





## Sequencing Risk

**“Managing downside risks can have a significant impact on long term investment outcomes”**

# OUR PEOPLE



**Colin Cunningham**  
Over 25 years experience

## Director – Global Institutional Distribution

Colin joined ILIM in 2017 to build on Irish Life's de-risking solutions for Irish pension funds.

Colin has unique experience as Chairman of Danske Bank DB pension scheme that has pursued an aggressive de-risking strategy, while managing an in-house LDI solution for over 10 years.

Prior to joining ILIM, Colin was Treasurer & Head of Danske Bank Markets in Ireland. Colin has over 25 years' executive management and execution experience in treasury, capital markets and investment banking transactions. Colin has a MBA from Smurfit Business School, is a Certified Bank Director, Certified Investment Fund Director and completed the Stanford LEAD program.



**Anthony MacGuinness**  
Over 19 years experience

## Deputy CIO & Head of Quantitative Strategies Group

Anthony is a member of the Executive Management team and the Fund Management Executive, holding overall responsibility as Head of the Quantitative Strategies Group. He leads the research and development of ILIM's quantitative investment strategies and portfolio solutions for the institutional and retail market.

In recent years, Anthony and his team have been responsible for developing ILIM's range of multi-factor active equity funds and risk management strategies, including the Dynamic Share to Cash and Global Low Volatility Strategies. In addition, his team is responsible for ILIM's flagship multi-asset fund range (MAPS).



**John Thornton**  
Over 15 years experience

## Head of LDI - Fixed Income

John joined ILIM in 2011 as a Senior Active Fixed Income Fund Manager and is a member of the Asset Allocation Committee.

John is responsible for managing ILIM's LDI product, advising defined benefit pension schemes on their liability matching strategies. He also manages discretionary active fixed income strategies for institutional, retail and defined benefit pension scheme clients.

Prior to joining ILIM, John worked as an executive director within the UBS London credit trading department, having previously worked with RBS and JP Morgan. John is a fellow of the Society of Actuaries in Ireland having qualified while working for Canada Life in Dublin.



**Lenny McLoughlin**  
Over 30 years experience

## Chief Economist

Lenny was appointed Fund Management Economist in August 2012 and is a member of the asset allocation committee. Previously, he was responsible for managing the financial and retail sectors in ILIM's active global equity funds. Lenny has over 25 years' experience in the financial industry.

Prior to joining ILIM in July 2005, Lenny worked for Zurich, AIB and Aviva Investors in equity research and investment management roles.

Lenny graduated with a B.A. in Economics from Trinity College Dublin in 1986, and became an Associate Member of the Institute of Investment Management & Research in 1990.

# IRISH LIFE GROUP OVERVIEW

Our access to global experience and expertise means we blend local knowledge with international experience.

Established in 1939

AA (Fitch)  
Financial Strength

€83bn  
Assets

1.3m  
Customers

2,500  
Employees



## RETAIL

- > Market Leaders
- > 30% Market share
- > Individual Pensions, Protection & Investments
- > 700,000 Customers



## CORPORATE

- > 30 years DC experience, with over 2,700 DC plans
- > Market Leaders with 47% Market share;
- > €60m invested in technology over last 6 years
- > 638,000 Customers



## INVESTMENT

- > Market Leaders
- > 48% Market Share
- > Institutional Asset Managers - €74bn (Irish Life Investment Managers) and €9bn (Setanta)



## HEALTH

- > #3 Market Share
- > Individual & Group Private Health Insurance
- > 425,000 customers
- > Est in 2016 (acquisition of Aviva Health and GLO Health)



## AFFILIATES

- > Cornmarket (Affinity Broker 100%)
- > IPSI (3rd party administration 100%)

