



# **Alternative Investments for Retirement**

Monday, April 26, 2010

06:30 AM - 07:45 AM

## **Moderator**

**Sanjay Yodh**, Managing Director, Security Global Investors

## **Speakers**

**Hal Bjornson**, Head of Investment Services Group, J.P. Morgan

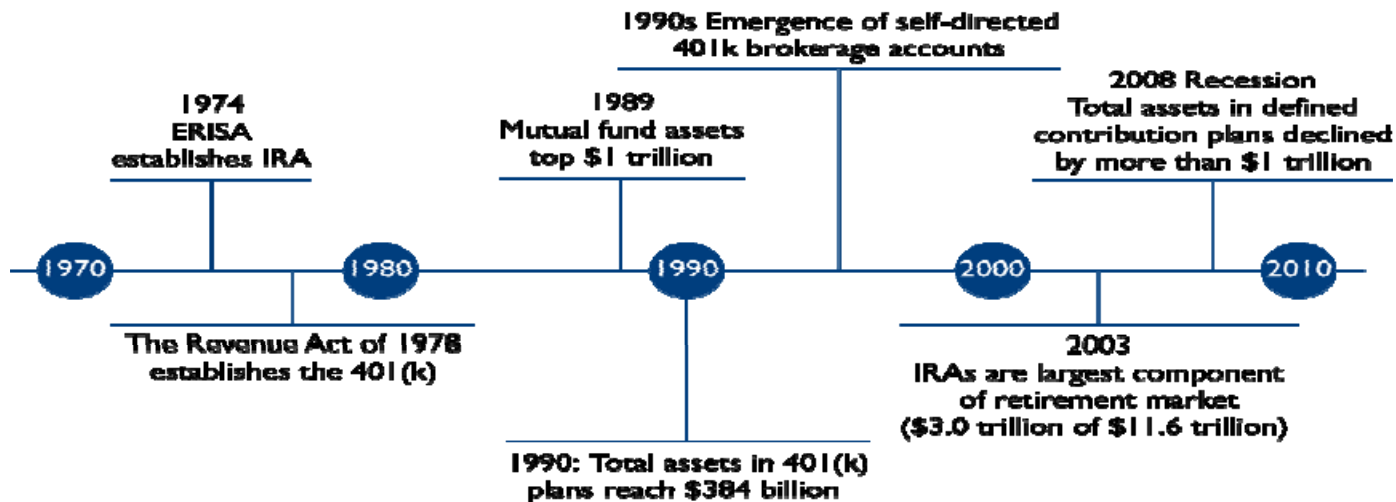
**Charles Ruffel**, Managing Partner, Kudu Advisors LLC

**Victor Zhang**, Managing Director, Head of Investments, Wilshire Funds  
Management, Wilshire Associates Incorporated

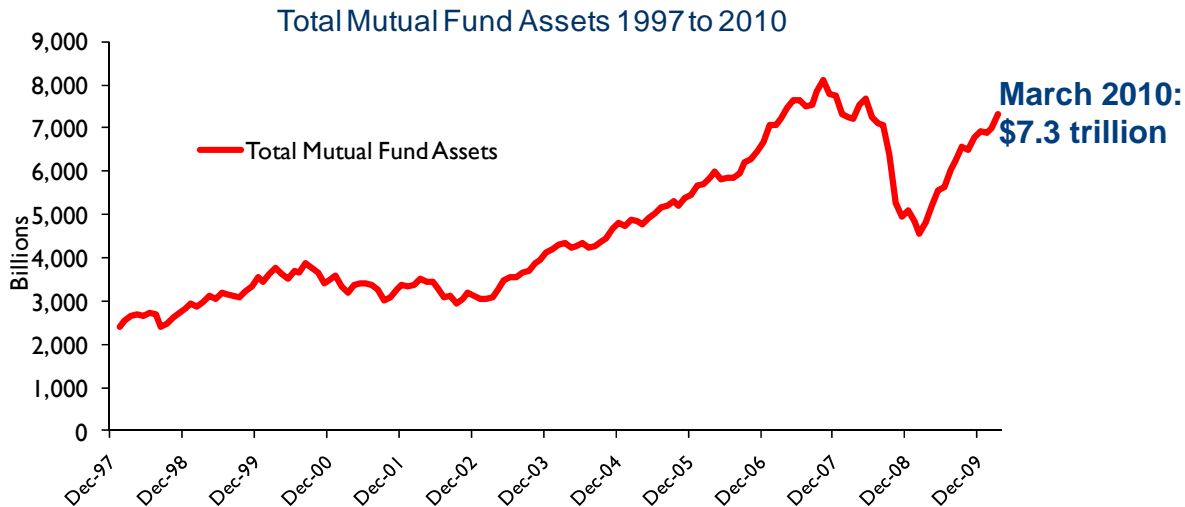
## **Sanjay Yodh's slides**



# A look at the changing face of retirement



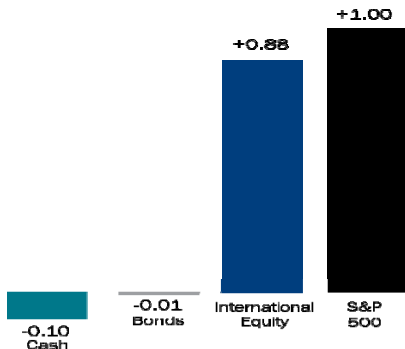
# Growth of mutual fund market & alternative mutual funds



