

Alder Capital Limited

De-Risking without Reducing Returns?

Investment Risk Governance



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Source: Alder Capital Limited and STOXX.com. Period covered is shown on slide. **The target-risk, equity fund figures in this presentation are derived from simulations of trading the EURO STOXX 50 index futures contract to achieve the annualised forecast volatility target of 8% of the value of the Fund. All simulated and actual figures are net of transaction costs, include interest income but exclude investment management fees. These returns have not been achieved without risk of loss. **SIMULATED PERFORMANCE MAY NOT BE A RELIABLE GUIDE TO FUTURE PERFORMANCE.**** The returns on policies linked to a target-risk, equity fund will be lower than those shown because of the effects of various additional charges applied to policies and, where applicable, exit tax. The Euro STOXX index returns include the reinvestment of net dividends, make no allowance for transaction costs or other fees.

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Agenda

- Investment Risk Governance
- Controlling Volatility
- Equity Exposure Adjusted for Volatility
- Historical Examples
- Summary
- Q&A

Pension Fund Governance – Investment Risk

- Outcome from making an investment is uncertain
- Investment risk governance involves examining the likely range of negative outcomes
 - Investment losses are among the greatest risks facing a pension plan

Pension Fund Governance – Investment Risk

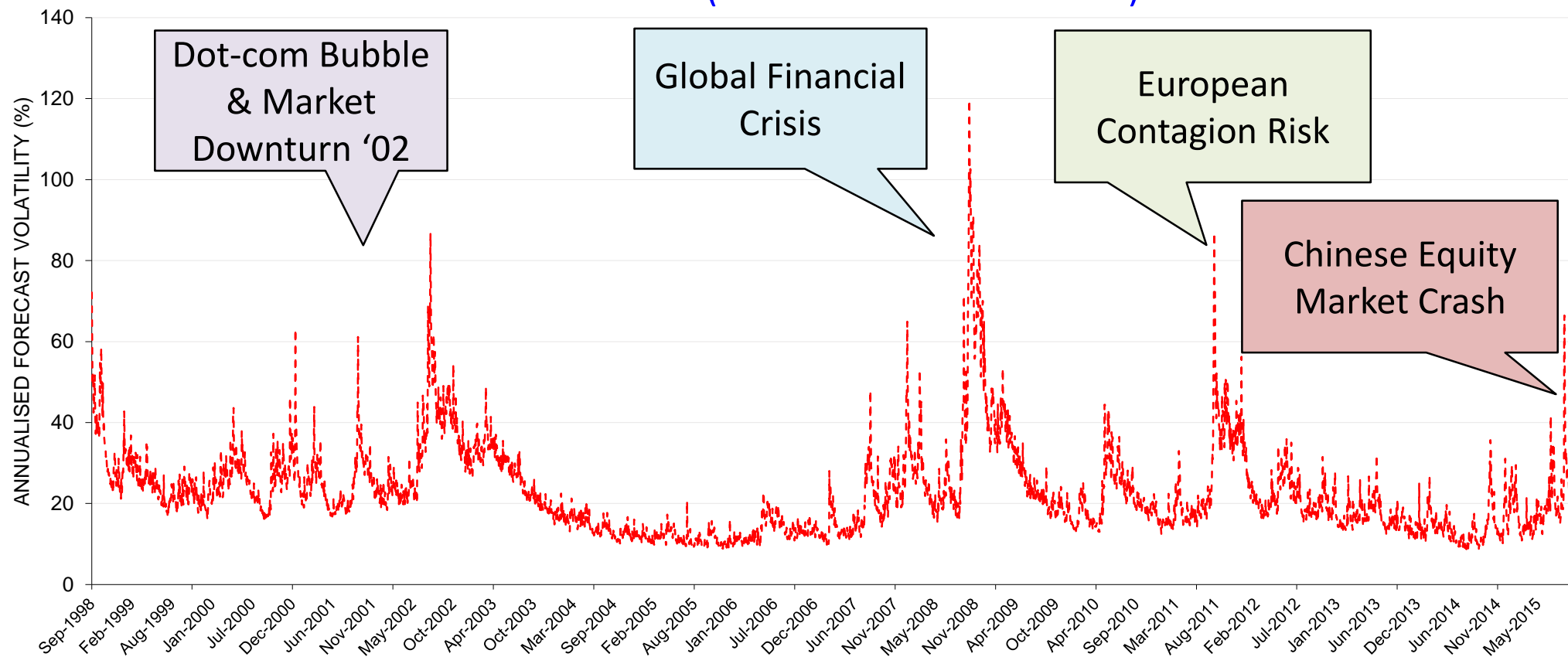
- **Equities** in a pension fund investment portfolio
 - Known for good long-term return potential albeit with large peak-to-trough falls in value
 - Probably the riskiest, liquid asset in the fund
 - De-risking often involves taking down equity allocation

