

New York Secure Choice Savings Program

Presented by

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Agenda

- Objectives and Strategies
- Philosophy
- Target date funds and style trends
- Fees and other factors
- Governance

Portfolio Construction: Secure Choice Program

Return Objective

Fund retirement on an inflation-adjusted basis

Risk Tolerance

Decreases over time for participants

Constraints

Time horizon: Long-term transitioning to short-term

Liquidity: Very high

Unique circumstances: Low-cost, transparency & asset class access limited to public markets

Portfolio Management Objectives

Grow Assets	Equity Allocation
Generate Income	Fixed Income Allocation
Preserve Capital	Money Market Fund Allocation
Diversify Risk	Uncorrelated Asset Classes
Lower Cost	Passive Management, Low Fee Share Class

Key Terms: Investment Strategies

Equity Funds

Invested in stocks and represent ownership in a company. Categorized according to style, market capitalization, and geography.

Bond Funds

Security issued by borrower that obligates issuer to make payments to the holder over a period of time.

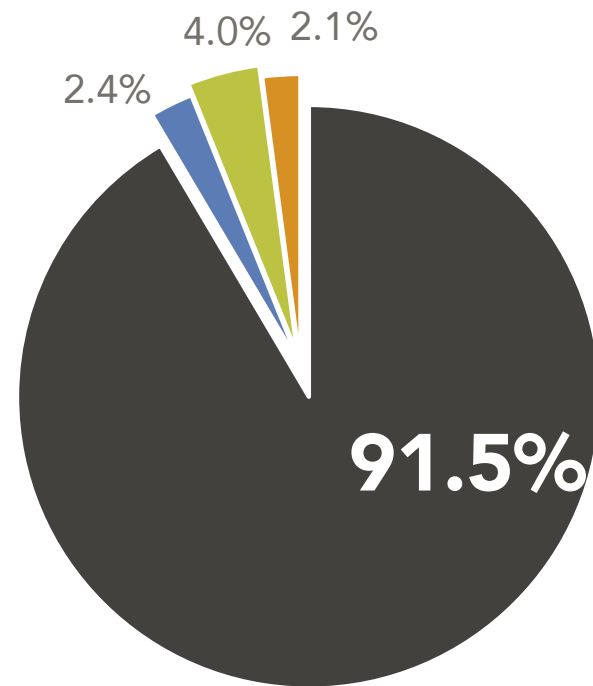
Money Market Funds

Short term, highly liquid, low risk debt instruments.

