MEKETA INVESTMENT GROUP

CalSavers

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Target Date Funds: A Refresher

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1. Introduction

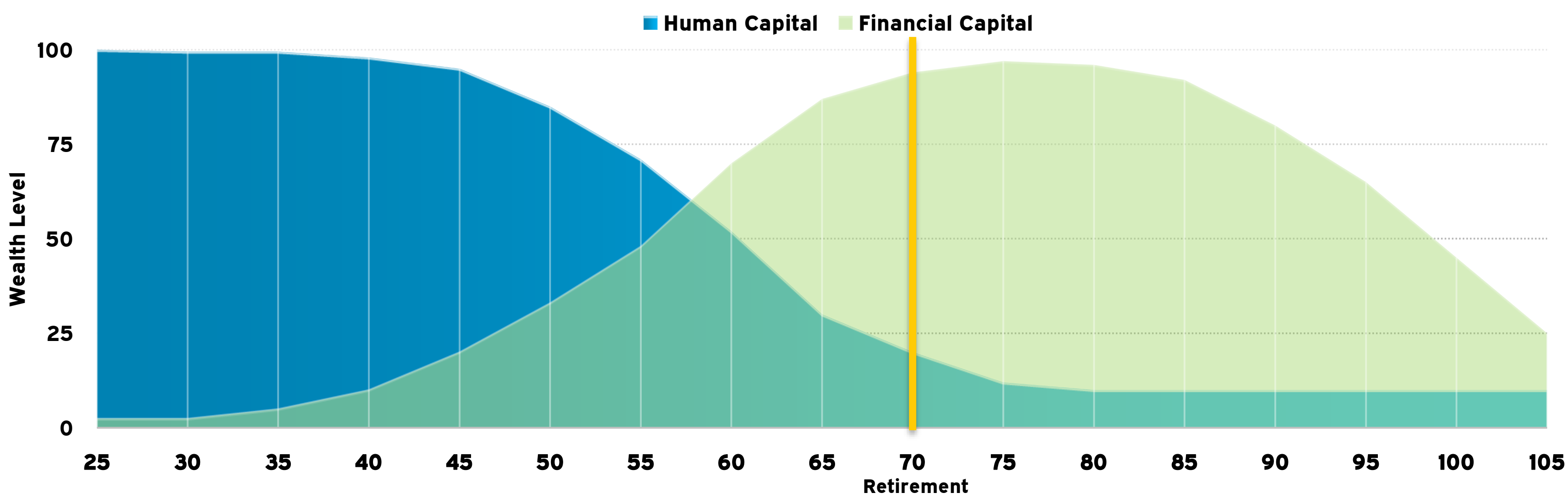
- Typically, a suite of Target Date Funds ("TDFs") are used as the default option within a defined contribution plan.
- TDFs are usually offered in five-year increments that correspond to particular retirement dates.
  - For example, a 2025 target date fund is designed for those who are seeking to retire (or begin withdrawing money) in or near the year 2025.
  - Because a 2025 vintage is closer to retirement relative to a 2055 vintage, the former will be more conservatively invested than the latter.
- The primary goal of TDFs is to provide investors with a diversified portfolio mix consisting primarily of equity and fixed income instruments as a single "option". This "one stop shopping" for their retirement savings needs is intended to increase the likelihood that a participant achieves their retirement goals.
- TDFs are designed to "glide" from higher risk to lower risk over time. Asset allocation changes over time as the investor approaches retirement age, without the participant needing to implement these changes manually.
- Within the CalSavers Program, State Streets Suite of TDFs was identified as the default option for all participants according to each individual's retirement time horizon. Recall that all contributions accumulated in the first 30 days by participants will reside in the Capital Preservation first (stage 1) before being automatically moved to the TDF suite (stage 2), unless otherwise directed by the account holder.
  - In addition to the defaulted options described above, the CalSavers Program offers participants 3 additional options to which they can direct their savings to: Core Bond, Global Equity and an ESG option. The limited number of options being offered at this time is in keeping with its belief that simplicity is the key to the Program's success.
- To date, roughly 95% of assets in the CalSavers Program reside in the Target Date option[1].
- The following presentation offers a refresher of target date funds–its history,its mechanics and specific characteristics of the State Street suite of product.

[1] As of May 31, 2021.

