** | **EFFECTIVE**

Investing in target-date funds does not guarantee sufficient income at retirement or protect against loss of principal. Diversification does not guarantee a profit or eliminate risk.

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