Benefits of Flexible Target Date Funds

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DC Savers
Know Your Customers

Inertia

Behavioural biases

Capital ownership

High individual uncertainty

Not stupid

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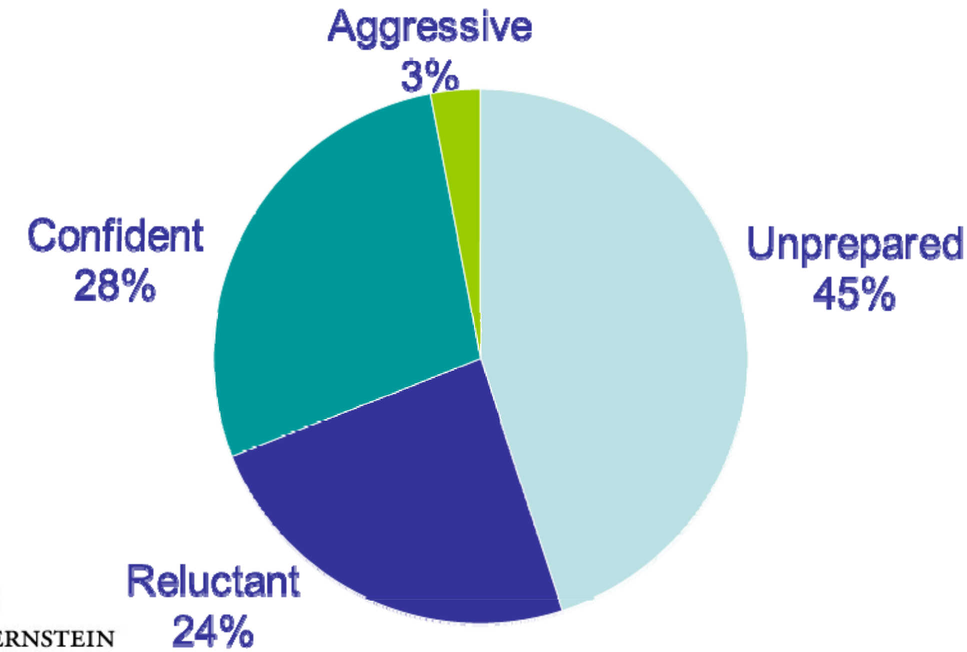
Savers Attitudes to Investing
Want Someone To Do It For Them



Unconscious/Conscious Delegators
45 – 97%

Sporadically Engaged
3 – 55%

Highly Engaged
3%

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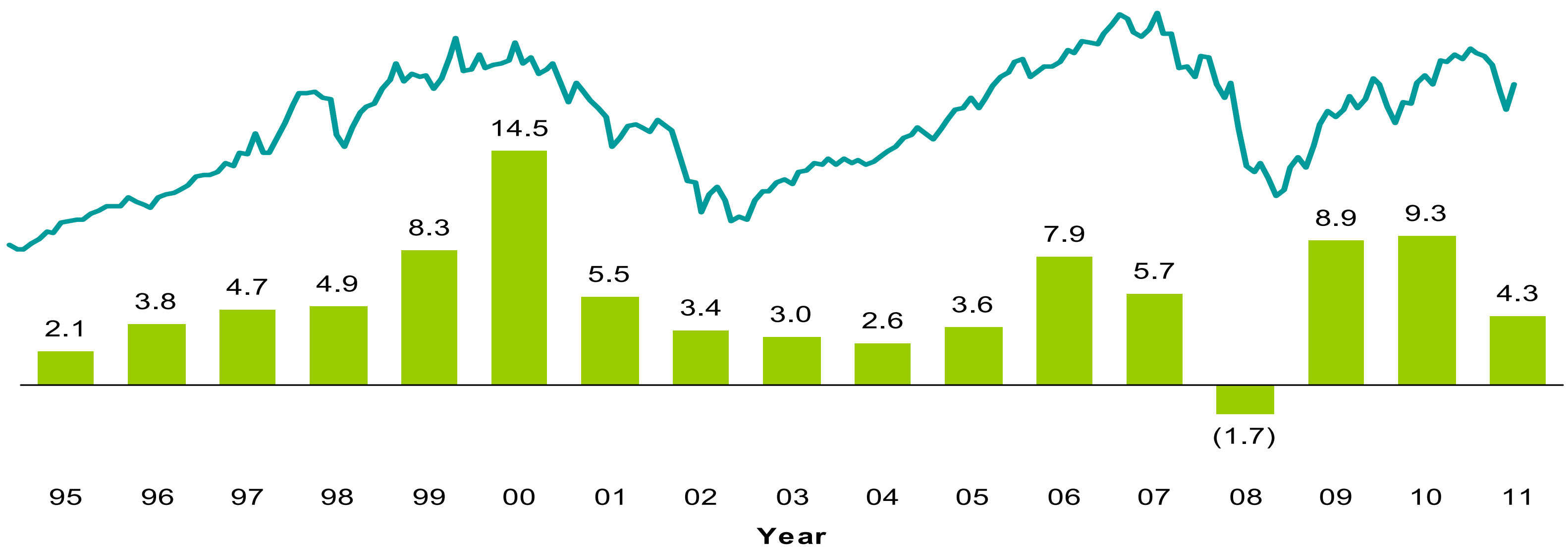
Source: AllianceBernstein & Harris Research 2009 UK pension scheme members

