Game of Two Halves

Half Time Assessment

Brian Griffin

Mercer

The world in 10 years time

What I covered five years ago…………..

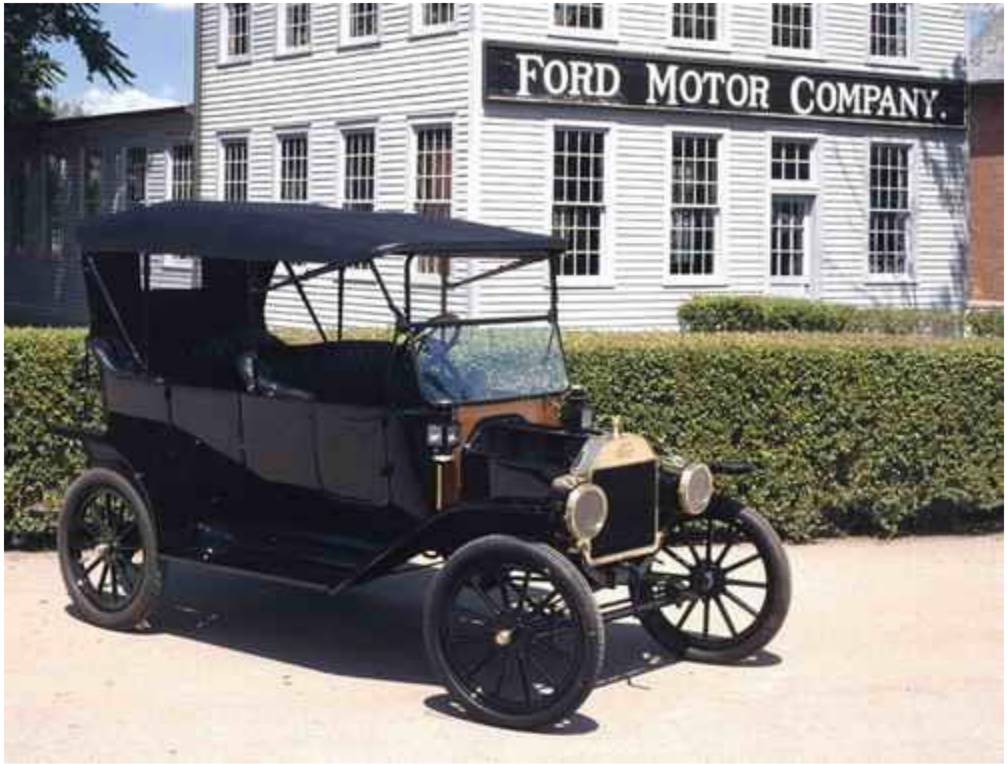
- DB – wider variety of pension models
- DC – flexibility and engaging members
- Investment – broader benchmarks

Defined Benefit

Changes in DB – 2010-2015

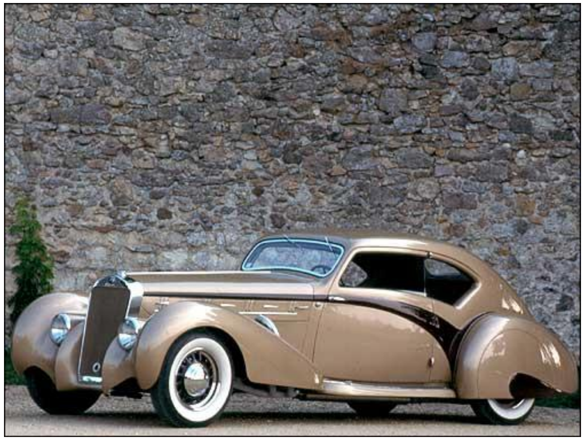
- Significantly fewer DB schemes
- Trend to wind-up has slowed
- Schemes generally on a more sustainable footing
  - Assets higher
  - Benefits lower
  - Funding proposals in place
  - De-risking plans
- More difficult to wind-up than previously thought
- A good level of commitment to remaining schemes