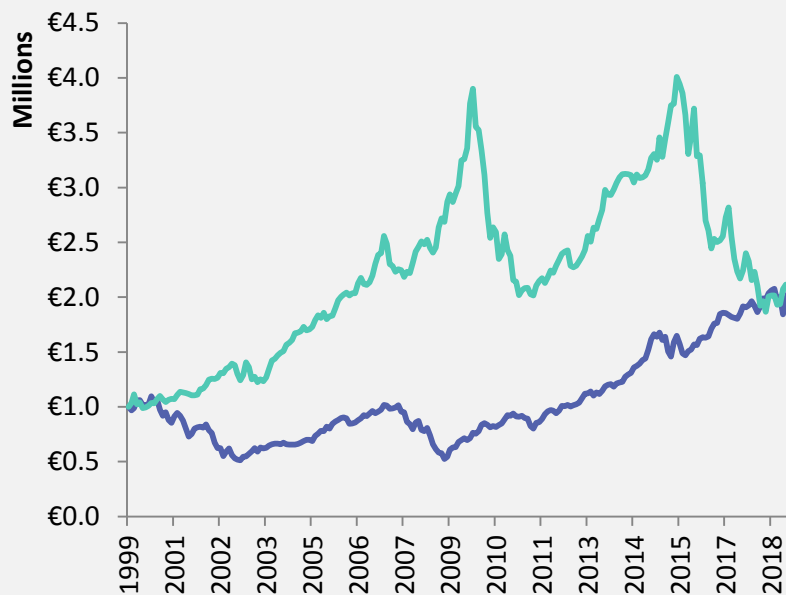
Members of Great-West Lifeco since 2013



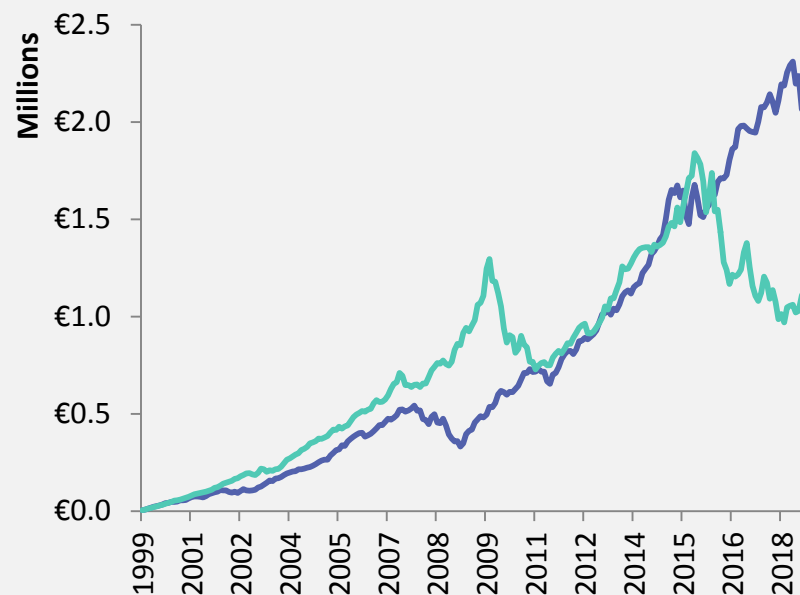
# WHAT IS SEQUENCE RISK?

- Consider the following investments in Global Equities for a EURO investor:

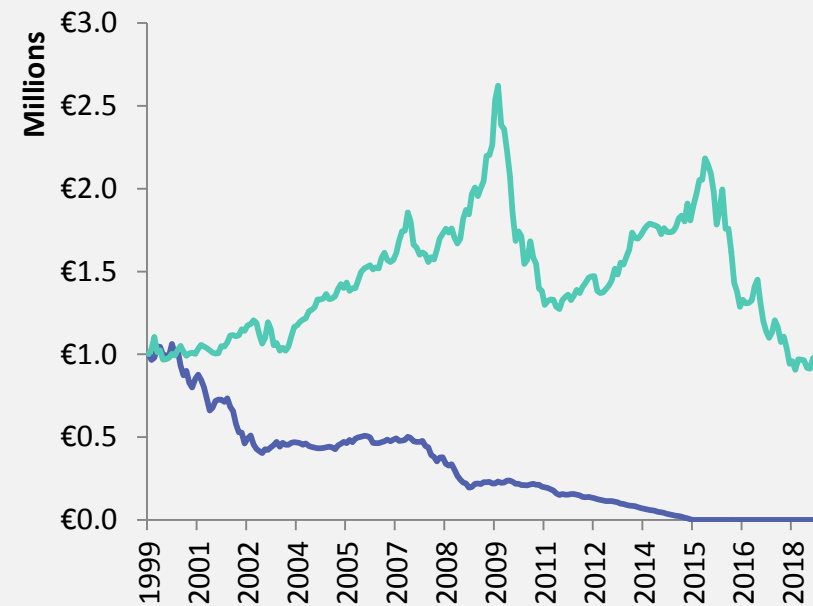
€1M Lump Sum Investment



Save €50K/Year (Increase @ 1%/Year)



Withdrawal €50K/Year (Increase @ 1%/Year)



— MSCI AC World (EUR)

— Reverse: MSCI AC World (EUR)

