GEORGETOWN UNIVERSITY
McCourt School of Public Policy
Center for Retirement Initiatives

Webinar June 9, 2020

COVID-19 & Market Volatility
Using Alternative Assets in DC Plans:
Will DOL's New Guidance Encourage Greater Adoption?

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Our Panel:

Jonathan Epstein, Executive Director, Defined Contribution Alternatives Association (DCALTA)
Douglas Keller, Head of Private Wealth, Pantheon
David O'Meara, Senior DC Strategist, Willis Towers Watson
Lew Minsky, President & CEO, Defined Contribution Institutional Investment Association (DCIIA)
Sara Shean, Co-Chair, Defined Contribution Real Estate Council (DCREC)
Dennis Simmons, Executive Director, Committee on Investment of Employee Benefit Assets Inc. (CIEBA)

Moderator:

Angela M. Antonelli, Executive Director, Georgetown Center for Retirement Initiatives

Jonathan Epstein

Executive Director, Defined Contribution Alternatives Association (DCALTA)

Douglas Keller

Head of Private Wealth, Pantheon

Georgetown University
Center for Retirement Initiatives

Webinar Presentation on June 9^{th}, 2020

Jonathan Epstein

DCALTA

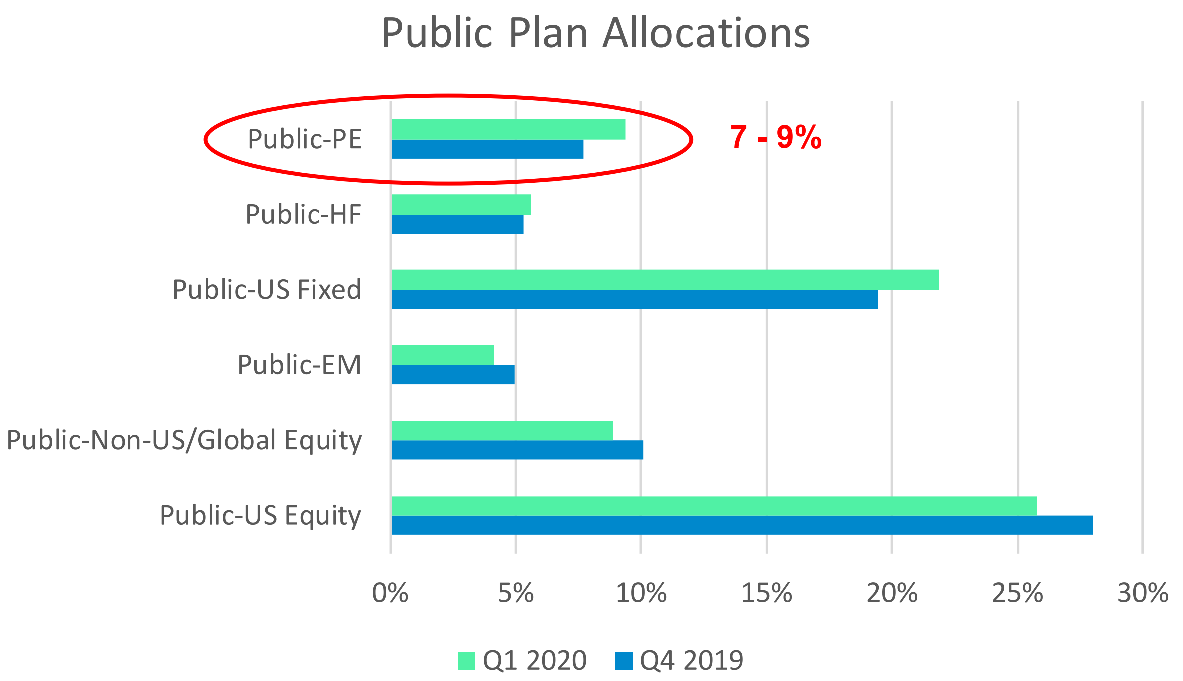
U.S. Dept. of Labor issued an Information Letter on Private Equity Investments in Defined Contribution Plans (*released on June 3, 2020*)

Why is this Information Letter important?

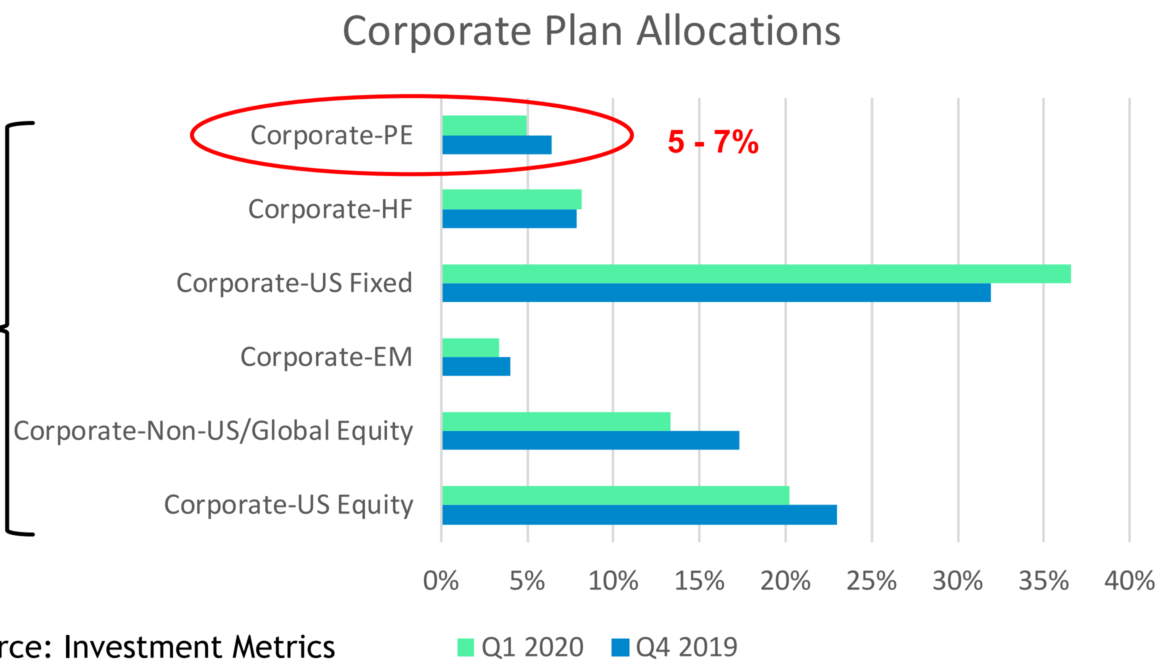
- DOL clarifies that private equity can be made available in 401(k) plans and other DC plans
- As part of a diversified portfolio (e.g., Target Date), not as a stand-alone menu option
- Private equity investments can benefit long-term multi-asset class retirement portfolios with diversification benefits and better risk-adjusted returns
- Provides important considerations for fiduciaries while allowing flexibility on fund structure
- Addresses litigation concerns – the selection and monitoring of an investment option with private equity is subject to the same fiduciary considerations as other investments
- Expands the opportunity set of allowable investments for DC plan fiduciaries
  - U.S. Secretary of Labor Eugene Scalia said, "*The letter helps level the playing field for ordinary investors….*"
  - Chairman of the U.S. Securities and Exchange Commission Jay Clayton said the letter, "*will provide our long-term Main Street investors with a choice of professionally managed funds that more closely match the diversified public and private market asset allocation strategies pursued by many well-managed pension funds….*"

DCALTA

Defined Benefit Plans - Public



Defined Benefit Plans - Corporate



Source: Investment Metrics

DCALTA

DCALTA`s efforts- *Instrumental to DOLs Information Letter*

- **Dept. of Labor Meeting (Feb. 24th, 2020)**
  - Discussion on Research, Investment Merit, Litigation Concerns and Need for Better Access to Alternatives
  - Discussed DCALTA/IPC (Institute for Private Capital) research
    - ***Why Defined Contribution Plans Need Private Investments***
      The Benefits of Private Equity and Venture Capital in Diversified and Time-varying Portfolios
    - Examined the impact of including private investment funds into diversified (e.g., balanced and target date fund) portfolios that otherwise hold only public stocks and bonds
    - Results showed risk-adjusted returns were consistently higher for portfolios that included private equity funds and there were also substantial diversification benefits
- **Dept. of Labor Follow-up Letter (March 4th, 2020)**
  - Choice to exclude certain asset classes is – in itself – a fiduciary decision
  - When considering complex investments/products – plan fiduciaries may need to seek outside expertise (e.g. Consultants) or obtain additional education
  - Outlined key considerations for fiduciaries when evaluating private market investments
- **DCALTA will continue to:**
  - Research, educate and lead discussions on alts investments and DC implementation processes/standards
  - Collaborate with other organizations/firms in this effort
  - Focus on research, education and advocacy efforts