Pension Fund Governance – Investment Risk

- Equity risk varies significantly
 - Average risk is not a guide to maximum peak-to-trough falls in value of an equity portfolio
 - Maximum risk is the driver of maximum peak-to-trough falls in value

Equity Risk Varies Significantly

Annualised Daily Forecast Risk
Euro Stoxx 50® (net dividends reinvested)



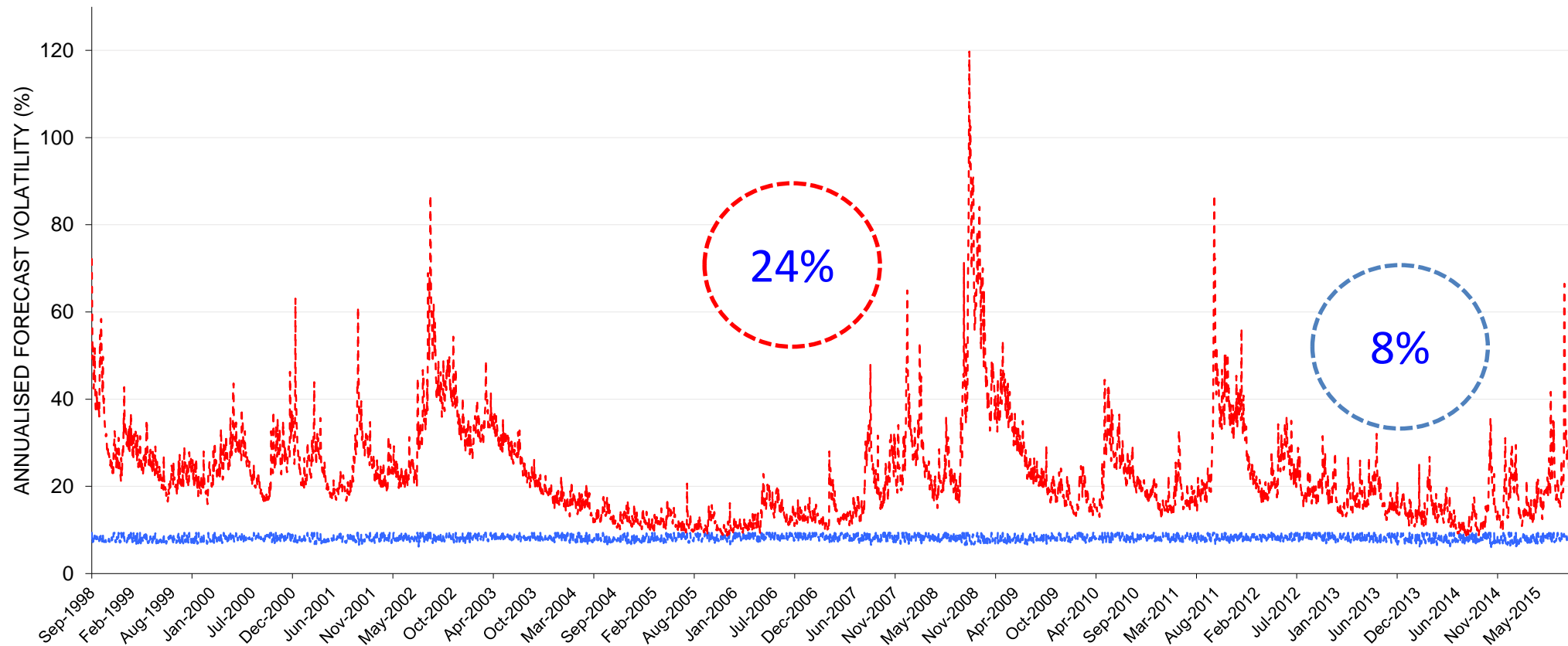
Euro Stoxx 50® Index of Value

(Sep. 1998 to Nov. 2015)



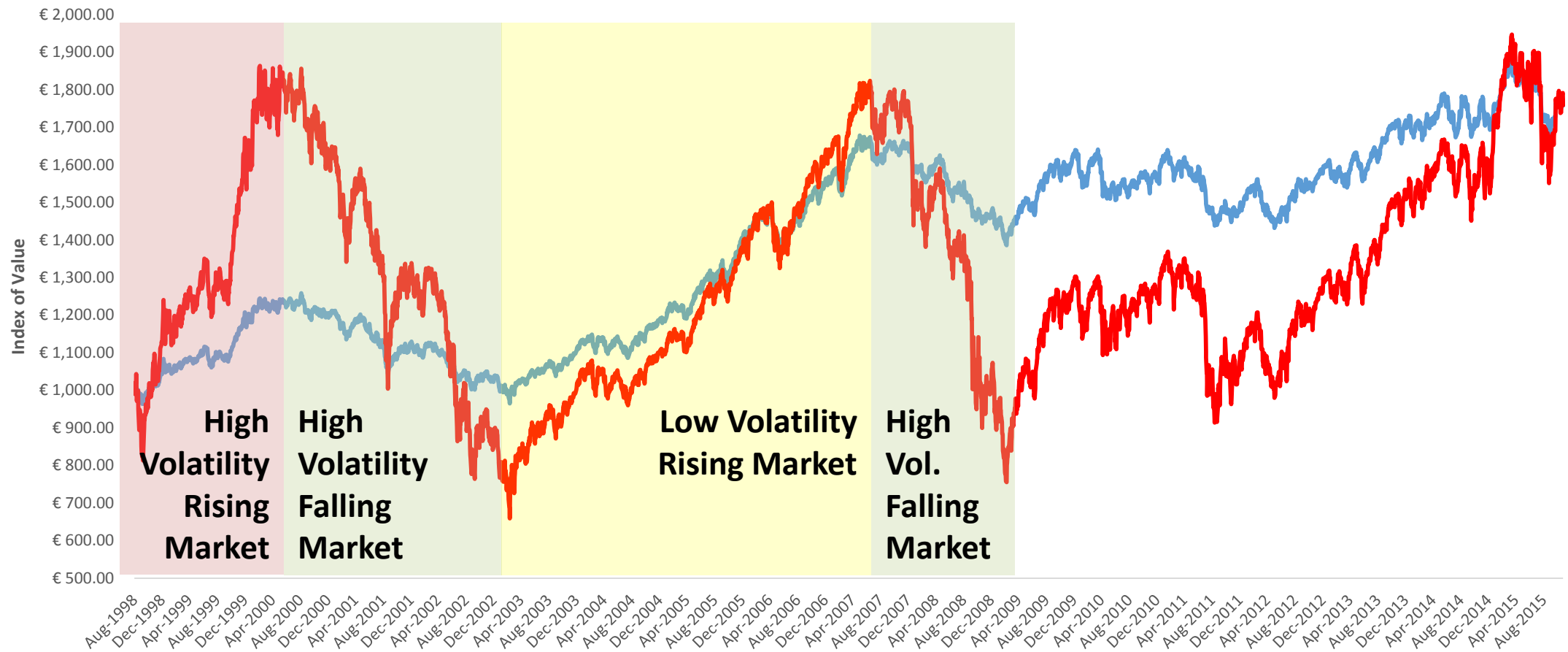
Annualised Daily Forecast Risk

Target Risk Equity Strategy vs Euro Stoxx 50® (net dividends reinvested)

