



## Investment Contract Pool Overview

### **What is the Investment Contract Pool?**

The Investment Contract Pool (ICP) is the “fixed” or “stable value” investment option available in the Maryland 457, 401(k), and 401(a) match plans. Its investment objective is to preserve principal and provide a stable rate of return through interest payments. Each quarter an anticipated, but not guaranteed, rate is declared.

### **What type of investments make up the Investment Contract Pool?**

The ICP is made up of four general categories of investments:

**Short Term Investment Fund.** A highly liquid short maturity fund, similar to a money market fund, that is used for deposits, withdrawals, and general liquidity needs.

**Traditional Investment Contracts.** These are insurance or bank investment contracts (GICs and BICs, respectively), that maintain a constant principal value and earn interest.

**Stable Value Pooled Funds.** These funds are established as bank collective trusts. A number of different pension plans purchase shares of the trust or fund. The fund’s assets are then invested in stable value bank and insurance contracts.

**Separate Account or Synthetic Investment Contracts.** These contracts also maintain a constant principal valuation and earn interest. The key distinction is that the ICP owns the underlying securities that generate the investment income used to pay interest. The constant principal is also supported by a wrapper agreement issued by a bank or insurance company.

### **How is the interest rate determined?**

The interest rate is set quarterly, based on the average projected rate of ICP investments.

### **What are the expenses of the Investment Contract Pool?**

There are a number of management and contract fees for the ICP that are subtracted from earnings to produce the declared rate of return. Direct participant fees are deducted from your account, as with any other plan investment, and are shown on your quarterly statement.

### **Is there a prospectus? Is it covered by federal deposit insurance?**

No, there is no prospectus because the ICP is not a publicly traded security regulated by the Securities and Exchange Commission. The ICP is not a “bank deposit” and is not insured by the FDIC.



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### **How is the Investment Contract Pool managed?**

The Maryland Board of Trustees (Board) uses competitive bidding to hire a professional investment manager and that manager will decide on the precise investment mix for the ICP – the percentage of total funds invested in the short term investment fund, traditional and synthetic contracts, or pooled funds. If synthetic contracts are used, the investment manager will also select the sub-manager that purchases the investment for that contract.

### **What are the risk factors of the Investment Contract Pool?**

The principle risk factors of the ICP are inflation risk and credit risk. Inflation risk is the risk that over time the prices of goods and services will rise faster than the investment return of a stable or fixed investment. Credit risk is the risk that the underlying investments of the ICP (the investment contracts, or the bonds in the synthetic contracts) will not pay interest or principal as promised. The ICP is structured so that credit risk and actual defaults are taken into account in setting the declared interest rate, but there is no absolute guarantee that the investment objective of a constant principal will be maintained. In other words, as with any investment, it is possible for a loss of principal to occur.

### **What steps are taken to preserve and maintain a stable value?**

The Board has established a detailed investment policy for the ICP, and requires its managers to follow the policy. The policy relies on diversity of investment type, investment quality standards, active professional management, and a reasonably short investment time horizon.

### **Is there an absolute guarantee of immediate withdrawal?**

No. While this option allows participants to transfer into or out of the ICP to another investment option within your plans, immediate withdrawals is not guaranteed. If a high percentage of ICP participants all decided to withdraw funds at the same time, the Board would likely be required to schedule withdrawals over time so that investments could be liquidated in an orderly manner and fair value maintained for all participants.

### **How can I get more detailed information on the ICP – historic returns, current investment breakdowns, and so forth?**

The investment policy for the ICP is available on request. The investment performance of the ICP is always shown on Board and Nationwide Retirement Services (NRS) reports with other investment options. For detailed up to date information on portfolio managers, contracts, and holdings, you should ask for the most current ICP fact sheet by calling 1-800-545-4730; this document is revised quarterly. You can also attend Board seminar and education sessions on investments; or you can make an appointment with your NRS specialist by calling 1-800-966-6355.