2. History

- Target Date Funds are based on the concept of life cycle investing, which is not new or recent.
  - One's asset allocation should become more conservative during the transition from the accumulation (working/saving) phase to the retirement (drawdown/decumulation) phase.
- With life cycle investing, total wealth is equal to the sum of the present value of human capital (income from working) and financial capital (accumulated savings in stocks, bonds, and the like).
- The crossover point, where financial capital begins to outweigh human capital, is where investors would begin to be more sensitive to and more likely impacted by equity market corrections.

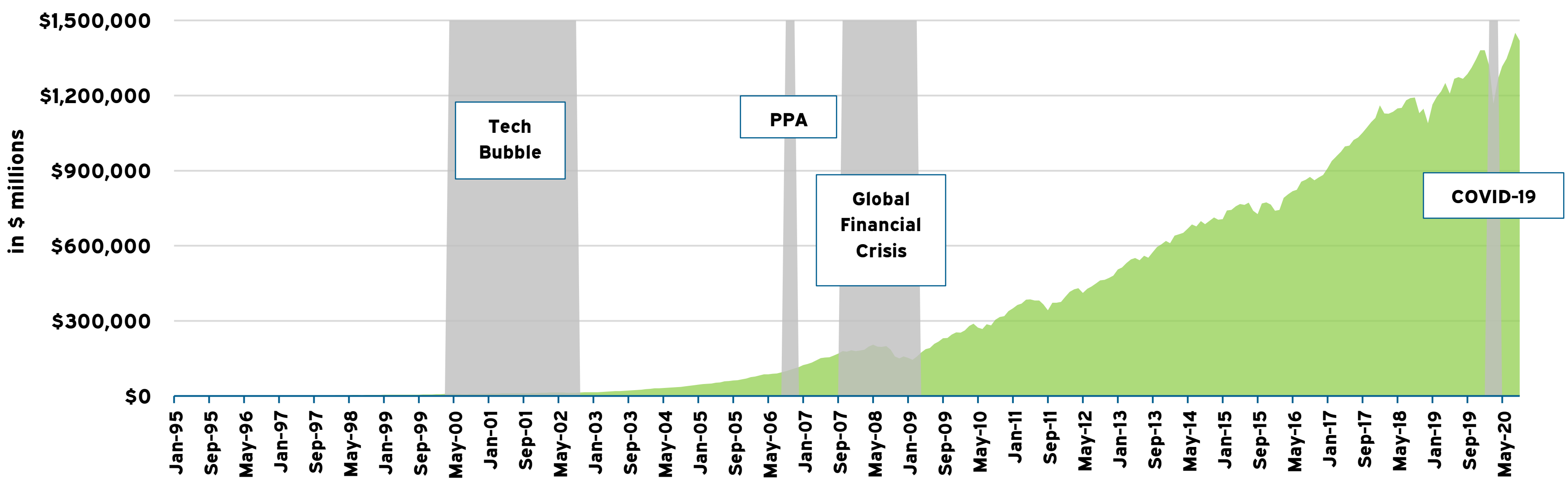
Human Capital and Financial Capital (For Illustration Only)



2. History (Continued)

- Wells Fargo Investment Advisors (later Barclays Global Investors) introduced the first TDF in March 1994.
- After the tech bubble in the early 2000s, TDFs experienced notable growth as many individual investors began to seek more diversified portfolios in their retirement accounts.
- Another growth surge followed with the Pension Protection Act of 2006 ("PPA").
  - TDFs were designated as a qualified default investment alternative ("QDIA"), providing safe harbor protection to plan fiduciaries.
- Since the GFC, TDFs have become the most popular default investment option in defined contribution plans.