Alternative mutual fund market share has grown from \$4,035,751,555 in 1997 to \$63 trillion in 2010

# What is the role for alternatives?

Historical correlation of various asset classes vs. S&P 500, 1999–2009



Monthly correlations of equity style boxes to S&P 500, 1999–2009

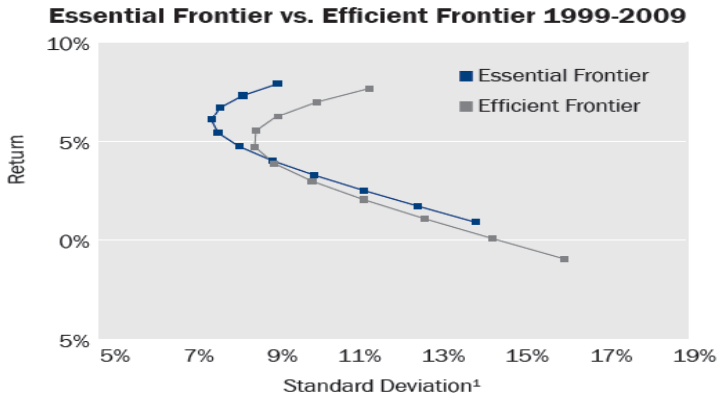
	Value	Blend	Growth
Large	.95	1	.95
Medium	.87	.91	.85
Small	.81	.80	.76

- 1999-2009 Annualized Return of the S&P 500 is -.95% v. Hedge Funds' 6.5%
- All things being equal 4 uncorrelated asset give you a greater reduction in risk than an infinite number of .5 correlated assets



# Essential Frontier<sup>TM</sup> vs. Efficient Frontier

(December 1999–December 2009)



	Efficient Frontier 1999-2009	Essential Frontier 1999-2009	% Difference
Average Return	3.67	4.60	+25.49%
Average Standard Deviation	11.12	9.71	-12.75%

## Questions for panel

- Where are retirement accounts headed next?
- Given recent market events, are traditional asset types enough to meet retiree goals?
- Where might alternative investments fit into retirement accounts?  
Through which type of vehicle?

## **Hal Bjornson's slides**



# J.P. Morgan Retirement Plan Services

- More than 1,060 employees
  - Kansas City
  - Denver
  - Chicago
  - New York
- Nearly 200 defined contribution (DC) institutional clients
  - More than \$107 billion in assets under administration
  - Nearly 1.7 million plan-level participants
- 31 defined benefit (DB) clients
  - Comprehensive retirement plan administration services
  - More than 300,000 participants for DB administration
- 14 Total Retirement Solutions<sup>SM</sup> (TRS) clients

# Investment choice aligned to participant behavior



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Seeking choice beyond core fund  
Use self-directed brokerage or mutual  
fund window

Allocate assets using core options

Not confident in ability to pick funds  
Use asset allocation strategy choices

Active Investors

Doers

Delegators

# Customized client solution

## Utilizing a 3 tier menu approach

Core "Doers"							
Stable Value/ Money	Fixed Income	Large Cap Value	Large Cap Core	Large Cap Growth	Mid Cap	Small Cap	Global/ International
Asset Allocation "Delegators"							
Balanced/Lifestyle/Lifecycle				Managed Accounts			
Specialty "Sophisticates"							
Brokerage			Other			Company Stock	



## Investment Lineup Trends

- QDIA -- monitoring these vehicles
- Retirement income
- Number of plan investment option
- Industry offering Collective Funds
- Increased interest
  - TIPS
  - Extended asset classes
  - Custom Target Date Fund usage

# Benefits

- Institutional pricing
- Institutional product access
- Inflation hedge
- Diversification

# Considerations

- Participant communications
- Participant education
- Due diligence

## Plan sponsor usage

- Typically employed by plans with assets of \$500 million plus
- Limited for mid size plans
- Custom asset allocation
- Stand alone with limits
- Brokerage window
- Which ones are offered?
  - Real Estate
  - Commodities
  - TIPS
  - Private Equity
  - Multi Asset Portfolio

# Victor Zhang's slides



# Wilshire Associates: Institutional Pedigree



A global financial services firm serving institutional investors for more than 30 years, Wilshire Associates serves its clients with offices in the U.S., Europe, and the Asia Pacific

- Founded in 1972 by the current chairman and CEO, Dennis Tito
- Approximately 350 employees with headquarters in Santa Monica, CA
  - Other locations: Denver, Chicago, Pittsburgh, New York, London, Singapore, Canberra and Tokyo (Wilshire Australia Pty Ltd), Amsterdam (Wilshire Associates Europe BV)

