

WSIB Summary Points: New York Media Roundtable, October 18, 2018

Topic: Do Alternative Assets Improve the Performance of Target Date Funds?

The WSIB Experience

WSIB has been dedicated to significant private market investments for 30+ years. We believe in the investment case: Private markets exposure can clearly benefit retirement plan participants.

But we also have learned a lot along the way:

- Importance of a track record of due diligence
- Longstanding relationships with GPs
- Board that trusts (and pursues) the performance premium of private market investments

Our belief and trust in private markets is built on performance and people:

- **The performance story:** A significant margin of outperformance for 1, 3, 5, 10 and 20 years

CTF asset class	3 YEARS	5 YEARS	10 YEARS	20 YEARS
PUBLIC EQ	8.88%	10.20%	6.52%	6.07%
PRIVATE EQ	12.30%	13.59%	9.18%	10.85%
Difference (private premium)	+3.42%	+3.39%	+2.66%	+4.78%

Performance as of June 30, 2018

- **The people story** is one of relationships and fit with our desire for long-tail deals and long-term investment structures.
 - Access to quality deal flow; compatible GPs who listen and are comfortable in a public client setting
 - A strong, experienced team, early on, to engender trust

WSIB's Case Study: DB/DC Hybrid Story

Private Markets have been a mainstay for our DB retirement plans, based on three asset classes: Private Equity, Real Estate and Tangible Assets.

In the 1990s, a group of our beneficiaries (teachers) prompted us to find a way to include these investments in a new Hybrid Retirement Plan (DB/DC plan choice in a single plan)

We developed the TAP: Total Allocation Portfolio.

- Essentially the same portfolio construction and discipline of our DB plan, but offered to Plan 3 (hybrid) participants as a choice on the DC plan platform.
- We implemented TAP as an option during 1995-2000 in various retirement plans.
- It is a transferable byproduct of our DB plan.
- One catch: It's a total portfolio that can't be deconstructed or customized by the participant: Only one asset allocation for all investors who choose the TAP.

In 1996, our legislature approved this portfolio (the TAP) as a default option for participants in our Plan 3 Hybrid DB/DC plan. This led to it becoming the largest fund selection in the hybrid Plan 3 program.

More than 60% of participants in the Plan 3 Hybrid invest in the Total Allocation option.

Exploring Next Steps: Looking at TDFs and Deferred Comp Plan

In 2011, our Department of Retirement Systems shifted to Target Date Funds as the default for participants -- better age-specific allocations and easy for participants.

- In our PERS 3 plan, TDFs represent at least 17% of total assets.
- The hybrid Plan 3 assets collectively represent about \$13 billion in our system, or about 14% of overall retirement assets (CTF AUM \$93 billion total as of end of FY 2017).
- And within Plan 3, the TAP fund represents at least \$8.5 billion.

Today we are exploring how best to transport our existing private markets offerings into a fund complex where age-dynamic glide paths are the model of choice.

- Legal Team has analyzed fiduciary duties (duty of care, duty of skill, duty of caution) and legal risks.
- Project Team is working through issues of:
 - Investment considerations: Glide Path Construction
 - Operational considerations: Pricing and Recordkeeping Methodologies
 - Stakeholder considerations: Participant Education and Complexity

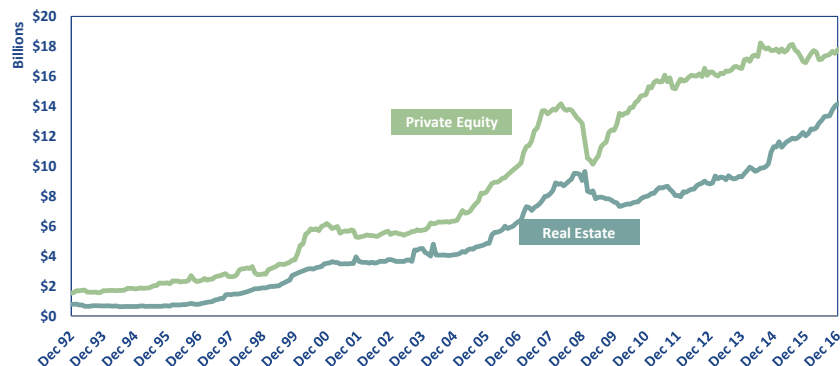
We are optimistic but not rushing here. Working the issues one at a time.