Historical TDF Asset Growth

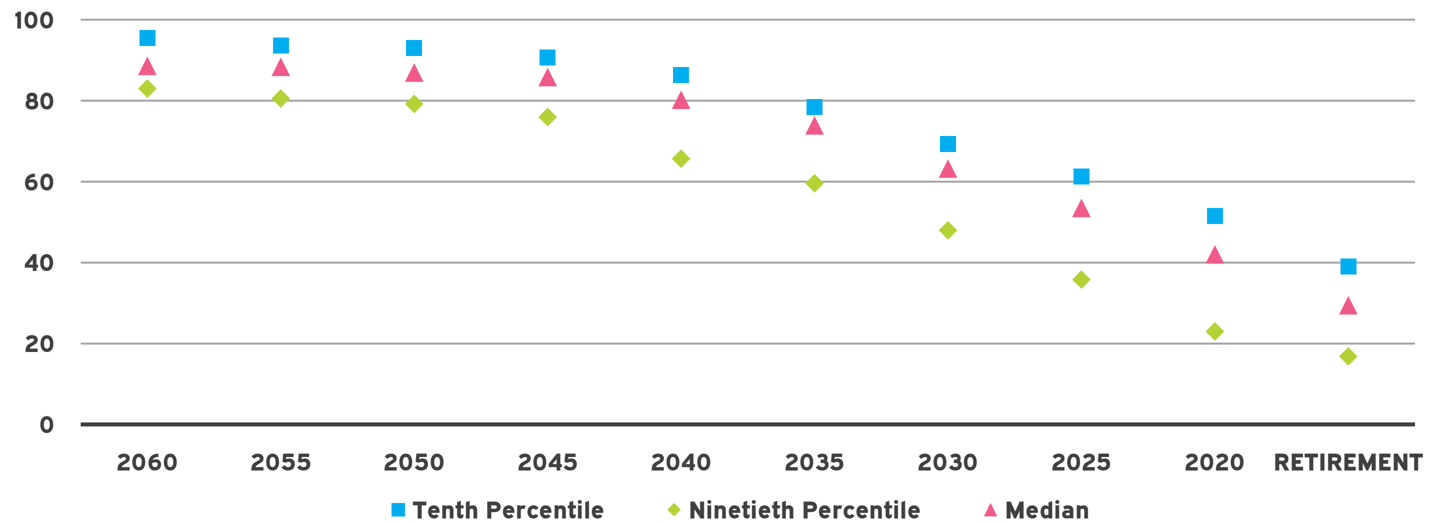


Source: Morningstar Inc. Fund size data pulled in December 2020. Reflects only open-ended mutual fund target date strategies (CITs excluded).

3. Features and Mechanics

- Asset allocation and the glidepath are critical components of TDF construction.
  - The glidepath refers to how the asset allocation of a given TDF is designed to change over time.
- Asset allocation across TDF providers varies considerably due to differences in investment philosophy/process.
- A quick way to assess the asset allocation scheme is to review the equity allocation across all vintages.
  - The chart below illustrates the range of equity exposure[1], which can be fairly wide in some vintages.

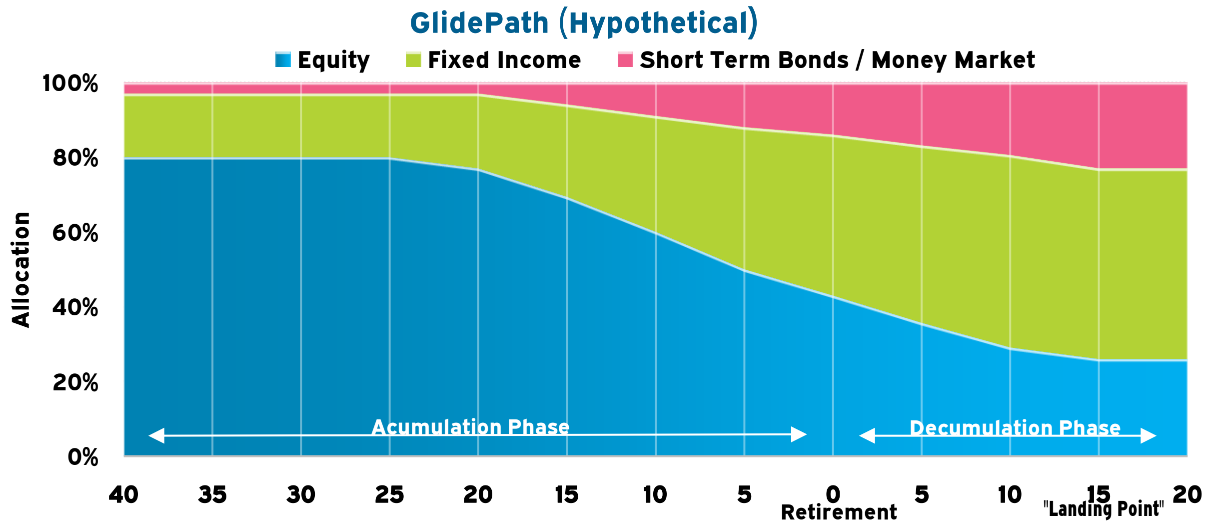
Equity Allocation % by Target Year



[1] Source: Morningstar, Inc. Latest data available through 5/31/20. Based on Target Date US Open-End Fund Categories.

