

# Absolute Return Funds – An Optimum Default Strategy for DC Schemes?



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# Default Strategy

- Default strategy is ‘chosen’ by a huge majority of members
- Pensions Board – “act prudently”
- IAPF guidance



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# What is Optimum?

- Delivers best outcome for saver
- Outcome is clear
- Flexible to changes in ...
  - market conditions
  - retirement plans
  - legislation



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# What is “Absolute Return”?

Absolute return funds aim to deliver a positive return over the longer term without adherence to a traditional benchmark



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# Why are they 'optimum'?

- Clear investment objective – “cash +x%”
- Unconstrained so offer best opportunity of maximising return in different investment environments
- Emphasis on risk management
- Investment objective of the manager is the same as the member's



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# But most importantly ...

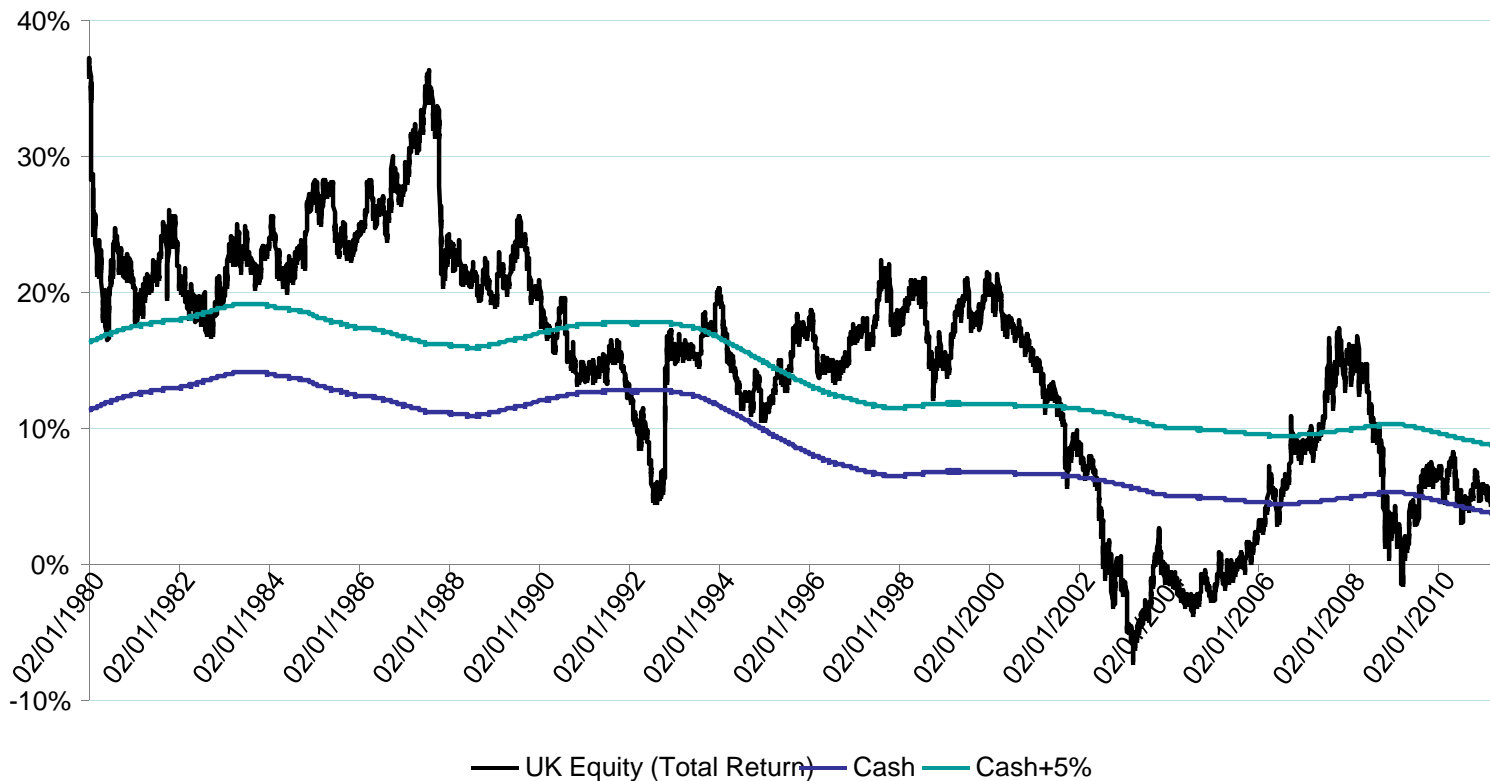
Lower risk with a strong return means a better standard of living post retirement