Risk Level	Goal
High	Asset Growth
Moderate	Income
Low	Capital Preservation

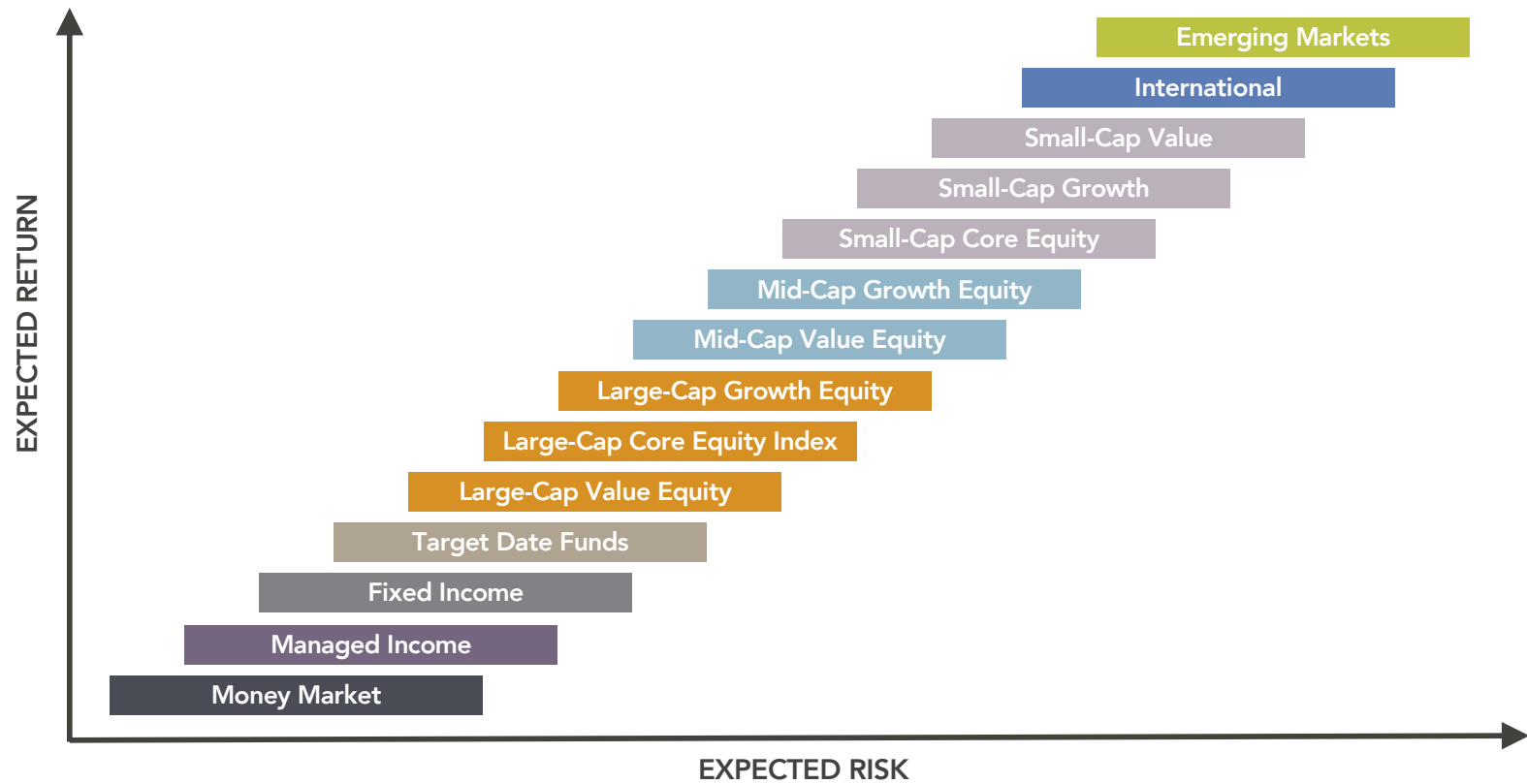
Asset Allocation Controls Risk

Portfolio Return Variability (%)



Source: Gary P. Brinson, L. Randolph Hood, and Gilbert L. Beebower, "Determinants of Portfolio Performance," Financial Analysts Journal, July/August 1986. Gary P. Brinson, Brian D. Singer, and Gilbert L. Beebower, "Determinants of Portfolio Performance II: An Update," Financial Analysts Journal, May/June 1991.

Asset Class Risk & Return



For illustrative purposes only.

