

Have you got the time (horizon)?

This quarter, Public Pension Insights—Nuveen Solutions’ quarterly newsletter for public pension plans—focuses on aligning assets & liabilities. Public Pension Insights shares ideas and addresses issues faced by government pension plan sponsors, and we can’t think of anything more important for this audience than understanding your assets and your liabilities together. This quarter we focus on the investment time horizon and why that’s important for the investment strategy.

We’d love to hear from you about topics that are of interest. Let us know what challenges you are facing and what topics you would like to hear more about. Feel free to contact Dave directly at dave.wilson@nuveen.com or (312) 917-6826 or Evan at evan.inglis@nuveen.com or (312) 917-8310.



David R. Wilson, CFA
*Head of Solutions Design
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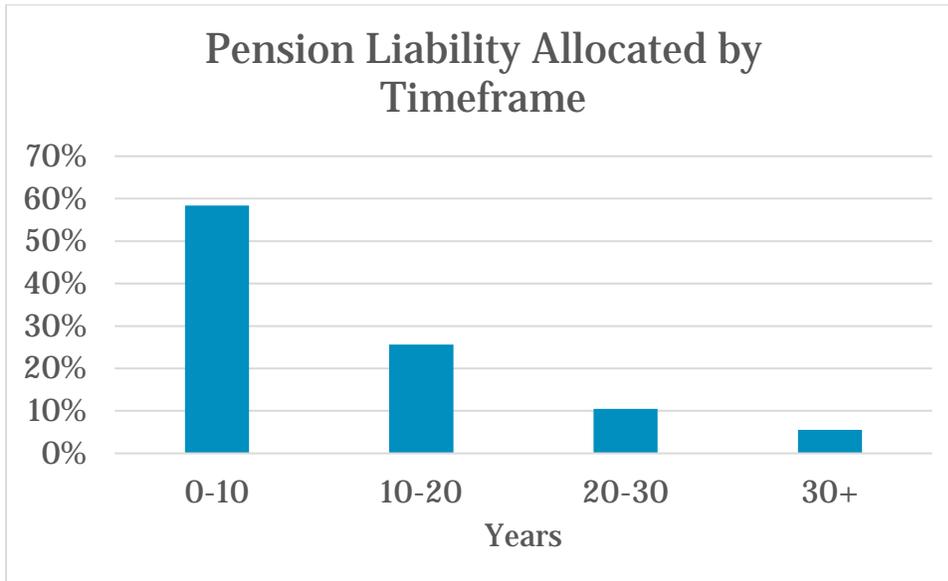
Evan Inglis, FSA, CFA
*Senior Vice President,
Senior Actuary
Nuveen Solutions*

A handwritten signature in black ink that reads "D Wilson".

A handwritten signature in black ink that reads "Evan Inglis".

Picture Highlight – Time Horizon for Typical Pension Plan

The chart below shows the payment timing for a fairly mature, but not atypical public pension plan. The majority of the pension liability will be paid out in the first 10 years and the vast majority of it will be paid out within 20 years! This isn't consistent with the decades-long timeframe that we typically associate with pension investing, but it's an important factor for understanding the right tradeoff between risk and seeking return.



Source: Nuveen

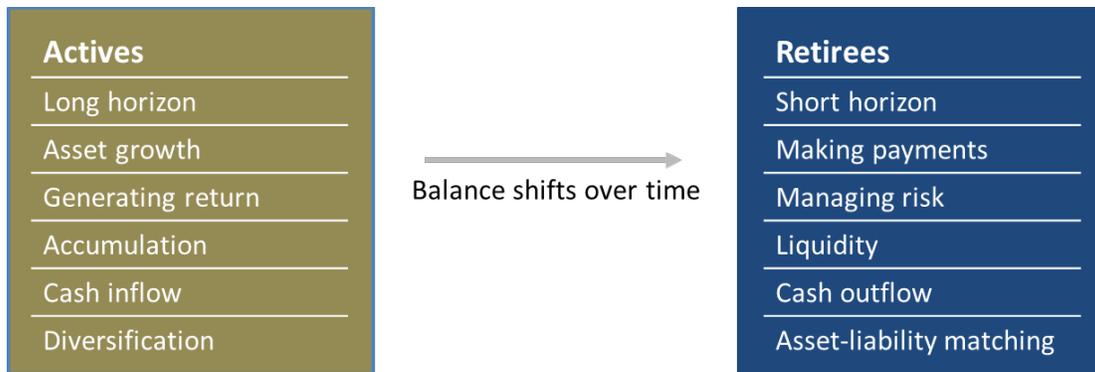
Q1 2018 Commentary: Your Investment Time Horizon Keeps on Slippin, Slippin into the Future

By Evan Inglis, FSA, CFA

Investment time horizons are important because it makes sense to invest in different assets over different time horizons. We usually think of the investment time horizon for a pension plan as spanning many decades. However, while it's true that the last payment to be made to a current participant will be many decades in the future, on average the benefit payments for current participants are coming sooner than you may think (as shown in our Picture Highlight above). It makes sense for your investment strategy to reflect the time horizon of the benefit payments and that time horizon is getting shorter.

If an investor needs her funds next year, she should invest in more fixed income than in equities. If an investor needs her funds in 20 years, she may prefer equities, especially if her need in 20 years is inflation-sensitive. We see this concept applied in target date funds (aka target retirement funds) as a glide path that reduces risk as the need to spend the funds in retirement gets closer. The objective shifts from growth (think equities) to securing spending (think fixed income) as time passes.