David O’Meara

Senior DC Strategist, Willis Towers Watson

COVID-19 & Market Volatility
Using Alternative Assets in DC Plans

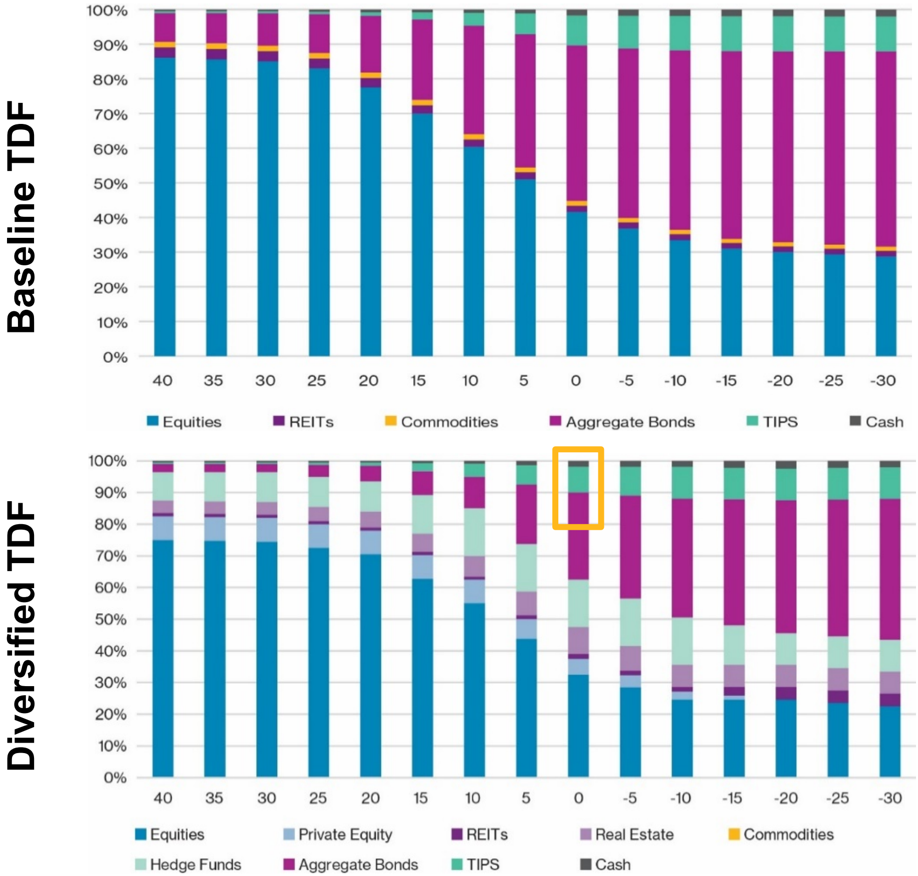
David O'Meara, ASA, CFA

June 9, 2020

Willis Towers Watson

Research paper findings

In 2018, Georgetown Center for Retirement Initiatives worked in conjunction with Willis Towers Watson to write a paper examining the role of alternative investments in TDFs



Potential advantages of including alternatives

Expected retirement income can be increased dramatically while also improving downside risks

- Expected annual retirement income* increases from **$53,000 to $62,200**
- Worst case results (5th percentile) increases from **$21,200 to $23,500**

Asset only results were also improved:

- Expected returns at age 65 increased from **5.1% to 6.1%**
- Worst case results (5th percentile) improved from **-7.9% to -7.5%**

*Expected returns are based on Willis Towers Watson's Capital Markets Assumptions as of January 1st, 2018 and are enclosed as an Appendix. Worst case is a 1-in-20 probability (VaR95). Return distributions incorporate fat tails and correlations between return-seeking asset classes increase when fat-tail events occur. The example does not imply a guarantee of future performance or risk reduction. Willis Towers Watson model results and assumptions may not be realized.

Sourced from Willis Towers Watson's 2018 target-date research glide path survey, updated annually, which is constructed using information from asset managers. To the extent an investment manager/fund family has TDF products with different glide paths, multiple glide paths may be used. The target-date fund families include Alliance Bernstein, American Century, American Funds, BlackRock, Charles Schwab, Fidelity, JPMorgan, John Hancock, Mellon Capital, MFS, Northern Trust, PIMCO, Principal, Russell, SSgA, T. Rowe Price, TIAA, Vanguard,, Voya, Wellington and Wells Fargo.

Recent target-date fund benchmark performance*

Ending March 31, 2020	YTD	3-Yr (%)
Diversified 2020	**-7.4**	**3.5**
S&P Target Date 2020 Index	-10.6	2.8
Diversified 2050	**-17.4**	**1.8**
S&P Target Date 2050 Index	-20.6	1.2
Diversified w/Private Markets	**-8.7**	**5.0**
Morningstar Moderate Allocation AW	-13.6	2.8

Diversified portfolios provided better downside protection in Q1 2020 while also generating **strong longer term returns** relative to peers with minimal to no allocations to alternative investments

Outperformance of **portfolios with private markets allocations performed even better** in the short and longer term

*See disclosures included in the appendix

Defined Contribution in 2020

Sponsors	Participants	Purpose of DC	Investments Impact
Many sponsors reducing company contributions to DC programs	Some participants relying on DC plan to weather near term financial struggles	Not just a retirement vehicle	Need to manage risk better without sacrificing long-term returns

Assumptions and disclosures

Capital Market Assumptions

January 2018

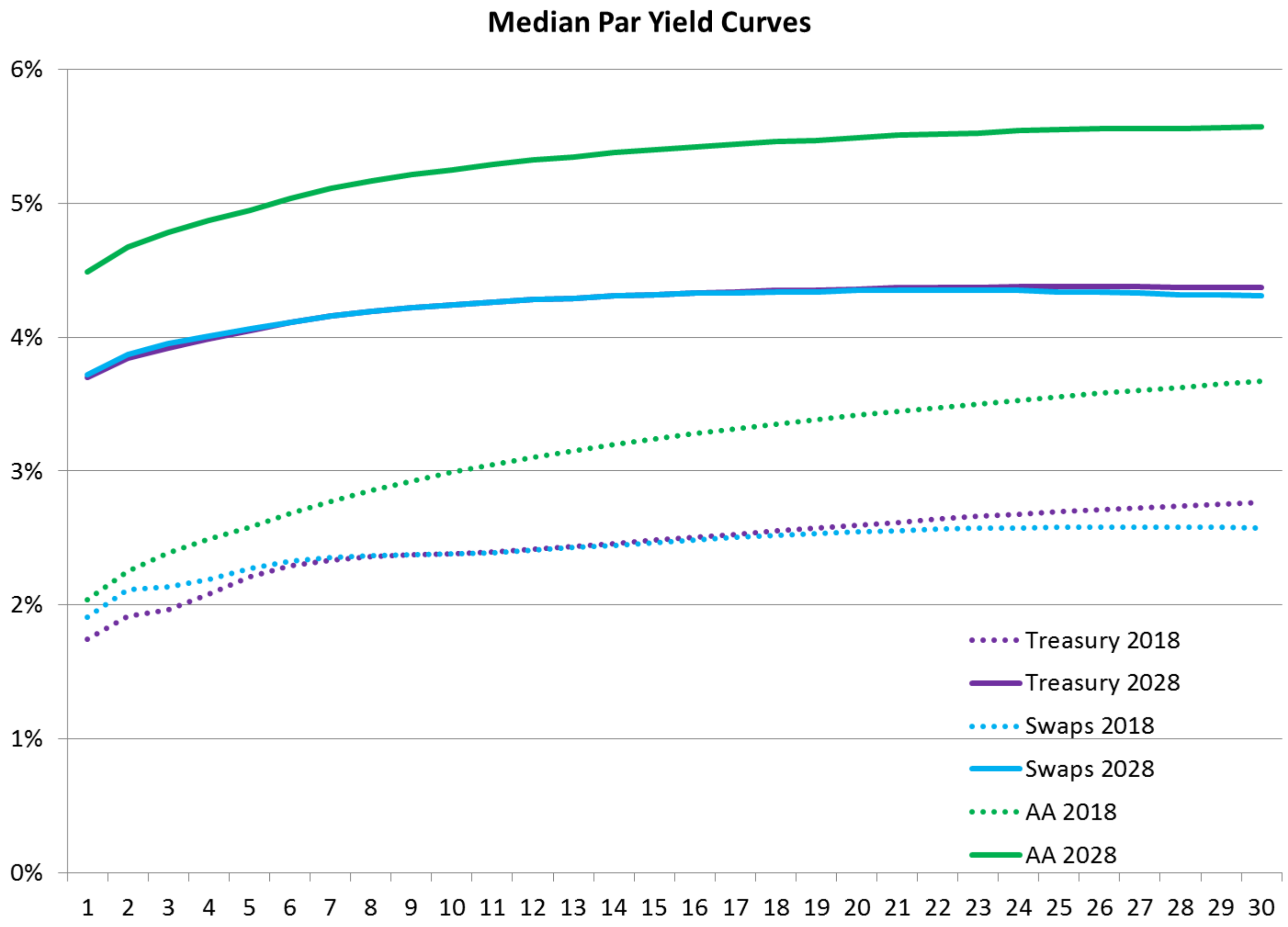
- Asset classes are described by their returns, volatility, and correlation with other asset classes
- Expectations for individual asset classes were developed by the Willis Towers Watson Investment Model as of January 2018
- With the exception of private equity and hedge funds, the asset class assumptions above assume net-of-fee performance for large institutional investors implementing passively. For strategies where passive implementation is not possible, assumptions represent median results.
- Return distributions incorporate fat tails
- Correlations between return-seeking asset classes increase when fat-tail events occur
- Simulated government yield curves and simulated corporate spreads are used in developing returns on fixed income
- For additional background on Towers Watson Investment Services' views and assumptions, please consult the January 2018 Asset Return Assumptions paper

