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BridgebaySM
Investment Consulting Services

Target-Date Funds: The Search for Transparency

Presented by:

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Salesforce.com, inc.

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Bridgebay Financial, Inc.





Pension Protection Act of 2006

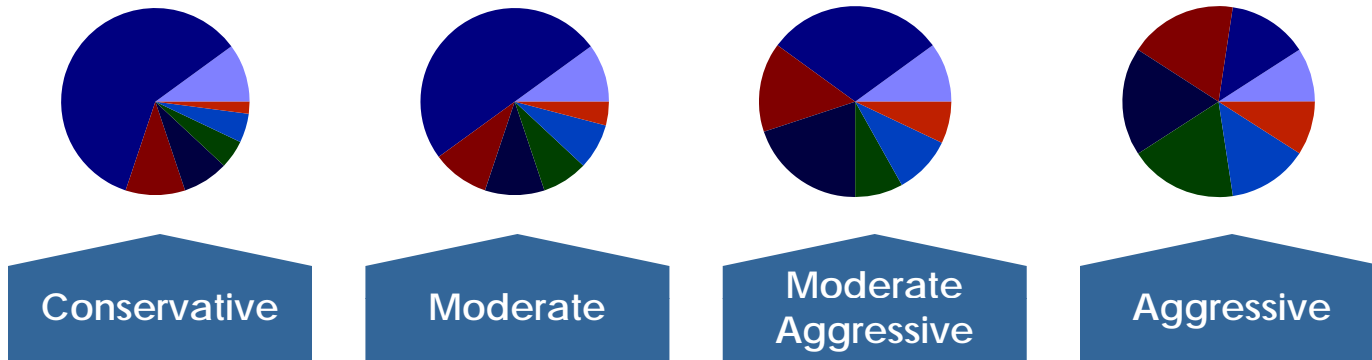
► **QDIA Eligible investment options:**

- Risk-based asset allocation
- Target date or age-based asset allocation
- Balanced Fund
- Professionally Managed Account

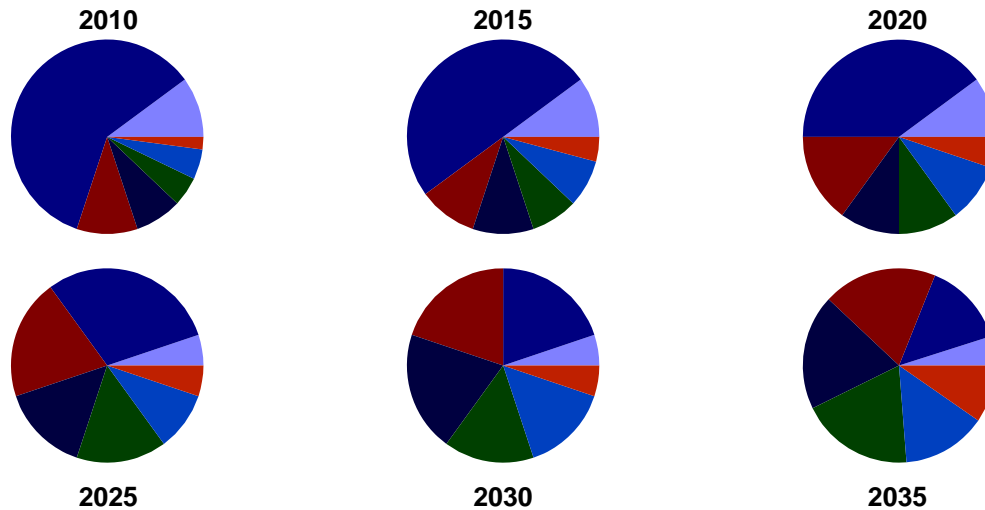




Risk Based Models



Target Date Models





▶ **Asset Allocation & Rebalancing Strategies**

- Replicates prudent, best practice
- Asset allocation transitions over investor's lifetime
- Aid transition from capital growth to capital preservation
- Shift from high weighting in stocks to fixed income



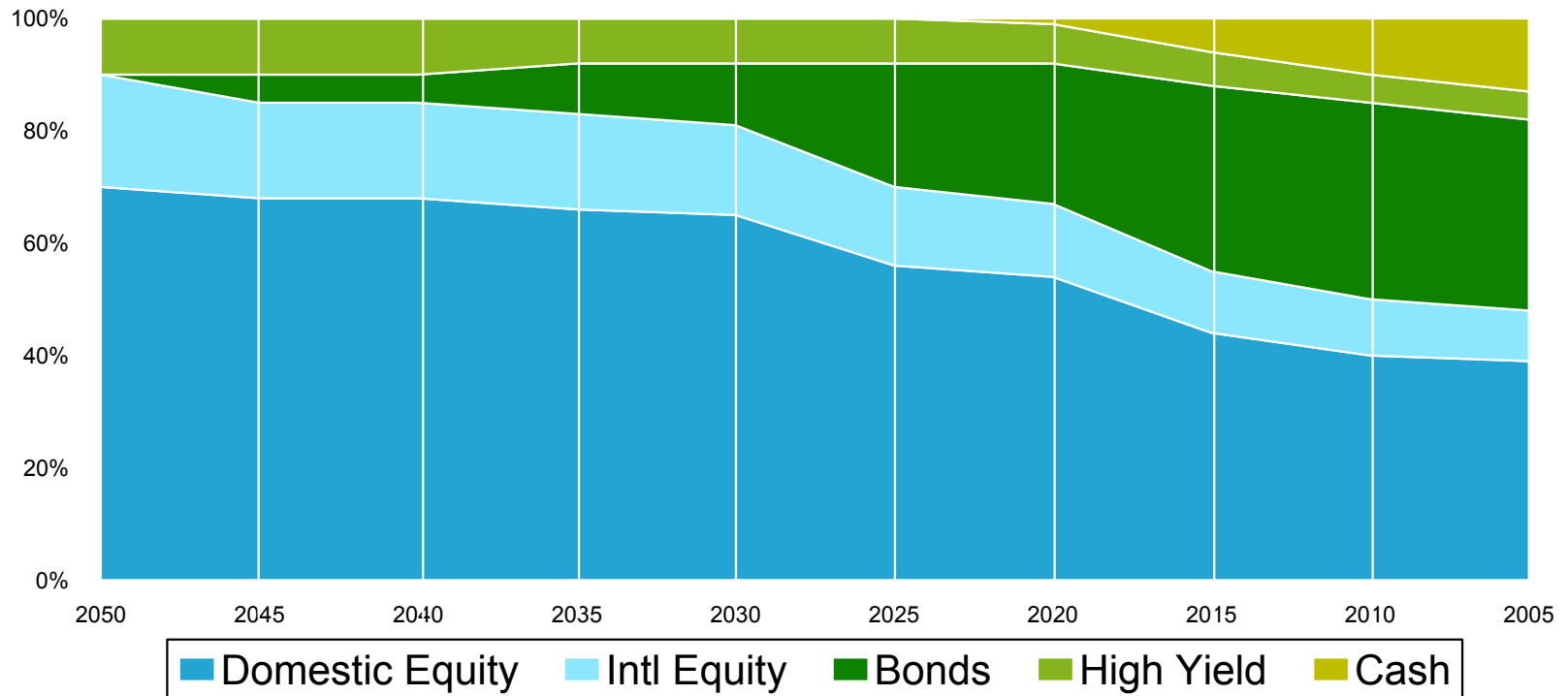
▶ **Glide path is change in asset allocation over time**

