



Managing money in a low interest rate and volatile environment

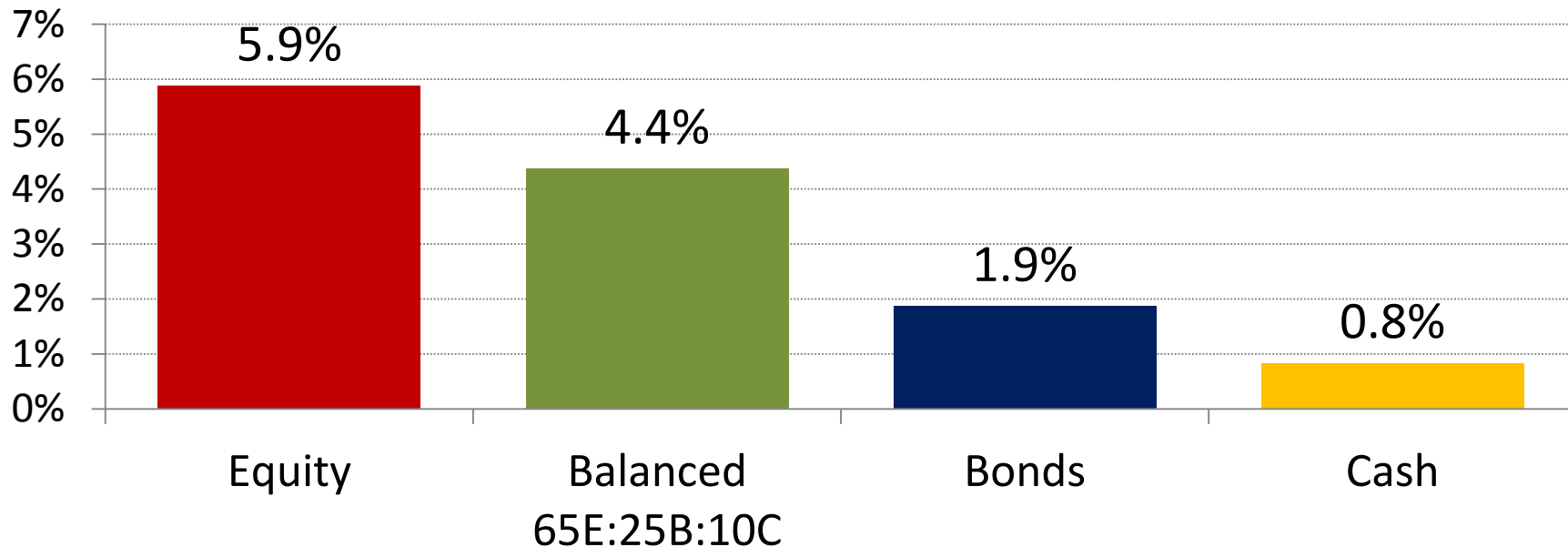
Eldria Fraser

Prescient Investment Managers

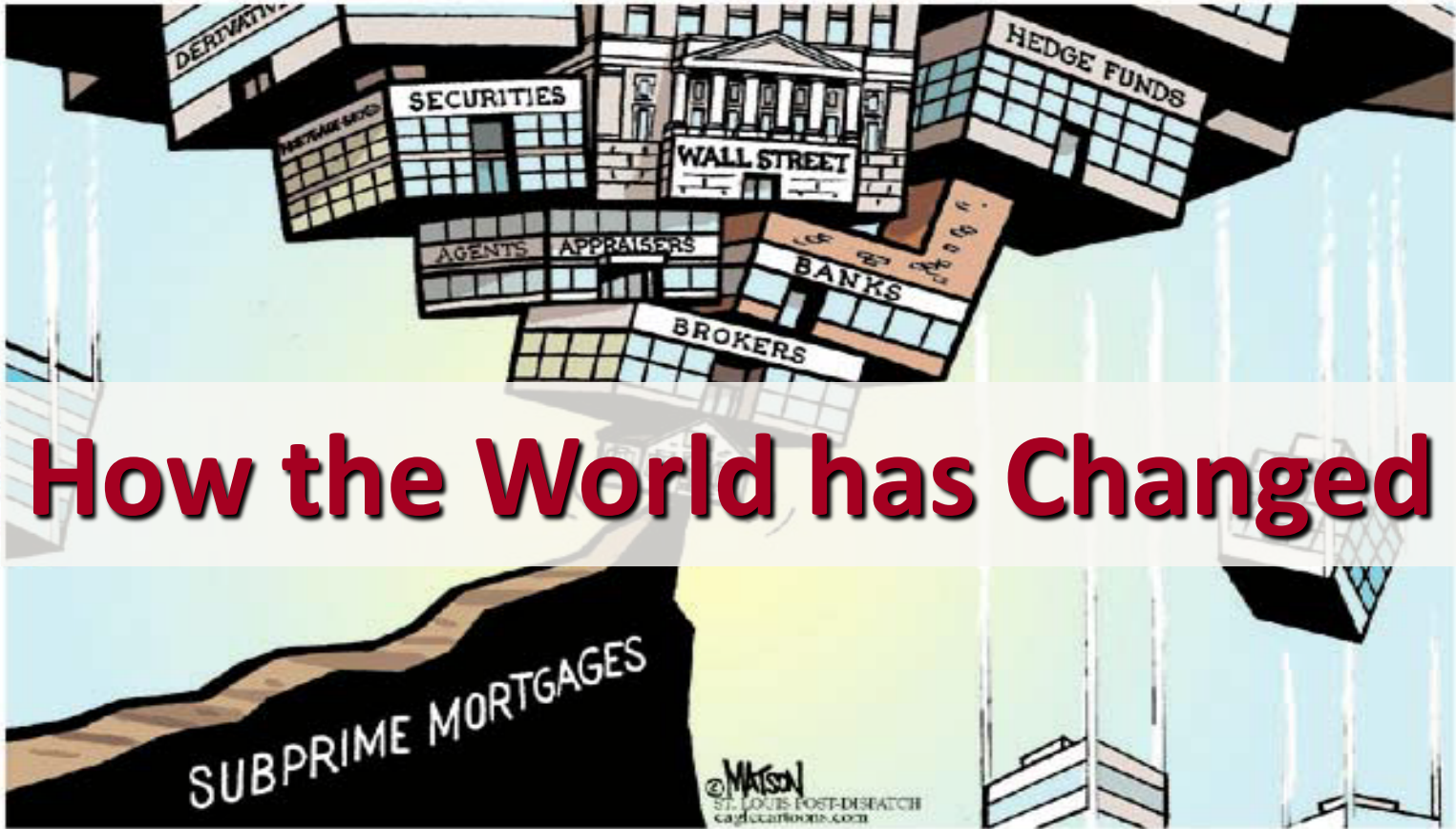
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Long-term real returns

Annualised US Returns from 1900 to December 2011



Source: PIM; Dimson, E; Marsh, P; Staunton, M. Triumph of the Optimists: 101 Years of Global Investment returns (2002)