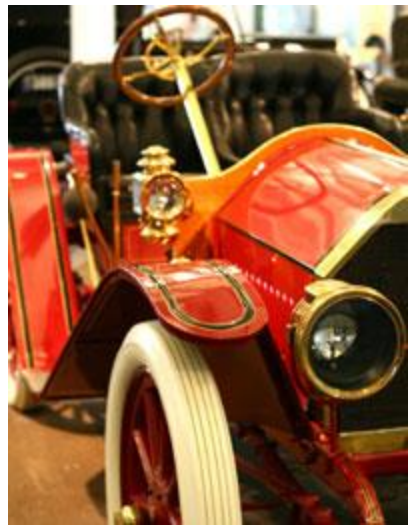
From a single DB pension model…..

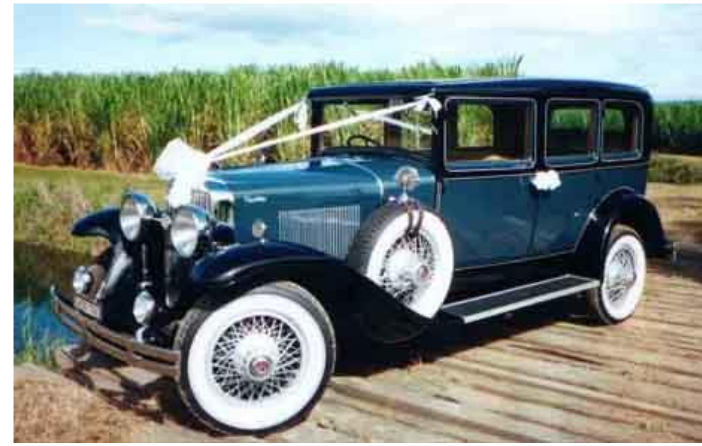


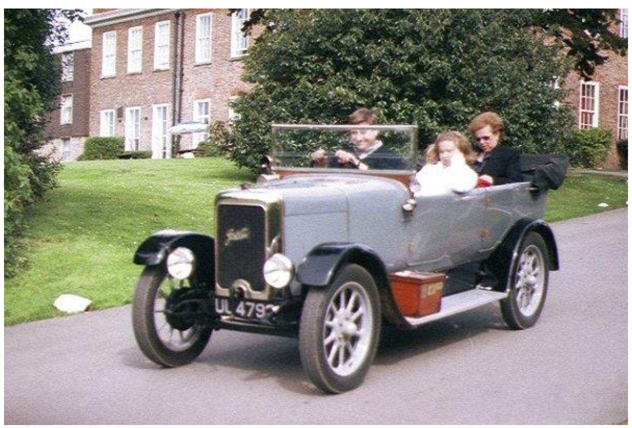
"Any colour as long as its black!"