# Wilshire Associates: Institutional Pedigree (cont.)

- A pioneering tradition in research and quantitative analysis
  - Created the first asset/liability model for pension plans in the 1970's
  - Developed the first comprehensive U.S. stock index, the Wilshire 5000 Index<sup>SM</sup>
  - Wilshire risk management tools are used by many of the leading money managers in the U.S.
- A leader in the institutional market
  - Consult to institutions with assets of approximately \$500 billion
  - Serve in excess of 600 organizations in over 20 countries, with combined assets exceeding \$5 trillion\*
- Owned 100% by active key employees and fully independent

\* Assets are as of December 31, 2008, based on published data in the December 28, 2009 issue of *Pension & Investments*

*As an independently managed business unit of Wilshire Associates, Wilshire Funds Management was established in 1998 to create innovative investment programs designed for individual investors that combine the risk management techniques in our software tools with the best-in-class asset allocation and manager research offered to our Consulting clients. We currently manage approximately 25 multi-manager, multi-asset class investment programs representing over \$50 billion in assets as of December 31, 2009.*

Wilshire's competencies include **manager research**, **asset allocation** and **portfolio construction**:

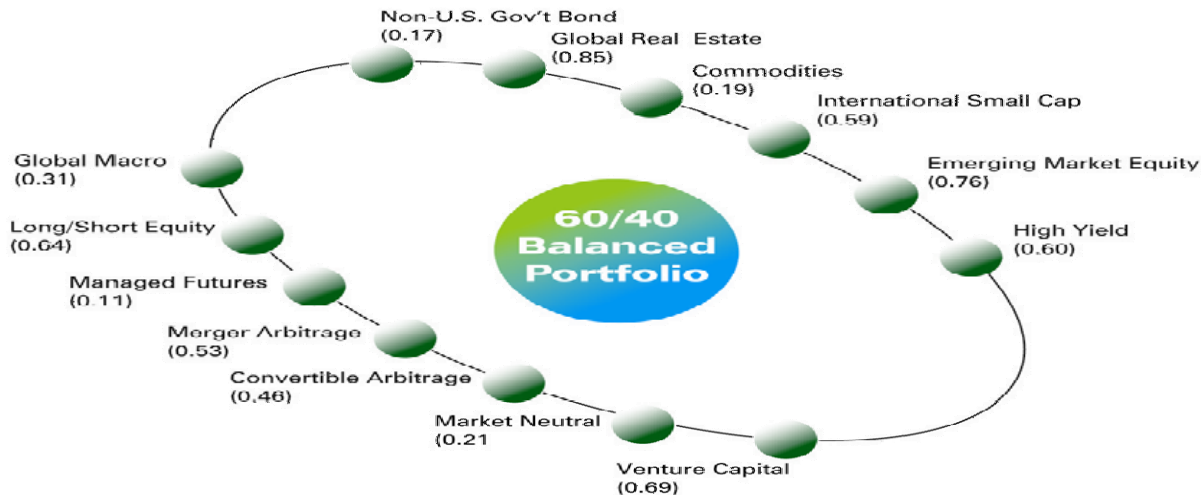
- Manager research outsourcing and due diligence support
  - *Centralized manager research group actively covers approximately 3,000 institutional investment products and mutual funds*
- Customized multi-manager investment solutions, including single asset class multi-manager, target risk, target date, and hedge fund-of-fund investments
- Discretionary managed accounts, retirement income portfolios, depletion portfolios



## Investment rationale for alternatives

- Enhance portfolio diversification
  - Generate uncorrelated source of returns
  - Provide downside protection
- Broaden the investment opportunity set
  - Incorporate hedge fund like trading strategies, such as shorting, arbitrage, and leverage
  - Access top investment talent
- Separate alpha from beta
  - Integrate strategies that focus on generating returns through exploiting market inefficiencies
- Express investment views
  - Capture unique market knowledge and intelligence
  - Tactical asset allocation

# Alternative investments – added diversification



**Numbers in ( ) represent historical correlations** of each asset class to the 60/40 Balanced Portfolio\*

Source: Wilshire Compass, PERTRAC. Long-term correlations based on monthly returns for each asset class over the longest period of time for which data are available, from 10/31/1979 to 10/31/2008.

\*60/40 Balanced Portfolio is comprised of 60 percent S&P 500 Index, 40 percent Lehman Aggregate Bond Index



# Institutional Requirements

- Fiduciary
  - Headline risk
  - Transparency
  - Liquidity
  - Equitable fees and incentives
- Investment
  - Solid track record
  - Identifiable investment philosophy
  - Institutional quality investment process
  - Manage risk over returns
- Operational
  - Stable investment organization and management team
  - Institutional caliber operations and infrastructure
  - Dedicated client service

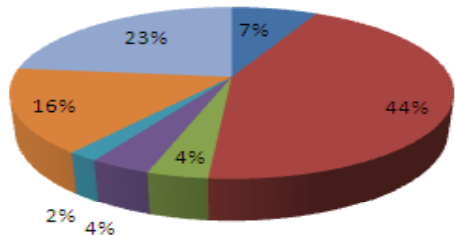
## Alternative Mutual Fund vs. Hedge Fund

