DC investment strategies: Value for members

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The UK Pensions Regulator (TPR) definition:

"A scheme offers value for money where the **costs** and **charges** deducted from members provide good value in relation to the **benefits** and **services** that they receive"

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Pension Policy Institute research

- ‘Value for money’ is the product of several factors
  - Governance
  - Administration
  - Contribution levels
  - Member decisions
  - Charges
  - Investment strategy

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Source: Pensions Policy Institute

Today's presentation is brought to you by the letter E

THE BIG E

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Assessing value for money

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Economy - price, spending less

Efficiency - use of resources, spending well

Effectiveness - actual vs intended outcome, spending wisely

Equity - outcome distribution, spending fairly

How to assess this in a DC member context?

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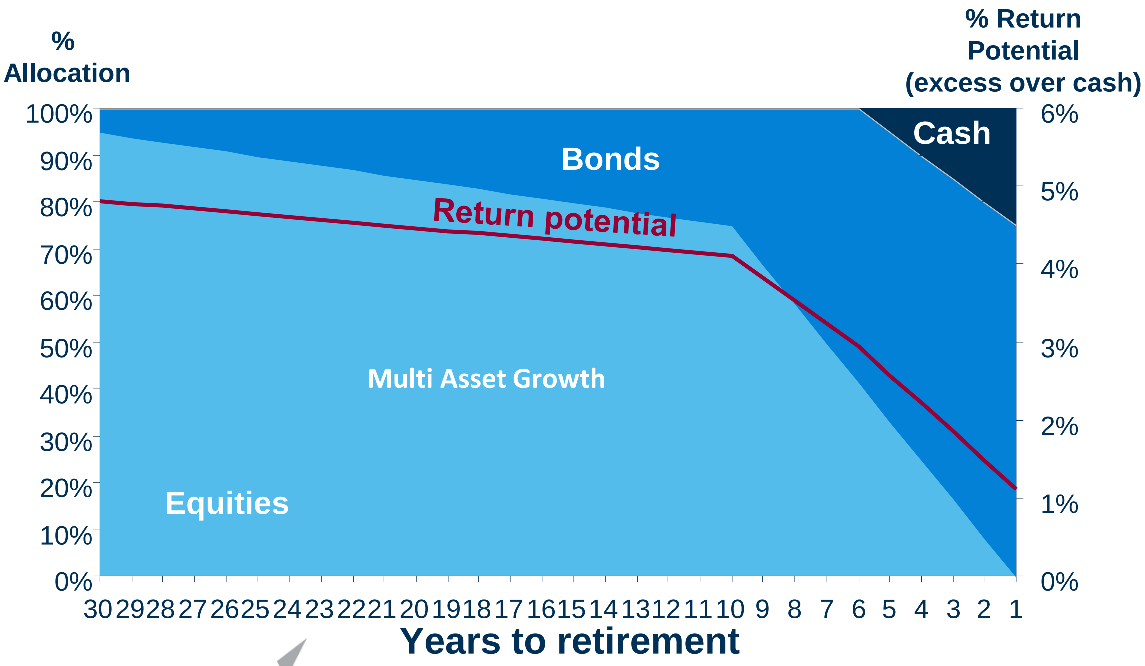
Traditional DC "lifestyle" allocation



Typical DC glidepath prepares for annuitisation

Large allocation to growth assets in early stages

Increased risk aversion of preservation stage means return potential falls sharply