NO SEQUENCE RISK

SEQUENCE RISK

**SIGNIFICANT  
SEQUENCE RISK**

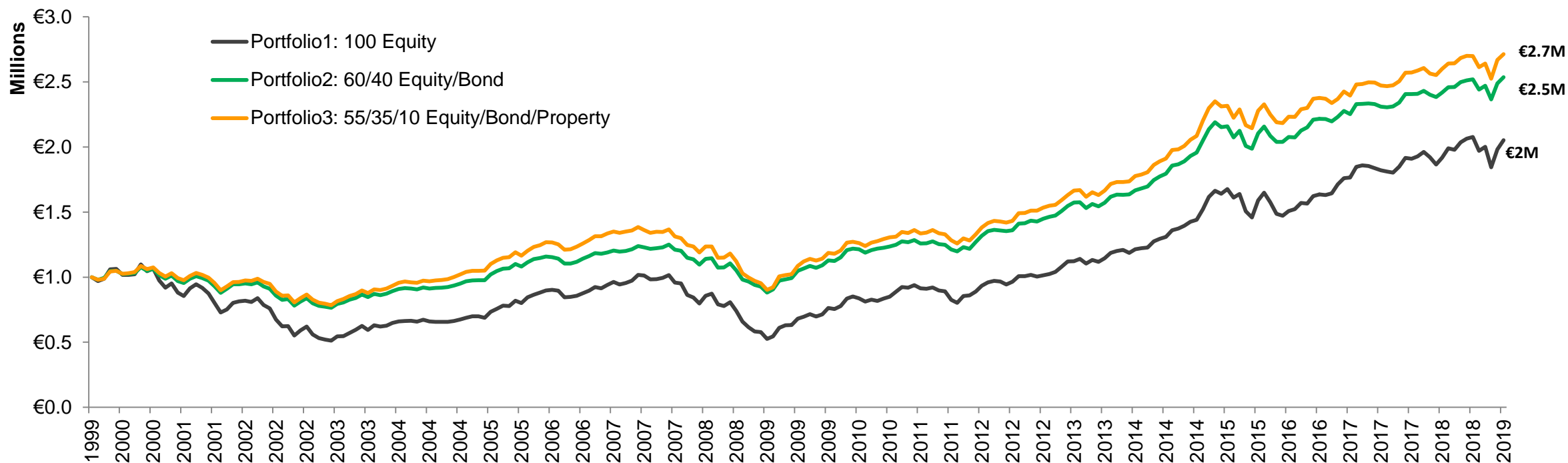
# HOW CAN WE MANAGE SEQUENCE RISK?



# MANAGING THE DIPS

Diversification

## DIVERSIFICATION REALLY WORKS...



Source: Factset  
Time Horizon: Dec/1999 – Feb/2019  
Equity: MSCI AC World Index TR (EUR)  
Bond: ICE BofAML Euro Government (5+ Y) (EUR)  
Property: FTSE EPRA Nareit Developed Europe (EUR)

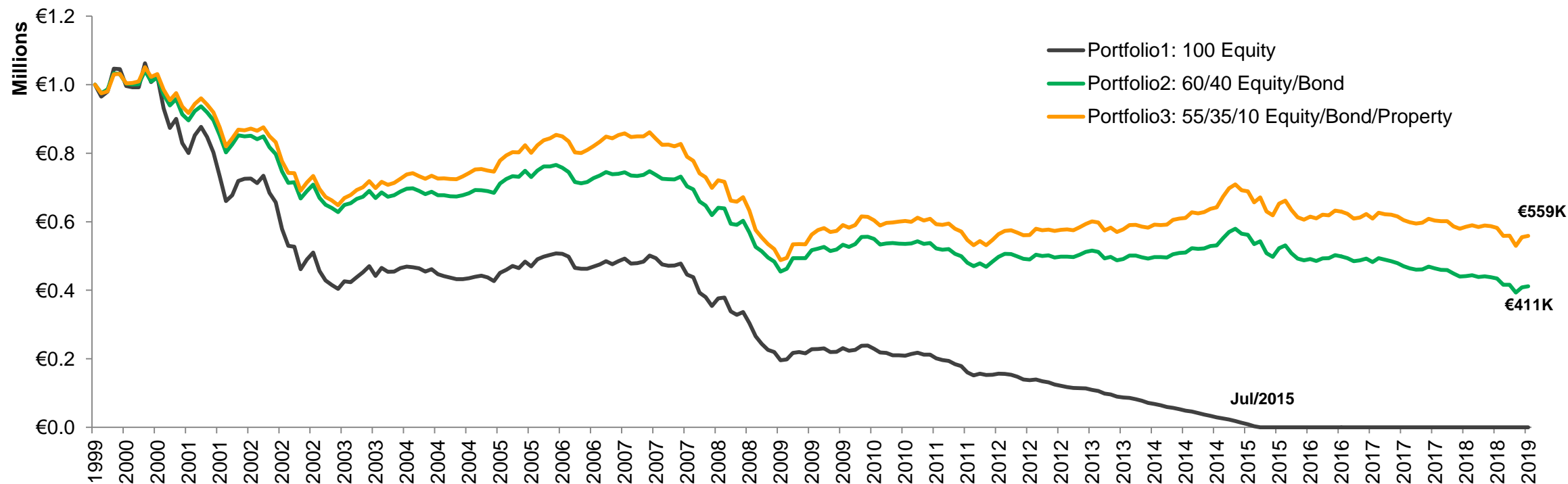
For illustrative purposes only. Past performance is not a guide to future performance. The value of investments can go down as well as up and is not guaranteed.

