



Efficient Frontier Analysis

Strategy. Implementation. Execution.

Town of Wilton, Connecticut
May 12, 2021

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Efficient Frontier Analysis

Summary and Conclusions



Additional Analysis

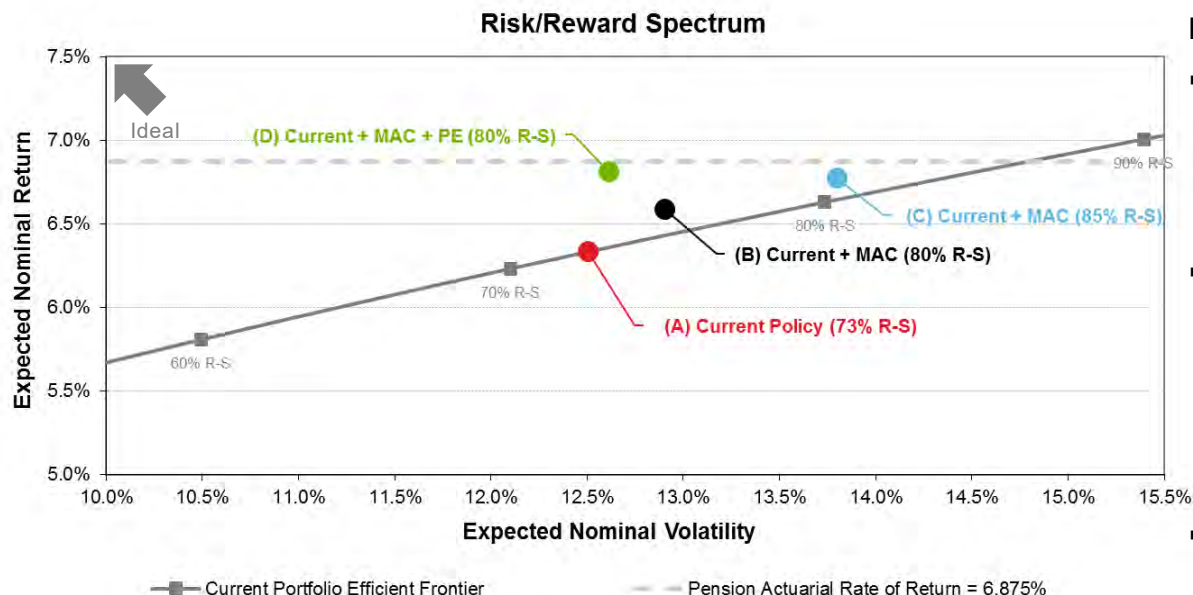
- The Investment Committee expressed a desire to simplify the current fixed income portfolio and target a higher expected return. This follow-up analysis considers the following portfolios:
 - A. Current Policy
 - B. Current Policy with consolidation of TIPS, Global Bonds, and High Yield Bonds into Multi-Asset Credit
 - C. Portfolio B + increasing Public Equity allocation by 5% (pulling from Core Fixed Income)
 - D. Portfolio B + adding an allocation to Private Equity and increasing the allocations to Private Debt and Real Estate (pulling from Public Equity) for a total 20% allocation to illiquid assets



Conclusions

- Depending on the degree of additional diversification and tolerance for illiquidity, the proposed portfolios are practical solutions for accomplishing the Committee's goals of simplifying the current fixed income portfolio and/or targeting a higher expected return
 - There are risk/return trade-offs with proposed portfolios

Portfolio Analysis



Key Takeaways:

- Aon generally favors careful diversification into a broad set of asset classes with attractive risk and return properties to improve portfolio efficiency
- Considering the constraints on illiquid and quasi-liquid assets, the proposed portfolios are practical solutions for accomplishing the Committee's goals of simplifying the current fixed income portfolio and targeting a higher expected return
- There are risk/return trade-offs with the proposed portfolios