3. Features and Mechanics (Continued)

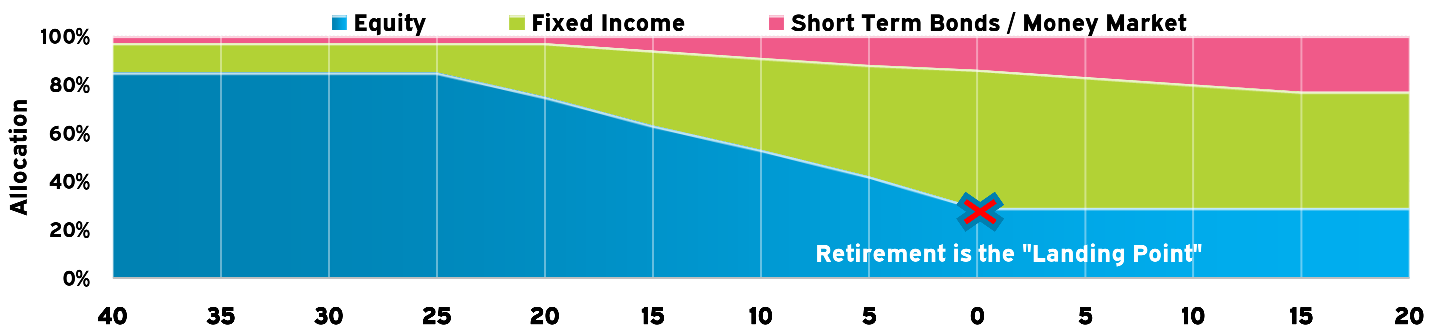
- Differences in asset mixes across competing TDFs are also the result of differing views on the capital markets and asset allocation.
  - Asset class exposures/weightings will differ.
  - Number of discrete funds utilized may differ.
- The glidepath outlines the asset allocation mix for each target date year and shows the path of how the asset allocation changes as one progresses towards retirement.
- A hypothetical glidepath is shown below.
  - Note the two distinct stages: Accumulation and Decumulation.
  - Moving left to right, the asset allocation becomes more conservative (i.e., has less equity exposure) as one gets closer to retirement.
  - Asset allocations rebalance, or rolls-down the glidepath.



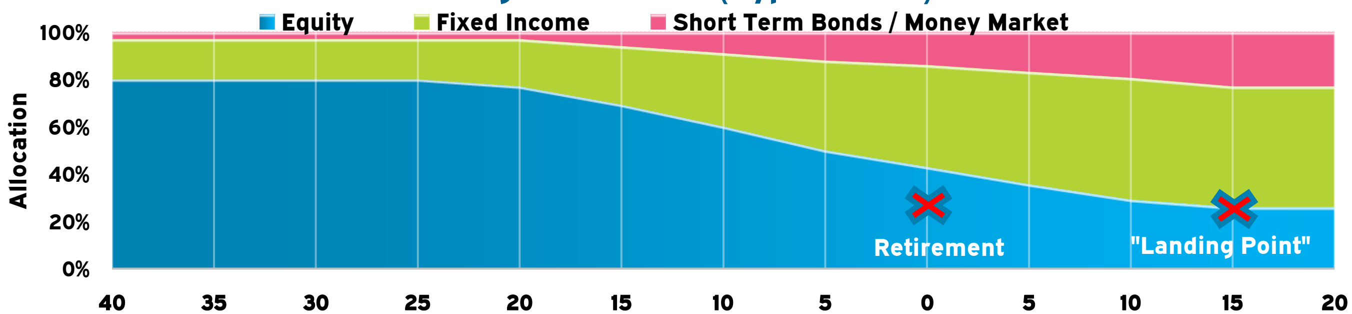
3. Features and Mechanics (Continued)

- The "Landing Point" is the point where the asset allocation is most conservative
- There are two main approaches to glidepath construction.
  - "**To**" retirement glidepath reaches its most conservative equity allocation (the landing point) at retirement.
  - "**Through**" retirement glidepath maintains a meaningful equity allocation during retirement to mitigate longevity risk. Typically, the landing point is not reached until well after retirement.
  - *CalSavers* uses a ***"through"*** glidepath.

