

A new frontier: Integrating private assets into target-date funds

Franklin Templeton Investment Solutions

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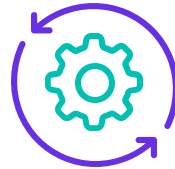
Retirement savers seek the investment benefits of private assets

Allocating to alternative asset classes may support better retirement outcomes



Income

- Income and cash generative asset classes supporting the **distribution of income**
- **Diverse cash flow profiles** across the different private asset classes



Risk-Return Profile

- Historically has generated **attractive risk-adjusted returns** relative to traditional public asset classes
- Less liquid asset classes may provide investors with the opportunity to capture an **illiquidity premium**

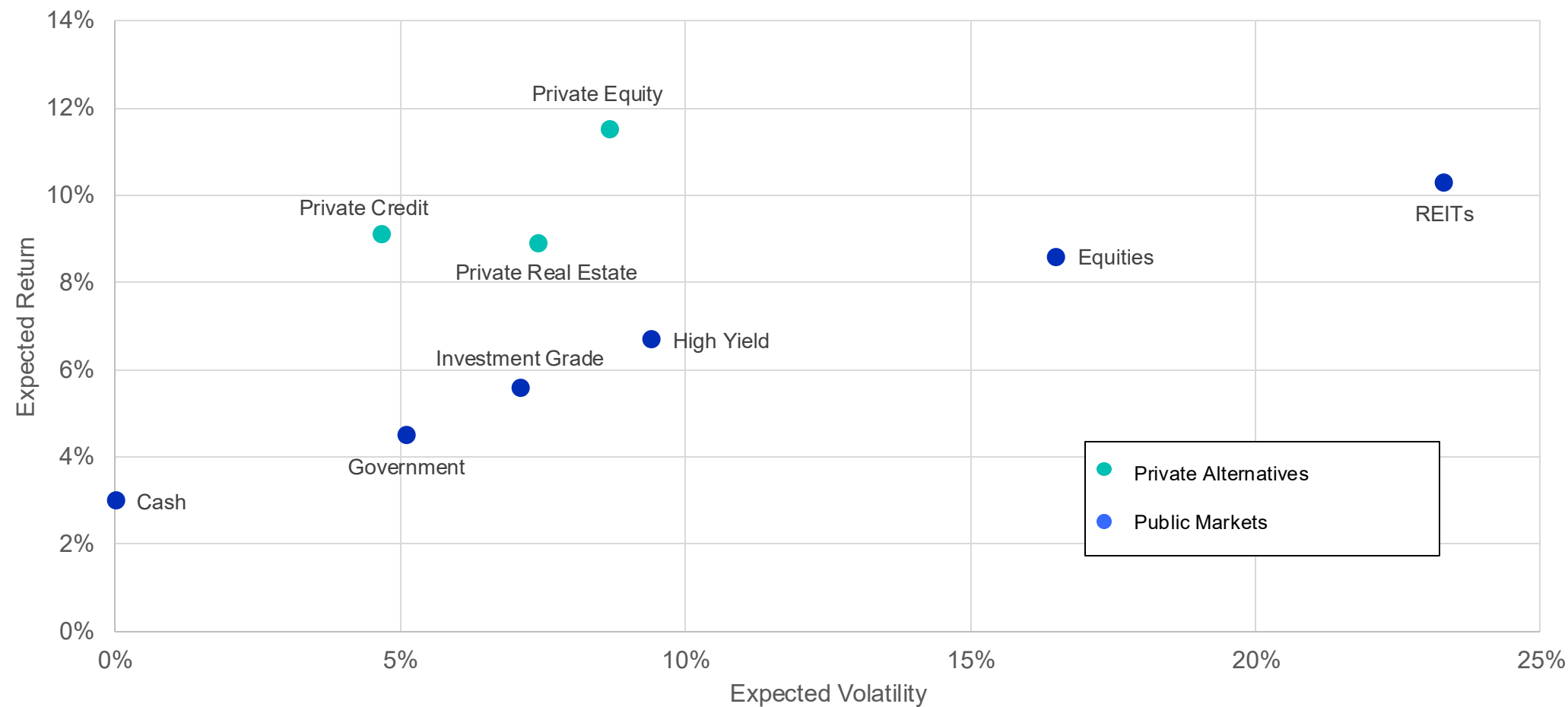


Diversification

- **Inflation** hedging characteristics across many private asset classes mitigate erosion of purchasing power
- **Lower correlations** to traditional equity and fixed income solutions