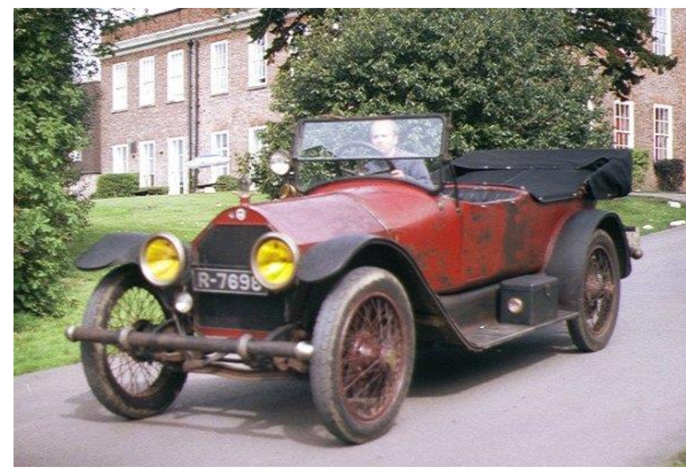
…to multiple DB pension models











All different colours, shapes and sizes

Moving to Multiple Models

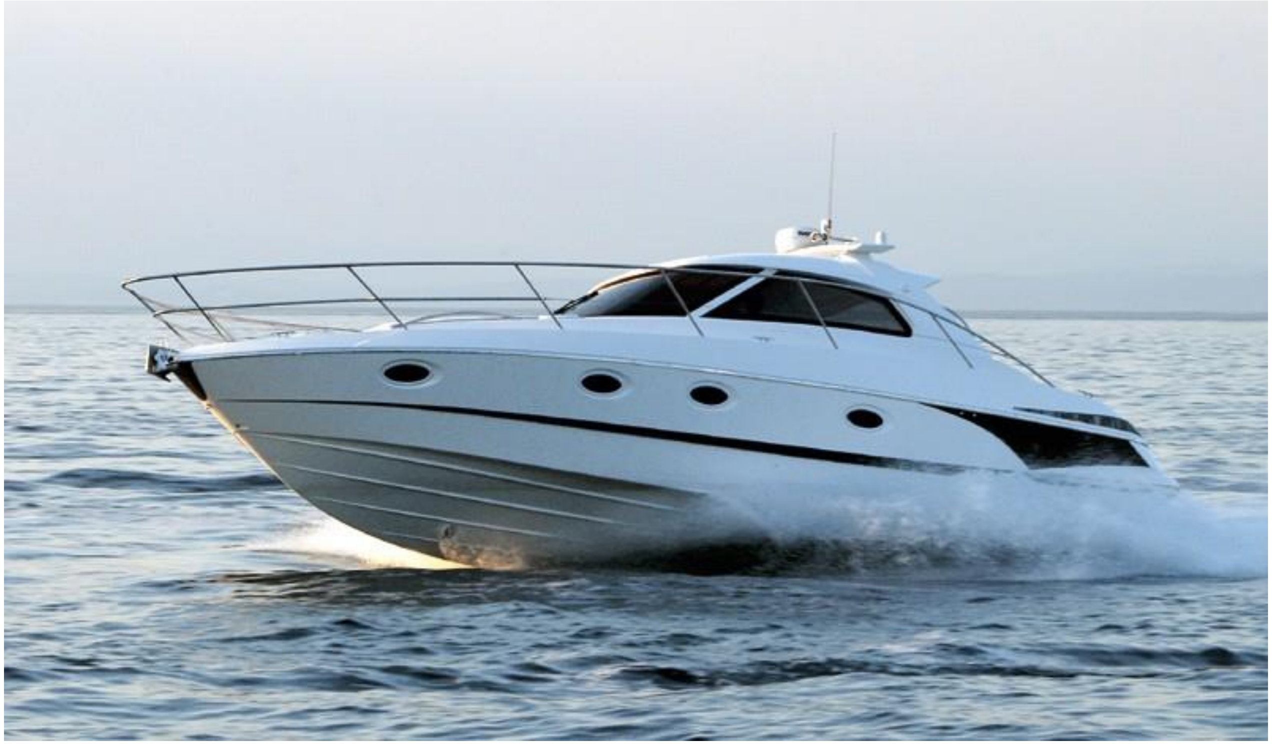
< - - - - Governance Models - - - - >

Traditional Model	Traditional with part Delegation	Delegated Model
Captive Insurers	Bulk Buy-In	Longevity Swaps