	1st year arithmetic mean	10th year arithmetic mean	10-year geometric returns	Annual standard deviation
Global equities	7.3	8.9	6.6	18.3
REITs	6.0	7.6	5.7	15.9
Commodities	3.7	5.3	3.7	14.9
Private equity[1]	12.0	13.6	9.7	25.4
Real estate	4.7	6.3	5.2	9.8
Hedge funds[2]	6.4	8.0	6.9	9.9
High yield	2.4	5.4	3.8	10.0
Emerging market debt	1.0	5.1	3.1	9.5
Bank loans	3.6	5.2	4.3	7.9
Infrastructure	6.2	7.7	5.8	17.0
Aggregate bonds	0.8	3.9	2.6	4.2
TIPS	1.5	3.9	2.9	5.7
Cash	1.9	3.5	2.9	2.6

[1] Assumptions include 10-year geometric of 5.1% and standard deviation of 23.4% with net-of-fee alpha of 4.7% with a 10.0% tracking error.
[2] Assumptions include 10-year geometric of 4.8% and standard deviation of 8.5% with net-of-fee alpha of 2.2% with a 5.2% tracking error.

Assumptions – Yields

January 2018



Yields are expected to rise and yield curves to flatten

Capital Market Assumptions

January 2018

Fixed Income

- Within our 5,000 simulations, the yield curve can move in any direction or take on any shape, but at the median, we reflect rising nominal yields
- Our normative assumption for cash is 3.75% and for 30-year Treasuries is 5.25%
- At the median, long yields rise with a half-life reversion speed of seven years starting immediately (i.e., half of the distance from “current” to “normative” is covered every 7 years)
- Median short yields, which rise at a half-life reversion speed of four years, are 1.9% at the end of the first year

Inflation and Equities

- Our inflation assumption is 2.0% for the 12 months following January 2018, trending up to an ultimate normative average level of 2.5%
- Our long-term normative assumption equity returns is 4.75% over inflation
- Our equity volatility assumption remains at 18% for US equities for both short- and long-term

Economic Uncertainty

- Economic conditions are uncertain over the near-term and do not in our view reflect equilibrium conditions
- Our capital market assumptions reflect this instability and are time-sensitive
- As a result, advice that is dependent on this set of investment beliefs is also time-sensitive; attractiveness of certain strategies will vary from quarter to quarter
- Alternative beliefs might well lead to different conclusions; thus it is important that the Trustees consider whether their beliefs and ours are aligned

Assumptions – Correlations

January 2018

Summary assumptions for January 1, 2018 Towers Watson Investment Services

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37
1	Global Equity (unhedged)	1.0																																				
2	Global Equity (hedged)	1.0	1.0																																			
3	US Equity	1.0	1.0	1.0																																		
4	US Large Cap Equity	1.0	1.0	1.0	1.0																																	
5	US Small Cap Equity	0.8	0.8	0.8	0.8	1.0																																
6	International Equity (unhedged)	1.0	0.9	0.8	0.8	0.8	1.0																															
7	International Equity (hedged)	0.9	0.9	0.8	0.8	0.8	0.9	1.0																														
8	International Developed Equity (unhedged)	0.9	0.9	0.8	0.8	0.7	1.0	0.9	1.0																													
9	International Developed Equity (hedged)	0.9	0.9	0.8	0.8	0.7	0.9	1.0	0.9	1.0																												
10	Emerging Market Equity	0.8	0.8	0.7	0.7	0.7	0.9	0.9	0.8	0.8	1.0																											
11	Median-skilled Private Equity Fund-of-Funds	0.7	0.7	0.7	0.7	0.5	0.6	0.6	0.6	0.7	0.5	1.0																										
12	REITs	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.4	1.0																									
13	Real Estate	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4	1.0																								
14	Infrastructure Listed	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.2	0.2	1.0																							
15	Infrastructure Direct	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.2	0.2	0.9	1.0																						
16	Median-skilled Hedge Fund-of-Funds	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.5	0.6	0.5	0.5	0.4	0.3	0.3	0.3	1.0																					
17	Reinsurance	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.2	1.0																				
18	High Yield	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.4	0.1	1.0																			
19	Emerging Market Debt Sovereign	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.4	0.1	0.6	1.0																		
20	Emerging Market Debt Corporate	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.4	0.1	0.6	0.9	1.0																	
21	Bank Loans	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.2	0.2	0.5	0.2	0.6	0.6	0.6	1.0																
22	Securitized Credit	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.2	0.2	0.5	0.2	0.6	0.6	0.6	1.0	1.0															
23	Structured Credit	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.2	0.2	0.4	0.1	0.6	0.6	0.6	1.0	1.0	1.0														
24	Emerging Market Currency	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.2	1.0													
25	Volatility Premium	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.2	0.2	0.4	0.1	0.3	0.3	0.3	0.4	0.4	0.3	0.2	1.0												
26	Commodities	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.1	0.1	0.3	0.1	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2	1.0											
27	US Aggregate Investment Grade Bonds	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	0.1	0.1	-0.1	-0.1	-0.1	1.0										
28	US Intermediate Government Bonds	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1	0.9	1.0									
29	US Intermediate Credit Bonds	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.2	0.0	0.0	0.0	0.9	0.7	1.0								
30	US Intermediate Gov/Credit Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.9	0.9	0.9	1.0							
31	US Long Government Bonds	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.2	-0.1	0.8	0.8	0.5	0.7	1.0						
32	US Long Credit Bonds	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	-0.1	0.1	0.1	0.1	0.0	0.1	0.2	0.0	0.0	0.0	0.8	0.4	0.7	0.6	0.5	1.0					
33	US Long Government/Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	-0.1	0.0	0.1	-0.1	0.0	0.0	0.9	0.7	0.7	0.8	0.8	0.9	1.0				
34	STRIPS	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	0.8	0.8	0.5	0.7	1.0	0.5	0.8	1.0			
35	US TIPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.4	0.5	0.3	0.4	0.3	0.2	0.2	0.2	1.0		
36	Cash	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.3	0.5	0.1	0.1	0.1	0.4	0.4	0.2	0.3	0.2	0.2	-0.1	0.0	0.0	0.0	-0.2	-0.1	-0.1	-0.2	0.1	1.0	
37	Inflation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.1	0.1	-0.1	0.0	-0.1	0.0	-0.3	-0.2	-0.3	-0.3	0.5	0.4	1.0