- Adjusts the return and risk characteristics over time
- 30-40 years from target date, glide path is weighted to higher return and higher risk (more stocks)
- As approaches target date (close to retirement) then lower risk and lower return (more bonds)



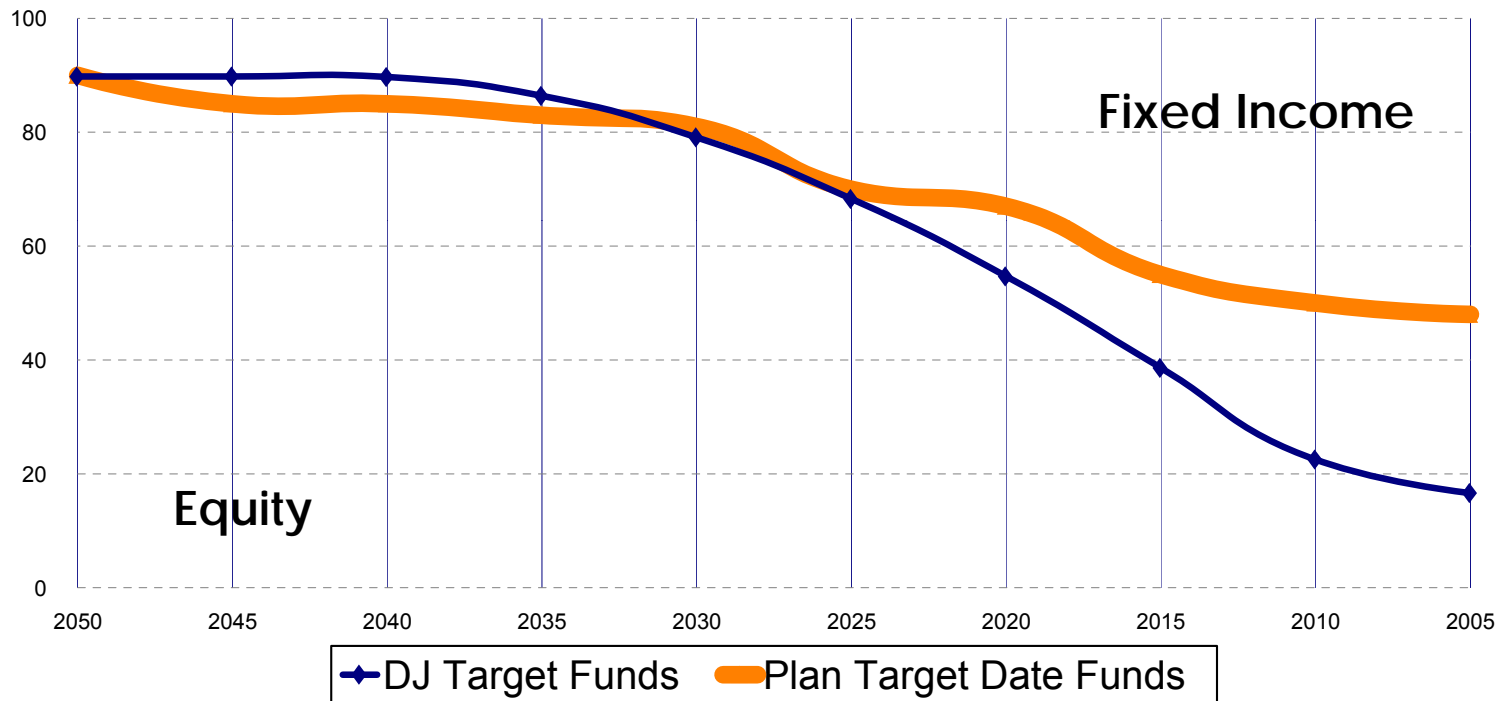


Target Date Glide Path





DJ Target Date vs Plan Target Date Glide Path





Best Performing 2010 Fund

Morningstar Ratings							
3 year	★★★★★						
5 Year	★★★★★						
10 year	★★★★						
Overall	★★★★★						
Performance							
1 Year Annualized	3.77						
3 Year Annualized	6.02						
5 Year Annualized	4.24						
10 Year Annualized	6.28						
Asset Allocation							
<table border="1"> <caption>Asset Allocation Data</caption> <thead> <tr> <th>Asset Class</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Bonds</td> <td>87.5%</td> </tr> <tr> <td>Cash</td> <td>12.5%</td> </tr> </tbody> </table>		Asset Class	Percentage	Bonds	87.5%	Cash	12.5%
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Bonds	87.5%						
Cash	12.5%						