Total Return: €1M (EUR) hypothetical portfolio entering investment in 31<sup>st</sup>/Dec/1999.

# MANAGING THE DIPS

Diversification

## ...AND EVEN MORE SO IN DECUMULATION



Source: Factset  
Time Horizon: Dec/1999 – Feb/2019  
Equity: MSCI AC World Index TR (EUR)  
Bond: ICE BofAML Euro Government (5+ Y) (EUR)  
Property: FTSE EPRA Nareit Developed Europe (EUR)

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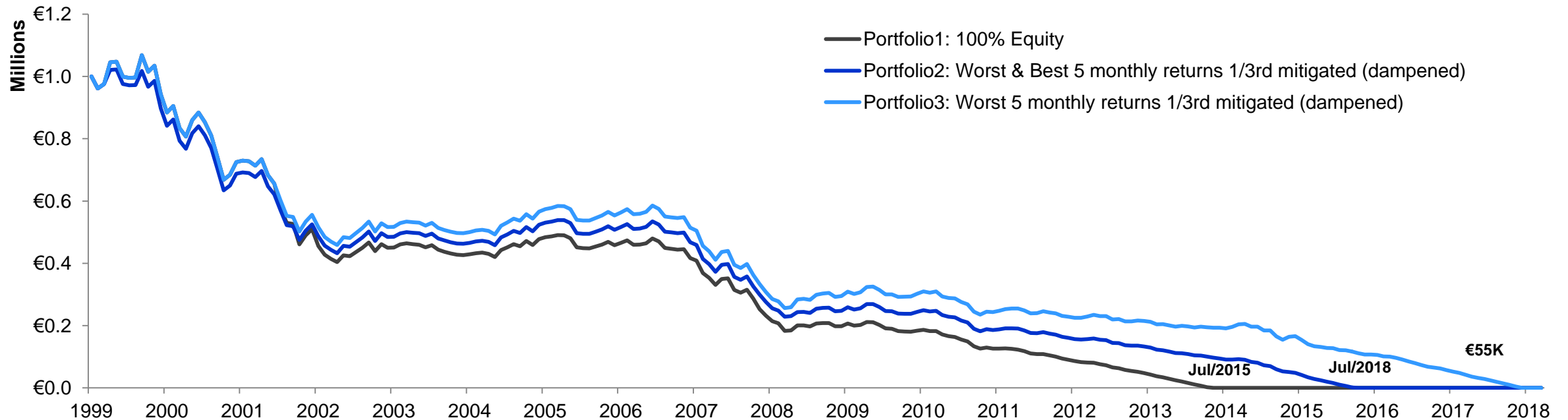
Income drawdown: €1M (EUR) hypothetical portfolio entering an income drawdown arrangement in 31<sup>st</sup>/Dec/1999.  
5% p.a. withdrawal, escalating by 1% (annualised) inflation, monthly withdrawals. 18-year period incorporating a whole range of equity market conditions.



# DOWNSIDE PROTECTION IS IMPORTANT

Downside Risk  
Management

## CUSHIONING THE DROPS...



Source: Factset  
Time Horizon: Dec/1999 – Feb/2019  
Equity: MSCI AC World TR (EUR)