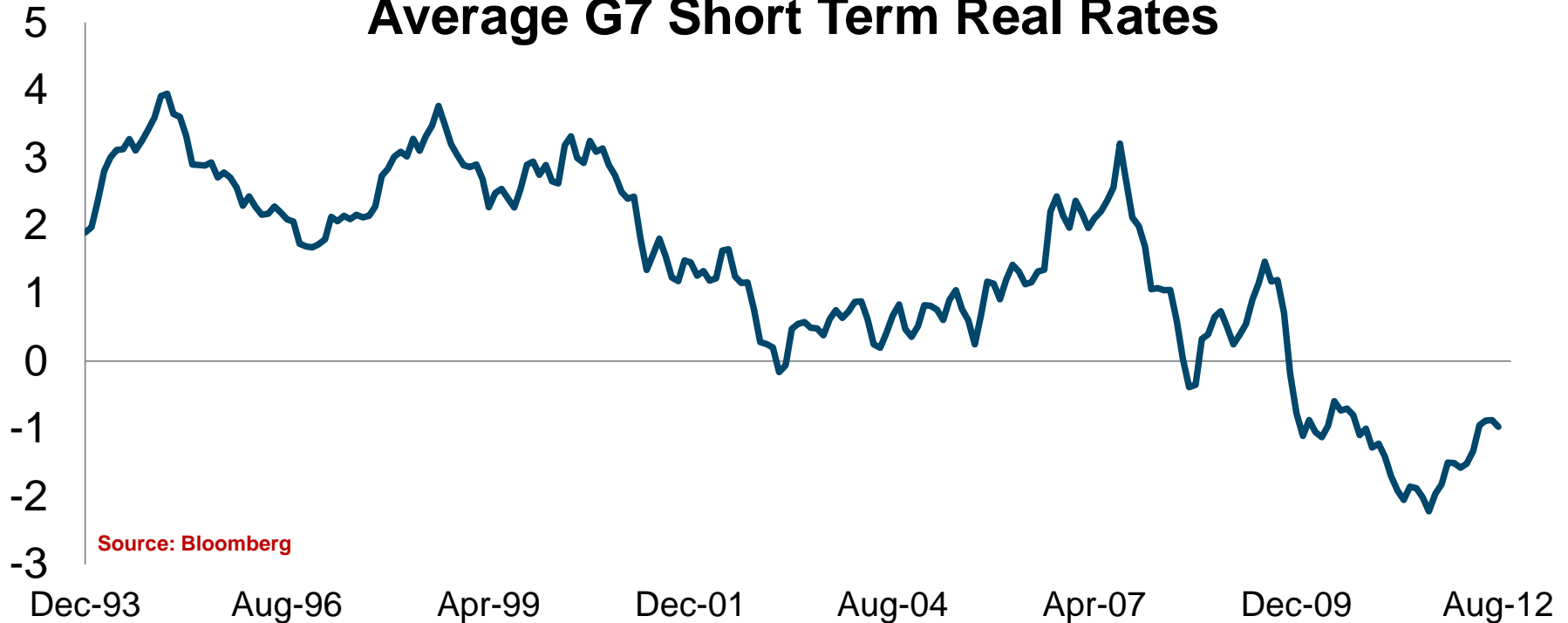


How the World has Changed

"I THOUGHT WE WERE JUST BUYING A HOUSE!"