Can be enacted cheaply by passive strategies

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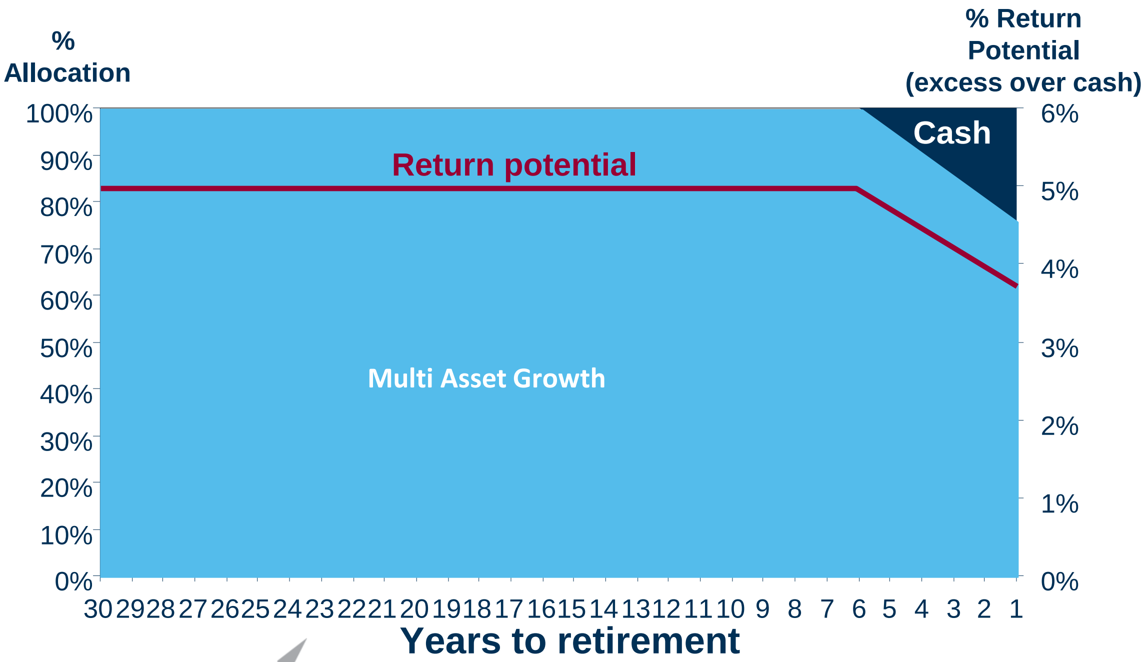
Is this an effective accumulation strategy for DC members?

Traditional DC "lifestyle" allocation



- Maintains access to growth assets throughout
- Return potential higher level for longer
- More flexible landing site
- More expensive to enact, but possibly easier to understand

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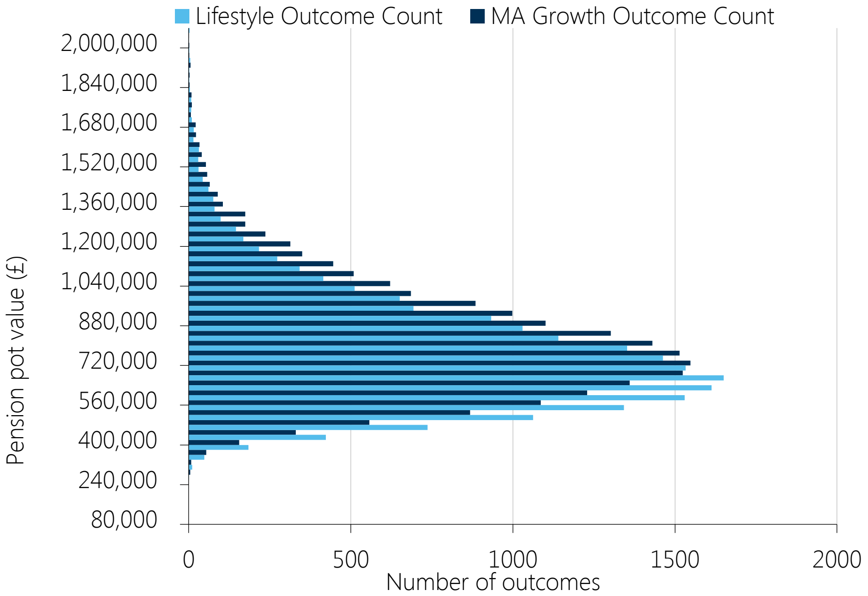
Does this allocation produce a better accumulation outcome?

Assessing effectiveness and equity: Multi-Asset growth vs lifestyle



- Stochastic model, 20,000 market simulations
- Calculates accumulated pension pot after 35 years regular saving
- Using Multi-Asset Growth:
  - The median fund is 11% bigger
  - The probability of a "bad outcome" is reduced
  - The fund size is 12% bigger at the 10th and 25th percentiles
- Multi-Asset Growth produces a more effective and equal outcome for DC members after costs