Capital Market Expectations

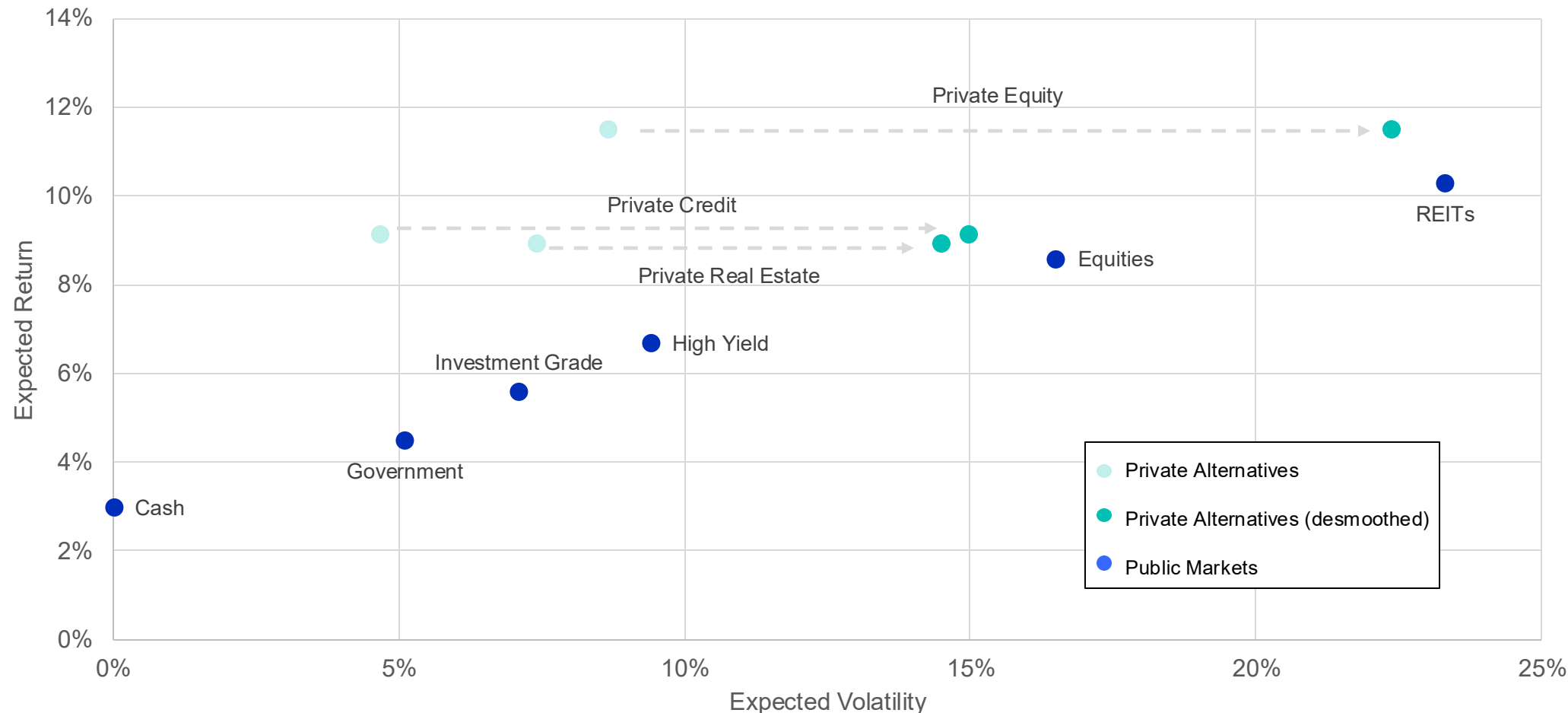
10-Year Annualized Return and Risk* Expectations – 2025