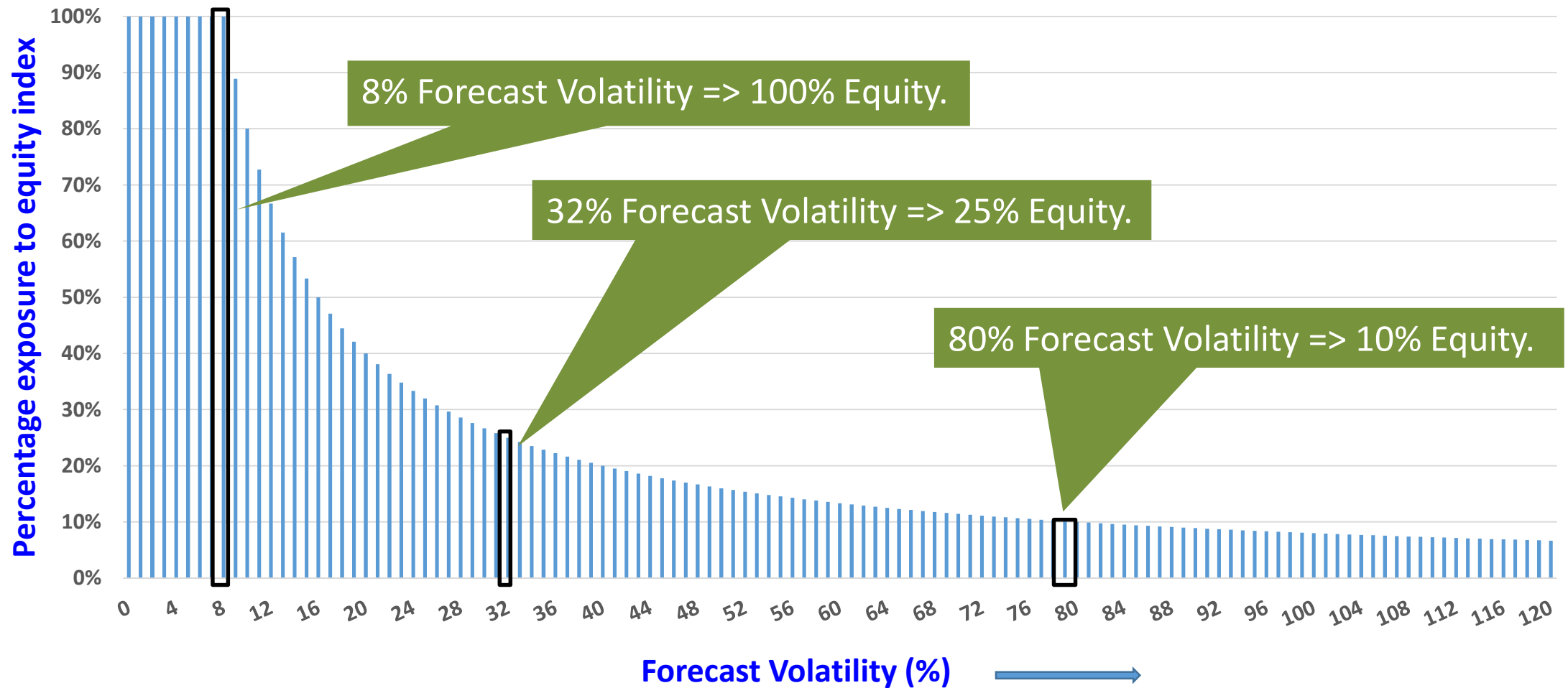


Target Risk v Euro Stoxx 50® Index of Value

(Sep. 1998 to Nov. 2015)