Worst Performing 2010 Fund

Morningstar Ratings											
3 year	★										
5 Year	N/A										
10 year	N/A										
Overall	★										
Performance											
1 Year Annualized	-22.53										
3 Year Annualized	-6.43										
5 Year Annualized	N/A										
10 Year Annualized	N/A										
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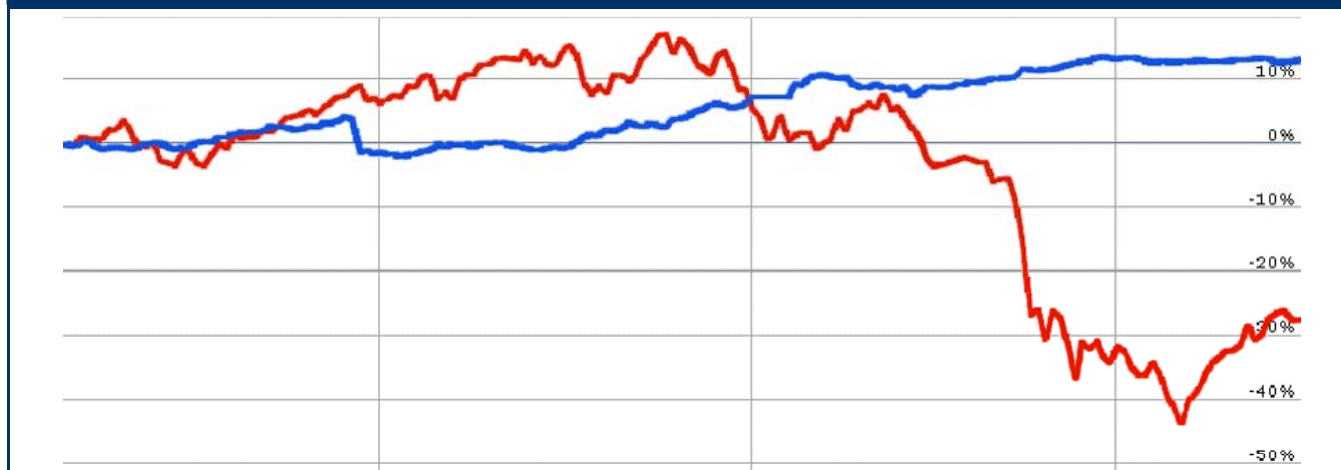
Best Performing 2010 Fund

Fees		
Expense Ratio		0.82
Risk Metrics - 3 Yr Rolling		
Beta	(Downside Protection)	0.06
Alpha	(High Value-Added)	2.74
Standard Deviation	(Low Volatility)	2.87

Worst Performing 2010 Fund

Fees		
Expense Ratio		1.60
Risk Metrics - 3 Yr Rolling		
Beta	(Downside Risk)	1.30
Alpha	(Poor Value-Added)	-4.04
Standard Deviation	(High Volatility)	16.68

Growth of \$10,000 in 3 Years



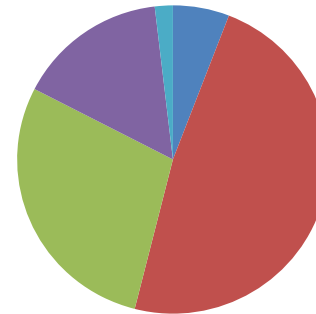
Best 2010 Fund		Worst 2010 Fund	
Percentage Gain/Loss	13%	Percentage Gain/Loss	-27%
Total Value	\$11,300	Total Value	\$7,268

Source Data: Morningstar, Inc.





Asset Allocation	(%)
Cash	5.9
U.S. Equity	48.1
Bonds	28.5
Foreign Equity	15.6
Other	1.9



- Cash
- U.S. Equity
- Bonds
- Foreign Equity
- Other

Morningstar Ratings

3 year	★★★
5 Year	★★★
10 year	★★★★
Overall	★★★★



Lipper Ratings	Ranking
1 Year	287 out of 1814
5 Year	109 out of 931
10 Year	133 out of 564

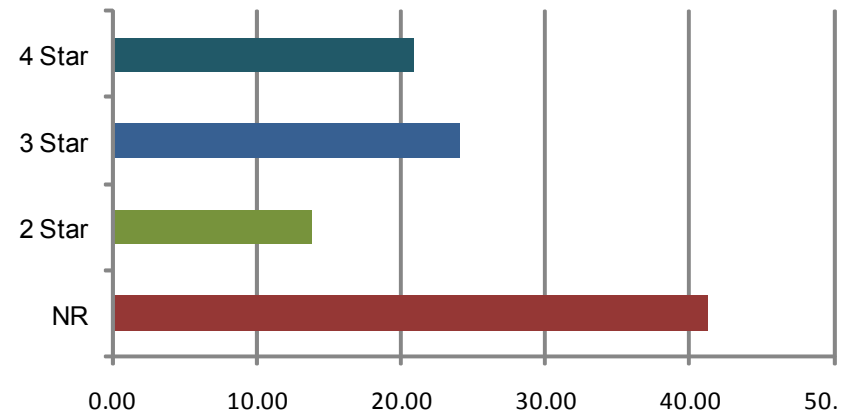
Volatility Metrics	
Beta (Market Return)	1.24
R Squared (Coorelation to Index)	98
Standard Deviation (Volatility)	16.42
Sharpe Ratio (Risk Adjusted Returns)	(0.23)





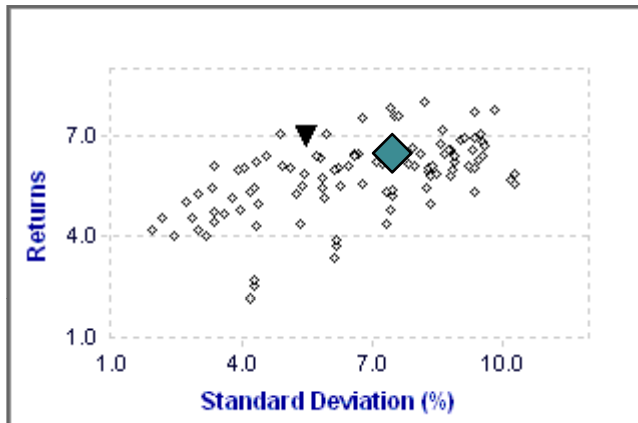
Holdings	(%)	Morningstar Rating
Growth Company	7.78	★★★★
Total Bond	4.82	★★★★
Diversified International	4.38	★★★★
Europe	2.31	★★★★
Small Cap Growth	0.77	★★★★
Small Cap Value	0.76	★★★★
Disciplined Equity	9.30	★★★
Overseas	4.35	★★★
High Income	3.61	★★★
Capital & Income	3.60	★★★
Blue Chip Growth	2.33	★★★
Japan	0.72	★★★
Southeast Asia	0.19	★★★
Equity-Income	7.72	★★
Strategic Real Return	5.26	★★
Short-Term Bond	0.86	★★