	<b>Mutual Fund</b>	<b>Hedge Fund</b>
<b>Liquidity</b>	Daily	Varies - Lockups Common
<b>Fees</b>	1-2%	2% + Performance Fee
<b>Transparency</b>	High	Low to None
<b>Regulation</b>	High	Low or None
<b>Minimum Investment</b>	Low	Often High
<b>Accredited Investor</b>	No	Yes
<b>Leverage</b>	Low	Unrestricted

# Universe of alternative mutual funds

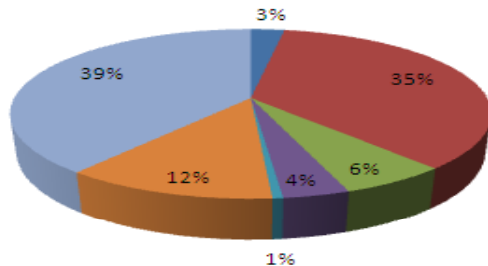
## Types of Hedge Fund Mutual Funds

■ Bear Market ■ Long-Short ■ Arbitrage ■ Commodity  
■ Distressed ■ Market Neutral ■ Multi-Strategy



## Percentage of Assets in Each Category

■ Bear Market ■ Long-Short ■ Arbitrage ■ Commodity  
■ Distressed ■ Market Neutral ■ Multi-Strategy



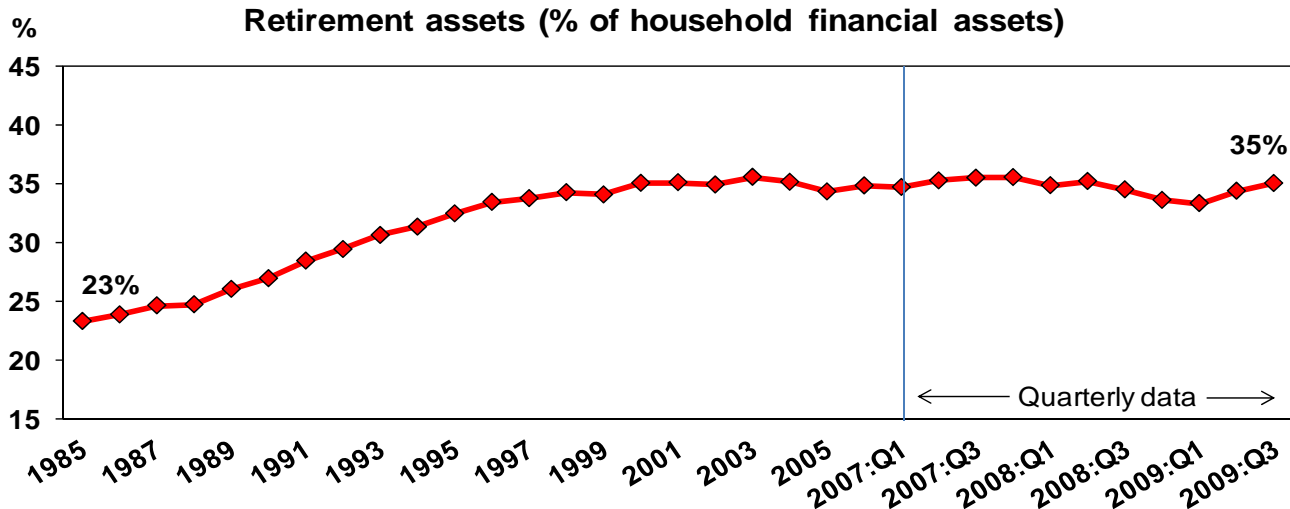
Based on Morningstar Direct Universe at March 31, 2010.



## **Additional slides**



# Relying more on private savings for retirement

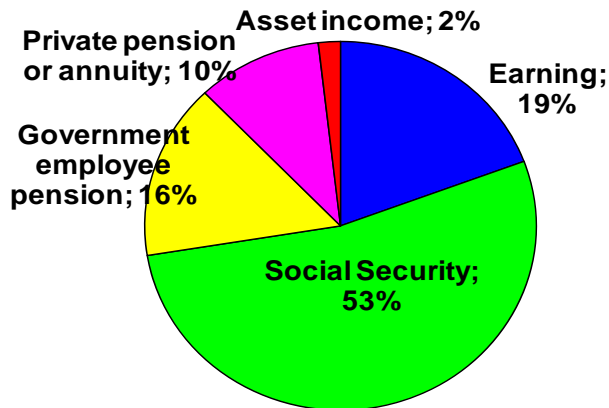


*Note:* Retirement assets include IRAs, annuities, defined contribution plans, private defined benefit plans, state and local pension plans, and Federal pension plans.  
*Source:* Investment Company Institute.