Recent market performance disclosures

Diversified 2020		
2/1/2020	Present	25.0% MSCI ACWI, 3.0% NCREIF ODCE (Equal-weighted) Net, 3.0% FTSE EPRA/NAREIT Developed NR USD, 4.0% FTSE Developed Core Infrastructure 50/50 Index, 5.3% BBgBarc US HY 2% Issuer Cap Index, 5.3% S&P Leveraged Loan, 2.7% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 2.7% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 8.0% BBgBarc US Govt Int TR, 8.0% BBgBarc US Govt Long TR, 8.0% BBgBarc US TIPS 1-10 Yr TR, 25.0% HFRI FOF: Conservative Index (1 mo lagged)
9/1/2019	1/31/2019	28.0% MSCI ACWI, 2.9% NCREIF ODCE (Equal-weighted) Net, 2.9% FTSE EPRA/NAREIT Developed NR USD, 3.9% FTSE Developed Core Infrastructure 50/50 Index, 5.3% BBgBarc US HY 2% Issuer Cap Index, 5.3% S&P Leveraged Loan, 2.7% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 2.7% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 7.5% BBgBarc US Govt Int TR, 7.4% BBgBarc US Govt Long TR, 7.4% BBgBarc US TIPS 1-10 Yr TR, 24.0% HFRI FOF: Conservative Index (1 mo lagged)
7/1/2019	8/31/2019	28.0% MSCI ACWI, 4.9% FTSE EPRA/NAREIT Developed NR USD, 4.9% FTSE Developed Core Infrastructure 50/50 Index, 5.3% BBgBarc US HY 2% Issuer Cap Index, 5.3% S&P Leveraged Loan, 2.7% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 2.7% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 7.5% BBgBarc US Govt Int TR, 7.4% BBgBarc US Govt Long TR, 7.4% BBgBarc US TIPS 1-10 Yr TR, 24.0% HFRI FOF: Conservative Index (1 mo lagged)
2/1/2019	6/30/2019	28.0% MSCI ACWI, 4.9% FTSE EPRA/NAREIT Developed NR USD, 4.9% FTSE Custom MFG Core Infrastructure USD Net Tax Index, 5.3% BBgBarc US HY 2% Issuer Cap Index, 5.3% S&P Leveraged Loan, 2.7% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 2.7% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 7.5% BBgBarc US Govt Int TR, 7.4% BBgBarc US Govt Long TR, 7.4% BBgBarc US TIPS 1-10 Yr TR, 24.0% HFRI FOF: Conservative Index (1 mo lagged)
1/1/2018	1/31/2019	31.0% MSCI ACWI, 4.7% FTSE EPRA/NAREIT Developed NR USD, 4.7% FTSE Custom MFG Core Infrastructure USD Net Tax Index, 5.3% BBgBarc US HY 2% Issuer Cap Index, 5.3% S&P Leveraged Loan, 2.7% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 2.7% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 7.1% BBgBarc US Govt Int TR, 6.8% BBgBarc US Govt Long TR, 6.8% BBgBarc US TIPS 1-10 Yr TR, 23.0% HFRI FOF: Conservative Index (1 mo lagged)
4/1/2017	12/31/2017	34.0% MSCI ACWI, 4.5% FTSE EPRA/NAREIT Developed NR USD, 4.5% FTSE Custom MFG Core Infrastructure USD Net Tax Index, 5.3% BBgBarc US HY 2% Issuer Cap Index, 5.3% S&P Leveraged Loan, 2.7% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 2.7% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 6.6% BBgBarc US Govt Int TR, 6.2% BBgBarc US Govt Long TR, 6.2% BBgBarc US TIPS 1-10 Yr TR, 22.0% HFRI FOF: Conservative Index (1 mo lagged)
Diversified 2050		
9/1/2019	Present	70.0% MSCI ACWI, 1.5% NCREIF ODCE (Equal-weighted) Net, 1.5% FTSE EPRA/NAREIT Developed NR USD, 2.0% FTSE Developed Core Infrastructure 50/50 Index, 4.3% BBgBarc US HY 2% Issuer Cap Index, 4.3% S&P Leveraged Loan, 2.2% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 2.2% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 1.0% BBgBarc US Govt Long TR, 1.0% BBgBarc US TIPS 1-10 Yr TR, 10.0% HFRI FOF: Conservative Index (1 mo lagged)
7/1/2019	8/31/2019	70.0% MSCI ACWI, 2.5% FTSE EPRA/NAREIT Developed NR USD, 2.5% FTSE Developed Core Infrastructure 50/50 Index, 4.3% BBgBarc US HY 2% Issuer Cap Index, 4.3% S&P Leveraged Loan, 2.2% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 2.2% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 1.0% BBgBarc US Govt Long TR, 1.0% BBgBarc US TIPS 1-10 Yr TR, 10.0% HFRI FOF: Conservative Index (1 mo lagged)
4/1/2017	6/30/2019	70.0% MSCI ACWI, 2.5% FTSE EPRA/NAREIT Developed NR USD, 2.5% FTSE Custom MFG Core Infrastructure USD Net Tax Index, 4.3% BBgBarc US HY 2% Issuer Cap Index, 4.3% S&P Leveraged Loan, 2.2% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 2.2% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 1.0% BBgBarc US Govt Long TR, 1.0% BBgBarc US TIPS 1-10 Yr TR, 10.0% HFRI FOF: Conservative Index (1 mo lagged)
Diversified with PM		
1/1/2020	Present	30.0% MSCI ACWI, 3.0% NCREIF ODCE (Equal-weighted) Net, 3.0% FTSE EPRA/NAREIT Developed NR USD, 4.0% FTSE Developed Core Infrastructure 50/50 Index, 4.7% BBgBarc US HY 2% Issuer Cap Index, 4.7% S&P Leveraged Loan, 2.3% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 2.3% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 3.0% BBgBarc US Govt Long TR, 3.0% BBgBarc US TIPS 1-10 Yr TR, 20.0% HFRI FOF: Conservative Index (1 mo lagged), 20.0% State Street GX Private Equity Index (1 qtr lagged)
9/1/2019	12/31/2019	28.0% MSCI ACWI, 1.8% NCREIF ODCE (Equal-weighted) Net, 1.8% FTSE EPRA/NAREIT Developed NR USD, 2.4% FTSE Developed Core Infrastructure 50/50 Index, 3.7% BBgBarc US HY 2% Issuer Cap Index, 3.7% S&P Leveraged Loan, 1.8% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 1.8% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 3.0% BBgBarc US Govt Long TR, 3.0% BBgBarc US TIPS 1-10 Yr TR, 19.0% HFRI FOF: Conservative Index (1 mo lagged), 30.0% State Street GX Private Equity Index (1 qtr lagged)
7/1/2019	8/31/2019	28.0% MSCI ACWI, 3.0% FTSE EPRA/NAREIT Developed NR USD, 3.0% FTSE Developed Core Infrastructure 50/50 Index, 3.7% BBgBarc US HY 2% Issuer Cap Index, 3.7% S&P Leveraged Loan, 1.8% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 1.8% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 3.0% BBgBarc US Govt Long TR, 3.0% BBgBarc US TIPS 1-10 Yr TR, 19.0% HFRI FOF: Conservative Index (1 mo lagged), 30.0% State Street GX Private Equity Index (1 qtr lagged)
4/1/2017	6/30/2019	28.0% MSCI ACWI, 3.0% FTSE EPRA/NAREIT Developed NR USD, 3.0% FTSE Custom MFG Core Infrastructure USD Net Tax Index, 3.7% BBgBarc US HY 2% Issuer Cap Index, 3.7% S&P Leveraged Loan, 1.8% BBgBarc EM USD Sovereign + Quasi-Sov: 5% Country Cap, 1.8% BBgBarc EM Local Currency Government x Korea 10% Country Capped, 3.0% BBgBarc US Govt Long TR, 3.0% BBgBarc US TIPS 1-10 Yr TR, 19.0% HFRI FOF: Conservative Index (1 mo lagged), 30.0% State Street GX Private Equity Index (1 qtr lagged)

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The capital market assumptions used in this report have been derived by Willis Towers Watson using a blend of economic theory, historical analysis and opinions provided by investment managers. They inevitably contain an element of subjective judgement. Any opinions or return forecasts on asset classes contained in our analysis are not intended to imply, nor should they be interpreted as conveying, any form of guarantee or assurance by Willis Towers Watson of the future performance of the asset classes in question. Naturally, future events and actual experience will vary from the assumptions we have employed and calculations prepared with actual data will vary from estimates or summaries used for modeling purposes. Because we use assumptions and estimates or summary information, actual experience may differ from our projections. The numbers in this report are not necessarily rounded. The use of unrounded numbers does not imply precision. Actuarial calculations are inherently imprecise.

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Lew Minsky

President & CEO, Defined Contribution Institutional Investment Association (DCIIA)

Lew Minsky, DCIIA

Lew Minsky is the President and Chief Executive Officer of the Defined Contribution Institutional Investment Association (DCIIA).

Before helping launch DCIIA in 2010, worked in a number of legal roles, including in the government, at a major law firm and for a Fortune 200 company. Lew is a recognized thought leader on retirement plan issues and has provided expert testimony to courts, federal regulatory agencies and Congressional committees.

Lew received a bachelors degree in management (BSM) from Tulane University, a juris doctor (JD) from the University of Florida and a master of laws (LLM) with a certificate in employee benefits law from Georgetown University.

Defined Contribution
Institutional Investment Association

10 YEARS
2010-2020

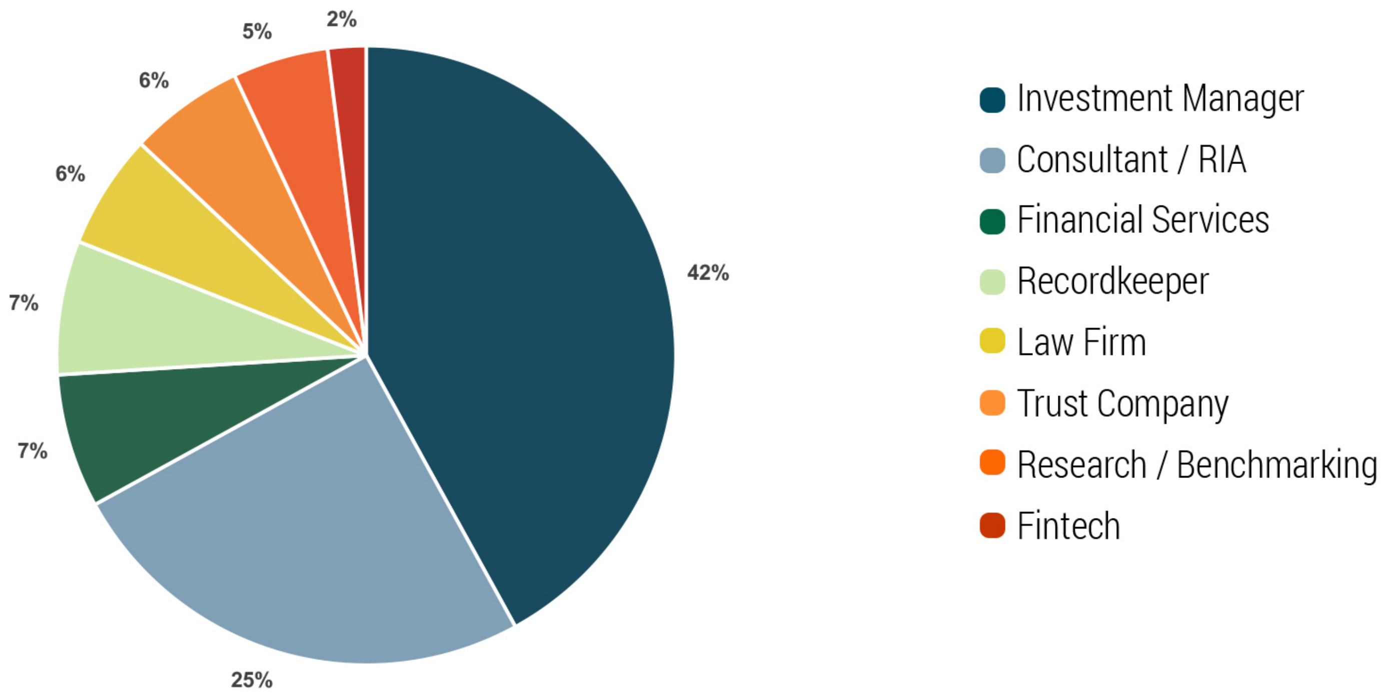
Institutionalization of the DC System: Design Matters

Lew Minsky
President and CEO, DCIIA

About DCIIA

160+ MEMBER FIRMS AND 600 PLAN SPONSORS IN OUR DATABASE

Committed to a diverse representation of the defined contribution industry.

