# Impact on Trustees and Schemes



Eamonn Liddy



## Agenda

How prepared are we this time?

#### Setting strategy

Set the compass and reduce risk along the way

#### Putting it into practice

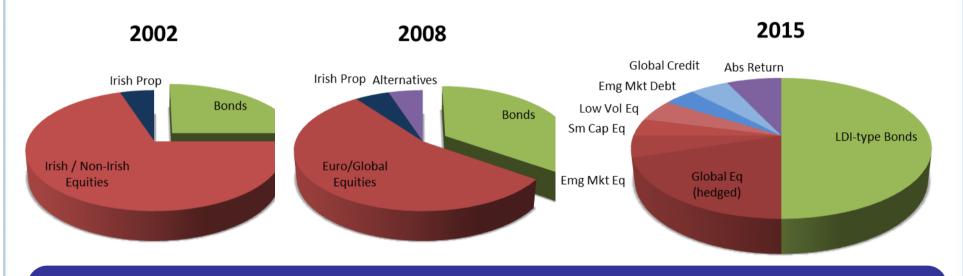
Governance aspects





## Better prepared this time...?

## Typical Irish scheme: asset strategy



**-24% -19% -12%** 

Impact on scheme funding level if equities fell 20% and bond yields fell 0.75%

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### Plans now well diversified

• Still a good idea – steady wins the race

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
		31.3%	16.5%	54.4%	18.2%	25.7%	11.5%	72.9%	34.9%	10.9%	17 +%	۷۵. 70/2	26.8%
13.2%	-2.5%	29.6%	15.3%	33.3%	7.8%	6.5%	-0.3%	57.2%	27.1%	8.0%	16.4)	21.2%	21.7%
10.3%	-8.2%	10.7%	14.1%	27.2%	7.4%	0.2%	-3.5%	39.6%	23.7%	6.0%	15.7%	13.5%	19.5%
8.8%	-15.0%	10.2%	11.3%	26.2%	5.8%	-0.1%	-23.7%	29.9%	21.7%	1.5%	14.9%	10.6%	17.8%
6.3%	-20.4%/	8.7%	8.0%	24.1%	4.8%	-1.7%	-26.0%	25.9%	21.3%	-1.2%	14.0%	3.3%	17.5%
2.7%	22.1%	4.1%	6.4%	22.5%	3.1%	-3.2%	-27.8%	18.2%	19.8%	-2.4%	12.3%	-3.8%	16.0%
-2.1%	-23.8%	-2.7%	4.3%	22.0%	0.3%	-4.8%	-37.6%	15.5%	19.5%	-3.6%	9.3%	-4.2%	13.8%
-5.7%	-28.7%	-4.8%	1.5%	17.1%	-2.5%	-6.7%	-38.8%	12.8%	13.4%	-6.0%	6.4%	-6.8%	11.4%
-12.3%	-32.0%	-9.8%	-4.2%	11.7%	-4.2%	-9.1%	-50.8%	0.2%	12.3%	-15.7%	-3.2%	-12.9%	7.4%

Passive Global Equities	High Yield Bonds	Emerging Market Debt
Small Cap Equities	Diversified Portfolio	Emerging Markets Equities
Low Volatility Equities	Corporate Bonds	Absolute Return

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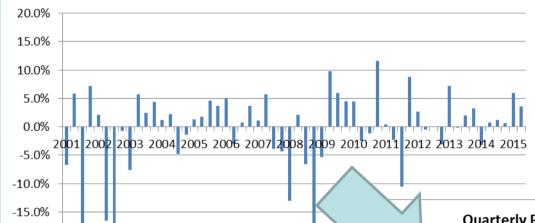




-20.0%

#### De-risking strategies now commonplace

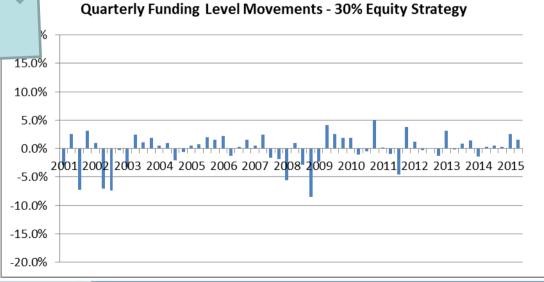
#### Quarterly Funding Level Movements - 70% Equity Strategy



• Immediate de-risking was generally unaffordable, but many are now on the journey

#### Giving up returns?

 Gradual de-risking 'on strength' (from 70% eq to 30% eq) would have offered same return as 70% equity strategy over this period







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#### Putting it into practice