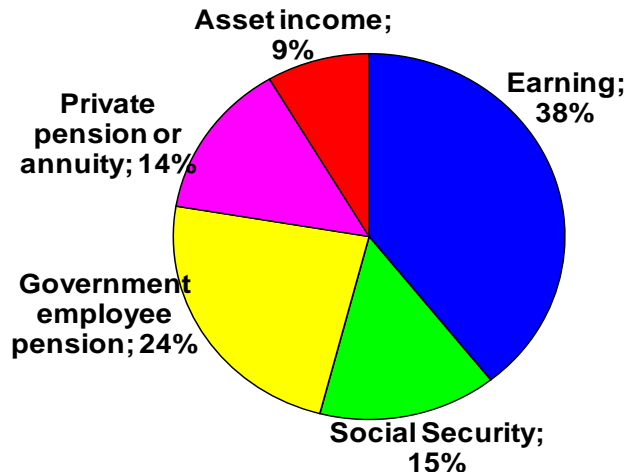
# Income resources of people 65 and older

*Social Security is the bedrock of retirement income for low-income earners*

Bottom quintile



Top quintile



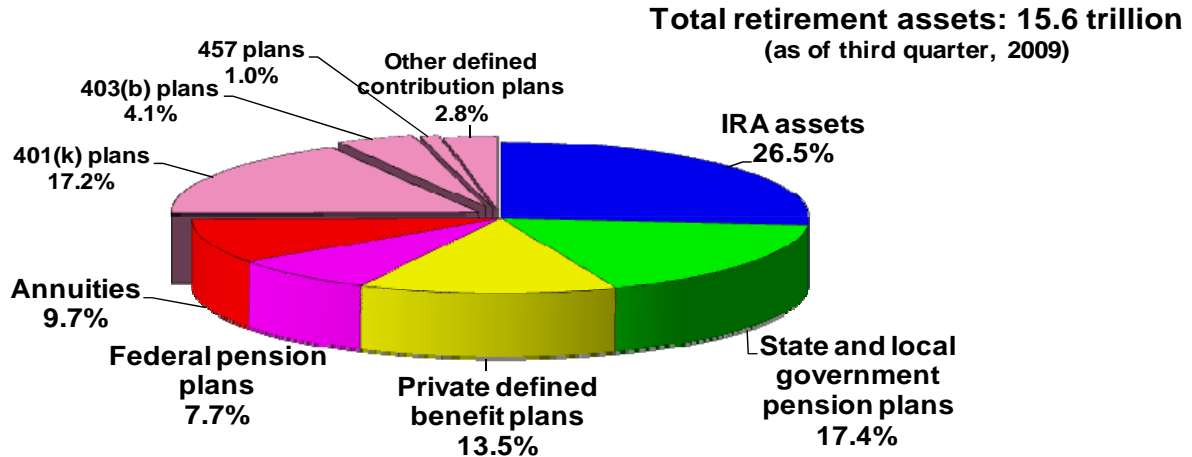
Sources: Allianz Global Investors and Social Security Administration, Income of the Population 55 or Older in 2006, February 2009.

# The U.S. retirement market by asset types



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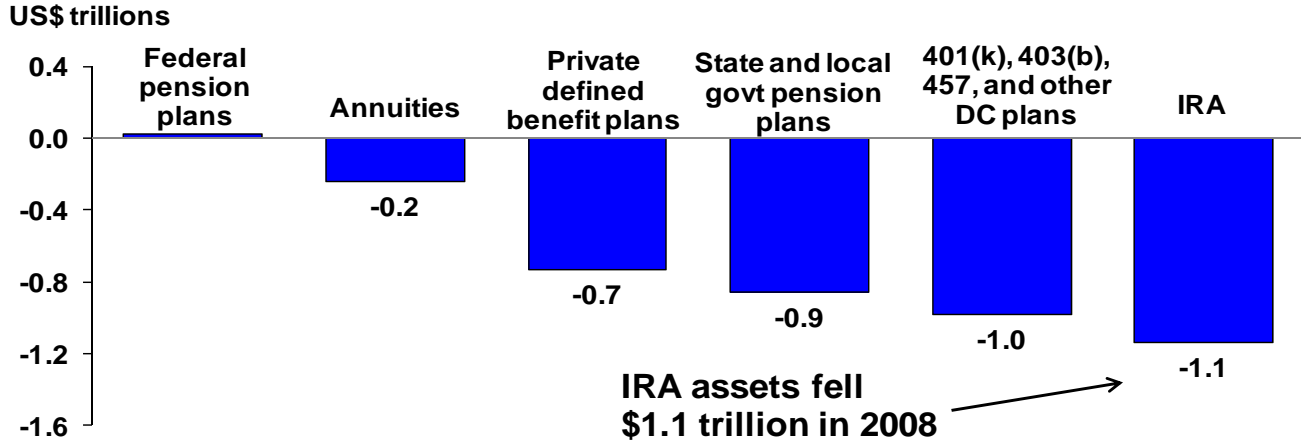
*Predominated by IRA and employer-sponsored pension plans*



Source: Investment Company Institute.