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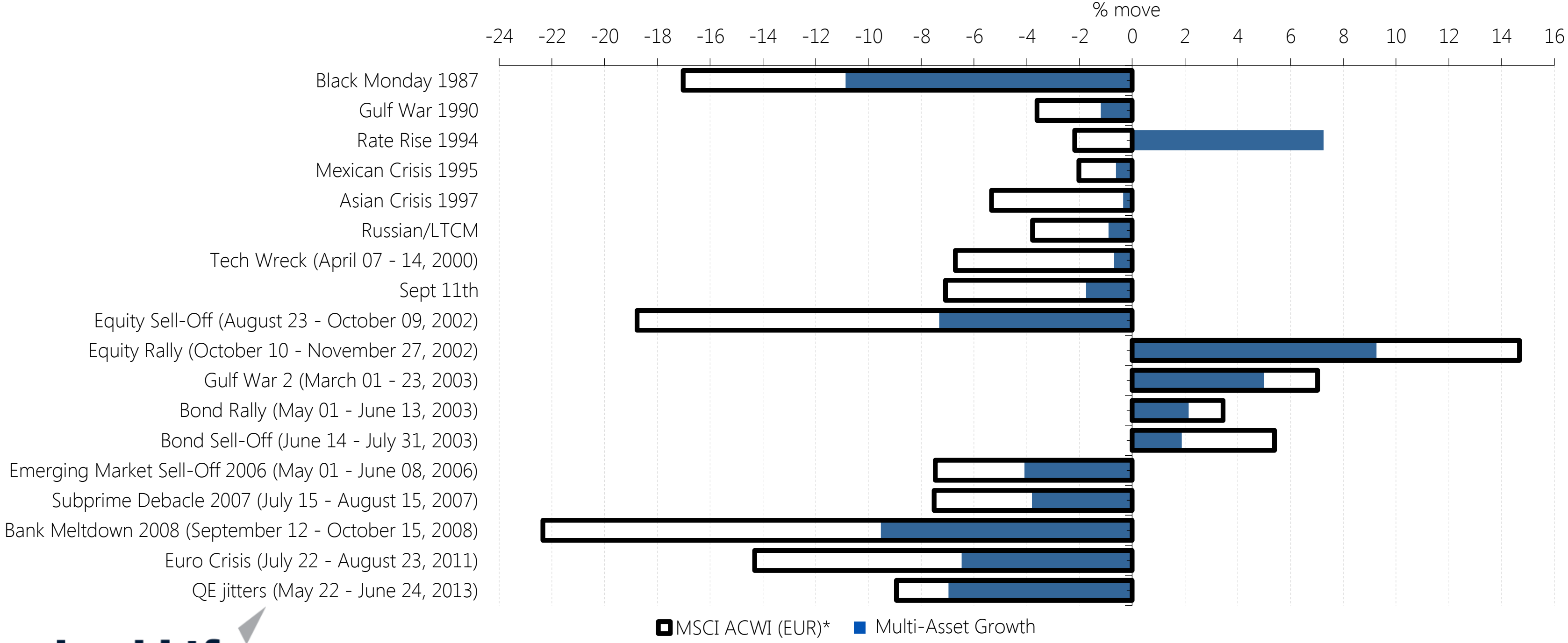
Source: Standard Life Investments

Efficiency of volatility management



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* MSCI World returns prior to 2000 denoted in European Currency Units, except for 1987 which is denoted in German Marks
Source: Standard Life Investments, RiskMetricks, 30 June 2016

Efficiency as measured by risk-adjusted return

	Index tracker	High Alpha Equity	Multi-Asset Growth
Gross return	Passive equity returns	Passive equity plus 3%	Passive equity returns over a market cycle
Risk	Equity volatility	Equity volatility	Two thirds of equity volatility
TER	10 bps	75 bps	50 bps
Net return	Passive -10 bps	Passive +225 bps	Passive -50 bps
Information ratio	0.38	0.52	0.53

Low volatility growth boosts the information ratio to the same level as high alpha equity funds