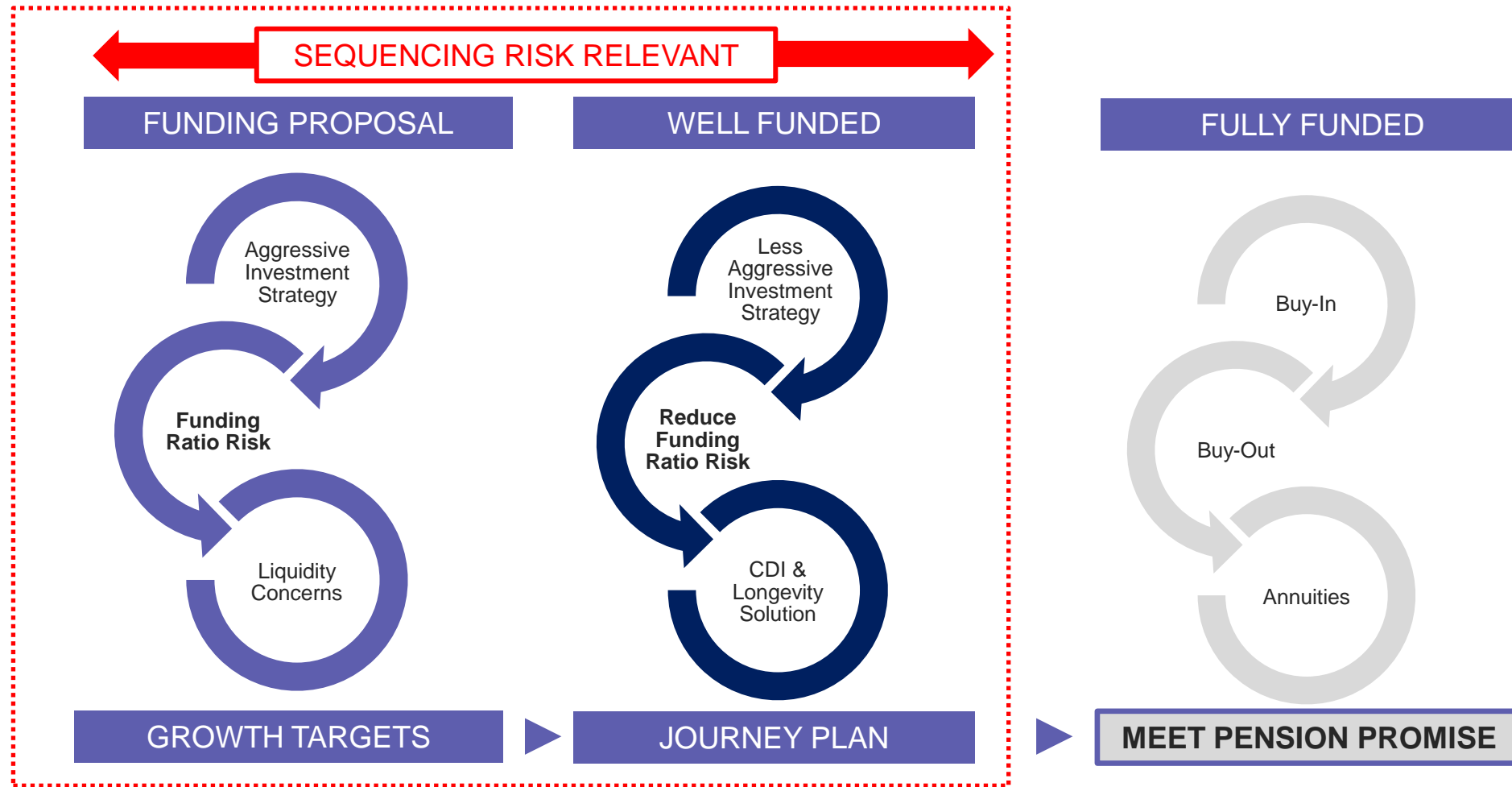
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# THE DB PENSION JOURNEY PLAN

80% of UK DB Pension Funds are cashflow negative as of 2017 (Source PwC 2018)

Cashflow  
Aware



# ANNUITIES ARE THE ULTIMATE CASHFLOW OPTION

Cashflow  
Aware

2013 – 2016  
Buy-out due to  
scheme wind-Up



2017 onwards  
Key de-risking  
tool for schemes

€400M of transactions per year over the last 6 years

Significant discounts now evident on transactions

Mortality risk pooling benefits as schemes mature

## Key Pricing Drivers

- Aggressive asset mixes underpinning insurer quotations
- Slowdown in Irish mortality improvements reducing costs
- Innovative reinsurance solutions make deals capital efficient