Beware Semi-Engaged Investors
Need Someone To Do It For Them

FTSE All Share Index

Net Retail Flows Into UK Equity and Property Collective Mutual Funds £bn



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Source: FTSE, Investment Management Association and AllianceBernstein 1 December 2011

Good DC Design
Provides a Good Nudge

Joining	→	Auto-enrolment
Contributions	→	Auto-escalation
Investment	→	Default
Decumulation	→	Auto-income?

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Default Strategies Improve Outcomes

- ✓ Reduce Costs
- ✓ Manage Behavioural Biases
- ✓ Overcome Inertia
- ✓ Improve Engagement Quality

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Features of Good Default Strategies

- ✓ **Align Competence, Control and Responsibility**
  Avoid “Help me do it” and “Default options”
- ✓ **Robustly Designed**
  Individual assumptions flawed
- ✓ **In-built Future-Proofing**
  To overcome inertia and implement change
- ✓ **Good Governance**
  Decisions made on member behalf need independent oversight

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Robust Default Design
Takes Account of Individual Uncertainty

Set in Stone

Age

Outlook Uncertain

Earnings and Inflation

Savings Rates and Costs

Retirement Age and Needs

Investment Returns

Legislation and Taxation

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Avoid “Illusion of Certainty” and “Engagement Necessity”

Target Date Funds
What are They?

A range of investment funds suitable for individuals saving for retirement in or around the years stated in each fund's name

2002 to 2004	2005 to 2007	2008 to 2010	2011 to 2013	2014 to 2016	2017 to 2019	2020 to 2022	2023 to 2025	2026 to 2028	2029 to 2031	2032 to 2034	2035 to 2037	2038 to 2040	2041 to 2043	2044 to 2046	2047 to 2049	2050 to 2052	2053 to 2055	2056 to 2058	2059 to 2061

Objective of each fund is to maximise the savers' potential retirement income, having consideration to the remaining time to retirement over which any losses can be recovered and how income will be provided

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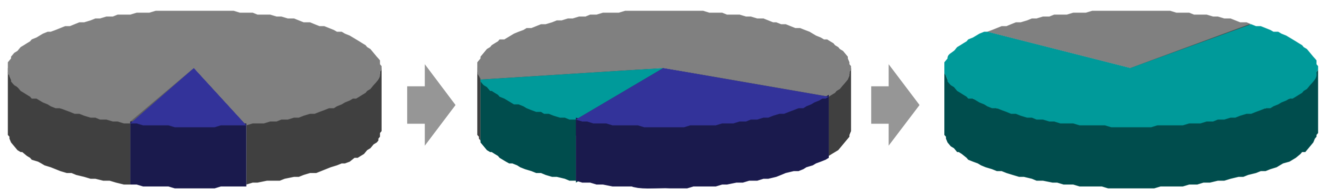
A Single Fund That Lasts a Lifetime