Holdings	(%)	Morningstar Rating
Series Investment Grade Bond	16.36	NR
Series Large Cap Value	8.32	NR
Series All-Sector Equity	7.26	NR
Series 100 Index	6.21	NR
Small Cap Opportunities	1.30	NR
Series Emerging Markets	0.92	NR
Money Market Instl	0.86	NR

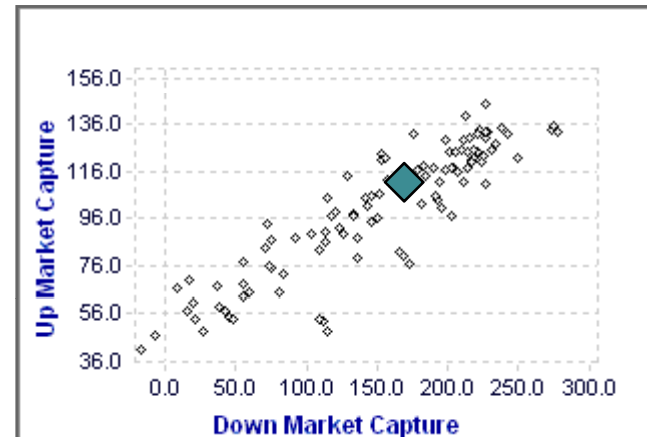




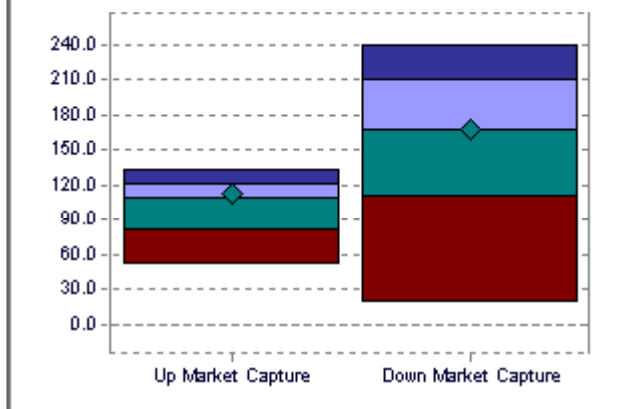
Risk Vs. Return 3 Years



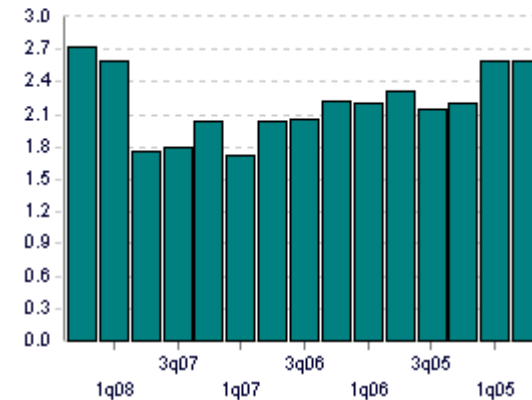
Market Capture: 3 Years



Upside/Downside Mkt Capture



Market Capture: 3 Years

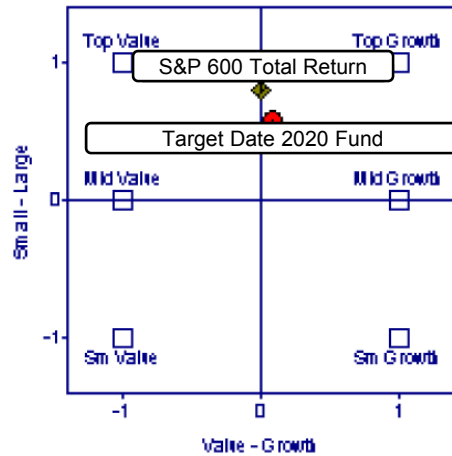


Tracking Error

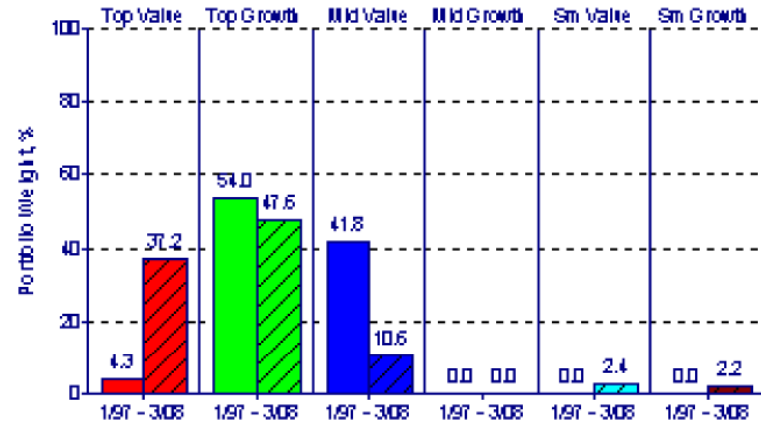




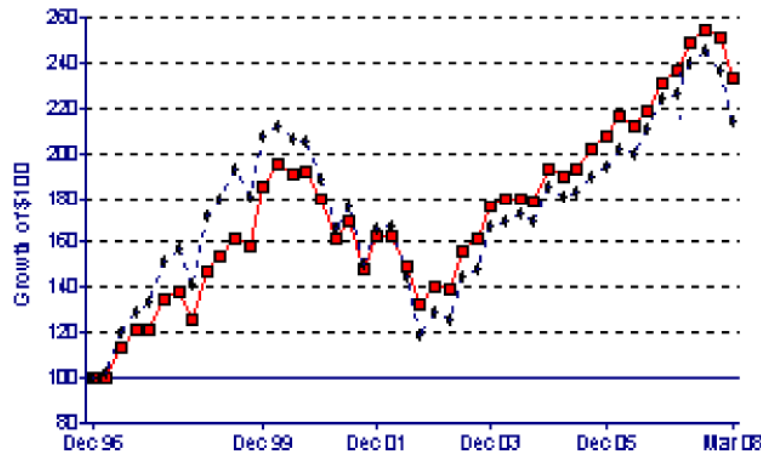
Style Map: Total Period



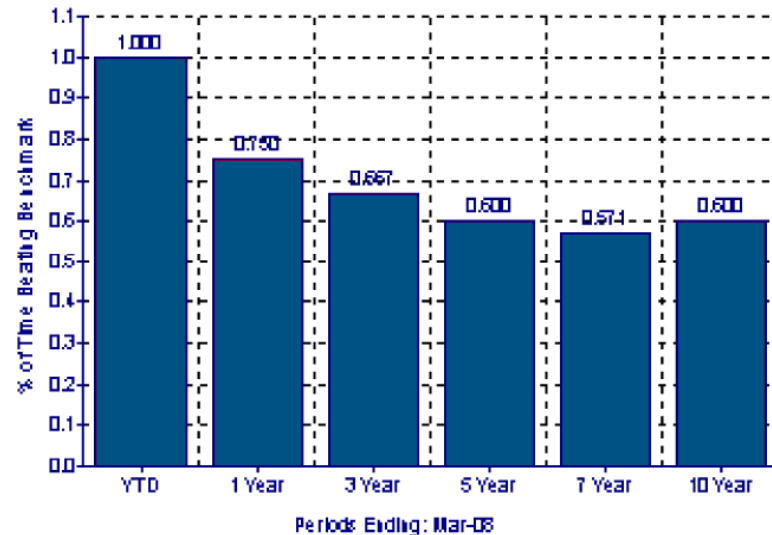
Asset Allocation: Total Period

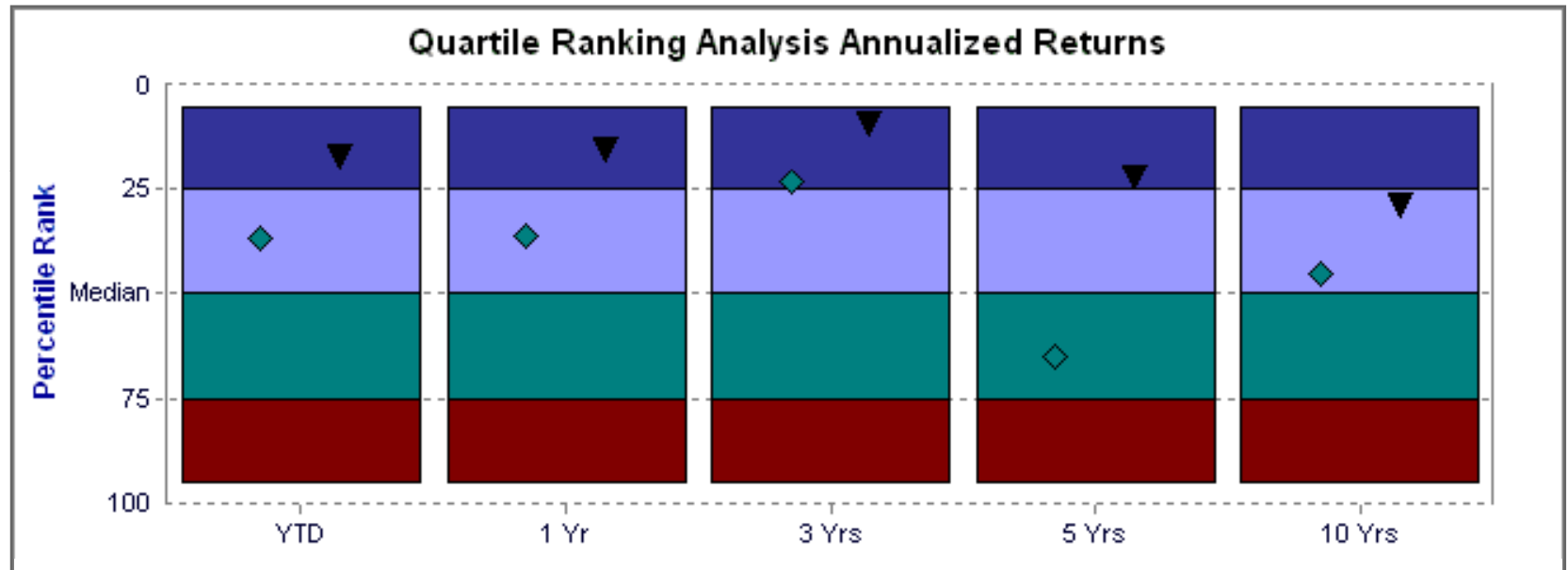