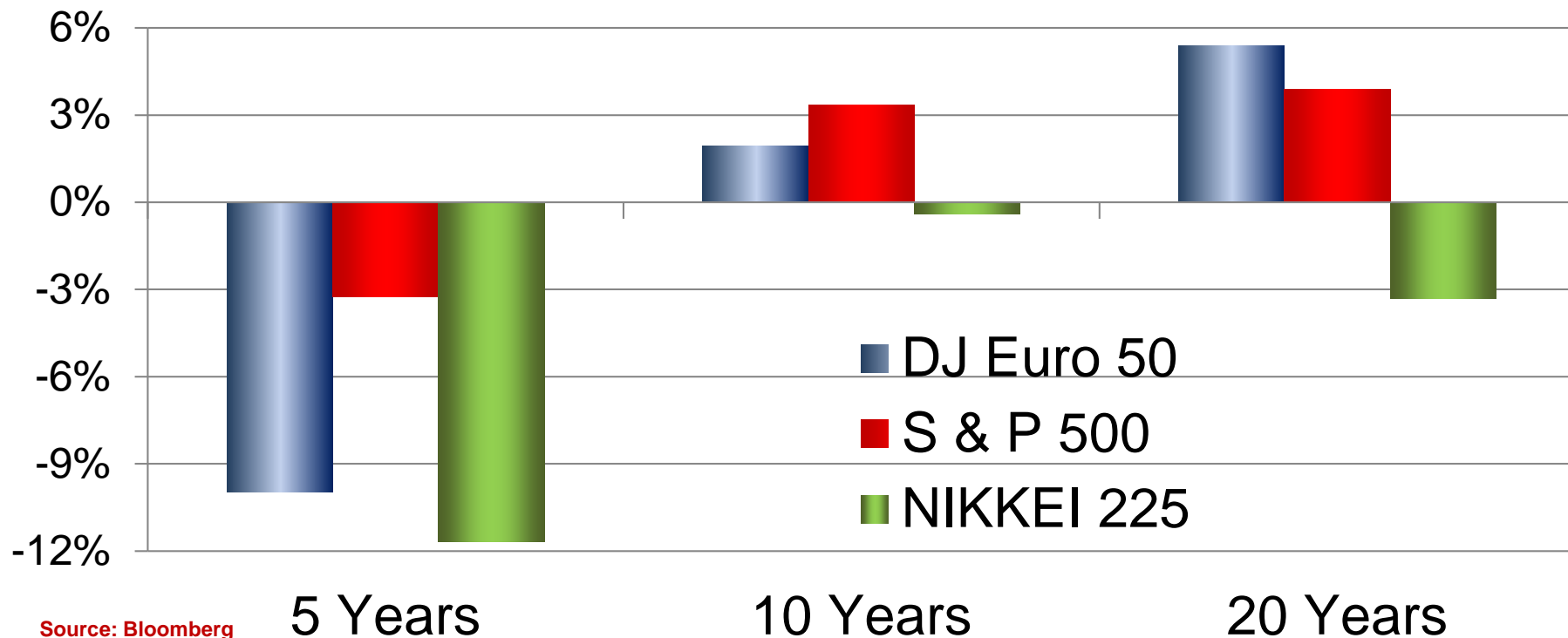
Global real rates

Average G7 Short Term Real Rates



Source: Bloomberg

Real equity returns



Source: Bloomberg

Path of equity return



Managing volatility

- Volatility consists of two components
 - Downside and Upside volatility
- Managers have traditionally relied on capturing upside volatility