FULLY FUNDED

Buy-In

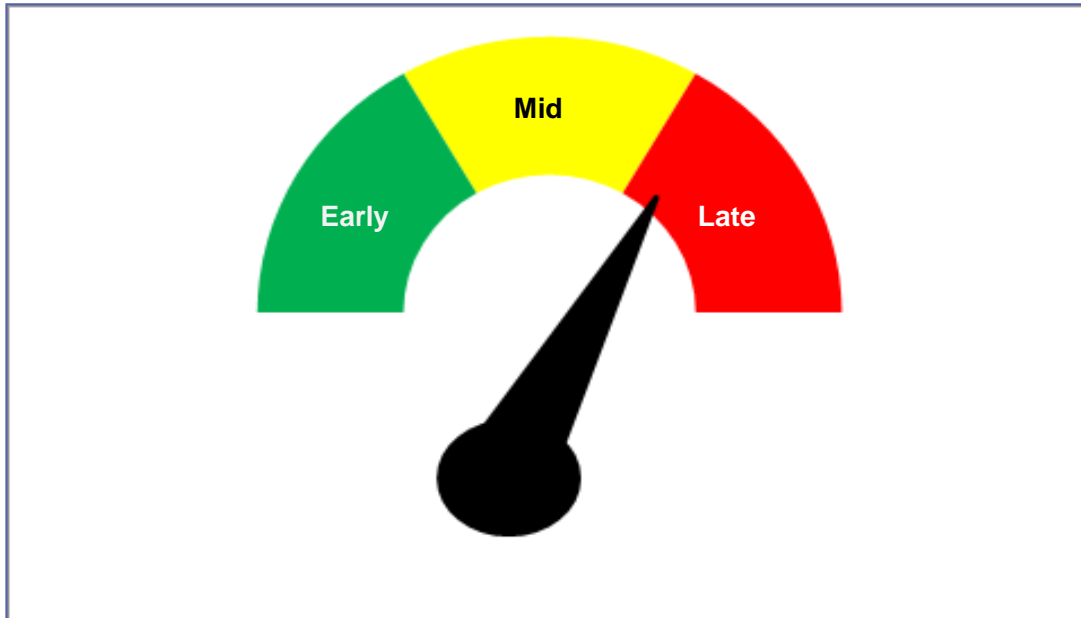
Buy-Out

Annuities

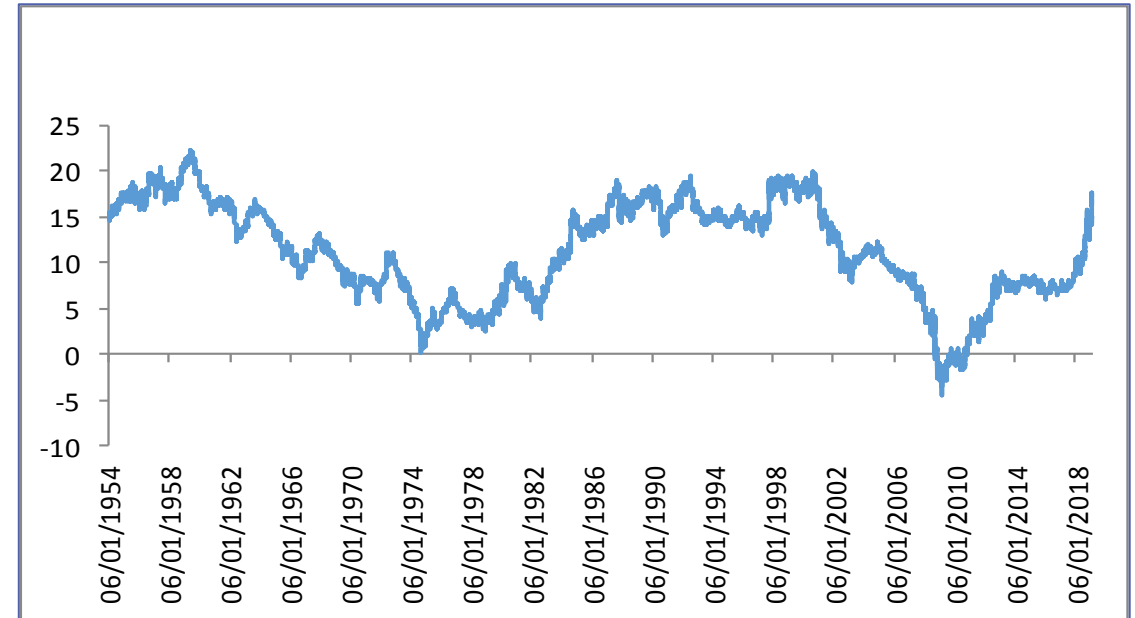
MEET PENSION PROMISE

# INVESTMENT CYCLE

## Investment Cycle



## S&P 500 Annualised 10 Year Returns %

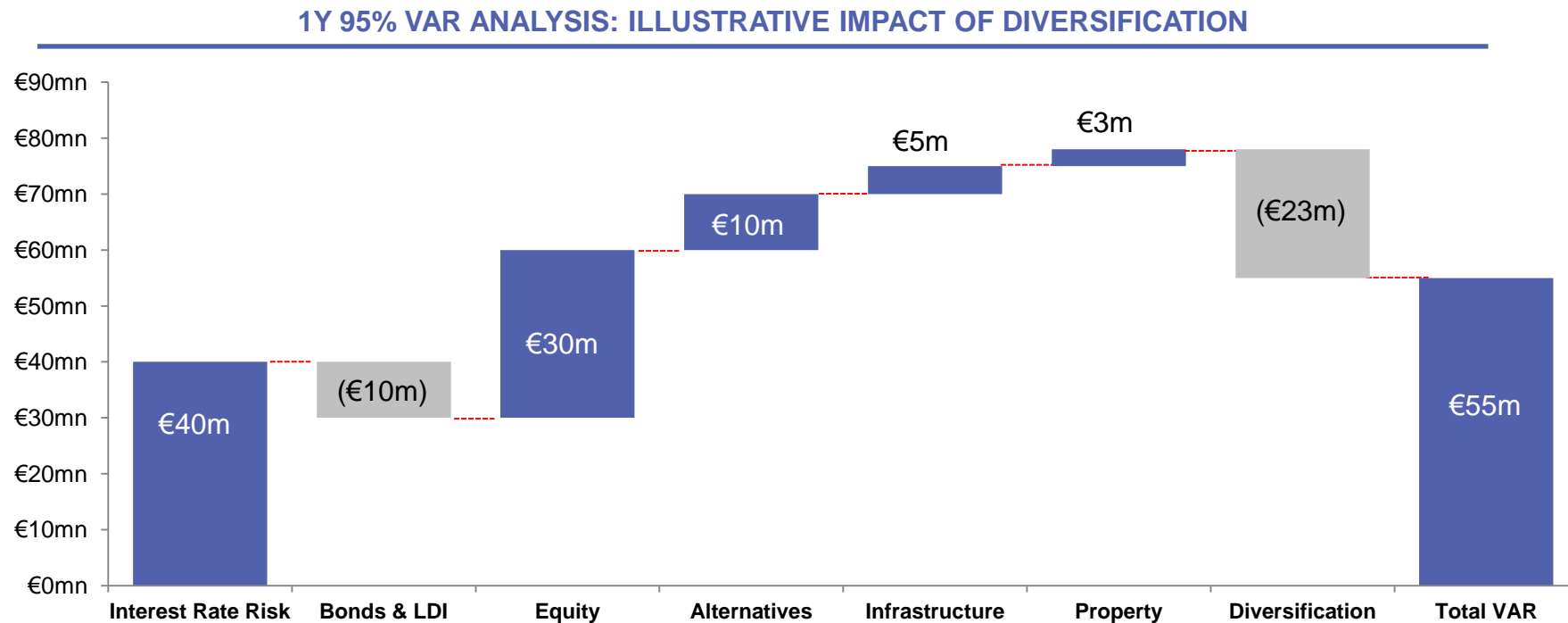


Source: Bloomberg Mar 12th

- Where are we in the current investment cycle?
- Returns have been strong in historic context
- Probably entering late stage cycle where volatility and drawdowns could become more frequent