Secure Choice Program Line Up

Tier 1

Reluctant Investor

Target Date Funds

Tier 2

Proactive Investor

Growth

Growth and Income

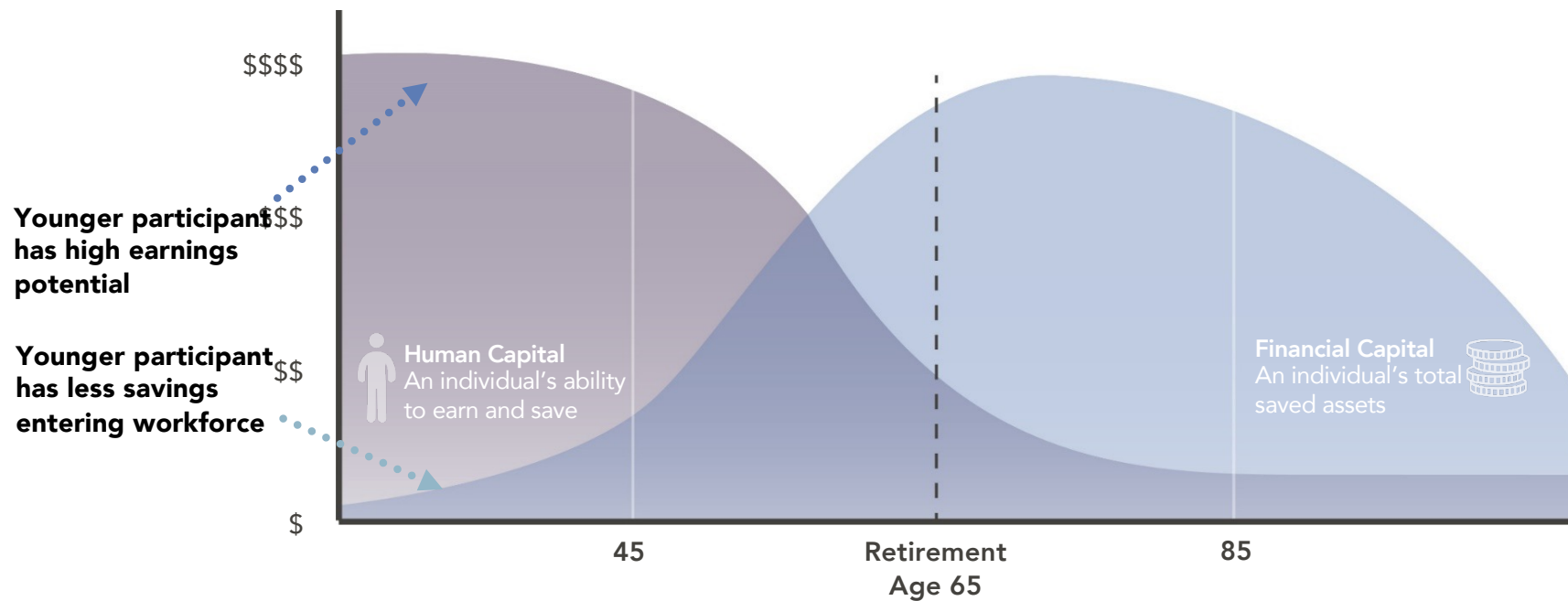
Conservative
Principal Protection

What is a target date fund?

- All-in-one, diversified investment selected by participant based on estimated year of retirement
- Automatically adjusts equity/risk exposures over time (glidepath)
- For example, a 35yo should retire in about 30 years, so would select 2050 TDF
- Key differentiators:
 - 'To' vs. 'through' retirement
 - Asset class usage
 - Active vs. passive management usage

TDFs seek to balance human & financial capital

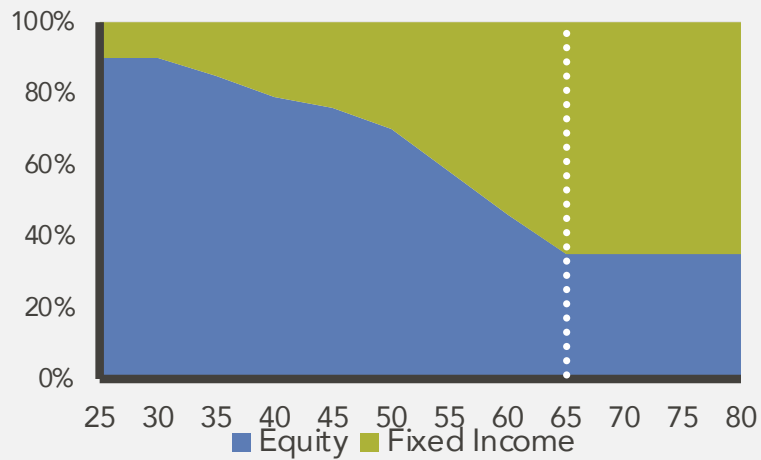
The concept behind glidepaths is based on the typical life cycle of human capital and financial capital