As of December 31, 2024. There is no assurance that any estimate, forecast or projection will be realized. See Appendix slide titled “Indexes and proxies” for information regarding the various indices used for each asset class. Opinions expressed are those of Franklin Templeton Investment Solutions and subject to change without notice. Returns in USD unhedged. *Risk in our capital market assumptions forecasted on a “desmoothed” basis to serve as inputs into a portfolio construction process. More information is available upon request. See 2025 Capital Market Expectations: Slowing but not Sinking. Franklin Templeton Investment Solutions. December 2024. <https://www.ftinstitutional.com/articles/2024/multi-asset/cme-slowng-but-not-sinking>.

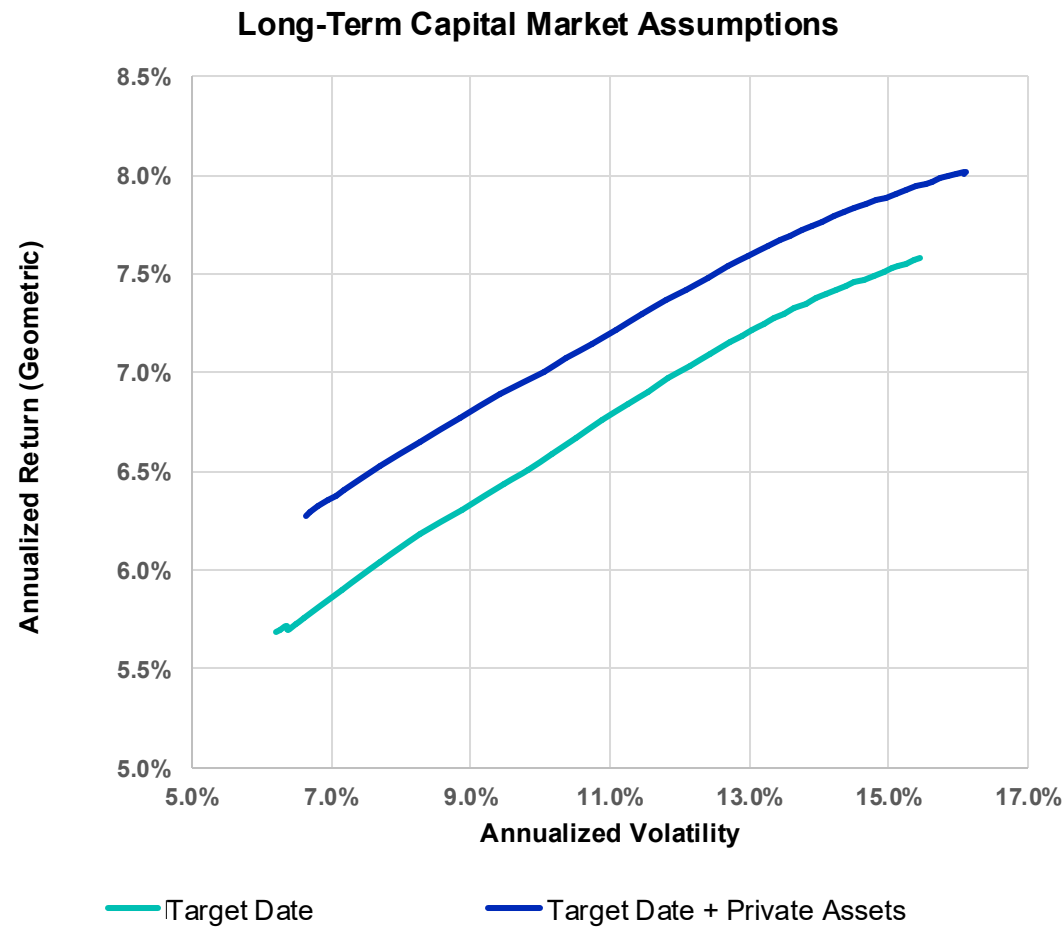
Capital Market Expectations

10-Year Annualized Return and Risk* Expectations – 2025



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Glidepath + Private Assets Forward Risk-Return Assessment