- Important to focus on downside volatility
 - Particularly for (under funded) DB Funds

The way forward

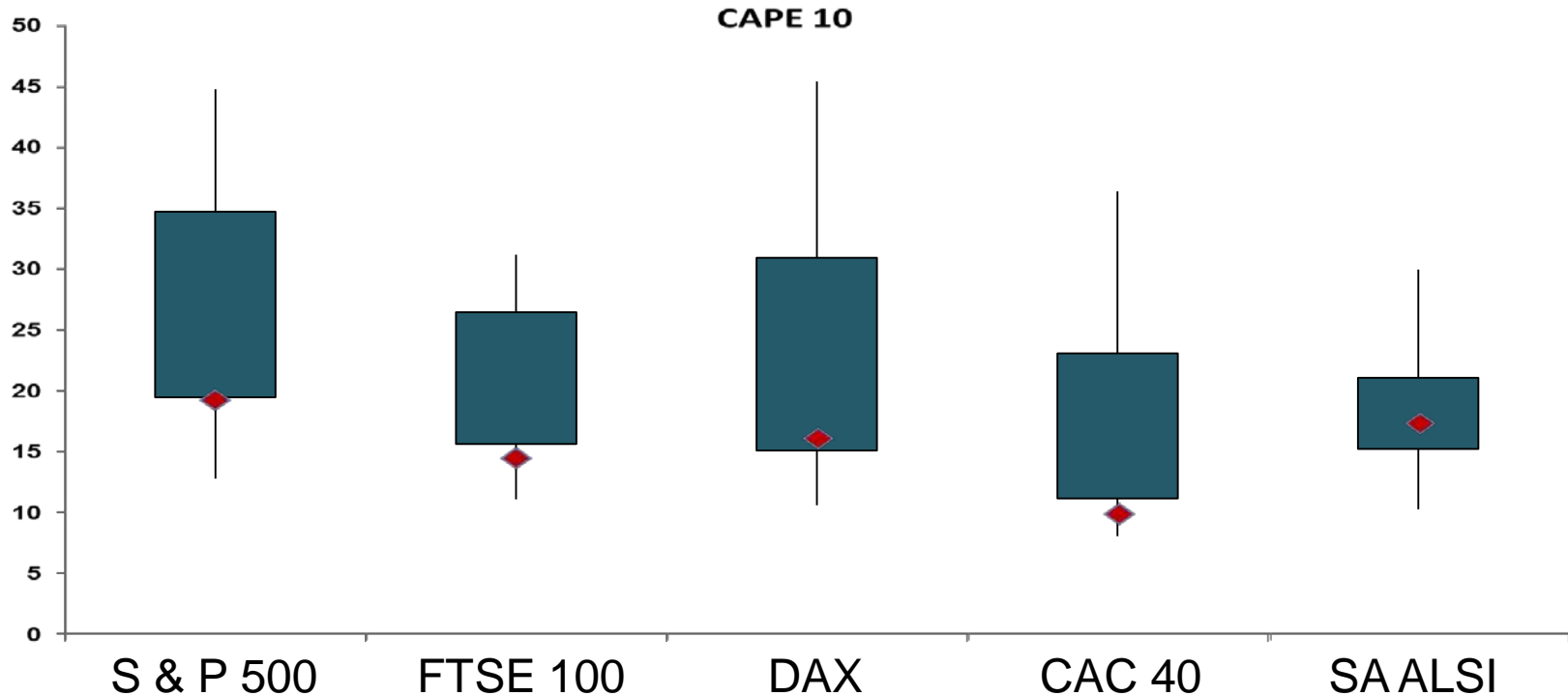
- “De-risking” can be the greatest risk
- Keep growth asset exposure
- Protect against the downside
- Potential to reduce deficit/improve benefits