# UNDERSTANDING INVESTMENT RISK

Most DB Scheme measure risk using a 95% VAR metric. This measures the potential negative impact on a Scheme's funding position over a 1 year period. Diversification & risk mitigation strategies can lead to lower levels of risk for investors (as measured by VAR), which will lead to better outcomes over the longer term.

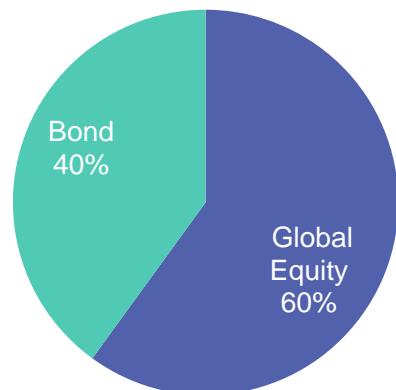


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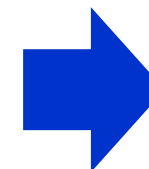
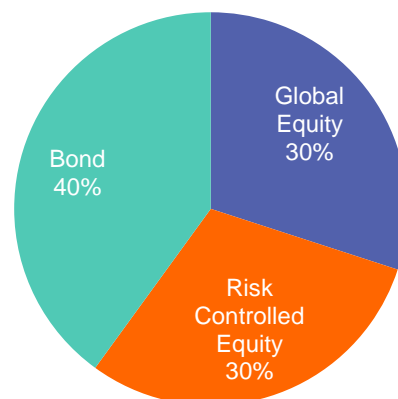
# MODEL PORTFOLIO – IMPACT OF RISK CONTROL