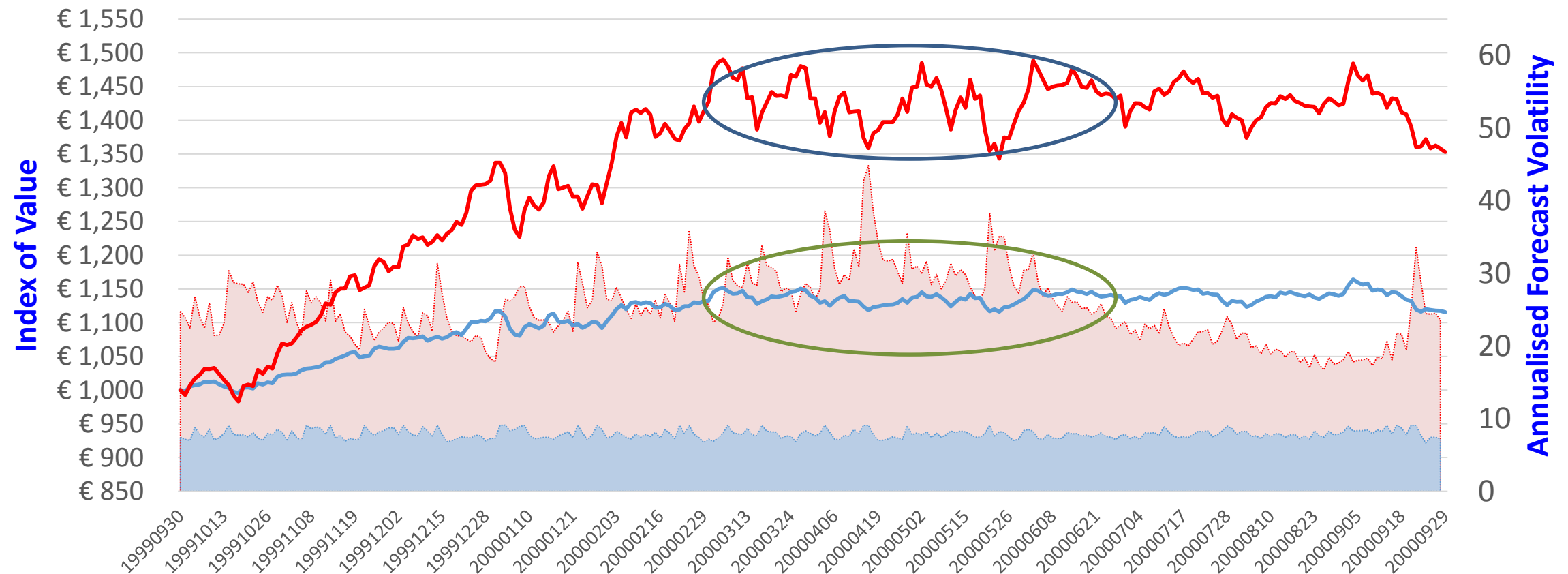
How do you target risk?