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# How reliable is equity investment?

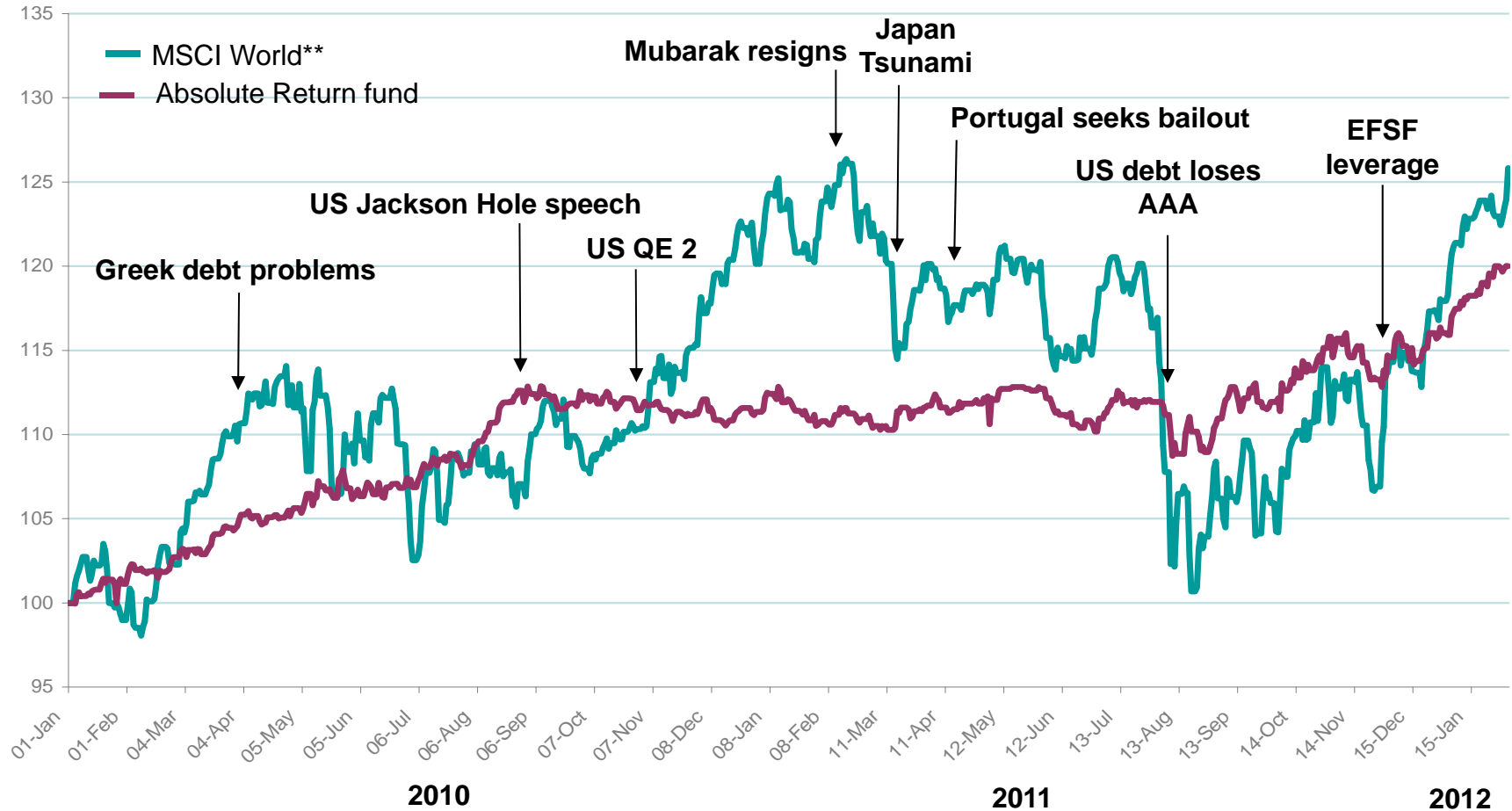
## Average returns over 5 years