Risk-Return Comparison			
Target Date			
Year	Expected Return (Geometric)	Expected Volatility (Desmoothed)*	Sharpe Ratio
5	7.6%	15.5%	0.35
10	7.5%	15.0%	0.36
15	7.4%	14.4%	0.36
20	7.3%	13.6%	0.36
25	7.2%	12.9%	0.37
30	6.9%	11.5%	0.37
35	6.5%	9.8%	0.38
40	5.9%	7.1%	0.40
45	5.7%	6.3%	0.41

Target Date + Private Assets			
Year	Expected Return (Geometric)	Expected Volatility (Desmoothed)*	Sharpe Ratio
5	8.0%	16.1%	0.37
10	8.0%	15.6%	0.38
15	7.9%	14.9%	0.38
20	7.8%	14.2%	0.39
25	7.7%	13.4%	0.39
30	7.4%	12.1%	0.40
35	7.1%	10.4%	0.42
40	6.5%	7.7%	0.46
45	6.3%	6.7%	0.48

As of December 31, 2024

Efficient frontiers are derived from asset class weights and capital market assumptions, including expected returns and covariance. Expected returns are gross of transaction costs and FTIS fees. There is no assurance any forecast, projection or estimate will be realized. Opinions expressed are those of Franklin Templeton Investment Solutions and subject to change without notice.

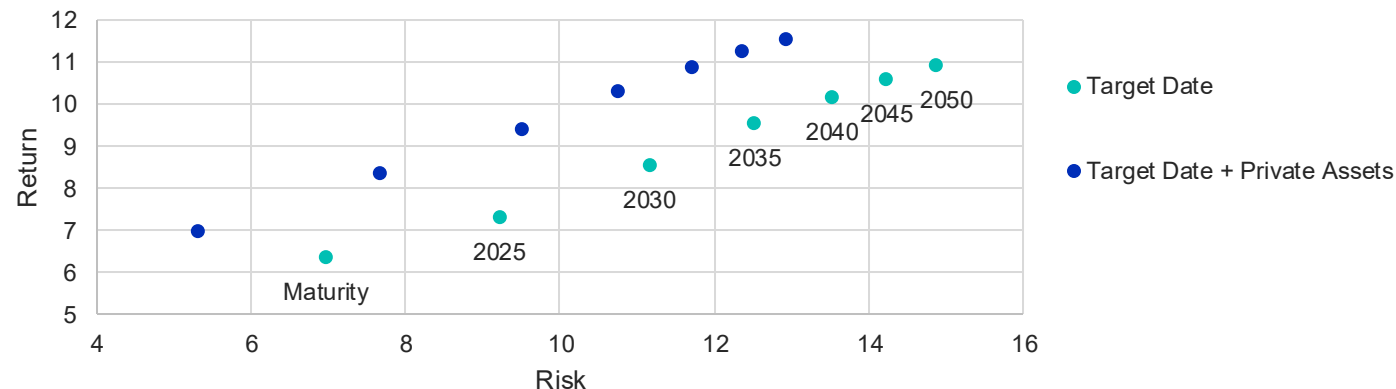
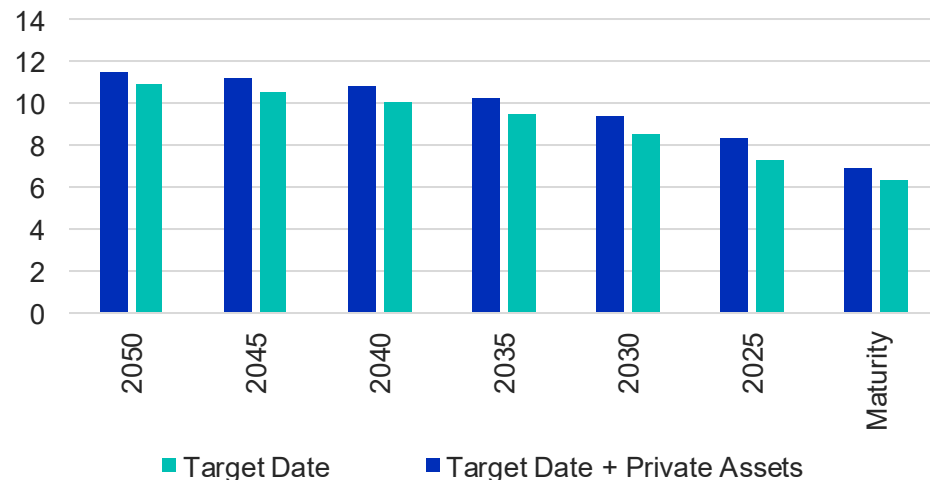
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Simulated data suggests improved historical performance after incorporating private alternatives