Return: 11.3%
Vol Range: 6.6 - 9.1

Equity Bull Run October 1999 to September 2000

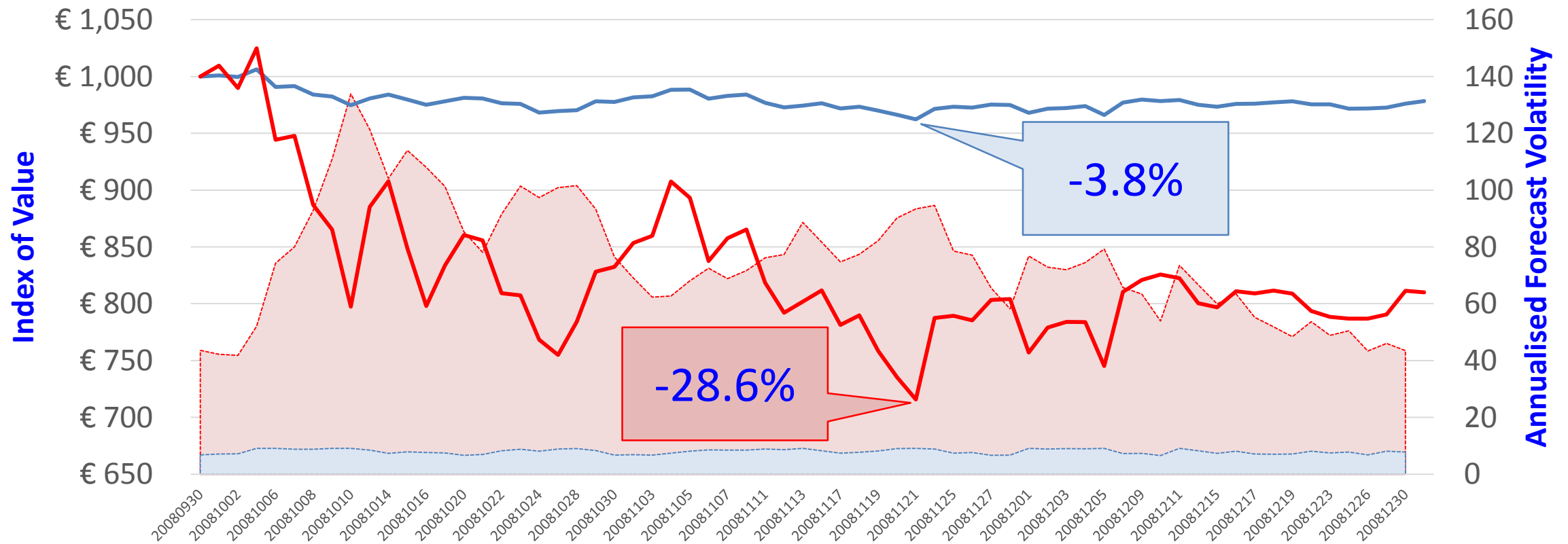
Return: 35.3%
Vol Range: 16.7 - 44.8



Return:-2.2%
Vol Range: 6.6 - 9.1

Bear Market in Global Equities 4th Quarter 2008

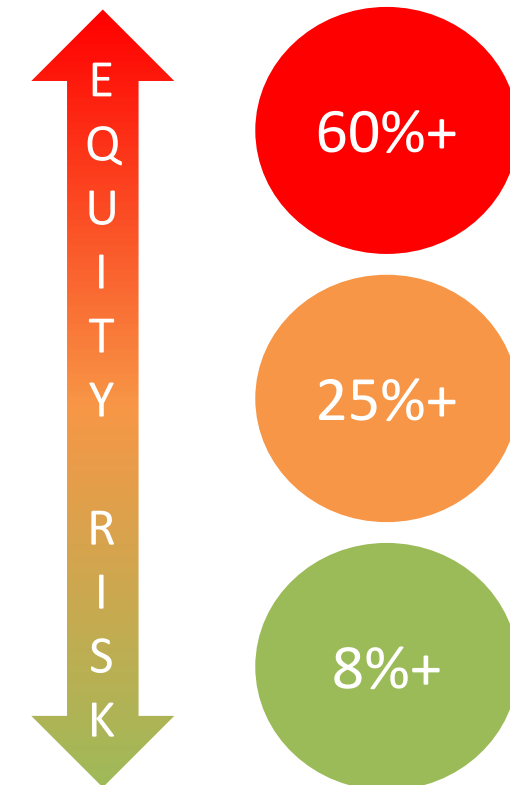
Return:-19.0%
Vol Range: 41.8 - 133.8



Summary

Pension Fund Governance of Investment Risk

- Equities are probably the riskiest liquid asset in pension fund investment portfolio
- Equity risk varies significantly
- Maximum rather than average risk drives maximum peak-to-trough falls in value