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# Last two years...

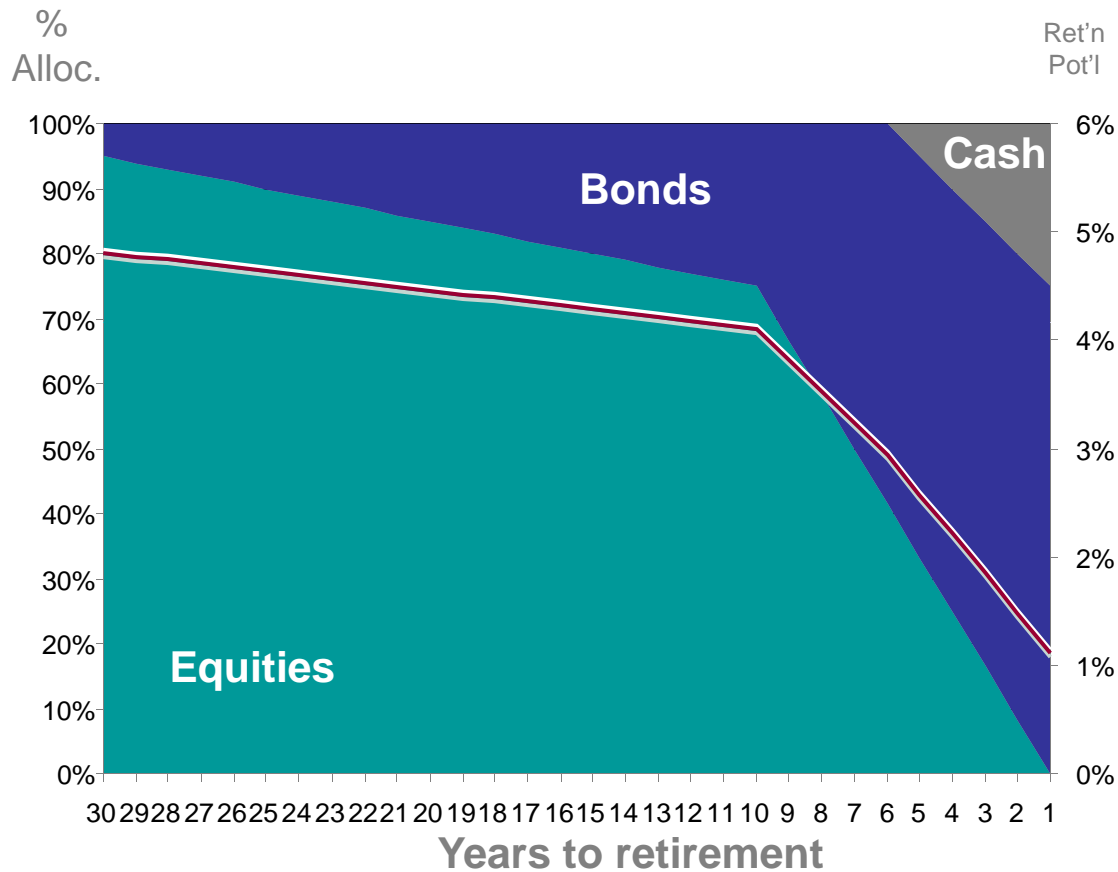


Source: Standard Life Investments, gross € performance vs. MSCI € from 01 January 2010 to 03 February 2012