To vs. through

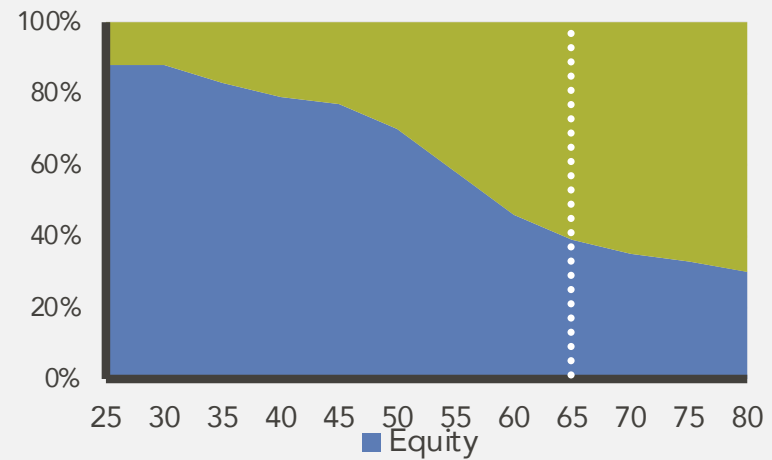
↳ To

Asset mix remains static after retirement age



↳ Through

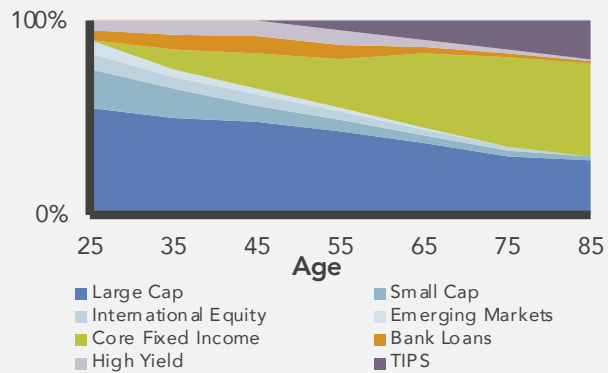
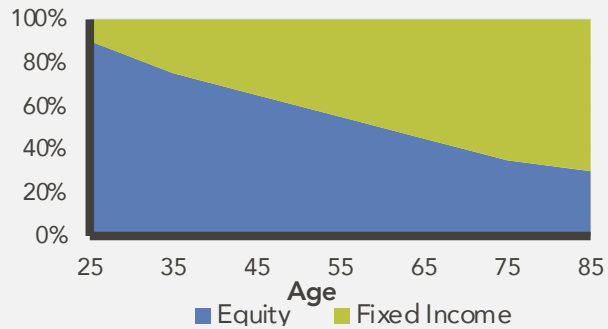
Adjusts equity exposure beyond retirement age



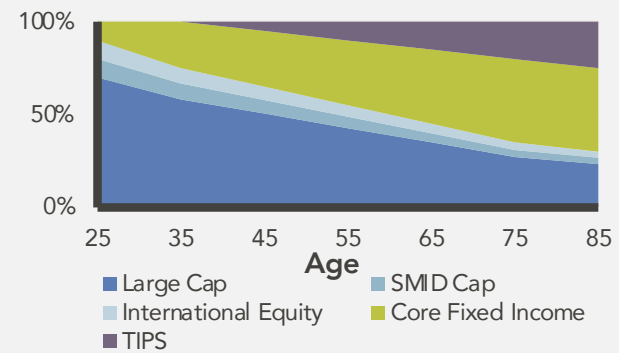
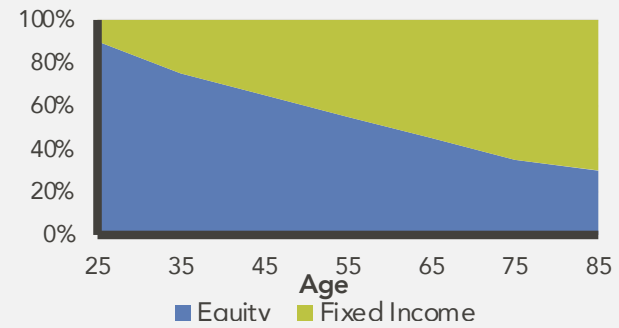
It's all in the asset allocation