Cumulative Performance: Total Period



Batting Average





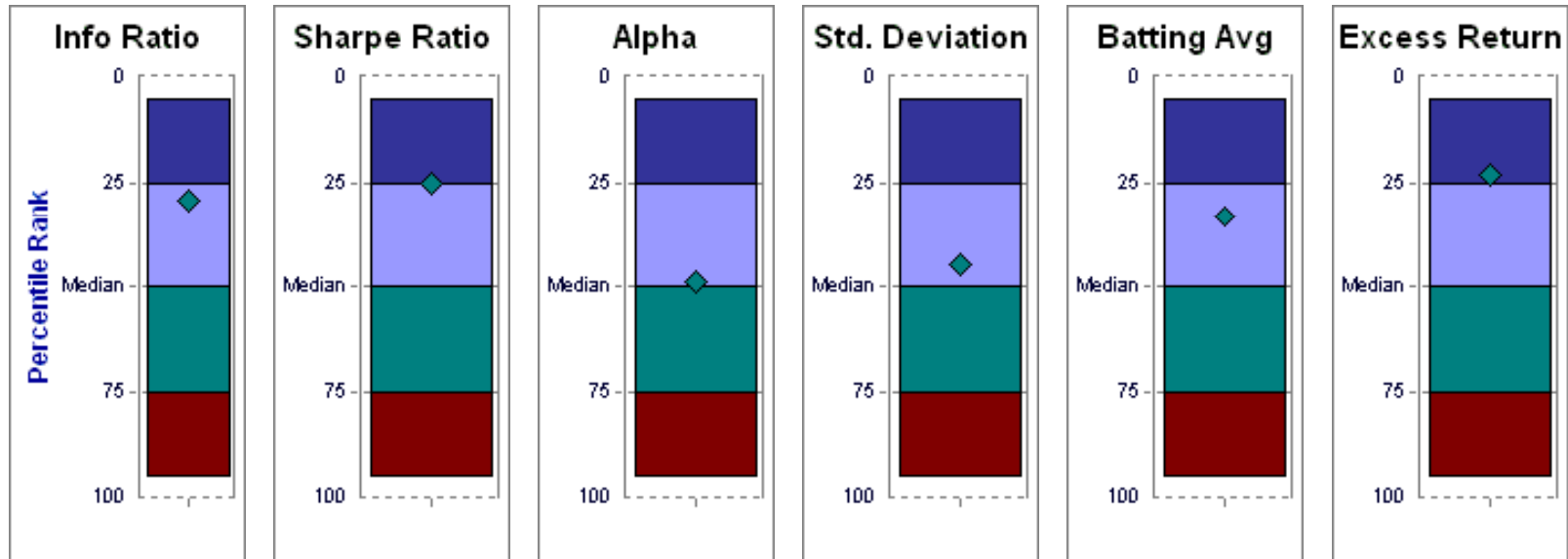
◆ Target Date 2020 Fund

▼ DJ Target Date 2020 Index





Target Date 2020 – Quantitative Measures



◆ Target Date 2020 Fund





▶ **Asset Allocation Glide Path**

- The right asset allocation glide path for plan participants.
- Glide paths result from:
 - Key asset class investment decisions
 - Asset allocations shift throughout the long-term horizon for target date portfolios.
- Glide path philosophy to suit your plan
- Use of non-traditional assets

▶ **Impact and acceptance**

- The impact on participant portfolios and adoption rates.
- Understanding participant behavior is essential in choosing the right target date program.





▶ **Active or passive**

- Pros and cons of indexing versus active management.