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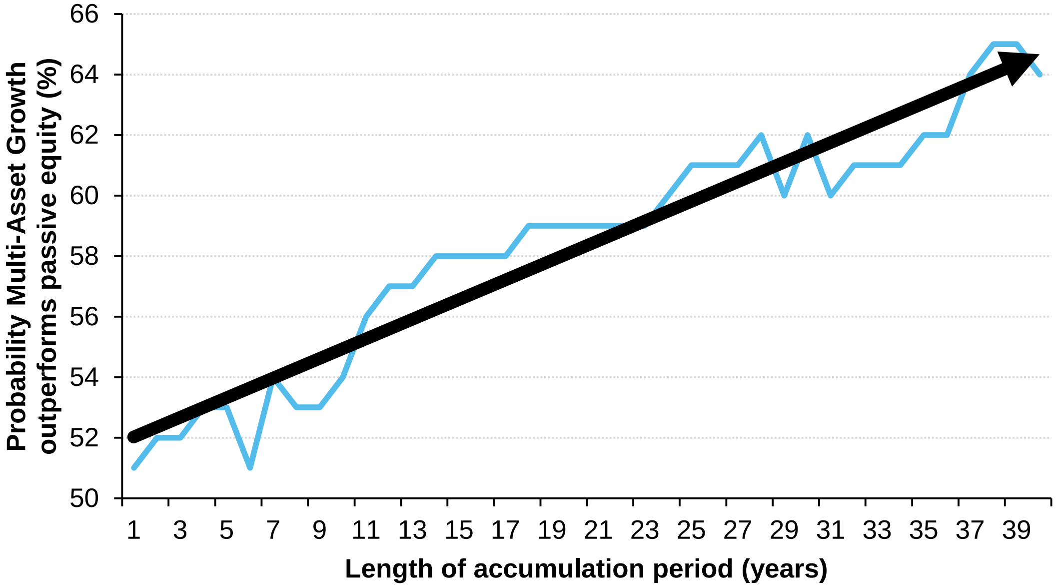
Source: Standard Life Investments, 30 June 2016

Effectiveness: The value of low volatility



- 20,000 projections
- Multi-Asset Growth
  - Passive equity gross returns
  - 2/3 equity volatility
  - Annual fund charges
    - Passive equity 0.1%
    - MA Growth 0.5%

Source: Standard Life Investments, May 2015

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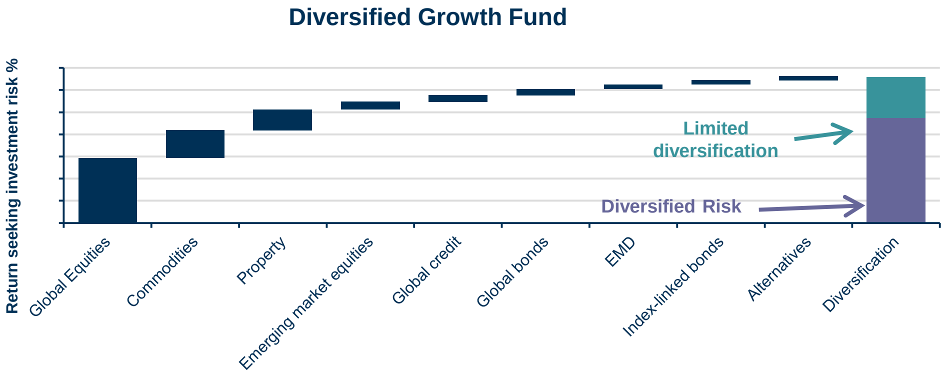
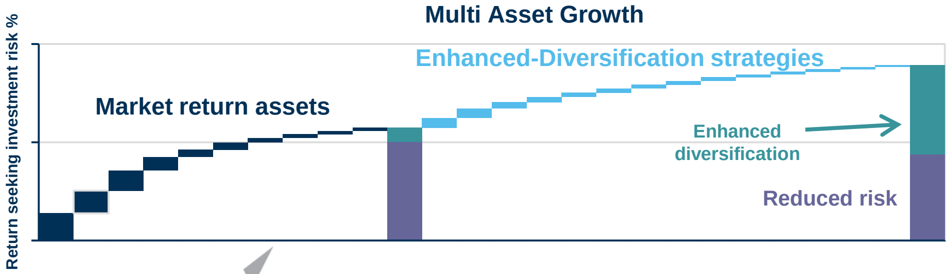
The longer the time horizon, the greater likelihood of a better outcome for more savers through a Multi-Asset Growth strategy

Efficiency of investment strategy





- Diversified Growth Funds
  - Allocation to range of assets
  - Strong growth bias
  - Limited diversification
- Enhanced-Diversification
  - Wider range of strategies
  - Higher return-seeking risk
  - Higher levels of diversification
- Outcome
  - More return seeking risk
  - Better diversification

Value for money

- Assessing value in terms of price is easy, but incomplete
- Effectiveness, Efficiency and Equity more important
- How can a DC member assess these factors?
- Multi-Asset Growth: DGF

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