

ABSOLUTE RETURNS

Owen McCrossan Investment Director Standard Life Investments

IAPF Annual Investment Conference : 26th March 2009

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Quest for diversification

• Diversification is a 'no brainer'

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- But how easy is it to find genuine diversification?
- Roadmap to building a fund for all seasons
- Impact of diversification on funding valuations
- Quick look at use in DC schemes

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2008 – A year when traditional diversification did not work



Benchmarks:

UK Equities FTSE All Share

World Equities FTSE World (ex UK)

Corporate Bonds Merrill Lynch Non Gilts

Property UK IPD Total Return Index

Commodities S&P GSCI Commodity

High Yield Merrill Lynch Global High Yield

Source: Standard Life Investments

All ultimately rely on positive economic growth

Diversity, what diversity?

Rolling 6m correlation —US Equities

— UK Equities



Source: Standard Life Investments, Datastream 2/3/09

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...even long-held relationships have broken



Source: Standard Life Investments, Datastream 2/3/09

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Comparison of Managed with Global Equity Funds



Source: Standard Life Investments (12/6/2006 to 11/03/2009) *Datastream (net of tracker fund fee)



Roadmap to building a diversified fund

- Generating a return that is in excess of the risk free rate involves taking risk
- When taking risk one high level rule applies take it well!
- Taking risk well requires 3 key ingredients
 - » Great investment ideas
 - » Efficient implementation
 - » Genuine diversification



Overall contribution 1%

Build a portfolio of opportunities to target Cash +5%

Anatomy of an enduringly diversified portfolio



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- Precision focus to deliver • best return strategies
- Widest universe of • potential investment strategies
 - Selective choice
- Simple criteria: ۰
 - Conviction
 - Enhanced diversity
 - Liquidity



The benefit of an absolute return approach

Different strategies will behave differently over time









Comparison With Managed & **Global Equity Funds**



Irish Unit Linked Fund performance from the 29th May 2008 *Simulated € performance of £ Fund to the 28th May 2008 ** Datastream (net of tracker fund fee) Equity levels of return at reduced levels of risk

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Diversification in funding valuations

Actuarial equity return assumptions used in valuations typically allow for the risk associated with equity investment







Diversification in funding valuations



Actuarial equity return assumptions used in valuations typically allow for the risk associated with equity investment

- They frequently require an 70% -80% chance of exceeding the assumption <u>over 10 years</u>
- It translates to an c.7% return assumption





1% higher discount rate = 20% lower liabilities

Quick look at DC schemes

Accumulation of DC pot from age 25 to retirement (age 65)



Lifestyling introduced to reduce volatility of fund as members approach retirement

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Quick look at DC schemes



Traditional Lifestyling

More than half the fund value is built up in last 10 years



Quick look at DC schemes



Investment growth after age 55 has disproportionate affect on size of pension



Quest for diversification

- Rewards from a genuinely diversifying fund can be substantial
- Allow schemes to seek investment growth without taking excessive risk
- Relieve funding valuation strains and allow lower sponsor contributions
- Boost DC members retirement pots



Remember - past performance is no guarantee of future performance.

Past performance is not a guide to future performance. The value of investments and any income from them may go down as well as up and cannot be guaranteed.

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