- Involves choices regarding
 - How portfolios are managed
 - Overall costs
 - Overall portfolio risk
 - Fiduciary responsibilities.

▶ **Customized or pre-packaged**

- Plan sponsor should assess
 - Incremental benefits
 - Risks
 - Costs of customized programs compared with packaged solutions.



- ▶ **Asset allocation approach of fund families is similar**
 - Mean variance approach
 - Based on correlation among investments
 - Expected rates of return
 - Economic trends
 - Stock and bond fundamentals

- ▶ **Diversification by investment style differs among fund families**
 - Different weightings to growth vs. value
 - Capitalization weightings differ, large cap vs. small

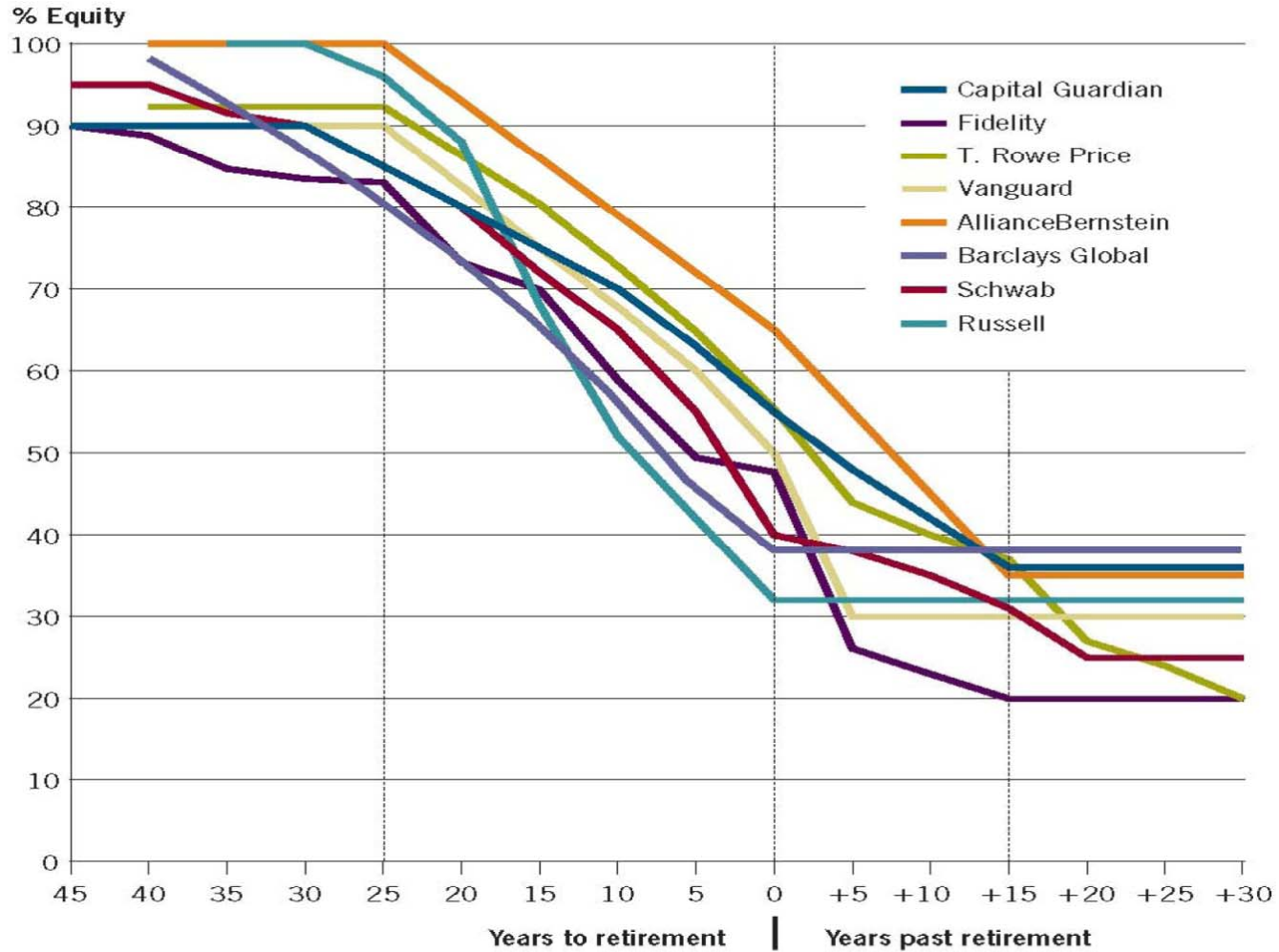
- ▶ **Frequency of rebalancing differs**