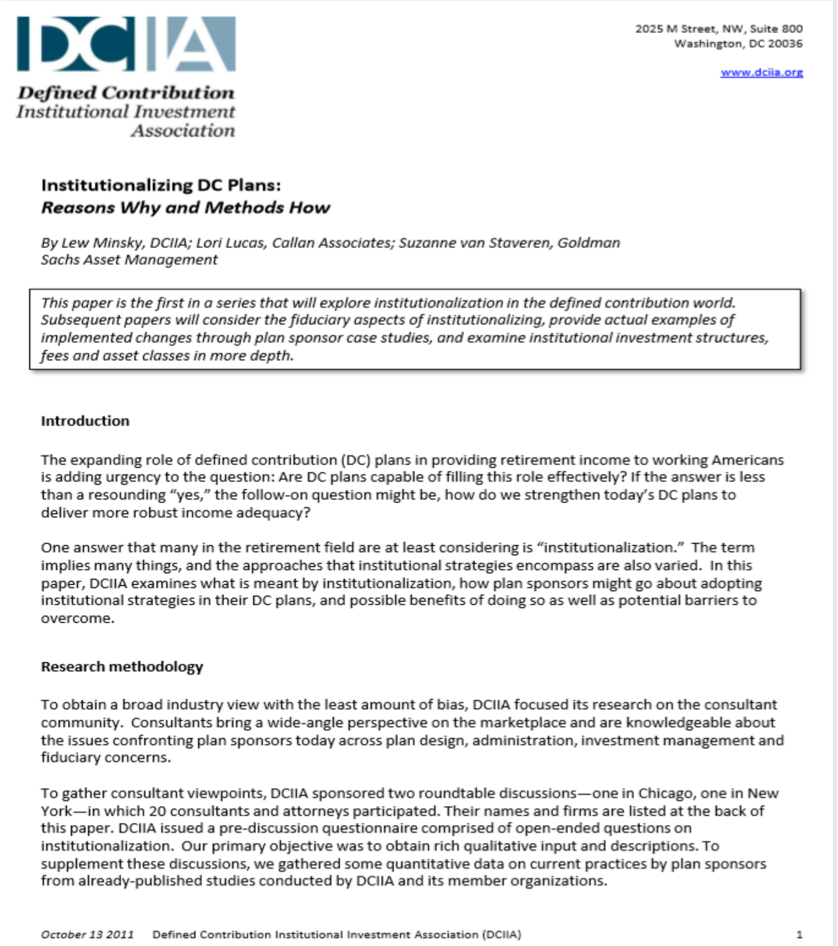


OUR MISSION

To provide a forum for industry participants to enhance the employer-based DC system, emphasizing access, innovation, best practices and institutional approaches, with the goal of improving financial security for America's workers.

Institutionalizing DC Plans

- "'Institutionalization' is a broad mindset that applies beyond investment options. It's how you get people into the plan; how you design it properly; how money moves out of the plan over time; what options are offered; how fees are structured; and what type of unbiased advice might be available for participants along the way."



DCIIA
Defined Contribution Institutional Investment Association

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Institutionalizing DC Plans:
Reasons Why and Methods How

By Lew Minsky, DCIIA; Lori Lucas, Callan Associates; Suzanne van Staveren, Goldman Sachs Asset Management

This paper is the first in a series that will explore institutionalization in the defined contribution world. Subsequent papers will consider the fiduciary aspects of institutionalizing, provide actual examples of implemented changes through plan sponsor case studies, and examine institutional investment structures, fees and asset classes in more depth.

Introduction

The expanding role of defined contribution (DC) plans in providing retirement income to working Americans is adding urgency to the question: Are DC plans capable of filling this role effectively? If the answer is less than a resounding "yes," the follow-on question might be, how do we strengthen today's DC plans to deliver more robust income adequacy?

One answer that many in the retirement field are at least considering is "institutionalization." The term implies many things, and the approaches that institutional strategies encompass are also varied. In this paper, DCIIA examines what is meant by institutionalization, how plan sponsors might go about adopting institutional strategies in their DC plans, and possible benefits of doing so as well as potential barriers to overcome.

Research methodology

To obtain a broad industry view with the least amount of bias, DCIIA focused its research on the consultant community. Consultants bring a wide-angle perspective on the marketplace and are knowledgeable about the issues confronting plan sponsors today across plan design, administration, investment management and fiduciary concerns.

To gather consultant viewpoints, DCIIA sponsored two roundtable discussions—one in Chicago, one in New York—in which 20 consultants and attorneys participated. Their names and firms are listed at the back of this paper. DCIIA issued a pre-discussion questionnaire comprised of open-ended questions on institutionalization. Our primary objective was to obtain rich qualitative input and descriptions. To supplement these discussions, we gathered some quantitative data on current practices by plan sponsors from already-published studies conducted by DCIIA and its member organizations.

October 13 2011 Defined Contribution Institutional Investment Association (DCIIA) 1

Source: DCIIA white paper, "Institutionalizing DC Plans: Reasons Why and Methods How," Oct. 2011

INSTITUTIONALIZING DC PLANS

Using DB plans as the institutional model for retirement, institutionalization of DC plans can encompass a broad spectrum of practices, including:

- Managing toward a financial target and recognizing the role of funding in achieving the financial target
- Using institutional investment vehicles that enable scale pricing
- Improving diversification by offering exposure to alternative asset classes
- Managing risk, specifically risk to achieve an income target
- Engaging expert consultants and advisors
- Minimizing leakage (i.e., loan defaults, hardship withdrawals, cash outs)
- Adding automatic enrollment and escalation to the plan.

Source: DCIIA white paper, "Institutionalizing DC Plans: Reasons Why and Methods How," Oct. 2011

INSTITUTIONALIZING DC PLANS

A plan sponsor's fiduciary obligation is to act in the best interest of plan participants, and institutional strategies are undertaken specifically for that reason: to improve plan participant retirement outcomes. So the question changes from whether to institutionalize, to how to do so. An evolutionary transition might look as follows:

Source: DCIIA white paper, "Institutionalizing DC Plans: Reasons Why and Methods How," Oct. 2011

Overcoming Barriers: Plan Sponsors

- Organizational inertia
- Lack of internal resources
- Concerns over fiduciary liability
- Reluctance to innovate- fear of being the first (or last) mover
- Litigious environment
    - Excessive fees
    - Inappropriate investment choices
    - Self-dealing

Relevant DCIIA Investment Policy & Design Publications

10 YEARS DCIIA 2010-2020

- Custom Target Date Fund (cTDF) Survey
  May 2020
- Custom Target Date Fund (cTDF) Survey
  March 2019
- Multi-Asset, Multi-Manager, and White Label Investment Options
  September 2017
- The Role of Real Estate in DC Plans
  June 2017
- A Guide to Commonly Used DC Plan Investment Vehicles
  January 2017
- Capturing the Benefits of Illiquidity
  September 2015
- Is it Time to Diversify DC Risk with Alternative Investments?
  May 2013
- What's on the Investment Menu?
  A Recipe for a Better DC Design, April 2013
- The "To vs. Through" Target Date Debate
  Is There a Better Way to Frame the Glide Path Discussion? – Feb 2012
- Considerations for Implementing a Custom Target Date Approach:
  A Guide for Defined Contribution Plan Sponsors, March 2011

Sara Shean

Defined Contribution Real Estate Council (DCREC)