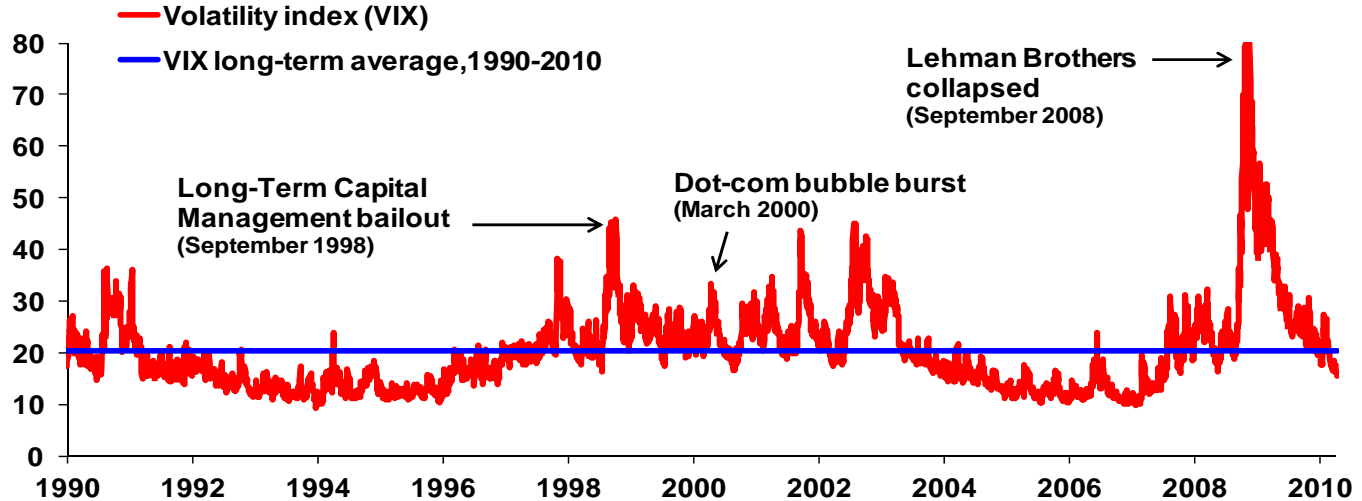
# Massive losses in retirement savings in the 2008 market crash

Change in retirement assets in 2008



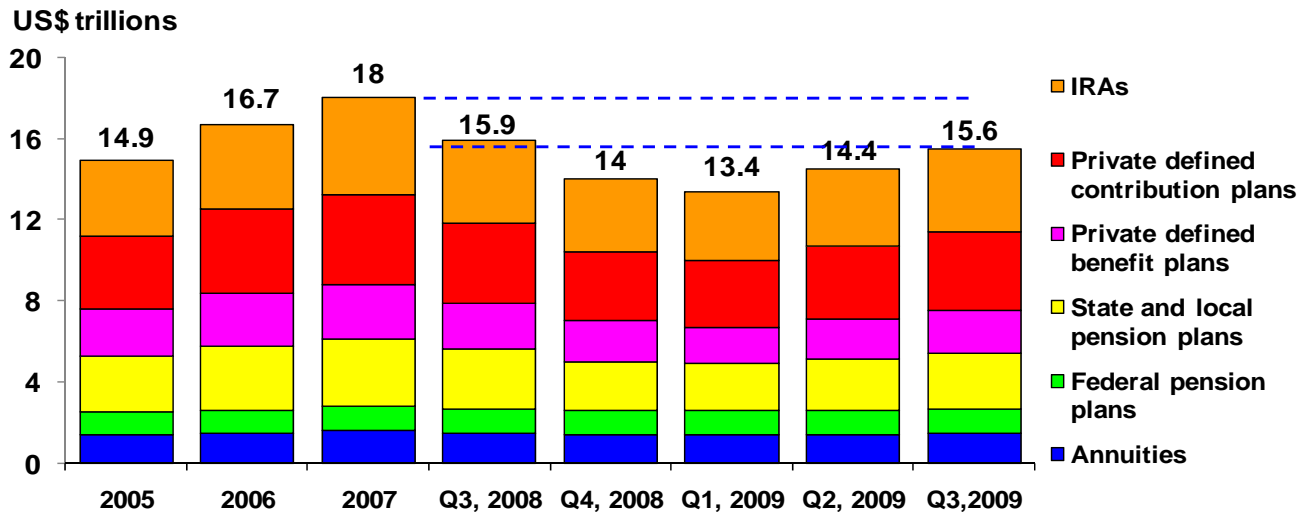
Sources: U.S. Census Bureau and Investment Company Institute.

# Unprecedented rise in market volatility during the 2008 market crash



Note: VIX is the Chicago Board Options Exchange's volatility index.  
Source: DataStream.

# U.S. retirement assets still below 2007 peak



Source: Investment Company Institute.