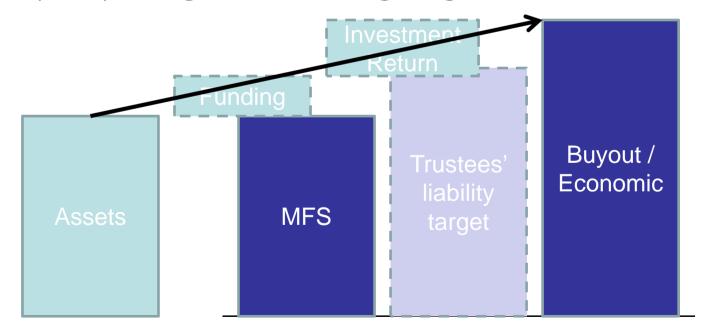
Governance aspects





## DB: Prepare your strategy

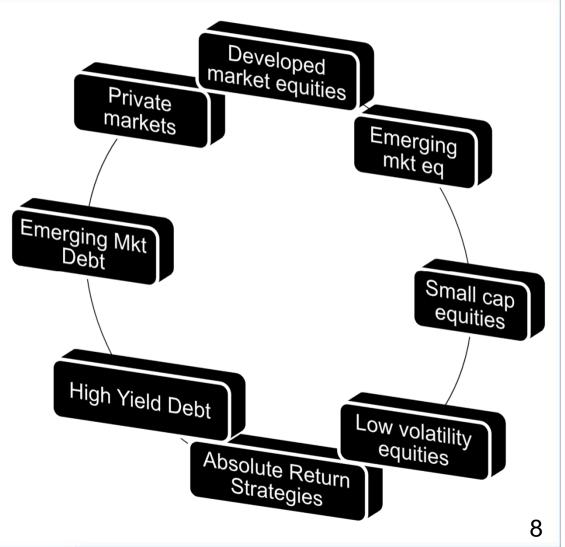
- Step 1: liability target
- Step 2: available funding / target return
- Step 3: monitor vs target much more regularly
- Step 4: pre-agreed banking of gains





## Many risks to diversify against along the way

- Oil
- Bond yields
- ECB QE
- Fed rates
- Gold / commodities
- Greece
- China
- Currencies
- Other unknowns...





How prepared are we this time?

#### Setting strategy

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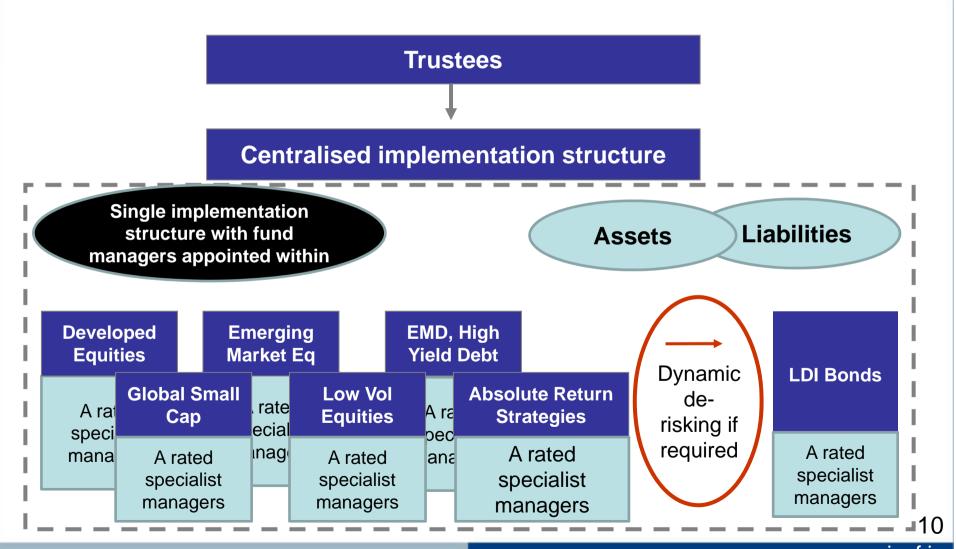
#### Putting it into practice

Governance aspects





## Putting it into practice: many use a centralised implementation framework





# Trustees can choose from various levels of delegation (or none at all)

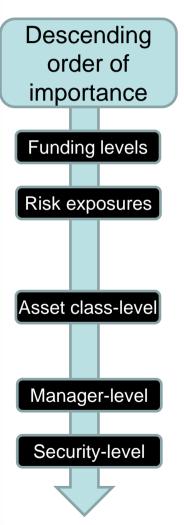
Who makes the decisions	Delegated model most widely used by Irish schemes	Delegated model most widely used by UK schemes
Overall growth/matching split	Trustees	Trustees
Strategic mix within growth portfolio	Trustees	Delegated
Tactical tilts within growth portfolio	Trustees	Delegated
Active or passive managers in each area	Trustees	Delegated
Types of bonds: mix within matching portfolio	Trustees	Delegated
Selection and blending of managers	Delegated	Delegated

- Common models depicted above and lots of variations in between
- Important for Trustees to explore which model best suits their needs





# DB Trustee meetings: where should the focus lie?



- 1. Funding level movement vs target liability
- 2. De-risking strategy triggers reached? Annual review of derisking roadmap parameters
- 3. Overview of growth portfolio, matching portfolio and market conditions
- 4. Risk metrics hedge ratios etc
- 5. Asset allocation breakdown review, consider new areas, consider tactical tilts
- 6. Returns vs benchmarks overall portfolio level, asset class level, individual manager level
- 7. Update on appointed managers, developments etc



# DC Trustee meetings: where should the focus lie?

Review of markets, fund returns, manager developments

#### Analysis of member activity

- •Fund options chosen (by age)
- •Contribution rates chosen (by age)
- Choices made at retirement (ARF/annuity/cash)
- Fund switch activity
- Interaction with scheme, e.g. web portal

#### Structure of default option/lifestyle

• And the range of self-select options

Member communications agenda



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