Create a known outcome!

Risk adjusted value of assets

- Asset allocation a function of value and risk
 - Not static
- Consider value of assets
 - Yield (PE)
- Consider risk of assets
 - Volatility

Equity valuations are good

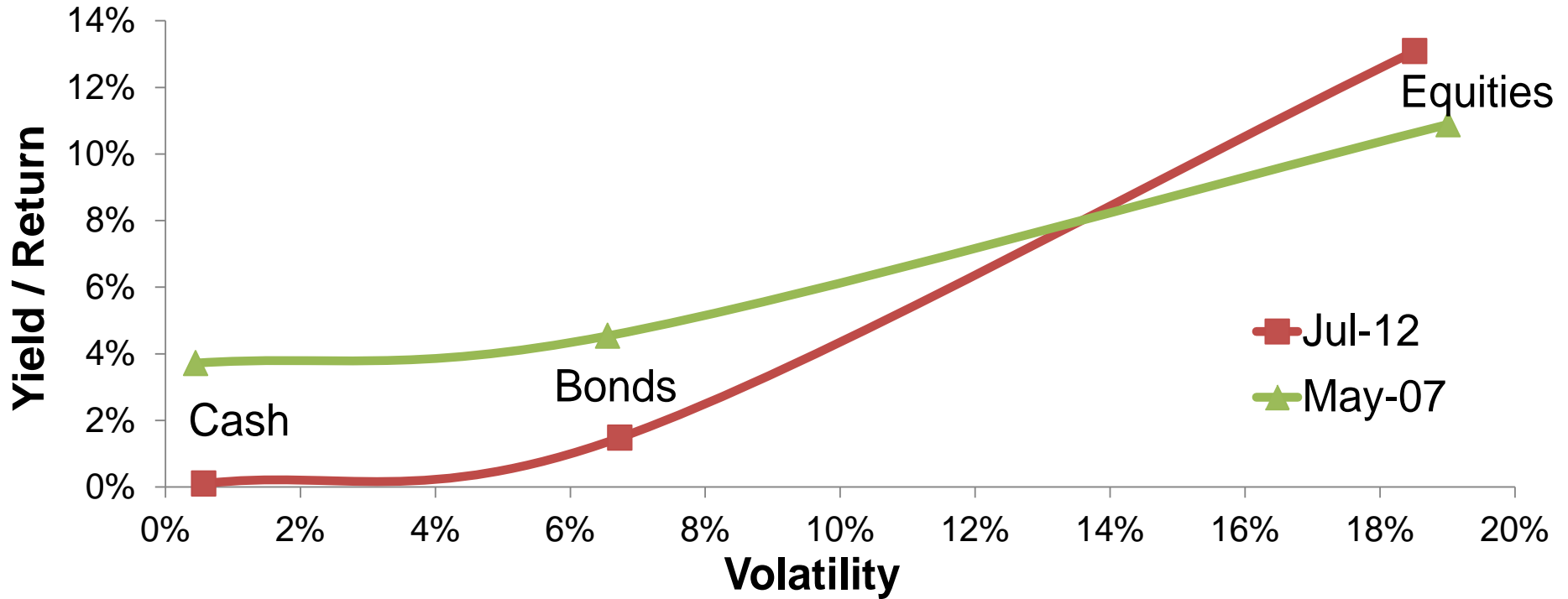


Source: PIM, Bloomberg

Volatility is low