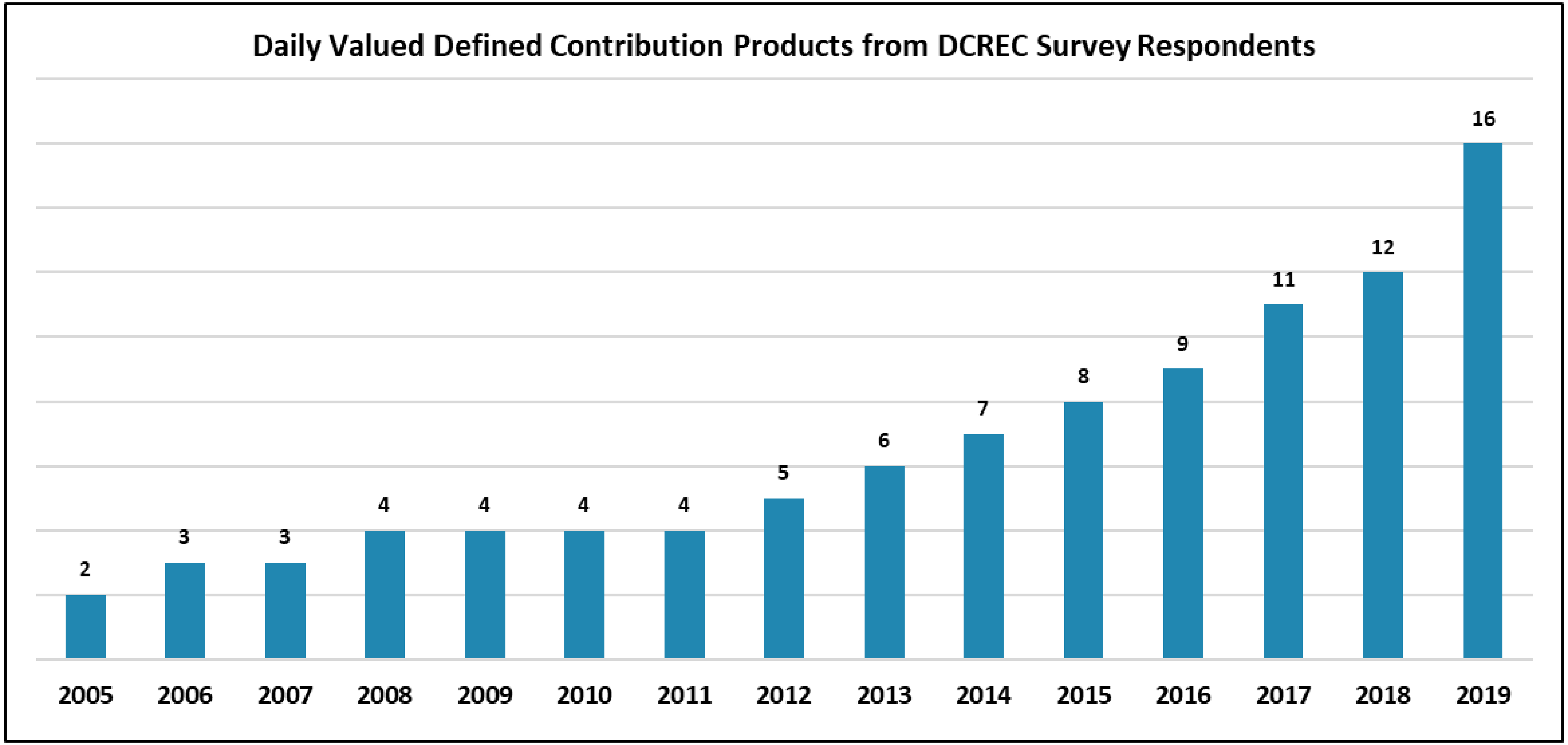
Why Private Real Estate?

Improved Diversification and Downside Protection

Historical Performance (2000-2019)	Private Real Estate	REITs	S&P 500	Bonds
Avg. Return (%/year)	8.2%	11.6%	6.1%	5.0%
Std. Deviation (%/year)	10.9%	18.2%	17.6%	3.3%
Private Real Estate Correlation with	1.00	0.21	0.15	(0.14)
Equity REITs Correlation with	0.21	1.00	0.65	0.07
Quarters with Negative Total Returns	6	21	24	21

Sources: As of December 31, 2019. Private Real Estate returns from NFI-ODCE Index; Equity REIT returns from NAREIT; S&P 500 returns from Standard and Poor's; Bond returns from Barclays US Aggregate Bond Index; data covers 20 years; standard deviations are based on annual returns; correlations are based on quarterly returns.

Growth in Daily Valued Real Estate Products since 2005

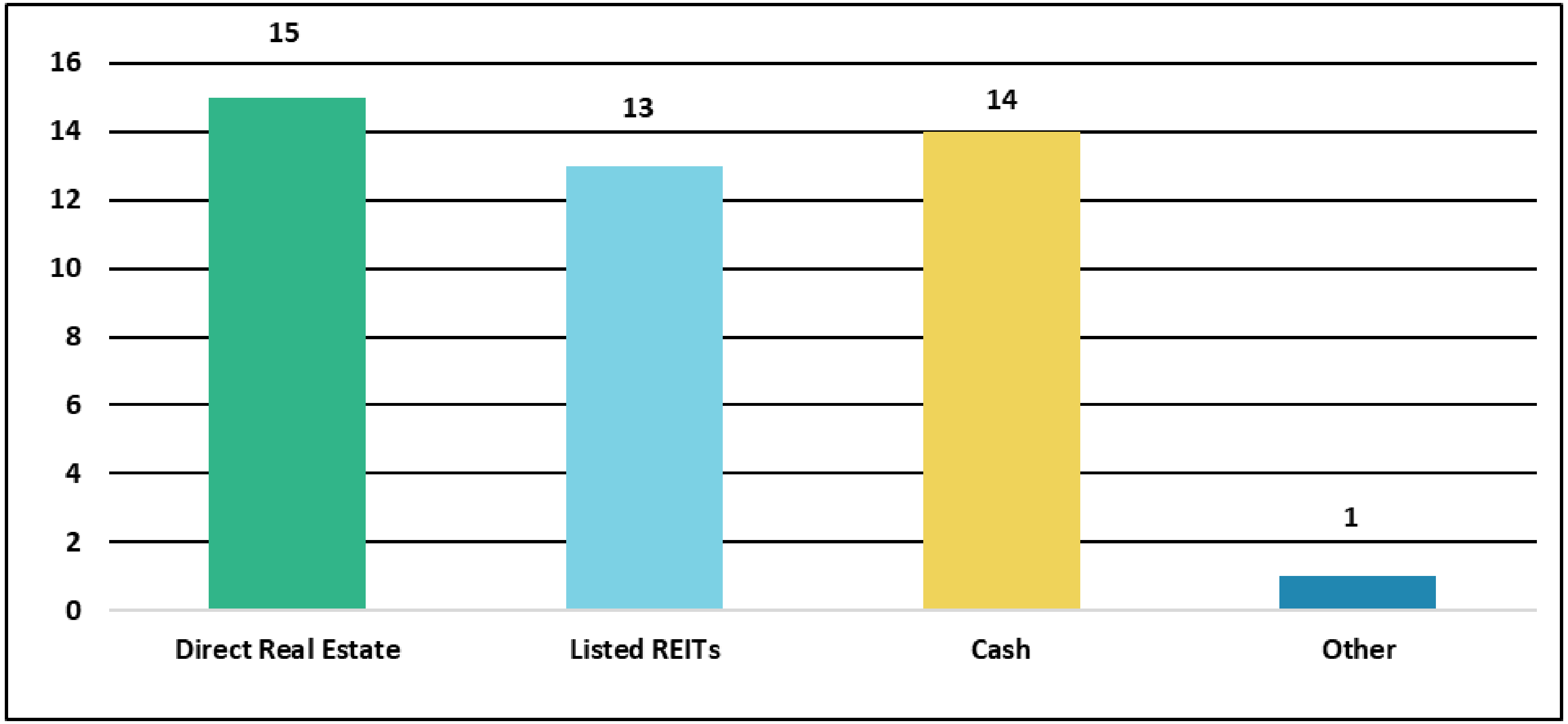


Source: DCREC Product Survey 2019

DCREC
DEFINED CONTRIBUTION REAL ESTATE COUNCIL

Daily Valued Real Estate Funds: Holdings and Strategies

- Products are primarily based on an underlying core real estate strategy, with the remaining allocation to listed REITs for liquidity
- Listed REIT allocations have decreased over time



Source: DCREC Product Survey 2019

Notes: Totals are greater than 16 because multiple asset types can be present in each fund, *7 of 15 have exposure in more than one Direct real estate fund,* Cash is defined as cash, money market funds, and other short-term funds with less than 1-year maturity.

DCREC
DEFINED CONTRIBUTION REAL ESTATE COUNCIL

DC Product Implementation

- The large majority of the investable products in the DCREC survey sample are only available within a professionally managed strategies (e.g. Lifecycle, Target Date, Asset Allocation).

- Only three products are available as a participant directed option.

The trend is very clearly towards professionally managed strategies*:*

All products that are primarily focused on the DC market launched over the past ten years have been exclusively available through a professionally managed, multi-asset strategy

Source: DCREC Product Survey 2019

Dennis Simmons

Executive Director, Committee on Investment of Employee Benefit Assets Inc. (CIEBA)

Georgetown University -- Center for Retirement Initiatives

Using Alternative Investments in DC Plans

Dennis Simmons, Executive Director—CIEBA

June 9, 2020

CIEBA

Committee on Investment of
Employee Benefit Assets Inc.

Committee on Investment of Employee Benefit Assets Inc.