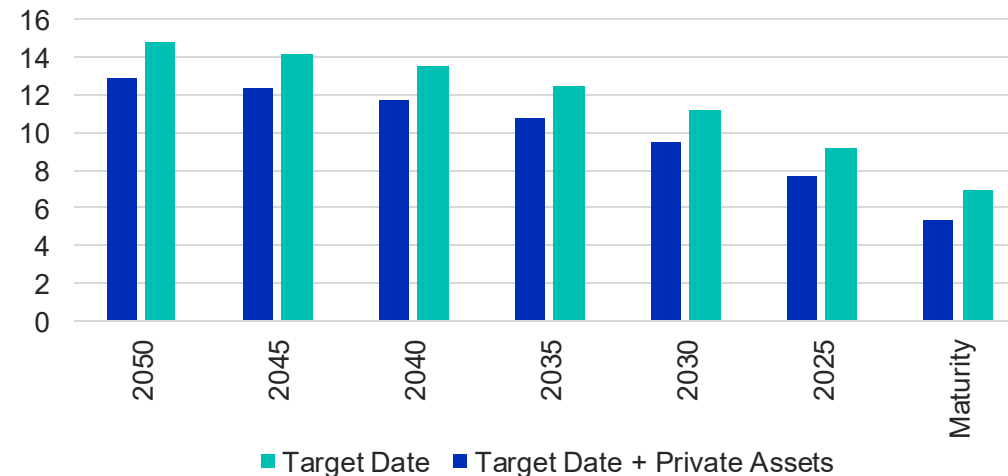
Highlights

- Participants observe smoothed returns
- Simulated returns improve for all vintages
- Simulated volatility is reduced for all vintages