Age Appropriate DGFs

2029 to 2031

Example:
XYZ Retirement Fund 2029-2031

Today | 15 Years before the Target Date | At and Beyond the Target Date



Equities   Diversifiers   Bonds/Cash

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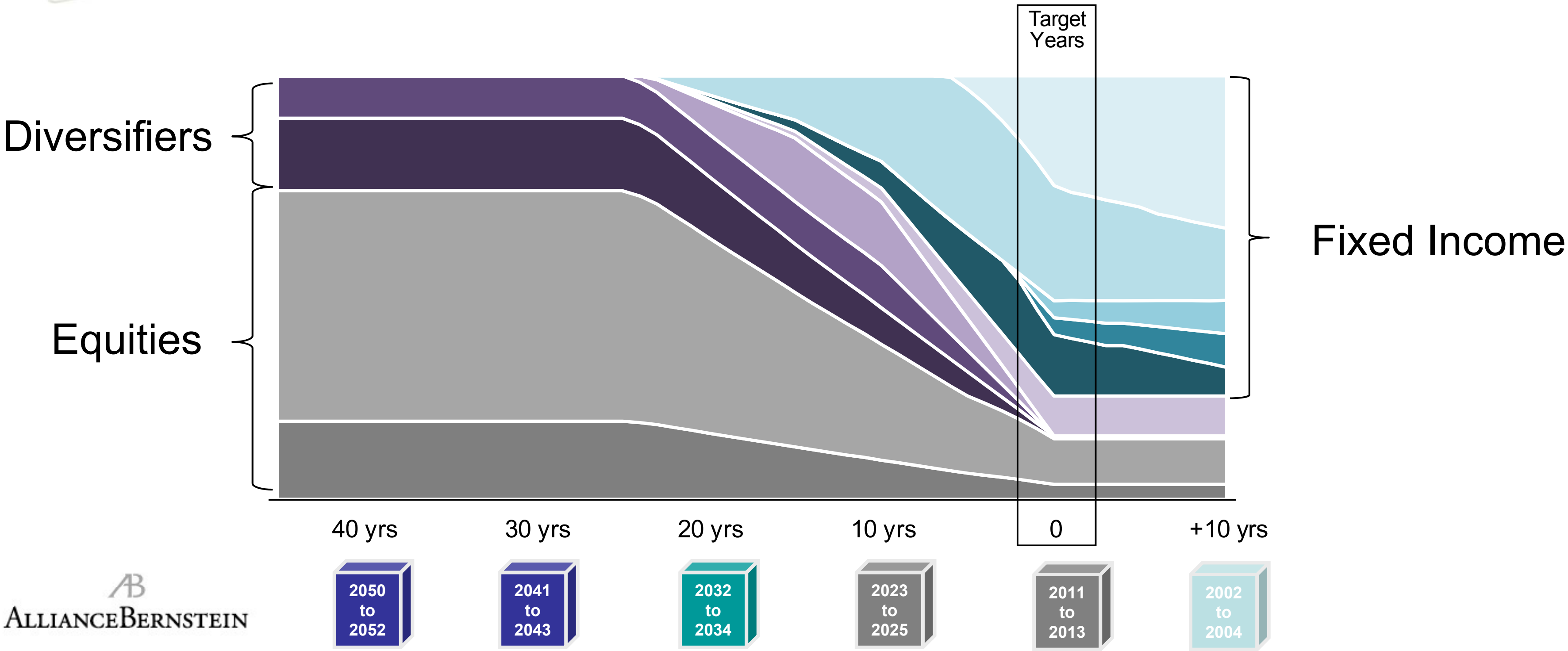
Source: AllianceBernstein

Typical TDF Glidepath Strategy

Example Asset Allocation Strategy



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Different Types of TDFs

Not All TDFs are Created Equal

	Packaged		Flexible
Objective(s)	Generic	v	Bespoke
Daily Oversight	Administrator	v	Manager
Architecture	Closed	v	Open
Asset Allocation	Static	v	Dynamic
Pricing	Retail	v	Institutional

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Flexible Target Date Funds Benefits
And Common Misconceptions

Benefits

Simple to change
- Member engagement not a necessity
- Timely manager changes possible
- Low operational risks/costs – easy to check

Enable a more sophisticated strategy
- Not constrained by member administration
- Diversification of manager risk
- Age appropriate strategic asset allocations
- Age appropriate dynamic asset allocations

Easy to Communicate
- Single fund solution focused on outcomes
- Changes not focused on mechanics

Good Trustee/Adviser oversight
- Based on actual member experience
- Independent of implementation

Misconceptions

Focus on capital not income accumulation
- Depends on the objectives

End point sensitive
- Gradual de-risking running to retirement and beyond

Inflexible packaged solution
- Fully open-architecture flexible TDFs available

Expensive c100bps +
- Age appropriate Diversified Growth at a quarter of the TER

Same as lifestyle, de-risk as you get older
- But they can do so much more, with all the benefits opposite

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Flexible Target Date Funds
Open Architecture TDFs

✓ Clear saver orientated objective(s)	Chosen by Plan
✓ Clear "Roles and Responsibilities"	Objective oversight by Plan
✓ Robust age appropriate investment	Diversification and Dynamic
✓ Simple to communicate	Single Fund for Life
✓ Easy to change through time	Simple and efficient to change
✓ Value for money	Available at 0.3% pa in UK

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Beyond Retirement
Retirement Bridge

Based on Investment & Saver Research

Income Paying TDFs until Late 70s Investment Optimal

Meet Savers' needs for continued

- Choice
- Accessibility
- Flexibility
- Growth

Can be used as a Default

Decumulation Research
Conventional Wisdom Flawed

"An annuity is safer than income drawdown"

"Income drawdown is too risky for those with small funds"

"We should engage earlier about the kind of annuity someone will buy"

"Individuals do not understand risk and return"

"Annuities are easier to understand than income drawdown"

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Conclusion
DC is Evolving

Beyond Retirement
Retirement Bridge
Delaying annuitisation until needed

Around Retirement
Target Date Funds
Assumes flexible age based needs

To Retirement
Lifestyling / Managed DC
Assumes certainty of needs and requires engagement

What Retirement
Balanced Funds
No individual alignment

Through Retirement
401k
No Annuitisation

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