"To" GlidePath (Hypothetical)



"Through" GlidePath (Hypothetical)



3. Features and Mechanics (Continued)

- Once a fund reaches its landing point, it is often merged into the Retirement Income focused fund in the suite of TDFs.
  - This is the most conservative option in a suite of TDFs, with a static asset allocation.
- TDFs are commonly composed exclusively of underlying funds that are proprietary to the TDF manager.
- In terms of investment vehicles types, there are three options:
  - Mutual Funds - most assets still reside in 1940 Act mutual funds. *CalSavers offers mutual funds to participants.*
  - Collective Investment Trusts ("CIT") - they have become more popular due to a growing demand of lower-fee options; CITs are generally less expensive relative to mutual funds because of:
    - Lower operating cost/marketing fees,
    - No SEC filing requirements, and
    - Potential to negotiate fees.
  - Customized – the plan sponsor and record-keeper design a customized Target Date program.
- Some mutual fund companies charge a fee in addition to the underlying mutual funds' fees.
- The average TDF fee is 0.52% on an asset-weighted basis.[1] *CalSavers' average TDF fee is 0.89%.*

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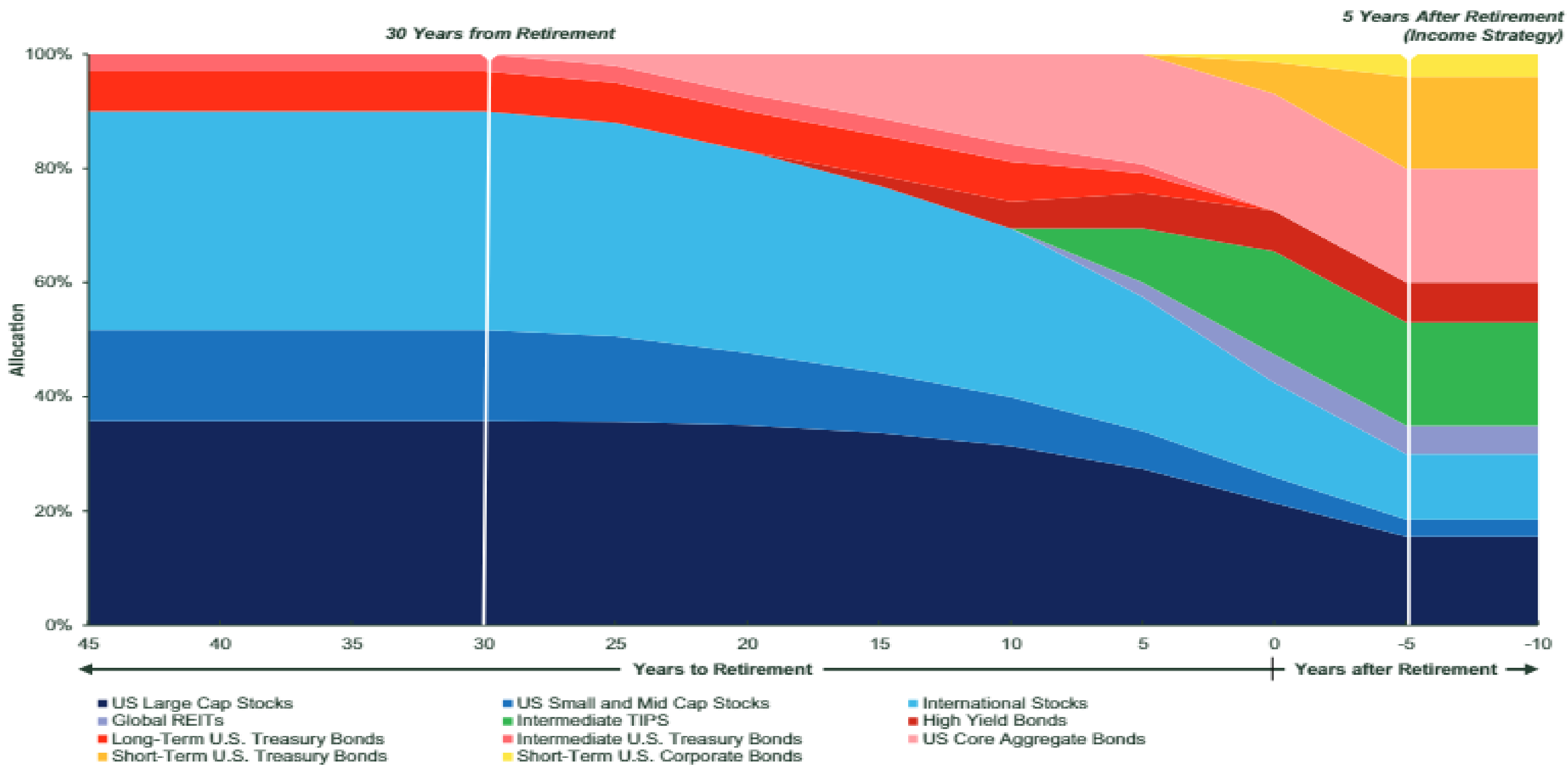
[1] Morningstar, "2021 Target-Date Fund Landscape". This average includes both active and passive funds.