Annualized Return

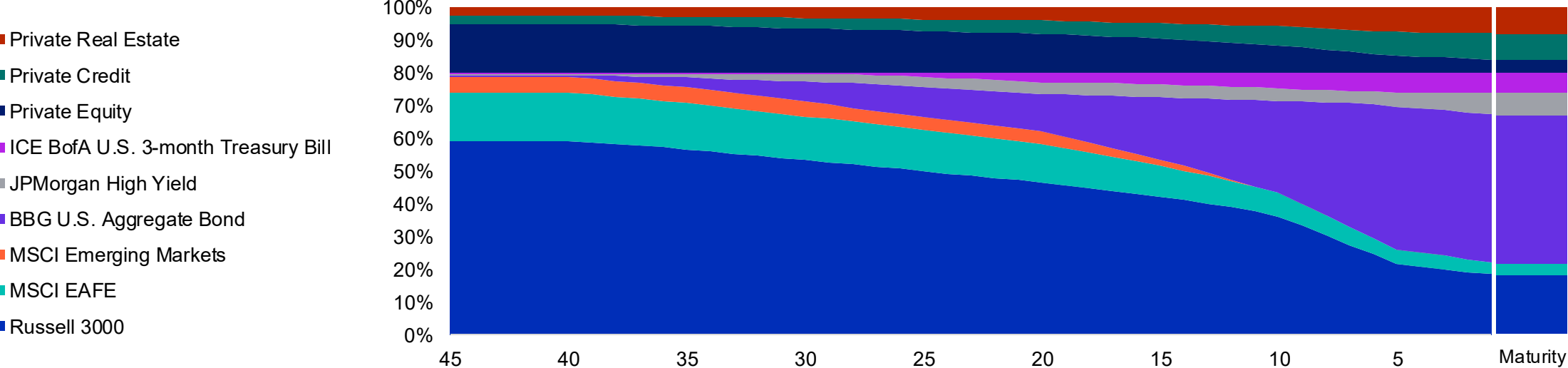


Annualized Volatility



Source: FTIS, Bloomberg. Does not represent a product or strategy currently being implemented by Franklin Templeton. Returns shown in USD. Simulated performance results are inherently limited and should not be relied upon as indicators of future performance. The hypothetical results presented should not be considered a substitute for the investment performance of an actual portfolio. Actual performance of any portfolio may vary significantly due to assumptions regarding fees, transaction costs, liquidity or other market factors. See Disclosure for additional information. Scatterplot and bar charts include all vintages with historical data since inception for the simulated period (September 30, 2009 through June 30, 2024). Risk and return are annualized.

The strategic glide path is modified to incorporate private alternatives



Strategic Glide Path Allocation

	45	40	35	30	25	20	15	10	5	Maturity
Russell 3000	59%	59%	57%	53%	50%	47%	42%	36%	22%	18%
MSCI EAFE	15	15	14	13	12	12	10	7	4	4
MSCI Emerging Markets	5	5	5	4	4	4	2	-	-	-
BBG U.S. Aggregate Bond	0	0	3	6	9	11	19	28	44	45
JPMorgan High Yield	0	0	1	2	3	4	4	4	4	7
ICE BofA U.S. 3-month Treasury Bill	1	1	1	1	2	3	4	6	6	6
Private Equity	15	15	14	14	13	12	10	9	5	4
Private Credit	3	3	3	3	4	4	5	6	7	8
Private Real Estate	3	3	3	3	4	4	5	6	7	8
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