Value and risk



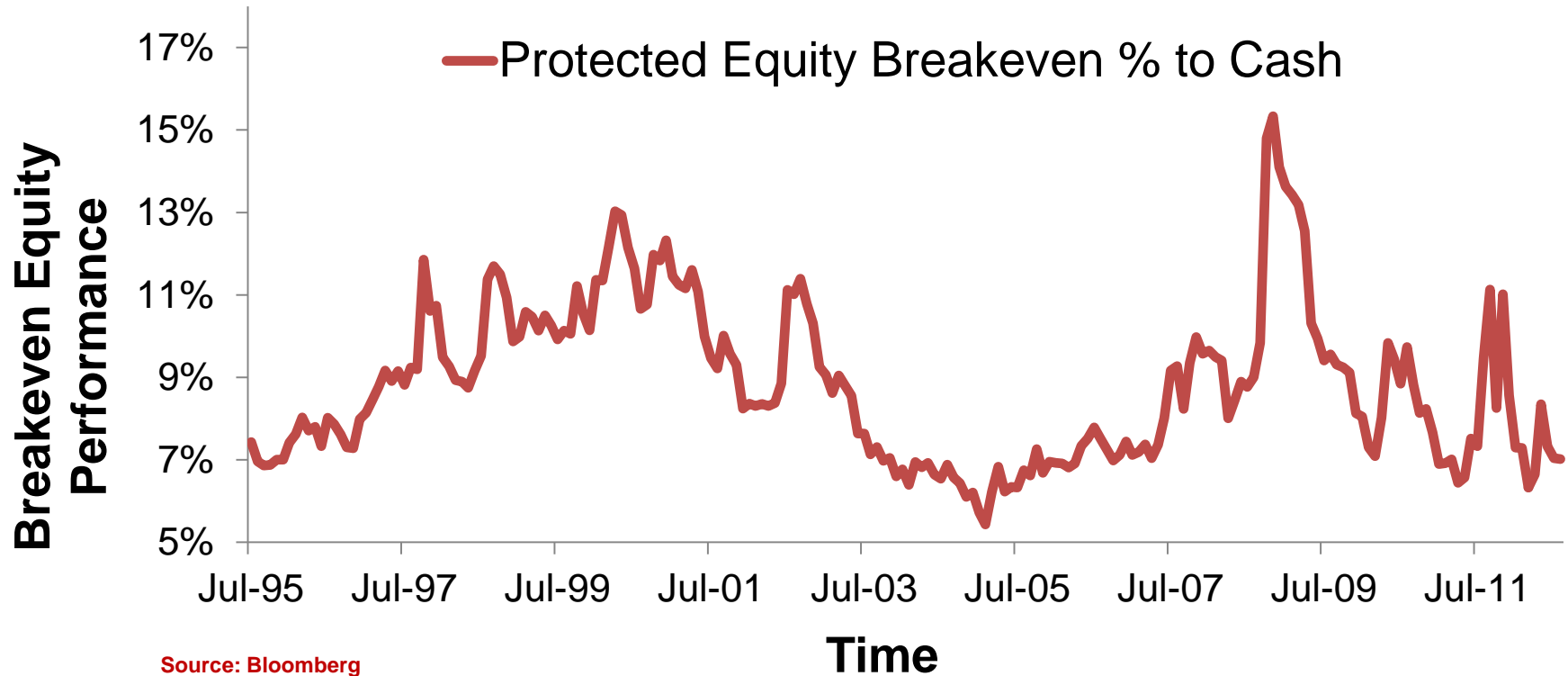
Source: PIM, Bloomberg

Protect the downside

- Listed options – fully margined
- Major exchanges
 - S & P 500, Eurostoxx 50, FTSE 100, DAX, Nikkei 225
- Conform to exchange rules
- Often protected by guarantee funds
- Cheap and liquid
- Fully covered