	Return-Seeking Assets									Risk-Reducing / Safety Assets		
	Exp. Nominal Return	Exp. Nominal Volatility	Sharpe Ratio	Public Equity	Private Equity	High Yield Bonds	Multi Asset Credit	Private Debt	Real Estate	TIPS	Core Bonds	Global Bonds
(A) Current Policy (73% R-S)	6.34%	12.51%	0.331	60%	0%	3%	0%	5%	5%	2%	21%	5%
(B) Current + MAC (80% R-S)	6.59%	12.90%	0.340	60%	0%	0%	10%	5%	5%	0%	20%	0%
(C) Current + MAC (85% R-S)	6.78%	13.80%	0.332	65%	0%	0%	10%	5%	5%	0%	15%	0%
(D) Current + MAC + PE (80% R-S)	6.82%	12.61%	0.366	50%	7%	0%	10%	7%	6%	0%	20%	0%

¹ Expected returns are using Aon Investments Q4 2020 Capital Market Assumptions. Assumptions do not include fees/expenses. All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees. Expected returns presented are models and do not represent the returns of an actual client account. Not a guarantee of future results. See capital market assumptions disclosure pages in Appendix. Percentages in table may not sum to 100% due to rounding

Portfolio Analysis | Detailed Portfolio Construction