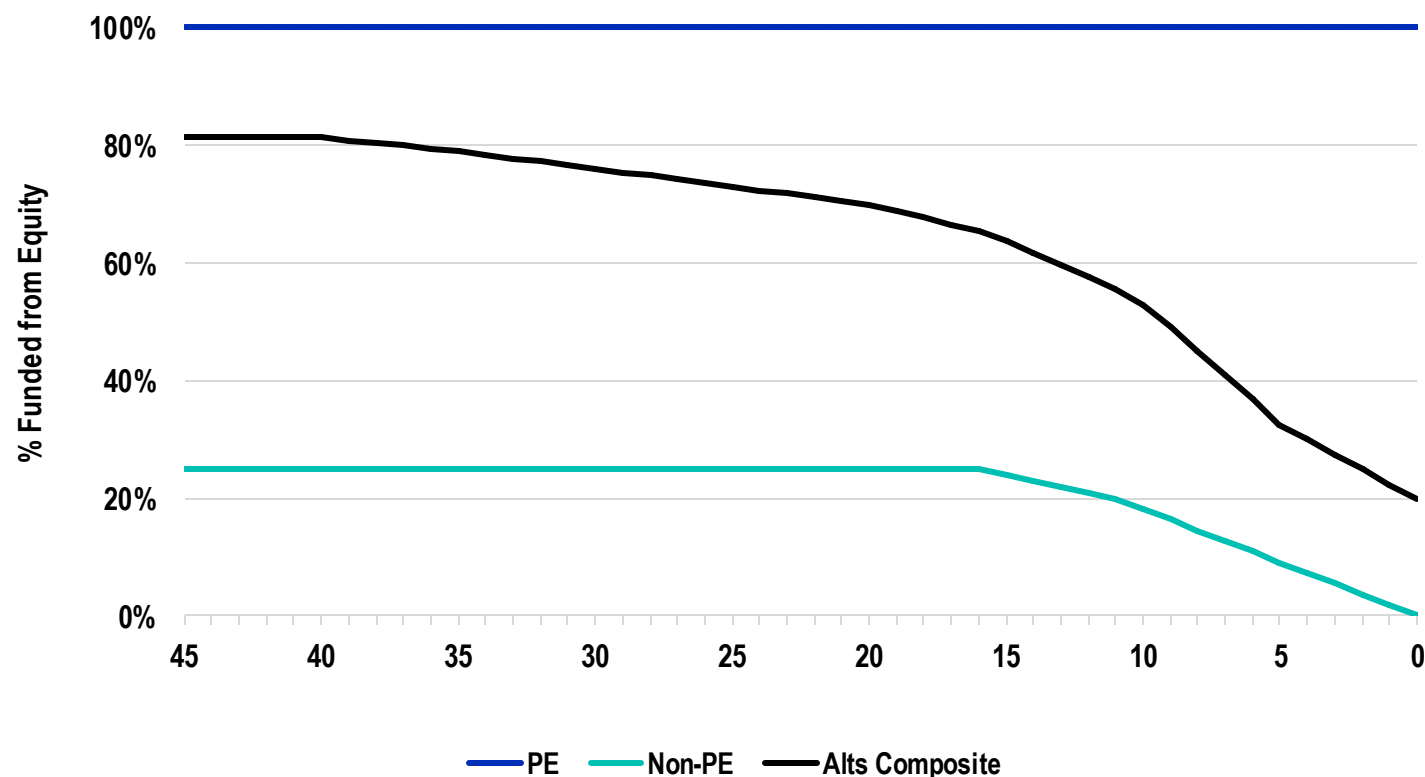
Proposed allocations are subject to change and may not equal 100% due to rounding.

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Private alternatives allocations are funded dynamically across the glide path

Private equity is always funded entirely from equity while other alternatives may use a mix of asset classes, which shift over time

Alternatives Funding Source: % Equity



Reasoning

- Results were informed by regression analysis of the historical time series
- Because the fixed income mix varies over time, with more high yield used later in the glide path, less equity replacement is required
- The baseline glide path already solves for the right risk at the right time. Reducing equity funding supports appropriate risk levels.