- ▶ **Short-date target funds**
 - Widest range of equity exposure
 - 2010 range from 20% - 70% in stocks



- ▶ **Criteria for selection of target date family**
 - Track record of overall fund group
 - Stability of management
 - Method of allocating assets
 - Funds' expenses
 - Characteristics of individual mutual funds
 - Asset allocations differ
 - Glide paths differ





Source: Capital Guardian Trust Company





► Pre-packaged “off the shelf” funds

- Limited transparency of quality/turnover of underlying funds, limited due diligence
- Products and asset classes used may differ dramatically from core funds
- Many include mediocre, lower rated funds
- May include asset classes not included in core fund options (emerging markets, sectors, regional, specialty) and contrary to Investment Committee
- Benchmark: Dow Jones Target Date Indices





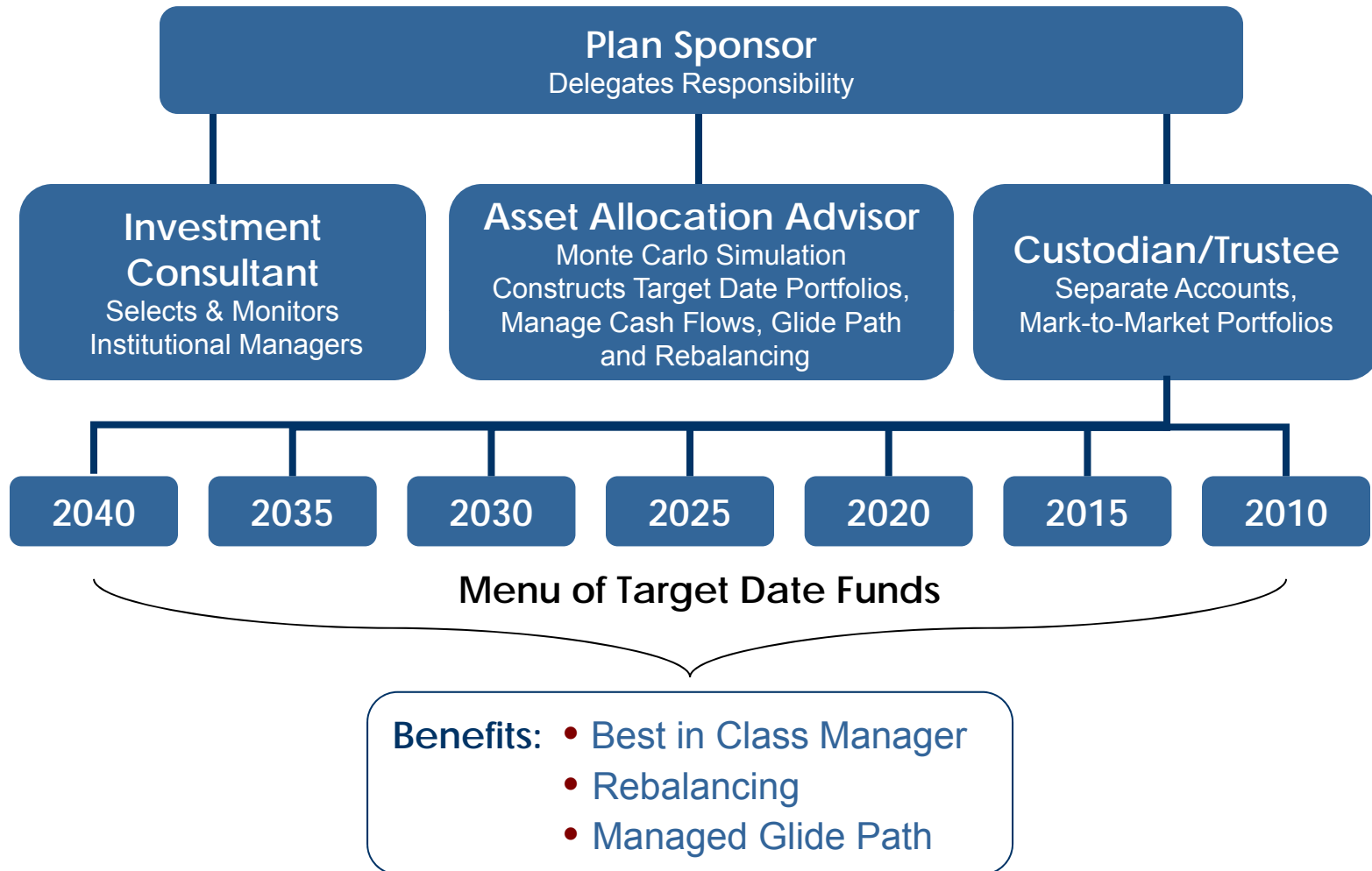
▶ **Custom designed funds – Mix your own**

- Best in class underlying funds, highest rated funds
- Can mix active, index, ETF funds as appropriate
- Leverages due diligence of core fund options
- Transparency of fund holdings
 - Participants see % underlying core funds in statement





- ▶ **Asset allocation models**
- ▶ **Plan sponsor delegates responsibilities to multiple experts**
 - Consultant for manager selection and monitoring
 - Glide path manager
 - Recordkeeper
 - Trustee/Custodian
 - Investment managers
- ▶ **Fund creation considerations**
 - Separate accounts, commingled funds, institutional funds
 - Active or indexed
 - Style, core or blend
 - Manager monitoring, alpha, tracking error