Dennis Simmons is the Executive Director of CIEBA, the Committee on Investment of Employee Benefit Assets. CIEBA represents **110 of the country's most experienced chief investment officer fiduciaries, with CIEBA Members managing over $2 trillion of defined benefit and defined contribution plan assets.**

Prior to joining CIEBA in 2017, Mr. Simmons led global retirement savings public policy strategy as senior principal in the International Legal team at Vanguard. In that role, Mr. Simmons worked through Vanguard's global regional offices in London, Brussels, Paris, Hong Kong, Beijing, Melbourne, Toronto, and Latin America, leading Vanguard's efforts in shaping global retirement savings policies and initiatives.

Prior to leading international retirement savings policy strategy at Vanguard, Mr. Simmons served for over ten years as Vanguard's lead ERISA counsel, heading Vanguard's ERISA Legal and Fiduciary Services Group and Vanguard's Plan Sponsor Strategic Consulting Group. Mr. Simmons also served as lead counsel on boards and committees responsible for Vanguard's trustee services and the design and administration of global retirement and health and welfare programs, including programs benefitting Vanguard's 15,000+ employees.

Mr. Simmons has been handling global retirement savings policy, tax, and legal issues for over two decades and he is a frequent conference speaker on retirement savings matters. He has been active on legislative committees for prominent retirement savings industry groups, such as the American Benefits Council, the Defined Contribution Institutional Investment Association, the Plan Sponsor Council of America, and the Investment Company Institute (ICI), serving as the past Chairman for both ICI's Global Retirement Savings Committee and ICI's US Pension Committee.

Mr. Simmons also served on the US Department of Labor's ERISA Advisory Council, the council established under U.S. federal law to give recommendations to the Secretary of Labor on important policy issues affecting retirement savings and welfare plans.

Mr. Simmons earned a B.A. in economics and a BS in business administration from Roanoke College, and a J.D., *cum laude*, from Widener University School of Law.

CIEBA Member Areas of Focus on Alternatives . . .

- **Effective historical use in DB Plans**
- **Diversification opportunities as publicly traded issues dwindle**
- **Thoughtful Committee discussion "on the merits"**
- **Specific factors for fiduciaries to consider**

CIEBA
Committee on Investment of Employee Benefit Assets Inc.

CIEBA

Committee on Investment of Employee Benefit Assets Inc.

July 19, 2019

The Honorable Preston Rutledge
Assistant Secretary
Employee Benefits Security Administration
United States Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Re: Alternative Investments in Defined Contribution Plans

Based on CIEBA's own proprietary Annual Membership Profile Survey, the alternative investment allocation percentage . . . in 2017 . . . [was] 19.5% of CIEBA members' defined benefit plan assets . . ..

contribution plan portfolios.

CIEBA members are the chief investment fiduciaries of more than 100 of the Fortune 500 companies who voluntarily sponsor, manage and administer ERISA-governed corporate retirement plans. CIEBA members serve as investment fiduciaries for over $2 trillion of retirement assets on behalf of over 15 million participants, representing a very significant portion of the largest private defined benefit and defined contribution plans in the US.

Based on this experience, our view is that the Department could further its mission of assuring the security of the retirement benefits of America's workers and their families by taking affirmative steps to support fiduciaries who are considering the prudent use of alternative investments in defined contribution plans. Defined contribution plan fiduciaries are considering using alternative investments in ways such as: (i) through certain designated asset allocation investment options, such as target date funds, or (ii) as a structured investment alternative that may be part of an individual participant's investment portfolio.

As investment fiduciaries, CIEBA members are committed to helping defined contribution plan participants achieve successful retirement outcomes. In order to achieve this goal, we strive to make diversified investment options available that provide strong investment returns to participants and help participants appropriately diversify investment risk. As we describe below, an allocation to alternative investments, as part of a diversified investment portfolio, can enhance the returns of defined contribution investment options while providing greater diversification.

As a technical matter under current law, there are no prohibitions under ERISA today on a fiduciary undertaking the alternative investment strategies that we are discussing here. However, in light of practical concerns that ERISA fiduciaries have over becoming defendants in one of the increasingly more frequent ERISA fiduciary lawsuits in the defined contribution plan space, **we believe that guidance from the Department is necessary to clarify the factors a fiduciary should consider when deciding whether to offer an allocation to alternative investments.**

II. Alternative investments are proven components of a well-diversified investment portfolio.

As investment fiduciaries for many of the country's largest private sector defined benefit plans, CIEBA members have extensive practical experience investing in alternative investments. Many CIEBA members allocate a portion of their defined benefit plans to these investments in order to achieve optimal overall risk, return and diversification characteristics.

For example, a recent survey found that, on average, 9.3% of public pension plan assets and 6.2% of large corporate pension plan assets were invested in private equity.[1] Based on CIEBA's own proprietary Annual Membership Profile Survey, the alternative investment allocation percentage range is even higher: in 2017, fully 19.5% of CIEBA members' defined benefit plan assets were invested in alternative investments.

Alternative investments provide several important benefits to an investment portfolio. Historically, alternative investments such as private equity have outperformed public equity investments net of fees, boosting an investment portfolio's overall returns.[2] Private equity managers are often able to achieve these investment returns by investing in privately-owned companies and taking advantage of the early growth potential of these companies. Private equity managers not only use their expertise to identify companies with growth potential, but they also take an active role in improving the management and governance of the companies, and in identifying new opportunities for growth. Our experience is that effective private equity managers invest for the long term, allowing the companies they invest in to make fundamental changes to unlock their full potential value.

[1] *Private equity, real assets make gains with funds wanting safety*, Pension & Investments (Feb. 4, 2019), *available at* https://www.pionline.com/article/20190204/PRINT/190209966/private-equity-real-assets-make-gains-with-funds-wanting-safety

[2] Global Private Equity Report 2019, Bain & Company, 32, *available at* https://www.bain.com/contentassets/875a49e26e9c4775942ec5b86084df0a/bain_report_private_equity_report_2019.pdf; Cliffwater, An Examination of Private Equity Performance Among State Pensions (May 2018), *available at* https://www.cliffwater.com/Research/DownloadFile?path=docs%2FAn%20Examination%20of%20Private%20Equity%20Performance%20among%20State%20Pensions%202002-2017.pdf

CIEBA Survey Data: DB Plan Alternative Investments – Significant and Steady

CIEBA Member 2018 Survey

Asset Class	Weight
Total Equity	**xxx%**
US Equity	xxx%
Non-US Equity	xxx%
Emerging Markets	xxx%
Fixed Income	**xxx%**
Total Non Traditional	**21.6%**
Real Estate	xxx%
Private Equity	xxx%
Hedge Funds	xxx%
Private Credit*	xxx%

*New category this year

CIEBA Member 2017 Survey

Asset Class	Weight
Total Equity	**xxx%**
US Equity	xxx%
Non-US Equity	xxx%
Emerging Markets	xxx%
Fixed Income	**xxx%**
Total Non Traditional	**19.5%**
Real Estate	xxx%
Private Equity	xxx%
Hedge Funds	xxx%

CIEBA Member 2016 Survey

Asset Class	Weight
Total Equity	**xxx%**
US Equity	xxx%
Non-US Equity	xxx%
Emerging Markets	xxx%
Fixed Income	**xxx%**
Total Non Traditional	**20.8%**
Real Estate	xxx%
Private Equity	xxx%
Hedge Funds	xxx%

CIEBA
Committee on Investment of Employee Benefit Assets Inc.

CIEBA Member Areas of Focus on Alternatives . . .

- Effective historical use in DB Plans
- **Diversification opportunities as publicly traded issues dwindle**
- Thoughtful Committee discussion "on the merits"
- Specific factors for fiduciaries to consider

Perhaps more important, alternative investments such as private equity investments can provide a crucial diversification benefit. Over the past twenty years, the number of U.S. publicly traded companies has dwindled to over half of their previous number.[3] Thus, a public equity portfolio today may not be as diversified as it once might have been. Moreover, many of the companies that do go public only do so following their initial growth periods. Investing in private equity provides access to a wider array of companies, including companies that have the potential for significant growth, offering an important diversification benefit for any prudently allocated investment portfolio.

CIEBA members must invest the assets of the plans we manage in a manner consistent with ERISA's fiduciary duties. Accordingly, when investing the defined benefit plans we manage in private equity and other alternative investments, we apply ERISA's prudence standards as interpreted by the Department's applicable regulation.[4] This regulation provides that, when considering a potential investment for a plan's portfolio, a fiduciary must consider how the investment would potentially impact the plan's portfolio as a whole. Specifically, the Department's prudence regulation provides that a fiduciary must consider how an investment would further the purposes of the plan, in relation to the investment's risk and return characteristics, as well as the diversification and liquidity requirements of the plan.

To help satisfy these prudence responsibilities, CIEBA members perform careful due diligence on each private equity or alternative investment, including on the manager's historical investment returns, the total fees and expenses the plan would be required to pay, the manager's investment strategy and philosophy, and the manager's staff and resources. CIEBA members may also receive assistance from professional investment consultants in identifying and performing diligence on potential private equity and other alternative investments. Finally, CIEBA members ensure that any investment meets the parameters of the plan's investment policy statement.

In summary, our experience has been that alternative investments offer significant investment benefits for any prudently diversified investment portfolio. By following a prudent investment process, CIEBA members meet their fiduciary duties when investing defined benefit plan assets in alternative investments; CIEBA members are equally convinced that the same would hold true when alternative investments are similarly employed in defined contribution plans.