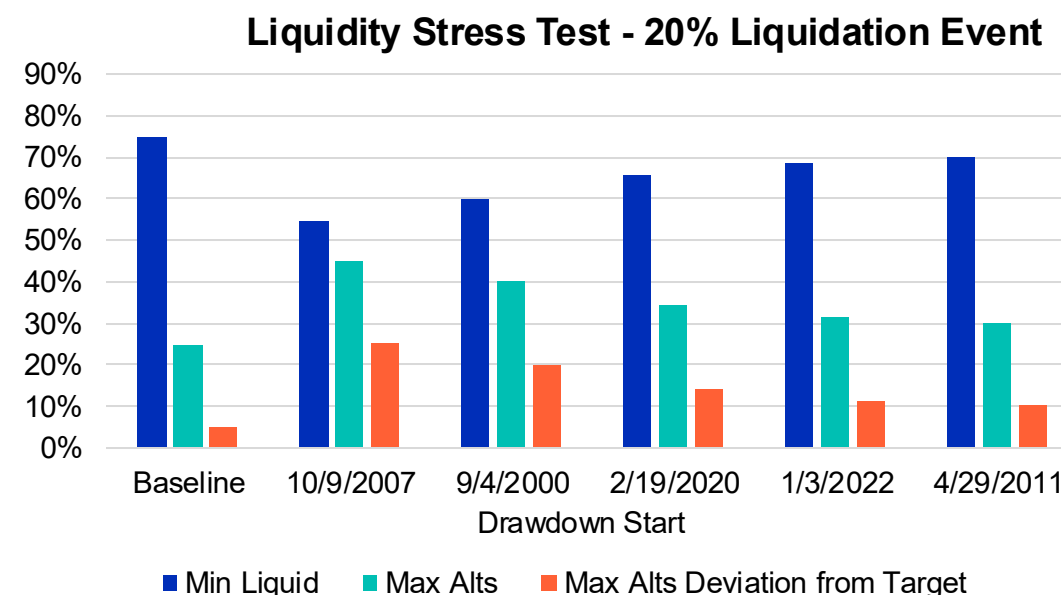
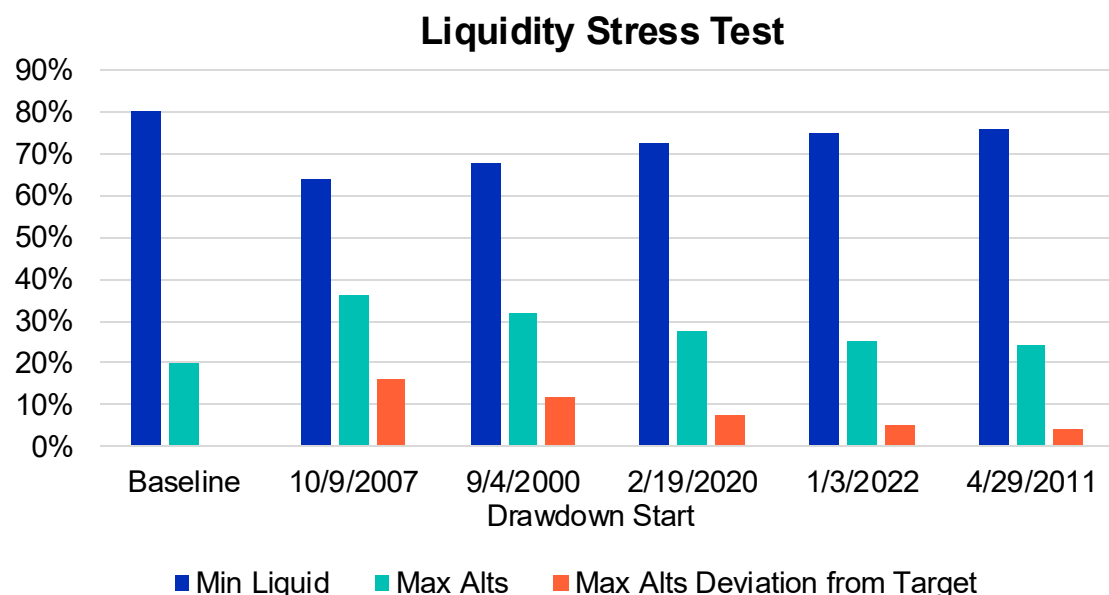
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Hypothetical liquidity stress tests imply sufficient response to extreme stress scenarios

Planning for a worst-case scenario

- Results do not vary significantly beyond the three worst market scenarios
- Scenario 2 (9/4/2000) is unique where S&P 500 realized a significant drawdown, but REITs outperformed
- Even with large redemptions, in addition to poor market outcomes, portfolios maintain adequate liquidity



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Desmoothed returns are critical to accurately reflecting the risks of private assets



After accounting for 'true' risks, private alternatives **shift the efficient frontier** 'up and to the left'



Dynamic funding sources allow for a thoughtful approach to portfolio construction



Liquidity is the most notable challenge, which is why a prudent application includes professional management in a highly liquid portfolio

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