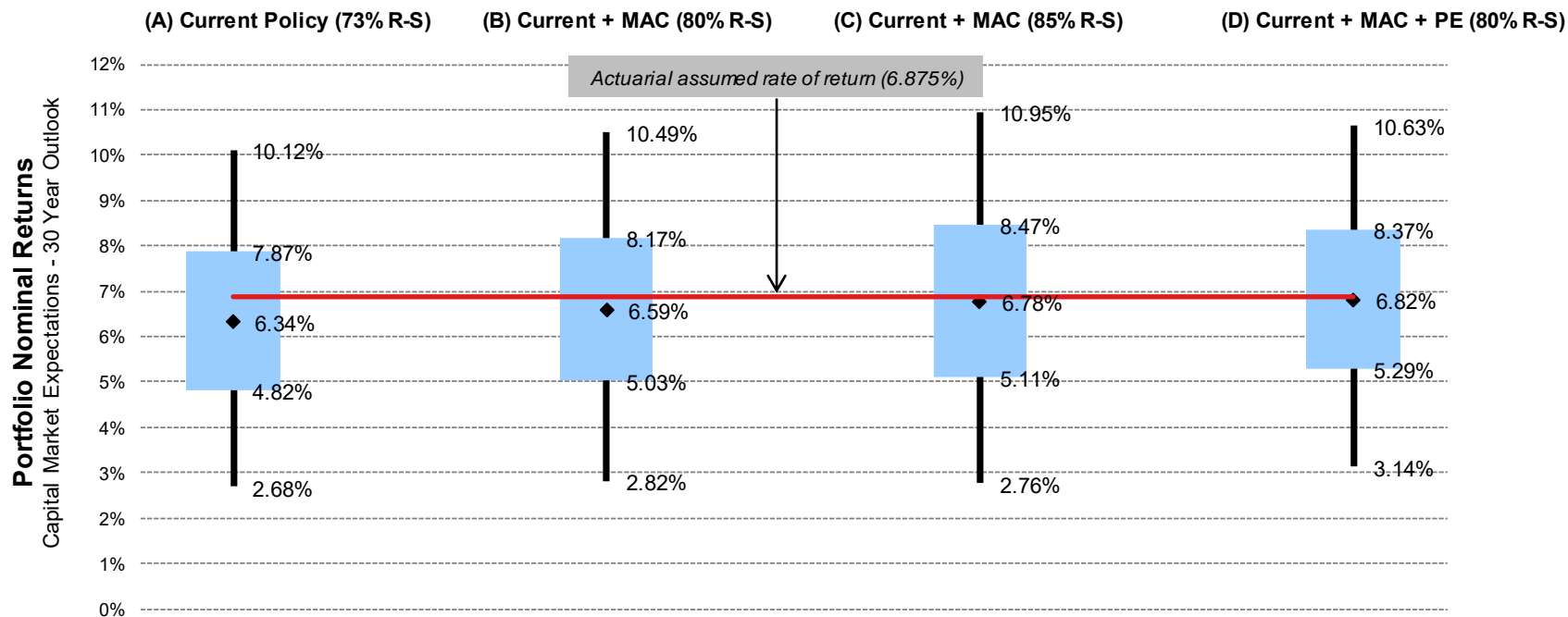
Asset Class	(A) Current Policy (73% R-S)	(B) Current + MAC (80% R-S)	(C) Current + MAC (85% R-S)	(D) Current + MAC + PE (80% R-S)
Equity				
- Public Equity	60.0%	60.0%	65.0%	50.0%
- Private Equity	0.0%	0.0%	0.0%	7.0%
- Subtotal	60.0%	60.0%	65.0%	57.0%
Return-Seeking Fixed Income				
- High Yield Bonds	2.5%	0.0%	0.0%	0.0%
- Multi-Asset Credit	0.0%	10.0%	10.0%	10.0%
- Private Debt	5.0%	5.0%	5.0%	7.0%
- Subtotal	7.5%	15.0%	15.0%	17.0%
Real Assets				
- Real Estate (Non-Core)	5.0%	5.0%	5.0%	6.0%
- Subtotal	5.0%	5.0%	5.0%	6.0%
Risk-Reducing				
- Core Fixed Income	21.0%	20.0%	15.0%	20.0%
- Global Fixed Income	5.0%	0.0%	0.0%	0.0%
- TIPS	1.5%	0.0%	0.0%	0.0%
- Subtotal	27.5%	20.0%	15.0%	20.0%
Expected Return¹	6.34%	6.59%	6.78%	6.82%
Expected Risk ¹	12.51%	12.90%	13.80%	12.61%
Sharpe Ratio	0.331	0.340	0.332	0.3663
Increase in Expected Return (%)	0.00%	0.25%	0.44%	0.48%
Level of Quasi-Liquid Assets (Liquid Alts, CRE)	0%	0%	0%	0%
Level of Illiquid Assets (PE, PD, NCRE, Infra)	10%	10%	10%	20%