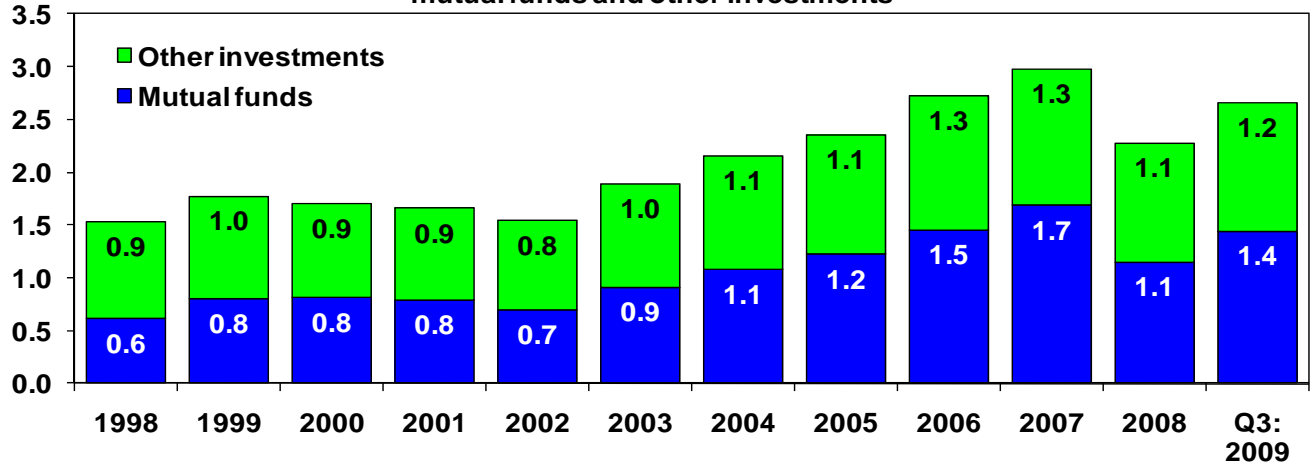
# \$ 1.4 trillion 401(k) plans were managed by mutual funds (as of the end of third quarter, 2009)



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US\$ trillions

401(k) plan asset allocation in mutual funds and other investments

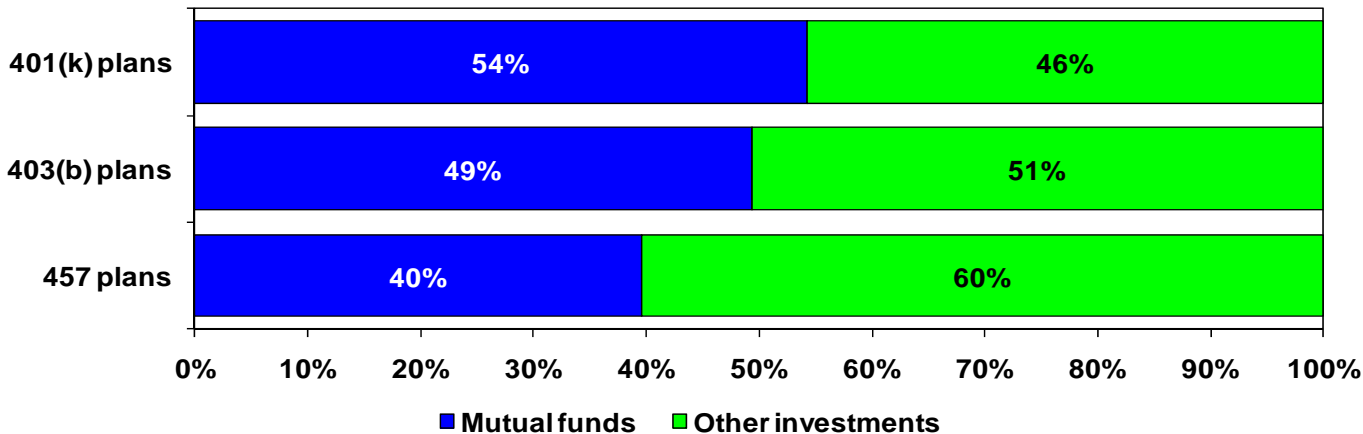


Source: Investment Company Institute.



# Mutual funds managed about half of defined contribution plan assets

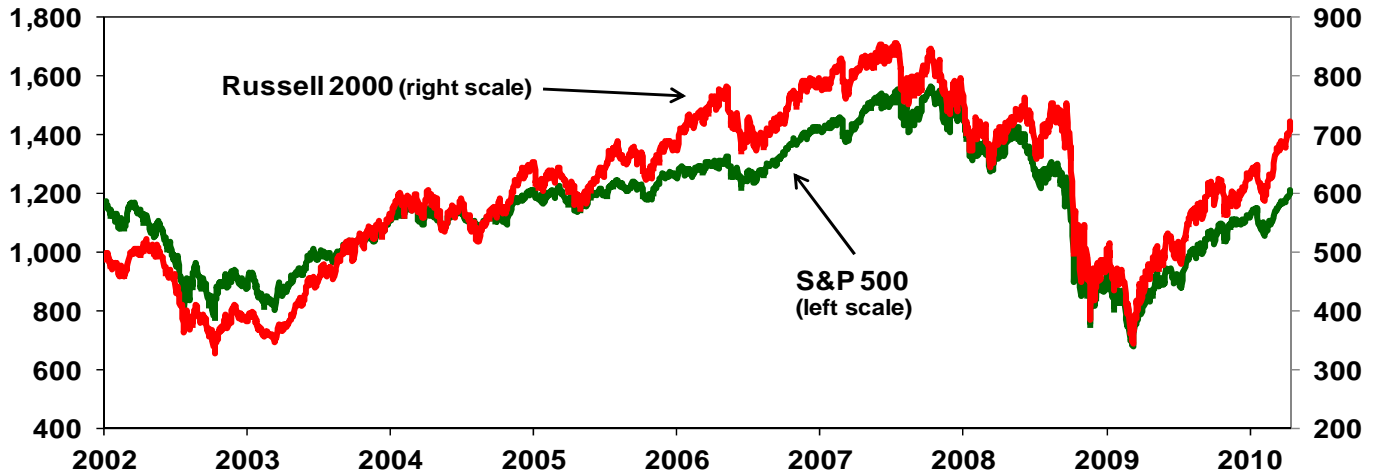
Defined contribution plan asset allocation  
between mutual funds and other investments



Source: Investment Company Institute.