4. State Street Target Date Funds

- The CalSavers program uses the State Street suite of TDFs.
  - State Street TDFs are constructed using eleven underlying State Street index funds. The allocation of each TDF is reviewed annually.
  - TDFs seek an overweight to small and mid-cap US equities relative to market weights in the early years (seek growth) and an underweight to these as the participant approaches retirement years (seek wealth).
  - TDFs are constructed to include broad exposure to fixed income sectors helping to provide greater diversification
  - REIT allocation in the later years helps balance inflation-adjusted liabilities of pre-retirees and retirees
  - State Street suite of TDFs uses a “through” glidepath with a landing point 5 years after participants’ expected retirement date.

State Street TDFs GlidePath[1]



[1] Source: https://www.ssga.com/us/en/institutional/ic/resources/doc-viewer#ssckx&prospectus

State Street Target Date Funds: Glidepath Changes

2019 – Start of the Program, No changes

2020 – Effective at the close of business March 27, 2020

While total equity exposure remained unchanged, State Street increased the International Equity exposure (MSCI ACWI ex US IMI Index) and reduced the US Equity exposure across the glidepath. This change resulted in a target allocation to international equities that ranges from 42.5% of total equity for younger participants to 40% of total equity for older participants. Prior allocations to International Equities ranged from 38.4% of total equity for younger participants to 36% of total equity for older participants.

Potential benefits: A larger exposure to international equities increases global diversification, while seeking to provide higher expected returns for participants[1].

Removed broad-based US TIPS exposure and reallocated primarily to Intermediate TIPS
Potential benefits: Intermediate TIPS seeks to provide a comparable long-term return expectation to Broad TIPS and lower expected risk, with the additional benefit of a higher historical correlation to the Consumer Price Index (published inflation)[1].

[1] Source: SSGA Long-Term Asset Class Forecast, September 30, 2019

State Street Target Date Funds: Glidepath Changes

2021 – Effective at the close of business April 1, 2021

Added an exposure to intermediate US Treasury bonds in the accumulation phase, funded from the existing long-term Treasury bond allocation. The overall allocation to US Treasury bonds or fixed income did not change as a result of this enhancement. The strategic mix within US government bonds now consists of **70% Long-term U.S. Treasury Bonds and 30% Intermediate U.S. Treasury Bonds**.

Potential Benefits: This change is expected to modestly improve expected returns while retaining key diversification benefits. In selecting these allocations, we sought to maximize efficiency while also considering tail-risk scenarios in which long Treasury bonds have historically added significant value. The change did not have any impact on the fund's Total Expense Ratio.

4. Conclusion

- Defined contribution plan participants face a challenge for which few are prepared.
- Successful asset allocation and manager selection are a daunting challenge for most individual investors, yet both are critical to ensure retirement readiness.
- Target date funds, though still evolving, represent an important improvement over the "do it yourself" approach to defined contribution investing.
- If properly selected and monitored, and with appropriate and regular participant education, TDFs should improve the financial well-being of most defined contribution plan investors.
- Target Date Funds remain an excellent default solution to the CalSavers Program. Growth of assets will continue to be driven by heavy inflows as more employers near their registration deadlines. To date, assets comprise 95% of the total Program but, more importantly, participant retention of the option is high with 90% sticking with the default option.

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