 Indicates Changes from Current Policy

¹ Expected returns based on Aon Investments Q2 2021 30 year Capital Market Assumptions assuming the detailed portfolios found in the Appendix. All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees. Expected returns presented are models and do not represent the returns of an actual client account. Not a guarantee of future results. See Appendix for the Capital Market Assumptions.

Percentages in table may not sum to 100% due to rounding

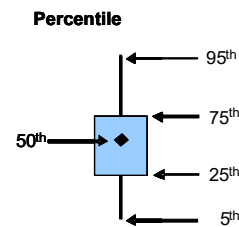
Portfolio Analysis | Range of Nominal Returns¹



Key Takeaway:

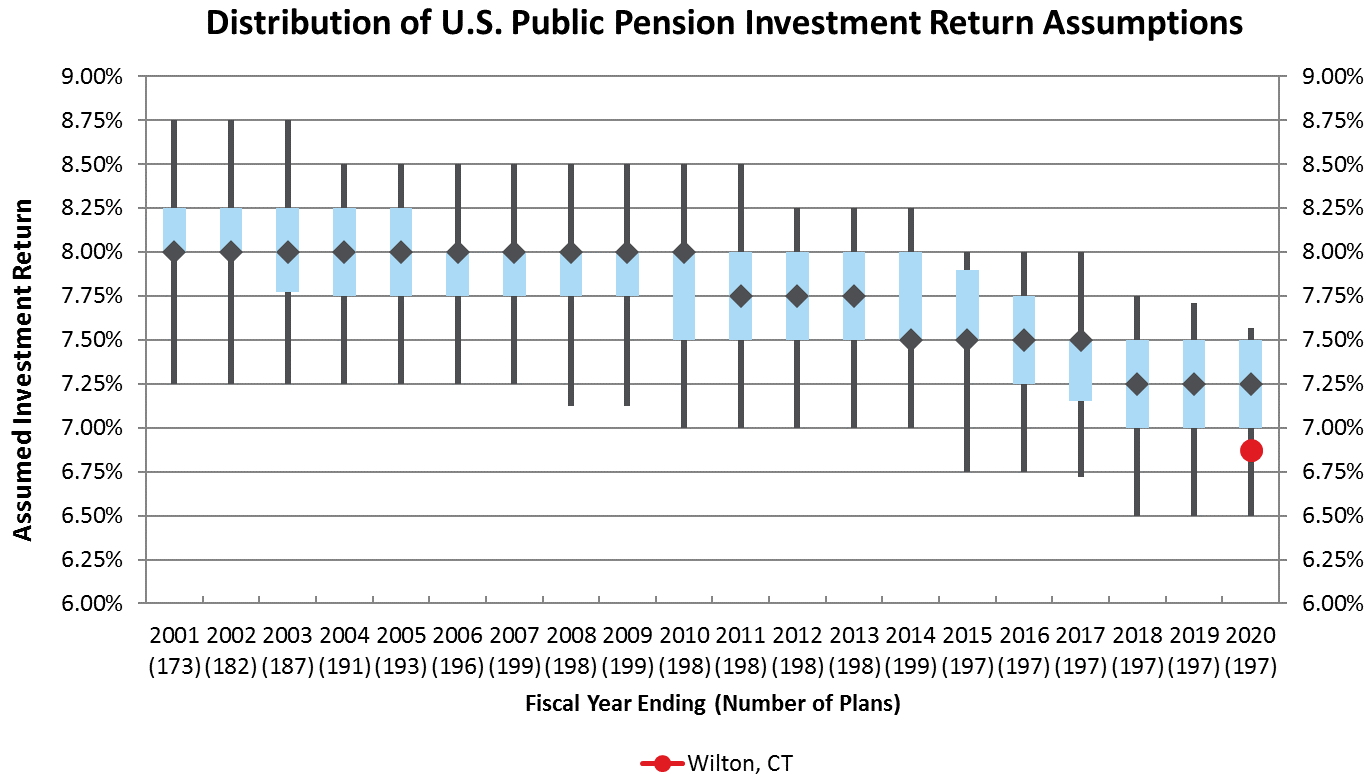
- Portfolios B, C, & D move the expected return closer to the actuarial assumed rate of return

¹ Expected returns based on Aon Investments Q2 2021 30 year Capital Market Assumptions assuming the detailed portfolios found in the Appendix. All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees. Expected returns presented are models and do not represent the returns of an actual client account. Not a guarantee of future results. See Appendix for the Capital Market Assumptions.



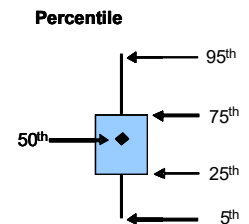
Expected Investment Rate of Return

Wilton versus All Public Peers¹



Key Takeaways:

- The public pension peer median actuarial assumption for investment return has declined from 8.00% in 2001-2010 to 7.25%
- Wilton's assumption for FYE 2020 (6.875%) lied between the 5th and 25th percentile relative to its peers