Protected equity is cheap

Breakeven to Cash



Source: Bloomberg

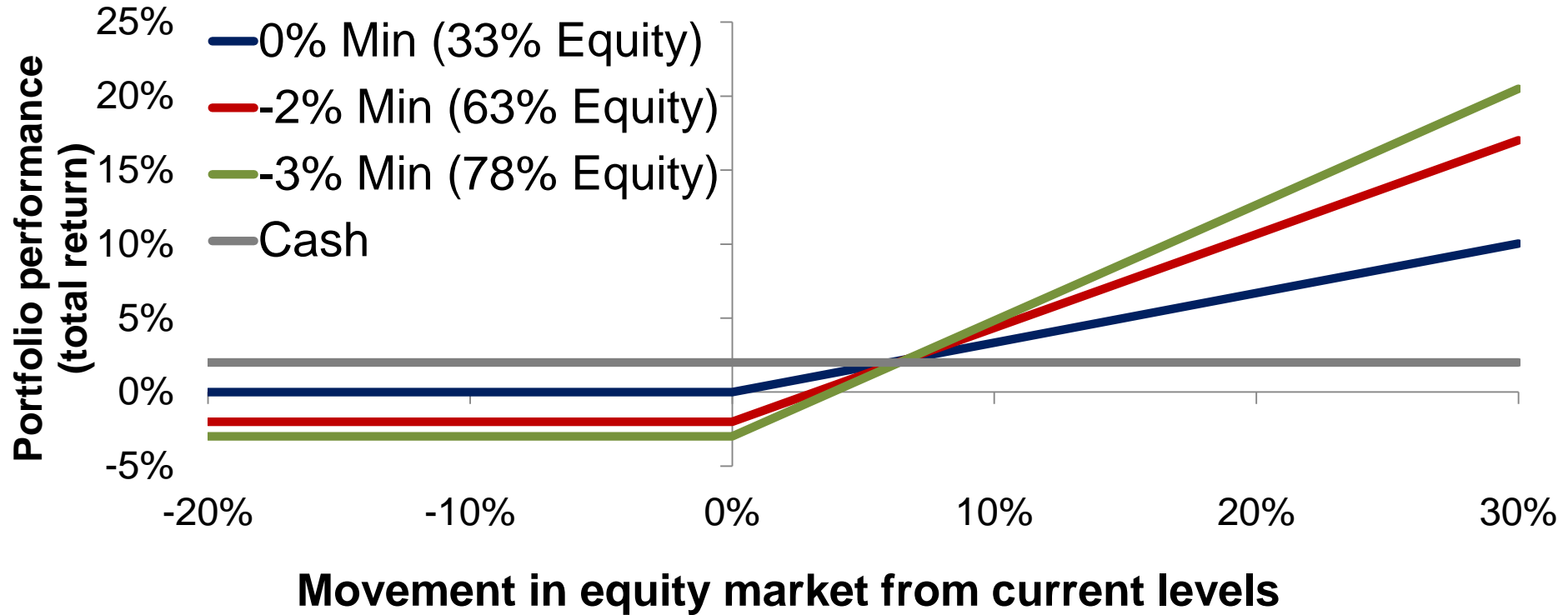
Time

The known outcome:

Possible strategies

		Equity Market Movement					
		-20%	-10%	0%	10%	20%	30%
Min Return	Equity exposure	Portfolio Return					
0%	33%	0%	0%	0%	3%	7%	10%
-1%	48%	-1%	-1%	-1%	4%	9%	14%
-2%	63%	-2%	-2%	-2%	4%	11%	17%
-3%	78%	-3%	-3%	-3%	5%	13%	20%
	Cash	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
	Euro Inflation	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%

Performance sensitivity



Dynamic process

- Readjust as market dynamics change
 - Asset allocation and protection levels
- Less focussed on peers
- More focus on client's actual risk

Conclusion

- Risky times for savers
 - Low rates, volatile markets
- Protected equity is attractive
- Can retain growth assets AND
- Limits capital risk
- Benefit from positive compounding

Create a known outcome

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THANK YOU

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