Strategies can differ greatly in underlying risk exposures

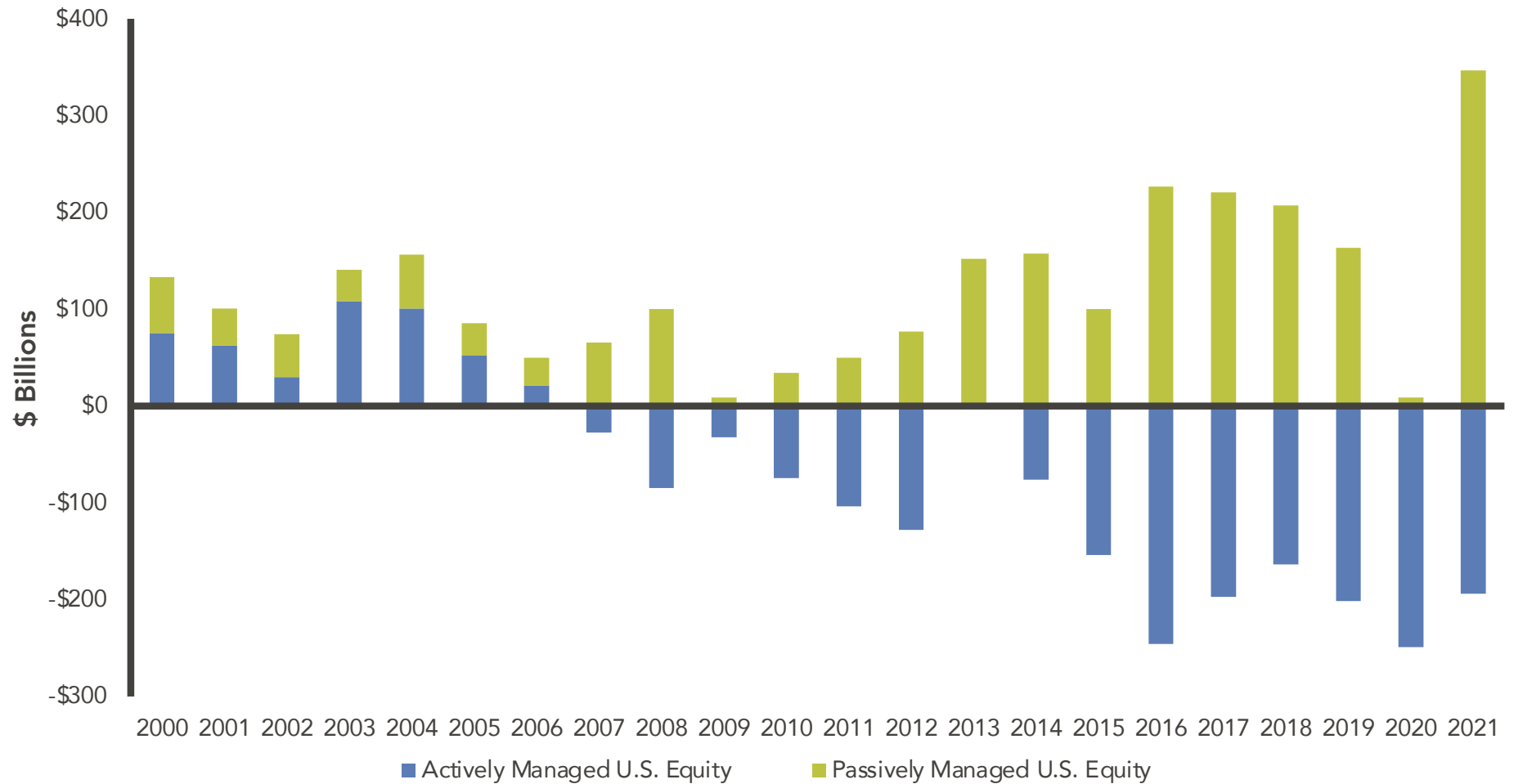
↳ Manager A



↳ Manager B

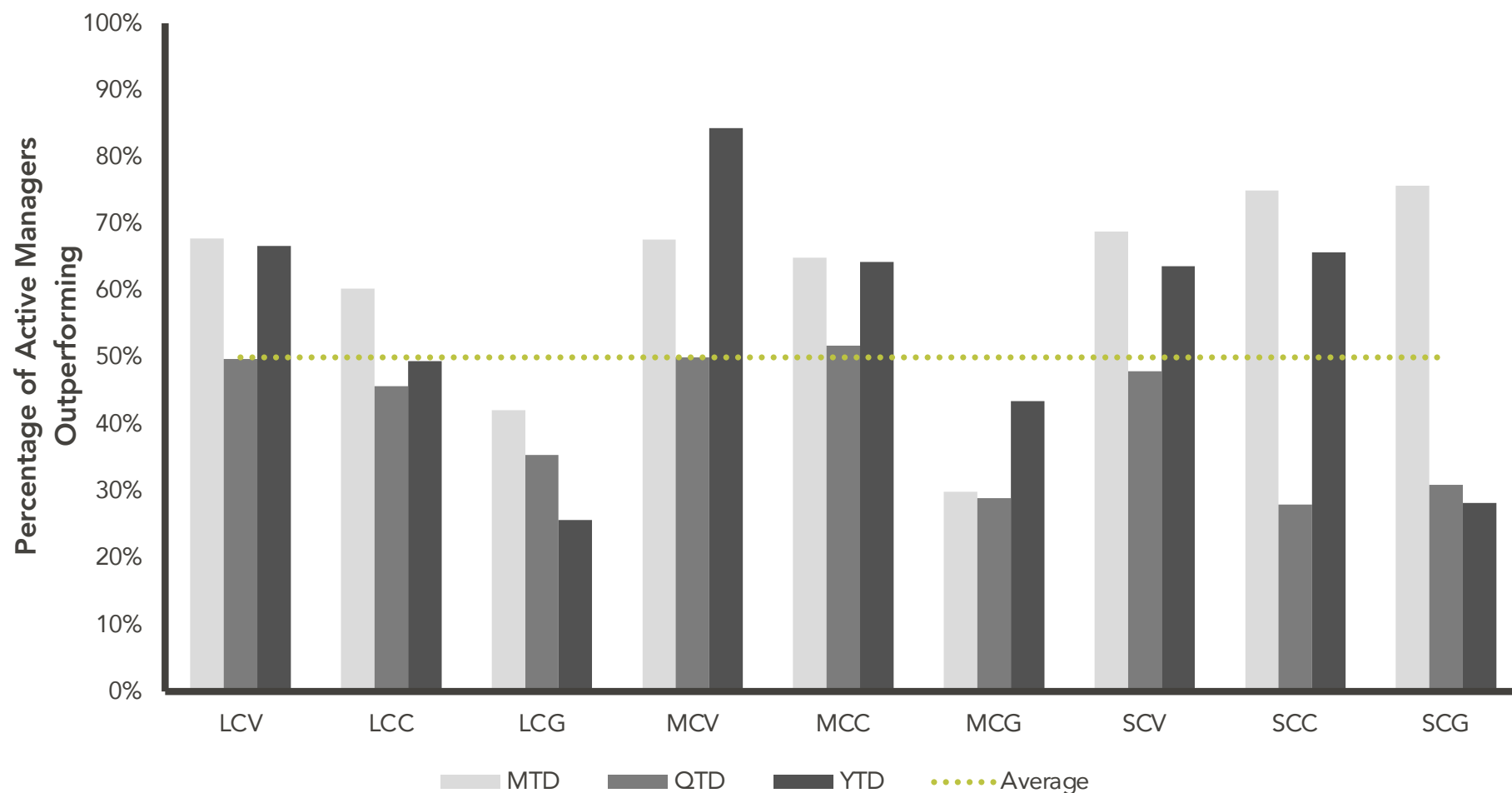


Active / Passive Fund Flows



Source: Morningstar as of December 31, 2021

Active Managers Adding Value in 2022



Source: Morningstar Direct as of September 30, 2022

Benefits & challenges of TDFs



▪ Benefits

- ❖ Easy to use
- ❖ Provide diversification
- ❖ Age-appropriate asset allocation
- ❖ Outsource risk reduction to experts
- ❖ Mitigate poor behavior in down markets