Summary

Pension Fund Governance of Investment Risk

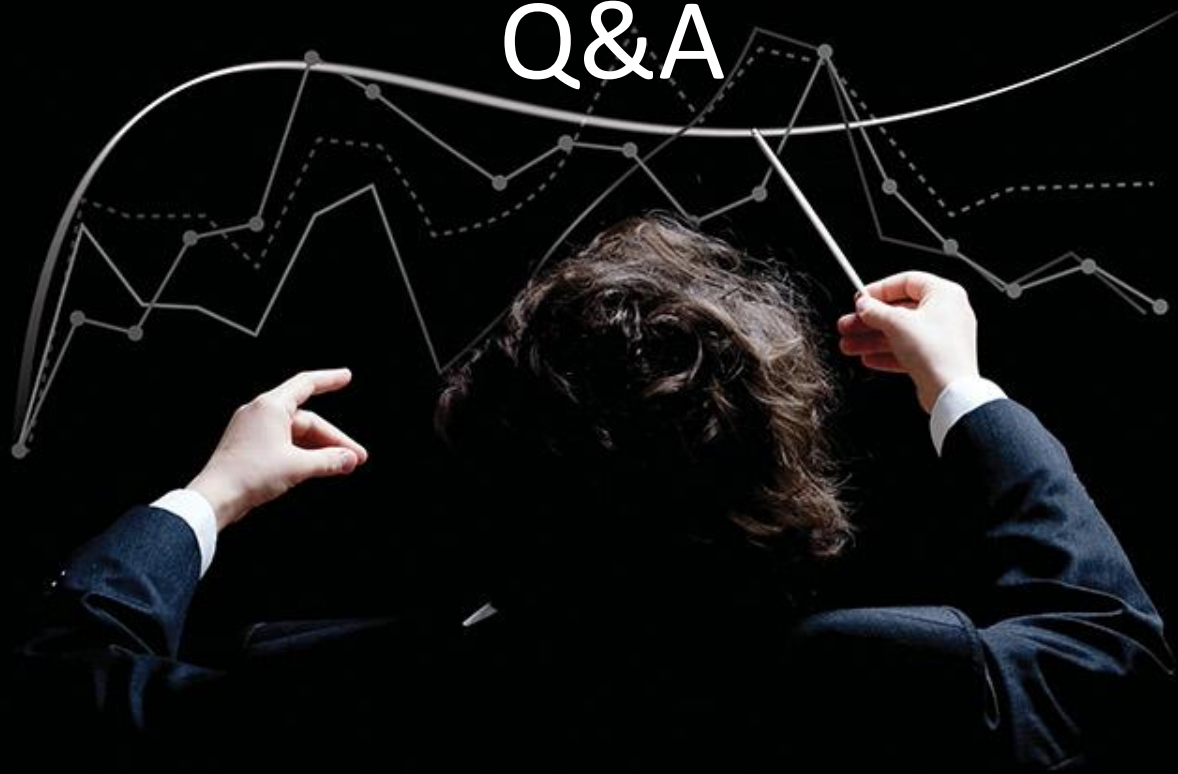
- To manage equity investment risk:
 - Forecast risk and adjust portfolio exposure
- Alder Capital research shows that keeping risk in a tight range around a target level achieves:
 - Same return every **three to five years**
 - Peak-to-trough falls in value of an equity portfolio **reduced by two thirds**

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Q&A



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Name & Job Title of Individual who Prepared this Document	Patrick Hogarty
Name of Person Responsible for Production of this Document	Alder Capital Limited
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