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# DC Lifestyle Fund Investment



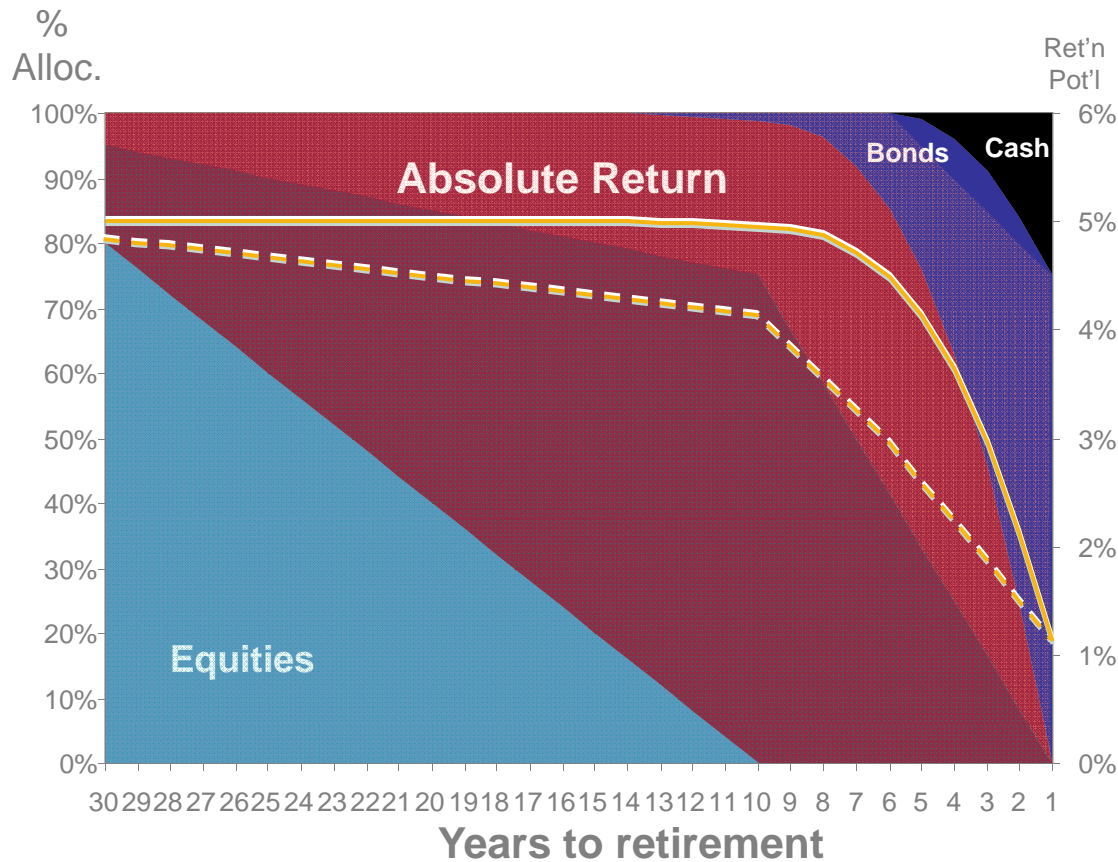
- Conventional Lifestyle fund ramps down the exposure to return-seeking assets over the last 5 to 15 years before retirement
- Return potential drops just as the fund becomes worthwhile to invest

- Do members (30/40/50) know the answer to these questions?
  - When am I going to retire?
  - Am I going to move from full time work to full time retirement?
  - Am I going to choose an annuity or an ARF?



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# DC Lifestyle with Absolute Returns



- Carve out part of the equity and bond portfolios
- Increased Return Potential at all times
- Reduced risk at all times due to more durable diversification
- More return-seeking exposure during the important last 10 years
- 16% better retirement outcome



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## Absolute Return funds are the optimum default strategy because...

- Outcome objective is clear
- Manager's objective = member's objective
- Flexible
- Lower risk and healthy return results in a much better outcome in retirement