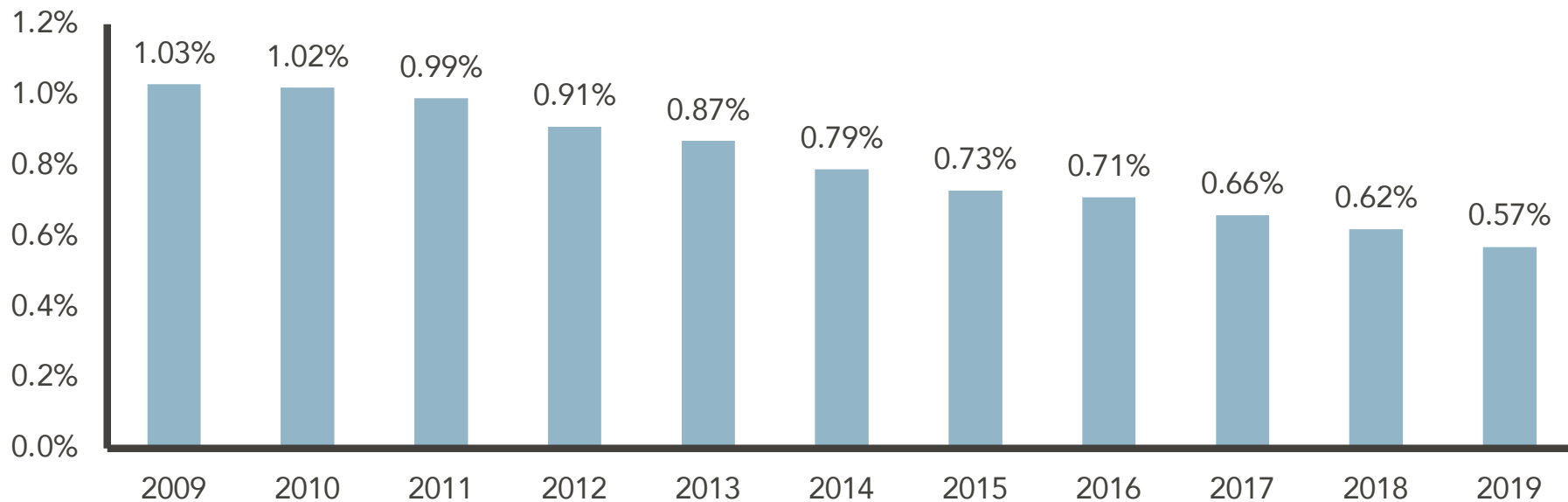


▪ Challenges

- ❖ Do not account for individual preferences or circumstances
- ❖ As participants age, circumstances diverge more significantly, and age becomes less telling of risk tolerance
- ❖ Challenges incorporating less liquid asset types

Don't forget about fees

Fees have consistently trended downward



Source: Morningstar as of December 31, 2019. Fees are equal-weighted by provider and asset-weighted by share class. Vanguard, 2020.

Equity Step-Downs & Sequencing Risk

Equity Step-Down

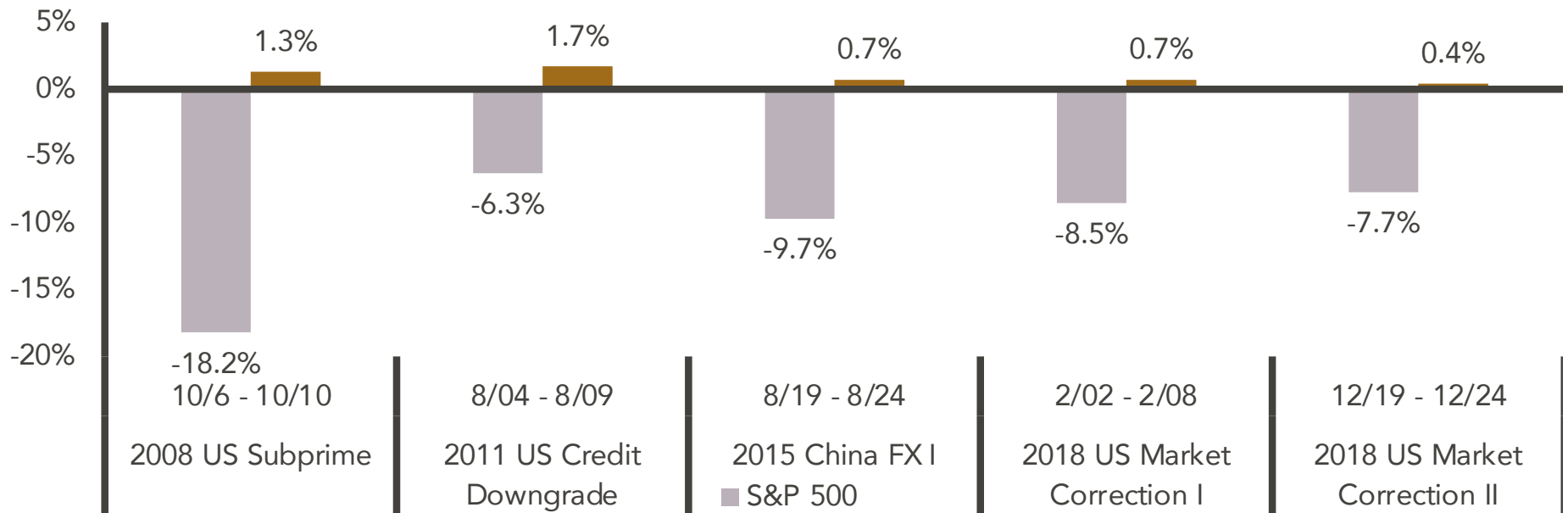
Decrease in equity and increase in fixed income at specific intervals in age-based portfolios