# Domestic stock market indexes

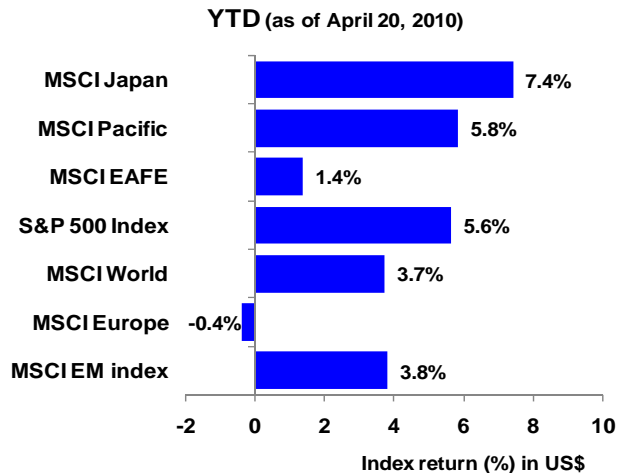
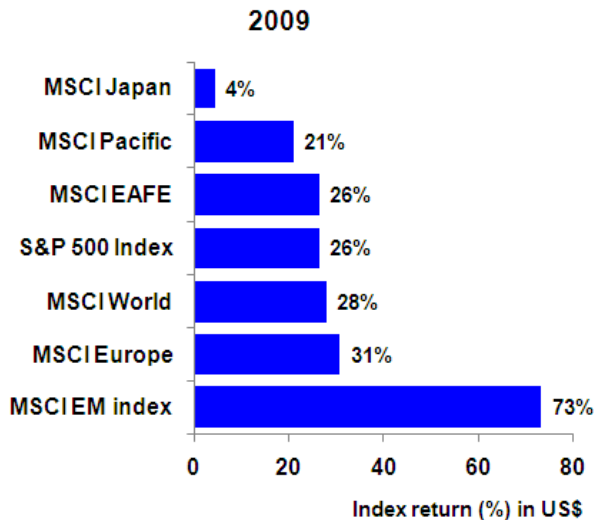
*Highly correlated stock markets*



Source: DataStream.

# 2009 and 2010 global equity markets

*Emerging markets were the clear winners in 2009*

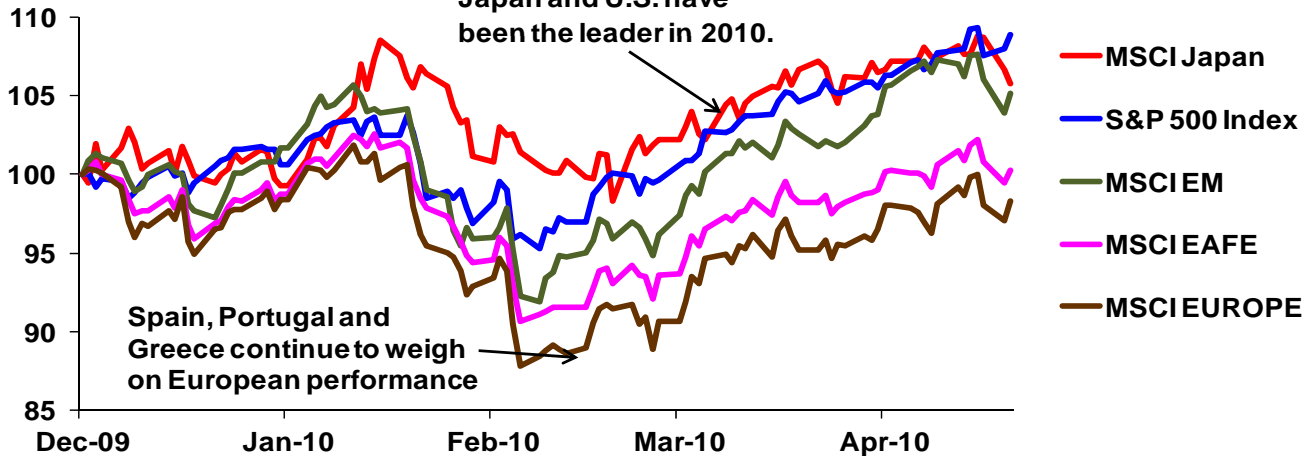


Source: DataStream.

# 2010 global equity markets

*Japan and U.S. lead; Europe lags in 2010*

December 2009 = 100



Source: DataStream.