The same idea applies for a pension plan, since the time horizon for spending gets closer as the plan population matures. Of course, we're talking about an average time horizon that gets shorter as the active members age and the retiree population grows. The graphic below illustrates the evolution of investment objectives that ideally will happen as a pension plan population evolves over time.



It's fairly straightforward to get the pension investment strategy aligned with the evolution of the plan population. This is what we do with an approach called Demographic-Based Investing. The key issue is not how much risk is being taken today, but how the level of risk will evolve over time. At Nuveen, we help investors design long-term pension investment strategies that seek to stand the test of time. The investment strategy needs to do that so the plan itself will be deliver on its benefit promise for many decades to come.

Current Nuveen Forecasts

- ▲ **Equities:** Trade fears continue to dominate the markets. We think these issues will remain in the headlines for some time, and could represent a significant risk to the economy and financial markets. A possible slowdown in economic growth, however, may represent an even more serious risk. We expect the U.S. economy to reaccelerate, but the data bear close scrutiny. We think equity markets are in the midst of a consolidation phase and expect stock prices to remain volatile and range bound for some time. [Read More](#)
- ▼ **Fixed Income:** Fed Chair Powell's comments reinforced the current path of normalization with modest rate hikes and a continued balance sheet runoff. Current market-based probabilities show less than a 30% chance of a hike at the next meeting in May, but more than an 80% likelihood of a 25 bps rate increase at the June 13 meeting. We continue to believe that the Fed's gradual adjustment in interest rates and its balance sheet will not derail U.S. economic growth. We are driving fixed income returns by focusing on income generation using bottom-up selection within the credit-related sectors. [Read More](#)

Related Research



[Ten predictions for 2018: 1Q Update, Equity markets on a wild ride to nowhere](#)

Our overall theme for the year is that we expect 2018 to be “less perfect” than last year, as we see continued decent economic growth and corporate earnings, as well as low but rising inflation and yields.

Robert Doll, CFA

*Senior Portfolio Manager and Chief Equity Strategist
Nuveen Asset Management*

[Positioning equity portfolios for when rates rise](#)

The current equity bull market is now more than eight years old and has survived several calls for its demise. The interest rate environment has been volatile, but rates have been rising unevenly over the past year, and we expect that trend will persist.

Robert Doll, CFA

*Senior Portfolio Manager and Chief Equity Strategist
Nuveen Asset Management*

Saira Malik, CFA

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Jim Boothe, CFA

*Chief Investment Officer and Portfolio Manager
Santa Barbara Asset Management*

[Positioning bond portfolios for rising interest rates](#)

Stronger growth and a tightening fed set the stage for higher long-term rates.

William (Bill) Martin

*Head of Fixed Income Portfolio Management
TIAA Investments*

Stephen MacDonald, CFA

*Client Portfolio Manager
TIAA Investments*

Upcoming Events

Date	Location	Event
May 1	East Peoria, IL	IPPFA 2018 Illinois Pension Conference – Gordon Telfer speaking
May 13 - 16	New York, NY	NCPERS Annual Conference – Evan Inglis speaking on plan sustainability vs. solvency
May 15	Washington, D.C.	Mid-Atlantic Institutional Forum – Dave Wilson speaking on asset allocation
May 19 – 22	Mt. Pleasant, MI	MAPERS 2018 Spring Conference
June 24 – 27	Orlando, FL	FPPTA Annual Conference - Exhibitor

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For more information, TBD, or visit us at nuveen.com/TBD.

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The specific risks identified will be dependent on the asset classes identified in the "typical plan." NAM does not guarantee any minimum level of investment performance or the success of any investment strategy. Diversification does not ensure against loss.

It is important to review investment objectives, risk tolerance, liquidity needs, tax consequences and any other considerations before choosing an investment style or manager. Certain information was obtained from third party sources, which we believe to be reliable but not guaranteed for accuracy or completeness.

Asset Class Related Risk: Different types of asset investments have different types of risks, which may provide higher returns but also greater volatility. In general, equity securities tend to be more volatile than fixed income securities. Foreign investments may involve exposure to additional risks such as currency fluctuation and political and economic instability. Small- and mid-cap investments involve higher volatility than large-cap companies. International investments may involve exposure to additional risks such as currency fluctuation and political and economic instability. The value of, and income generated by, debt securities will decrease or increase based on changes in market interest rates. As interest rates rise, bond prices fall. However, there are other factors that can contribute to how securities react in various interest rate environments. The value of a REIT can be hurt by economic downturns or by changes in real estate values, rents, property taxes, interest rates, tax treatment, regulations, or the legal structure of the REIT. Except in certain circumstances, income is generally subject to both federal and state taxes. Income is only one component of performance and an investor should consider all of the risk factors for each asset class before investing. Infrastructure-related securities may involve greater exposure to adverse economic, regulatory, political and legal changes. Derivatives (such as futures and options) involve substantial financial risks and transaction costs. A long/short strategy is a speculative technique and may magnify gains and losses and increase volatility. Preferred securities combine the features of bonds and stocks, and have credit risk based on the issuer's ability to make interest and dividend payments when due. Except in certain circumstances, income is generally subject to both federal and state taxes.

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