## Strategic Allocation Decision

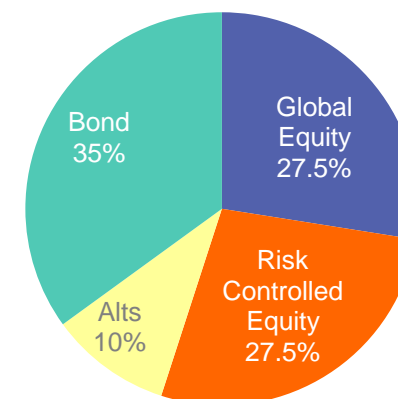
60:40 Balanced



60:40 Balanced + Risk Control



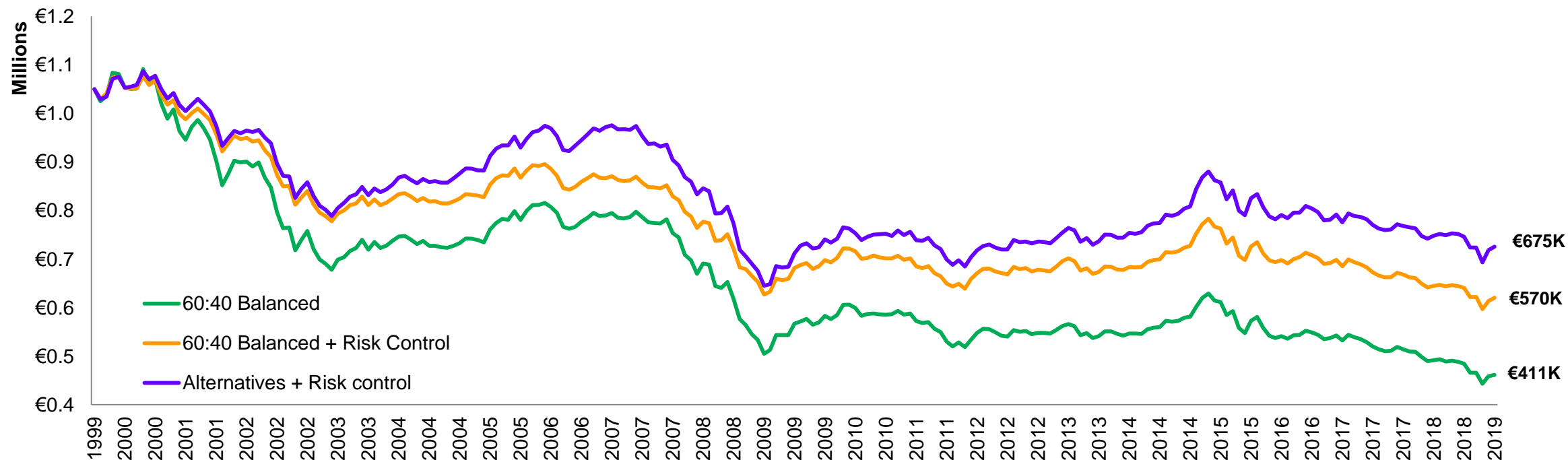
Alternatives + Risk control



5-Year Forward Looking:	60:40 Balanced	60:40 Balanced + Risk Control	Alternatives + Risk Control
Expected Returns	3.2%	3.1%	3.1%
Expected Volatility	9.5%	7.6%	6.6%
Probability 20% Loss	7.2%	3.3%	2.3%

# DIVERSIFICATION + DOWNSIDE RISK CONTROL

## Improved Defence Against Sequencing and Longevity Risk



Source: Factset/ Irish Life Investment Managers  
Time Horizon: Dec/1999 – Feb/2019

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5% p.a. withdrawal, escalating by 1% (annualised) inflation, monthly withdrawals. 18-year period incorporating a whole range of equity market conditions.

The Alphas against MSCI ACWI for certain Risk Managed Equities are removed to illustrate the benefit of risk management in a clearer manner.

# TAKE-AWAY FOR TRUSTEES



Sequencing Risk is becoming more prominent for investors, as DC Members approach retirement or DB Schemes shift gear to cashflow negative. The investment strategy needs to consider how risk controlled strategies can assist in maintaining portfolio return, while reducing volatility.



# Q&A



THANK YOU