Bottom Line: Investment rationale is clear; operational, construction and education challenges must be tackled by each organization individually. Key questions:

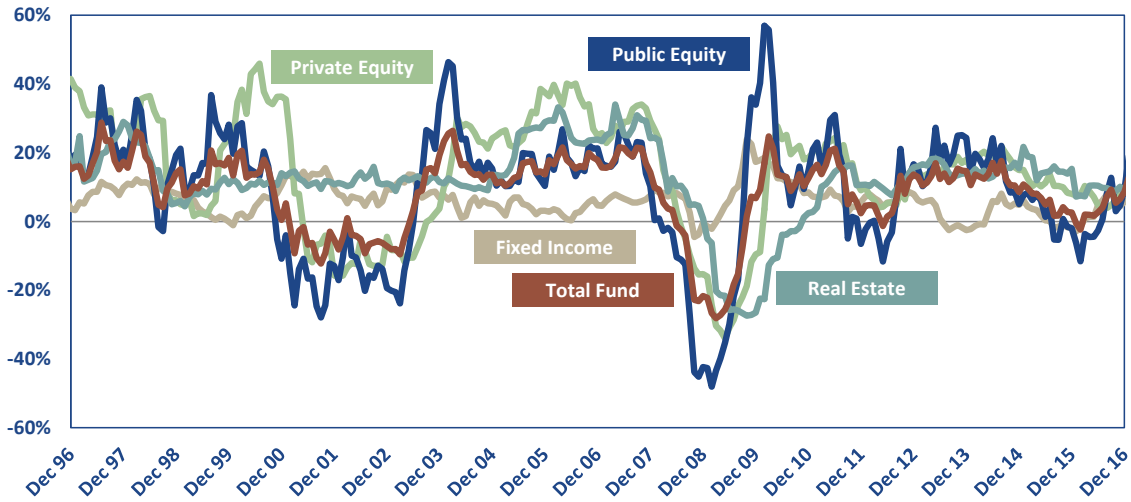
- How do we transport the performance premium in way that is fully beneficial and intuitive for plan participants?
- How do we bring the right investment and operational resources to the program, and do so cost-effectively?
- What are the risks, and are we comfortable with them?

Performance and Plan Participation Data

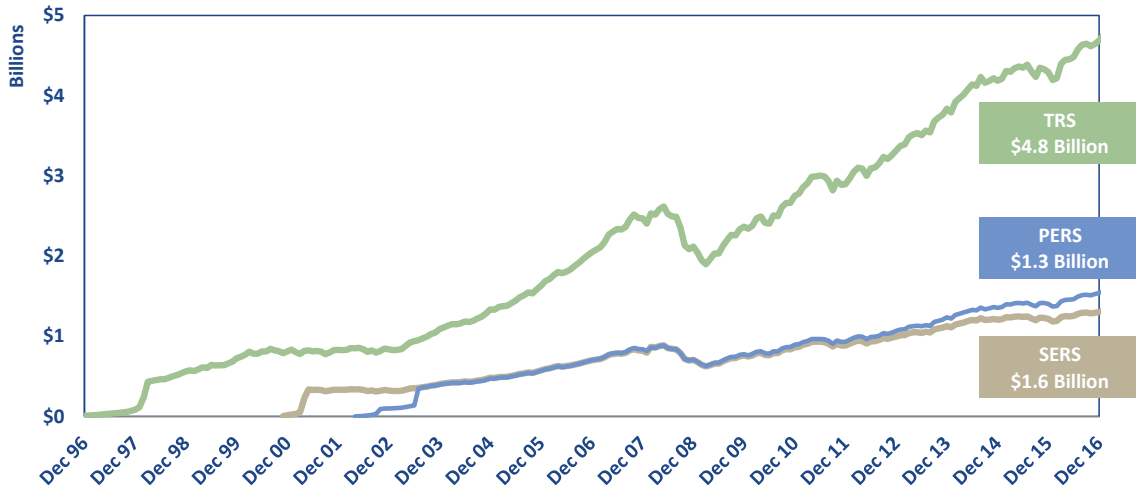
Market Value Growth of Private Equity and Real Estate in the WSIB's CTF as of December 31, 2017



Past 20 years of 1 Year Rolling Returns of the WSIB's Asset Classes as of December 31, 2017



Growth of Defined Contributions in WSIB's Retirement Funds (CTF) as of December 31, 2017



Plan 3 Fund Allocations as of December 31, 2017