III. Why fiduciaries rarely use alternative investments in defined contribution plans.

As explained in more detail below, due to litigation risks that are much more prevalent today in defined contribution plans than defined benefit plans, defined contribution plan investment fiduciaries are much more reticent to even consider an appropriate allocation to alternative investments. CIEBA members are keenly aware of the surge in class-action cases challenging the investments and fees paid

[3] *The Death of the IPO*, The Atlantic (Nov. 2018), *available at* https://www.theatlantic.com/magazine/archive/2018/11/private-inequity/570808/
[4] 29 C.F.R. § 2550.404a-1.

[A]lternative investments . . . can provide a crucial diversification benefit. Over the past twenty years, the number of U.S. publicly traded companies has dwindled to over half of their previous number.

under defined contribution plans, which include over 100 new cases filed in 2016 to 2017.[5] In contrast, the risk of litigation with respect to defined benefit plans is, today, meaningfully lower.

We are concerned that the outcomes of some of the recent defined contribution plan class-action disputes have promoted a potentially short-sighted school of thought that a plan fiduciary can only safely satisfy his or her ERISA fiduciary responsibilities by offering only passively managed index funds to defined contribution plan participants. For example, the First Circuit Court of Appeals recently held that "any fiduciary of a plan . . . can easily insulate itself by selecting well-established, low-fee and

a designated investment alternative that is substantially invested in alternative investments, where participants are given the ability to diversify and select from a menu of broadly diversified designated investment options).

[5] *401(k) Lawsuits: What are the Causes and Consequences?*, Center for Retirement Research at Boston College, 2 (Number 18-8, May 2018), *available at* https://crr.bc.edu/wp-content/uploads/2018/04/IB_18-8.pdf
[6] *Brotherston v. Putnam Investments*, LLC, 907 F.3d 17, 39 (1st Cir. 2018).
[7] *Sulyma v. Intel Corp. Inv. Policy Comm.*, No. 15-cv-04977 (Compl. Filed Apr. 26, 2016). Intel's fiduciary committee is one of the only a few corporate defined contribution plan committees to offer alternative investments to defined contribution plans.
[8] *The Evolution of Target Date Funds: Using Alternatives to Improve Retirement Plan Outcomes, Georgetown University Center for Retirement Initiatives*, Policy Report 18-01 (June 2018), *available at* https://cri.georgetown.edu/wp-content/uploads/2018/06/PolicyReport18-01.pdf

CIEBA Member Areas of Focus on Alternatives . . .

- Effective historical use in DB Plans
- Diversification opportunities as publicly traded issues dwindle
- **Thoughtful Committee discussion “on the merits”**
  - ✓ **Modernizing the DC Plan w/ a “runway for innovation”**
- Specific factors for fiduciaries to consider

CIEBA
Committee on Investment of Employee Benefit Assets Inc.

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On the other hand, a lawsuit was brought against the fiduciaries of defined contribution plans sponsored by Intel Corporation because allocations to hedge funds and private equity investments were included in target date funds and a balanced asset allocation fund offered to participants.[7] When viewed together, these disputes promote a clear, and, we think, short-sighted, incentive for defined contribution plan fiduciaries to avoid private equity and other alternative investments in order to minimize the risk of personal liability from a breach of fiduciary duty claim.

IV. The Department could help fiduciaries modernize defined contribution plan investments by providing guidance on using alternative investments.

CIEBA members believe that defined contribution plan participants could substantially benefit from alternative investments if such investments were selected pursuant to a prudent process and offered as part of a diversified portfolio, such as a target date fund or other structured investment alternative. Much like the portfolios of the defined benefit plans that CIEBA members manage, defined contribution portfolios would be professionally managed and diversified among asset classes. The Georgetown Center for Retirement Initiatives studied how allocations to alternative investments could improve defined contribution participants' investment outcomes in a target date fund, finding that such investments could increase participants' retirement income by 11 to 17 percent.[8]

Similarly, CIEBA members believe that in the right circumstances, other uses of alternative investments could also substantially benefit defined contribution plan participants (for example, through a designated investment alternative that is substantially invested in alternative investments, where participants are given the ability to diversify and select from a menu of broadly diversified designated investment options).

[5] *401(k) Lawsuits: What are the Causes and Consequences?*, Center for Retirement Research at Boston College, 2 (Number 18-8, May 2018), *available at* https://crr.bc.edu/wp-content/uploads/2018/04/IB_18-8.pdf

[6] *Brotherston v. Putnam Investments*, LLC, 907 F.3d 17, 39 (1st Cir. 2018).

[7] *Sulyma v. Intel Corp. Inv. Policy Comm.*, No. 15-cv-04977 (Compl. Filed Apr. 26, 2016). Intel's fiduciary committee is one of the only a few corporate defined contribution plan committees to offer alternative investments to defined contribution plans.

[8] *The Evolution of Target Date Funds: Using Alternatives to Improve Retirement Plan Outcomes, Georgetown University Center for Retirement Initiatives*, Policy Report 18-01 (June 2018), *available at* https://cri.georgetown.edu/wp-content/uploads/2018/06/PolicyReport18-01.pdf

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CIEBA members believe that guidance from the Department is needed to address fiduciaries' legitimate concerns of litigation risk for offering allocations to alternative investments. In our view, **the guidance should state that alternative investments are not *per se* imprudent, and that there is no presumption of their imprudence**. Additionally, the guidance should provide a framework consisting of factors fiduciaries should consider when evaluating alternative investments in defined contribution plans. We believe that key factors include the following:

We are concerned that the outcomes of . . . recent . . . disputes have promoted a potentially short-sighted school of thought that a plan fiduciary . . .[should] offer . . .only . . . index funds . . .. For example, the First Circuit Court of Appeals recently held that "any fiduciary. . . can easily insulate itself by selecting well-established, low-fee and diversified market index funds."

to private equity or other alternative investments. Again, we appreciate your consideration of these issues and we would be pleased to discuss further and provide any additional information that we can that may assist the Department in this effort.

Sincerely,

Dennis Simmons
Executive Director
CIEBA

CC: Jeanne Klinefelter Wilson, Deputy Assistant Secretary for Policy, US DOL
Timothy Hauser, Deputy Assistant Secretary for Program Operations, US DOL
Joe Canary, Office Director of the Office of Regulations and Interpretations, US DOL

CIEBA Member Areas of Focus on Alternatives . . .

- Effective historical use in DB Plans
- Diversification opportunities as publicly traded issues dwindle
- Thoughtful Committee discussion "on the merits"
- Specific factors for fiduciaries to consider

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under defined contribution plans, which include over 100 new cases filed in 2016 to 2017.[5] In contrast, the risk of litigation with respect to defined benefit plans is, today, meaningfully lower.

We are concerned that the outcomes of some of the recent defined contribution plan class-action disputes have promoted a potentially short-sighted school of thought that a plan fiduciary can only safely satisfy his or her ERISA fiduciary responsibilities by offering only passively managed index funds to defined contribution plan participants. For example, the First Circuit Court of Appeals recently held that "any fiduciary of a plan . . . can easily insulate itself by selecting well-established, low-fee and diversified market index funds."[6]

…factors fiduciaries should consider:

- The liquidity characteristics of the investment . . .;
- The investment's time horizon . . .;
- [T]the methodology used for valuation . . .;
- The total . . .expenses participants . . . will bear;
- The historical . . . returns of the fund or manager . . . and the manager's strategy; and
- The legal structure . . .including whether the manager . . .will act as a fiduciary under ERISA

[5] *401(k) Lawsuits: What are the Causes and Consequences?*, Center for Retirement Research at Boston College, 2 (Number 18-8, May 2018), *available at* https://crr.bc.edu/wp-content/uploads/2018/04/IB_18-8.pdf

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- The liquidity characteristics of the investment, and how the level of liquidity may affect the ability of participants' to direct the investment of their individual accounts or obtain a distribution (and whether strategies may exist to manage liquidity);
- Whether the investment's time horizon could affect participants' ability to obtain a return or cause losses, based on the timing of the participant's initial investment and redemption;
- To the extent the investment holds securities that are not publicly-traded, the methodology that will be used for valuation, as well as the timing of valuations;
- The total fees and expenses participants will be required to bear in connection with the investment relative to the expected value added by the strategy;
- The historical investment returns of the fund or manager under consideration, and with respect to the manager, its staffing, resources, investment philosophy, and investment strategy; and
- The legal structure by which the investment will be made available, including whether the manager of the investment will act as a fiduciary under ERISA.

CIEBA appreciates the Department's willingness to carefully consider these issues. CIEBA strongly supports the Department's efforts to modernize defined contribution plans by clarifying the circumstances under which a fiduciary could, consistent with its prudence obligation, offer an allocation to private equity or other alternative investments. Again, we appreciate your consideration of these issues and we would be pleased to discuss further and provide any additional information that we can that may assist the Department in this effort.

Sincerely,

Dennis Simmons
Executive Director
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CC: Jeanne Klinefelter Wilson, Deputy Assistant Secretary for Policy, US DOL
Timothy Hauser, Deputy Assistant Secretary for Program Operations, US DOL
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More Information . . . .

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