Sequencing Risk

Market timing risk; the risk of experience negative investment return in advance of an equity step down

Impact of volatility

During times of panic, participants within Target Date funds tend to stay the course



Source: T. Rowe Price

Retirement income – What's new?

▪ Types

1. Guaranteed: investments include underlying annuity and/or insurance product.
 - Terms you may hear:
 - ❑ Fixed income annuity
 - ❑ Longevity annuity
 - ❑ Qualified longevity annuity contract (QLAC)
2. Non-guaranteed: investment with no underlying annuity and/or insurance product.
 - Portfolio managed to preserve capital and ensure income through later year of retirement

▪ Structures

- ❖ Target date fund with underlying annuity component
- ❖ Single investment option
- ❖ Multiple strategies combined in a single portfolio

Retirement income – What's new? Cont.

- **Why the increased trend?**

- ❖ SECURE Act – safe harbor that protects plan fiduciaries that select insurers to provide guaranteed retirement income contracts
- ❖ Shift from DB to DC – attempt to recreate payout feature
- ❖ Demographics – people are living longer and need more in retirement

- **Benefits**

- ❖ Income security through guaranteed payouts
- ❖ Assets last through retirement

- **Concerns**

- ❖ Fees & liquidity
- ❖ Platform availability
- ❖ Distribution options offered by recordkeeper
- ❖ Participant confusion, investment not used correctly



Governance

Program Governance



Good governance practices

Under common law, a fiduciary is not judged by the resulting decisions, but rather the **process** undertaken to reach such decisions

Procedures	Due diligence	Document
<ul style="list-style-type: none">▪ Adopt and follow an investment policy statement▪ Establish an effective board▪ Establish periodic cycle of meetings<ul style="list-style-type: none">▪ Require preparation, attendance, open dialogue	<ul style="list-style-type: none">▪ Prepare for and attend board meetings▪ Be familiar with practices at similar funds but tailor decisions▪ Do not take your consultant at face value — ask questions!	<ul style="list-style-type: none">▪ Maintain meeting minutes and retain necessary documentation

Investment policy statement

Clearly defines responsibilities and procedures for selecting, evaluating, and monitoring investments and external service providers

- ✓ States Purpose
- ✓ Establishes responsibilities of Board and the Department
- ✓ Defines duties of service providers
- ✓ Sets investment objectives
- ✓ Determines criteria for selection
- ✓ Describes investment line-up
- ✓ Addresses investment guidelines
- ✓ Identifies benchmarks

Purpose:

**Empower our
clients to meet their
investment
objectives**

Vision

Be a trusted partner to our clients through effective investment programs

Mission

Provide independent and thoughtful investment guidance

Why Marquette?

- ✓ Our people
- ✓ Independent expertise
- ✓ Focused client service
- ✓ Careful research

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