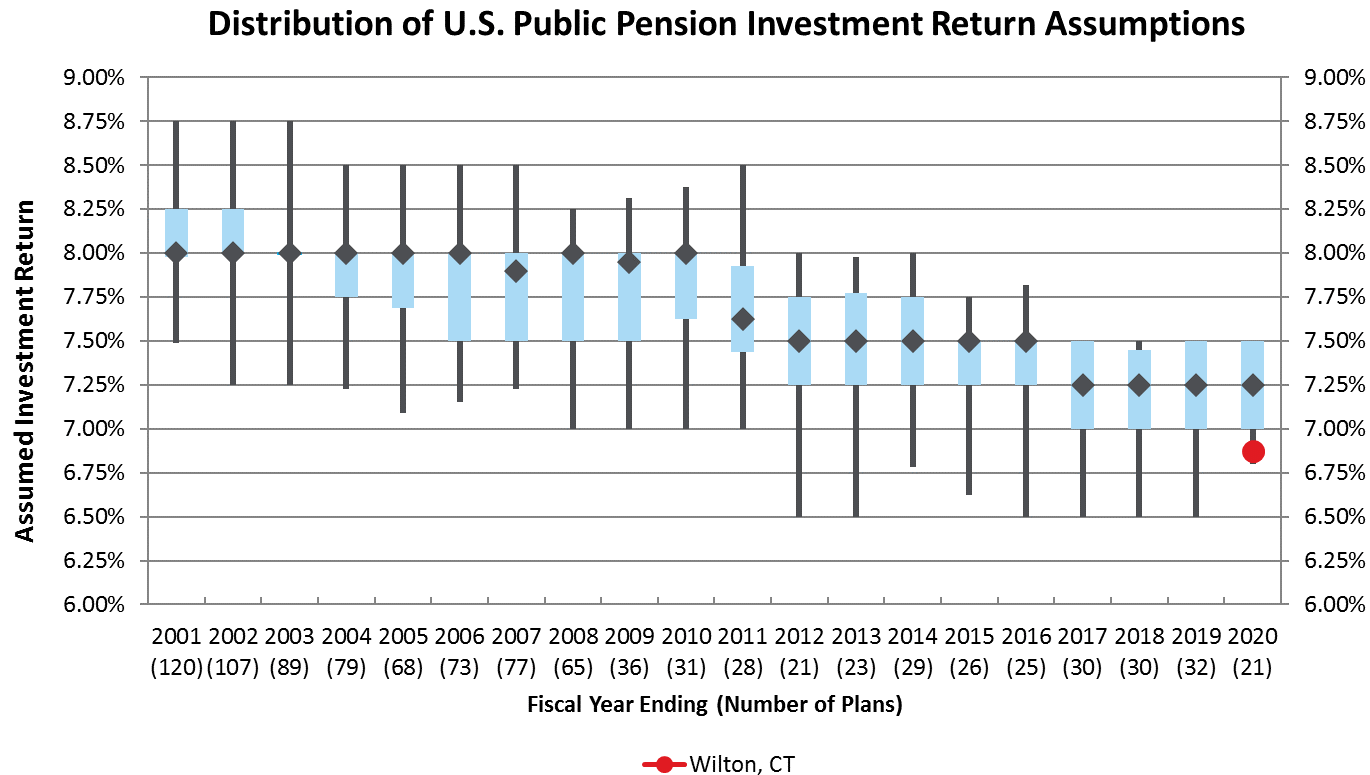


Sources: Public PlansData (publicplansdata.org) as of April 2021; Expected Returns are the assumptions made by the plans included in the data set.

¹ Peers defined as public funds published within publicplansdata.org as of April 2021; Number of plans per year are shown in parentheses

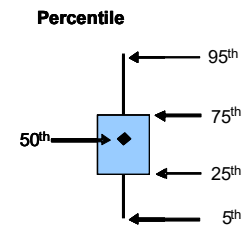
Expected Investment Rate of Return

Wilton versus Peers Funded Great Than 90%¹



Key Takeaway:

- Plans at least 90% funded have a downward shifted distribution compared to all public pension plans



Sources: Public PlansData (publicplansdata.org) as of April 2021; Expected Returns are the assumptions made by the plans included in the data set.

¹ Peers defined as public funds published within publicplansdata.org as of April 2021; Number of plans per year are shown in parentheses



Appendix

- Assumptions and Methods

Aon Investments' Capital Market Assumptions

As of March 31, 2021 (30 Years)

	Expected Real Return ¹	Expected Nominal Return ¹	Expected Nominal Volatility
Equity			
1 Large Cap U.S. Equity	4.2%	6.4%	17.0%
2 Small Cap U.S. Equity	4.7%	6.9%	23.5%
3 Global Equity IMI	4.9%	7.1%	18.5%
4 International Equity (Developed)	5.0%	7.2%	20.0%
5 Emerging Markets Equity	5.2%	7.4%	27.0%
Fixed Income			
6 TIPS	0.0%	2.1%	3.5%
7 Core Fixed Income	0.7%	2.8%	4.5%
8 Market-Duration (5-Yr) Non-Govt Bonds	1.2%	3.3%	6.0%
9 High Yield Bonds	2.4%	4.5%	12.5%
10 Non-US Developed Bond (0% Hedged)	-0.3%	1.8%	10.5%
11 Multi-Asset Credit ²	3.5%	5.7%	10.0%
Alternatives			
12 Direct Hedge Funds ^{2,3}	4.4%	6.6%	10.0%
13 Non Core Real Estate	4.6%	6.8%	25.0%
14 Core Real Estate	2.9%	5.1%	15.0%
15 Private Equity	6.7%	8.9%	25.0%
16 Private Debt	4.8%	7.0%	17.0%
Inflation			
17 Inflation	0.0%	2.1%	1.5%

Notes:

¹ All expected returns are geometric (long-term compounded; rounded to the nearest decimal) and net of investment fees.

