

AllenbridgeEpic Investment Advisers

THE INVESTMENT JOURNEY FOR DB SCHEMES



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Member of NAPF
and UKSIF

AllenbridgeEpic
INVESTMENT ADVISERS

The Investment Journey for DB schemes

- The move from balanced to specialist portfolios
- The switch from equities to alternatives in growth assets
- The move to hedge liabilities in bond holdings
- Strategy setting in a world of deficits
- Derisking as schemes approach full funding



The move from balanced to specialist portfolios

Old World

- Cult of the equity
- Balanced portfolio managers
- Inflexible asset allocation
- Peer group as benchmark
- Oligopoly of fund managers
- Pension fund holidays, focus on assets not liabilities

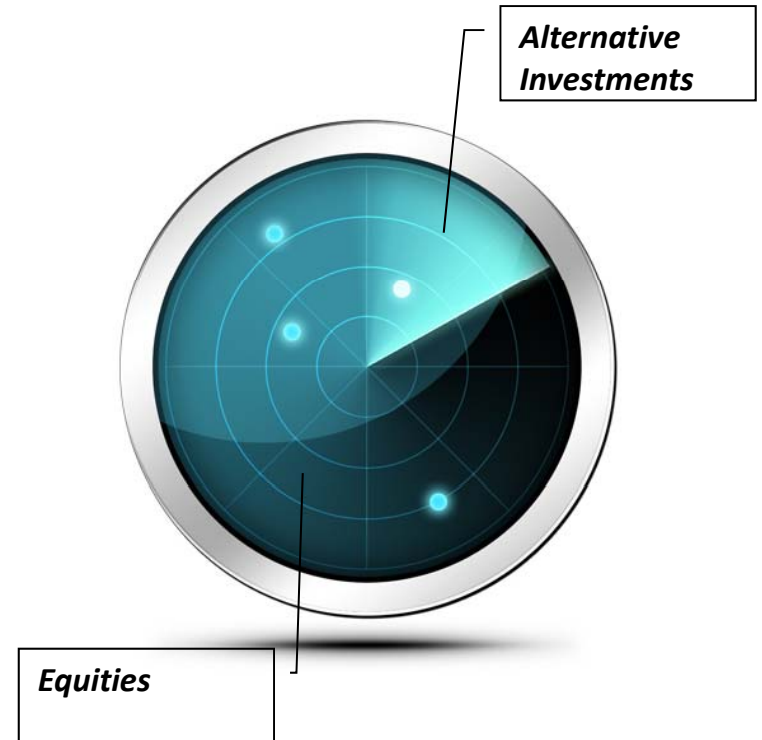
The move from balanced to specialist portfolios

New World

- Fund specific benchmarks
- Specialist equity and bond managers
- Pro-active consultants driving process
- Search for diversification the new mantra
- Rise of risk budgeting
- Increased governance burden on trustees

Switch from equities to alternatives

- Equity market beta seen as blessing and curse after recent bear markets
- Rise of asset- liability modelling
- Diversification within growth assets to reduce volatility
- Hedge funds strong showing in 2000 helped the case
- Search for lowly correlated assets led to HFs, TAA, DG, etc
- Trouble with rising correlations in 2008/9
- How much to diversify the question?



Move to hedge liabilities in bond holdings

- ALM has given new emphasis on liabilities
- Interest rate/inflation risk matches equity risk in most schemes
- Funding ratio volatility captures the impact of liability risks
- Move to LDI led by corporates with public sector schemes lagging
- Complexity a deterrent but pooled funding available for small schemes
- Implementation tricky in terms of market timing, choice of instruments, etc
- A long way to go

Setting strategy in world of deficits

- Pension regulator a major new player
- Challenge of agreeing the recovery period
- Key variables of sponsor contribution, expected portfolio return and time period need resolution
- Sponsor should endorse trustees strategy
- Outcome is balance between growth and liability matching assets
- Different views on importance of volatility versus returns

Derisking as schemes approach full funding

- Endgame is full funding on gilts basis , different from technical provisions
- Derisk equity exposure as funding ratio improves
- Simultaneous hedging of liability risk ideal
- Derisking may impact sponsor's financial accounts
- Trustees should support derisking but equity attachment runs deep
- Long term, asset allocation will look very different

Biographies

Alan Saunders - Director and Senior Adviser

Alan Saunders is currently an investment consultant, advising pension funds on behalf of AllenbridgeEpic while also advising private clients and charities at Allenbridge Ltd, where he Chairs the Investment Committee. Alan is currently the independent adviser to Dorset County Council pension fund and chairs the Investment Committee of Hays Group plc pension fund where he is a trustee. He is also an independent trustee of the ICL Fujitsu pension fund. Outside the world of pension funds, he is Chairman of the JP Morgan Emerging Markets Investment Trust and sits on the Client Board of ING Real Estate Asset Management. In a varied career in the financial markets and international industry, Alan has been a stockbroker and partner in Simon & Coates, Chief Economist of Royal Dutch Shell, Investment Director at Lazards and a Managing Director at UBS, responsible for international private clients.

Karen Shackleton - Chief Executive and Senior Adviser

Karen Shackleton has over 25 years' professional investment experience. She started her career at County Natwest Investment Management, specialising in quantitative fixed income and derivatives fund management for pension funds. She later introduced currency dynamic hedging, tactical asset allocation, quantitative added value products and option writing strategies. She was also responsible for client servicing, marketing and business strategy in the UK, USA and Japan. In 1991 Karen joined BZW Investment Management, heading up the Client Service Team within the Quantitative Investment Group. Her responsibilities included client relationships, marketing and trustee training. Karen became an Independent Consultant in 1995 providing a range of services including trustee training with a particular focus on hedge funds and quantitative strategies. She carries out market intelligence research for pensions' providers, and over the years has discussed a range of topics with more than 650 institutional and high net worth investors. She is the independent investment adviser for the London Borough of Islington and London Borough of Hounslow pension schemes, and in 2010 she became AllenbridgeEpic's Chief Executive.

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