< - - - - - - - - - Risk Transfer Models - - - - - - - - - - - - - >

Opportunism
From cumbersome and unwieldy…

…to proactive and nimble



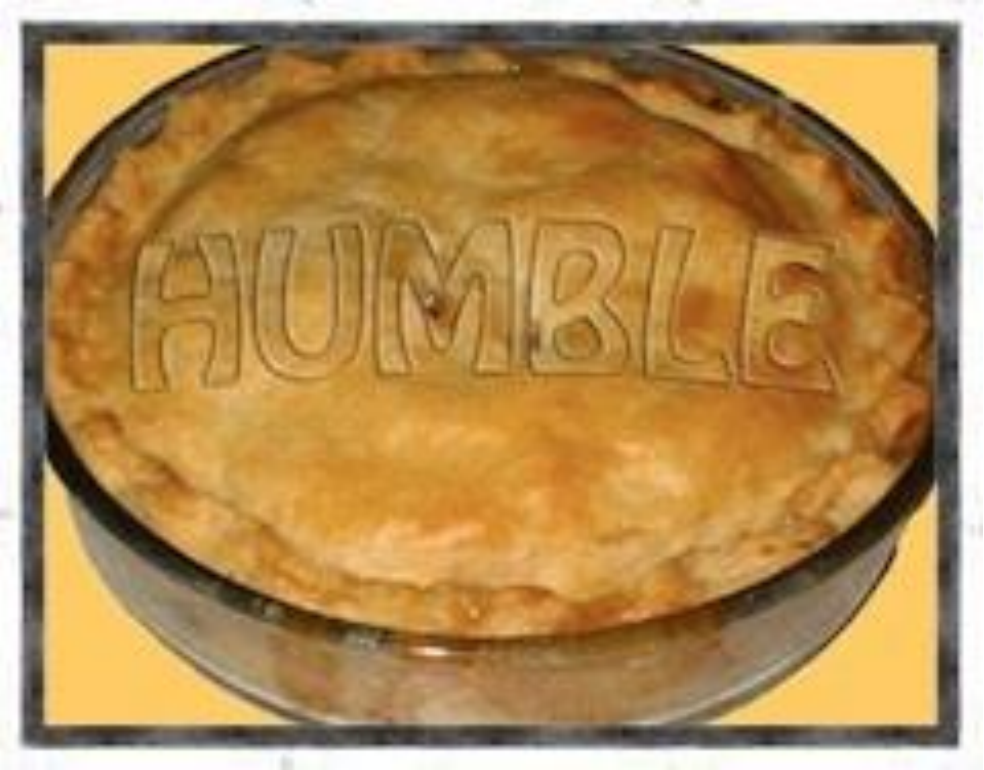
Strategic Opportunism

- Huge progress – processes & implementation

Funding level Triggers	Bond Yield Triggers	Inflation Triggers

- Across advisory and delegated models
- Quarterly, monthly and even daily
- This has driven significant de-risking activity
- ….but triggers may need to be rethought in current environment

Tactical Opportunism



Tactical Opportunism

- What I predicted………

~~More Investment Committees~~	~~Meeting More Frequently~~	~~More Investment Resources~~

- People busier and busier with the day job…
- Trustees keen to stay involved in decisions
- Really only going to happen if it is outsourced

Defined Contribution

iapf

Engaging DC Members

- Difficult to engage effectively with members
- Need strong governance to do it effectively
- Zoning of DC members now gathering momentum

Do It For Me	Help Me Do It	Leave Me To It
Well diversified Default Fund	Well diversified Risk-Rated Funds	Specialist Funds

- Need an effective link between member communications and investment choices

Navigating the Default

- Well-constructed, well diversified growth portfolio
- What to target at retirement?
- Complicated by removal of annuity requirement
- Potentially multiple lifestyle strategies
- ….one of these should be the default
- Trustees need to decide the most appropriate default fit for their membership
- Greater need for member advice or guidance

Other predictions for DC

Requirement for guarantees

Handling illiquid assets

Wider use of Master Trusts

Interest rates simply too low

Conversion from exempt structures

The jury is still out!

iapf

Investment Mandates

Broadening Equity Holdings

- Prediction was for more focus on Emerging Markets (the case for decoupling!!)
- ….by way of broader benchmarks
- We do, however, have broader equity holdings

Emerging Markets	Small Cap Equity	Low Volatility Equity

- Offers more control – under or over weighting, active v passive, dampening of volatility etc.

Broadening Bond Holdings

- Prediction was for broader bond exposure

Non - Euro Governments	Eurozone Governments	Corporate Bonds

- Initially this went in reverse…
- We do, however, now have broader bond holdings ✓
  - Strategic – good return potential with lower risk
  - Tactical – first step of a two-step derisking journey
- These holdings are likely to be retained
- Greater use of interest rate and inflation derivatives ✓

Greater discretion for active managers

- Predicted:
  - More "unconstrained" equity portfolios
  - Scope also for multi asset class growth portfolios
- We have seen significant activity in this area:
  - Low volatility investing
  - Diversified growth funds
  - Multi asset growth
- Likely to continue – especially for DC solutions