² Alpha incorporated in Expected Nominal Return.

³ Represents diversified portfolio of direct hedge fund investments.

Aon Investments' Capital Market Assumptions

As of March 31, 2021

Nominal Correlations		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1	Large Cap U.S. Equity	1.00	0.92	0.96	0.79	0.73	-0.03	0.02	0.10	0.60	-0.02	0.57	0.54	0.48	0.38	0.69	0.37	0.08
2	Small Cap U.S. Equity	0.92	1.00	0.91	0.72	0.67	-0.03	0.02	0.09	0.55	-0.02	0.53	0.49	0.45	0.35	0.65	0.34	0.08
3	Global Equity IMI	0.96	0.91	1.00	0.90	0.85	-0.03	0.02	0.10	0.65	0.15	0.63	0.52	0.49	0.39	0.67	0.39	0.09
4	International Equity (Developed)	0.79	0.72	0.90	1.00	0.75	-0.04	0.00	0.07	0.58	0.41	0.59	0.45	0.45	0.35	0.56	0.35	0.09
5	Emerging Markets Equity	0.73	0.67	0.85	0.75	1.00	-0.03	0.02	0.09	0.64	0.19	0.62	0.38	0.42	0.32	0.53	0.37	0.08
6	TIPS	-0.03	-0.03	-0.03	-0.04	-0.03	1.00	0.58	0.48	0.06	0.05	0.01	-0.07	0.03	0.04	-0.02	-0.16	0.24
7	Core Fixed Income	0.02	0.02	0.02	0.00	0.02	0.58	1.00	0.95	0.30	0.15	0.26	0.03	0.05	0.05	0.02	0.03	0.03
8	Market-Duration (5-Yr) Non-Govt Bonds	0.10	0.09	0.10	0.07	0.09	0.48	0.95	1.00	0.49	0.14	0.45	0.18	0.08	0.08	0.09	0.27	0.03
9	High Yield Bonds	0.60	0.55	0.65	0.58	0.64	0.06	0.30	0.49	1.00	0.19	0.93	0.51	0.32	0.25	0.44	0.69	0.15
10	Non-US Developed Bond (0% Hedged)	-0.02	-0.02	0.15	0.41	0.19	0.05	0.15	0.14	0.19	1.00	0.27	0.04	0.03	0.01	0.00	0.06	0.11
11	Multi-Asset Credit	0.57	0.53	0.63	0.59	0.62	0.01	0.26	0.45	0.93	0.27	1.00	0.54	0.29	0.21	0.39	0.67	0.10
12	Direct Hedge Funds	0.54	0.49	0.52	0.45	0.38	-0.07	0.03	0.18	0.51	0.04	0.54	1.00	0.25	0.19	0.36	0.44	0.07
13	Non Core Real Estate	0.48	0.45	0.49	0.45	0.42	0.03	0.05	0.08	0.32	0.03	0.29	0.25	1.00	0.96	0.38	0.18	0.09
14	Core Real Estate	0.38	0.35	0.39	0.35	0.32	0.04	0.05	0.08	0.25	0.01	0.21	0.19	0.96	1.00	0.32	0.13	0.09
15	Private Equity	0.69	0.65	0.67	0.56	0.53	-0.02	0.02	0.09	0.44	0.00	0.39	0.36	0.38	0.32	1.00	0.28	0.07
16	Private Debt	0.37	0.34	0.39	0.35	0.37	-0.16	0.03	0.27	0.69	0.06	0.67	0.44	0.18	0.13	0.28	1.00	0.01
17	Inflation	0.08	0.08	0.09	0.09	0.08	0.24	0.03	0.03	0.15	0.11	0.10	0.07	0.09	0.09	0.07	0.01	1.00



Appendix

- About This Material

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