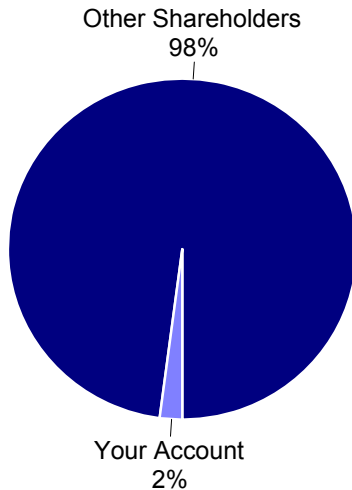
▶ Third Party Index

- Dow Jones Target Date Indices
 - Introduced April, 2005
 - Ten indices
 - Cover 5 year intervals to 2045
 - Composites of other Dow Jones Indices
 - Equal weight the underlying investment caps and styles
 - Does not use market-cap-weighted approach of target date funds



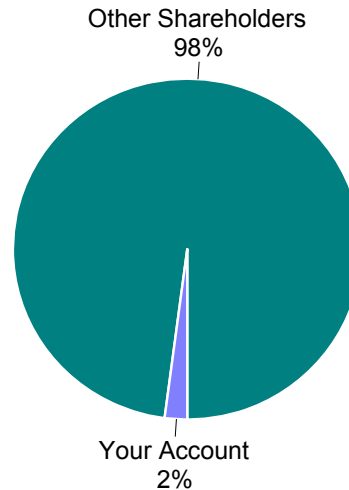


Mutual Fund



Pooled fund operated by an investment company that invests shareholder assets in accordance with a stated set of objectives

Commingled Trust Fund



Pooled fund operated by a trust company for the collective investment of a qualified retirement plan

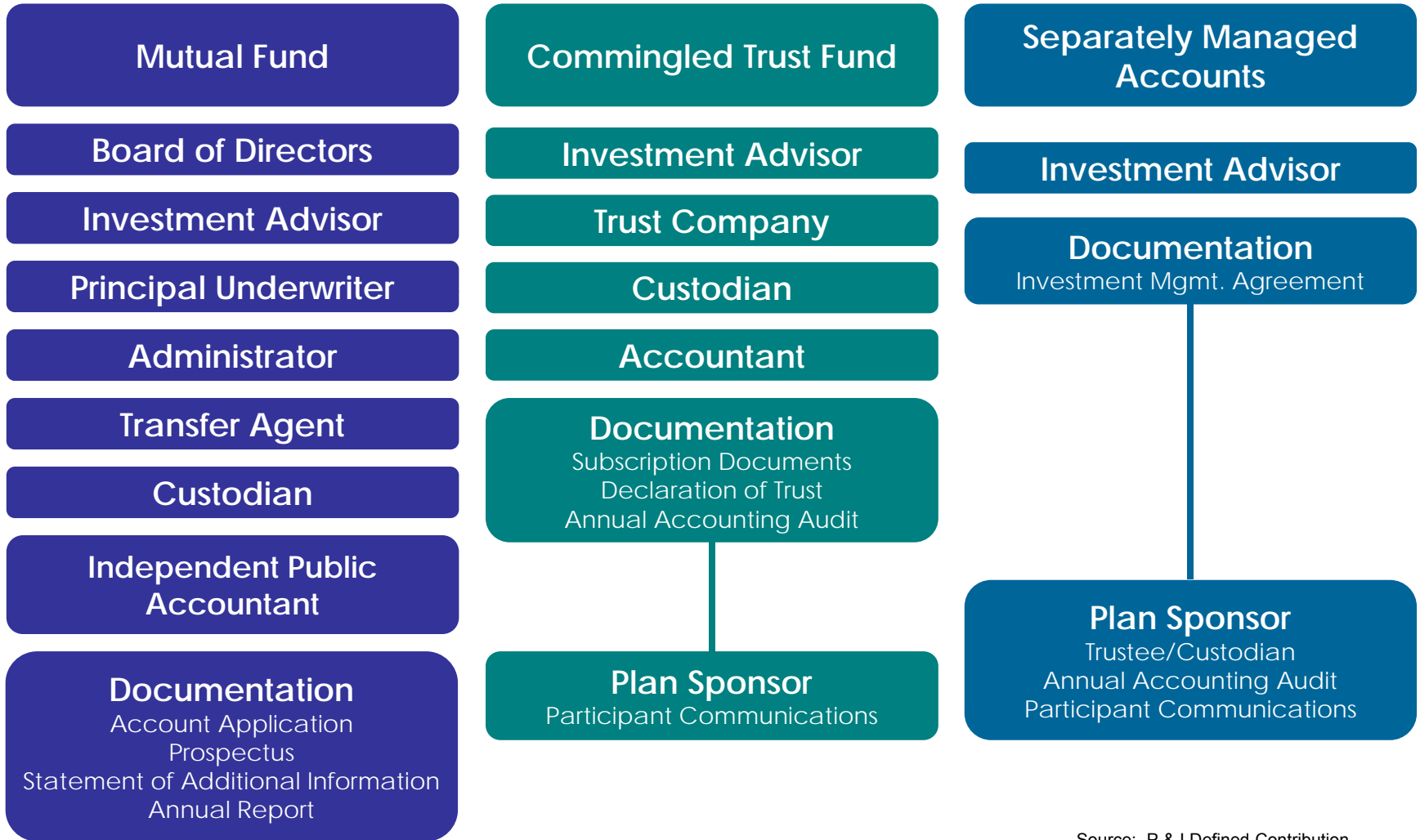
Separately Managed Account

Security	# Shares	Market Value
Microsoft Corp.	6,845	\$ 164,280
Texas Instruments Inc.	4,562	\$ 109,488
Applied Materials, Inc.	4,875	\$ 117,000
First Data Corp.	8,652	\$ 207,648
Yahoo! Inc.	2,685	\$ 64,440
Cisco Systems, Inc.	12,945	\$ 310,680
Sun Microsystems, Inc	8,649	\$ 207,576
Micron Technologies	2,648	\$ 63,552
Total		\$1,244,664

Portfolio managed by an investment manager to meet the specific needs and investment objectives of the plan sponsor

Source: P & I Defined Contribution





Source: P & I Defined Contribution





- ▶ **Asset Allocation Glide Paths Vary**
- ▶ **Participant Behavior is Key**
- ▶ **Actively Managed or Passive Funds**
- ▶ **Customized Suite of Funds**
- ▶ **Pre-Packaged Target-Date Funds**

