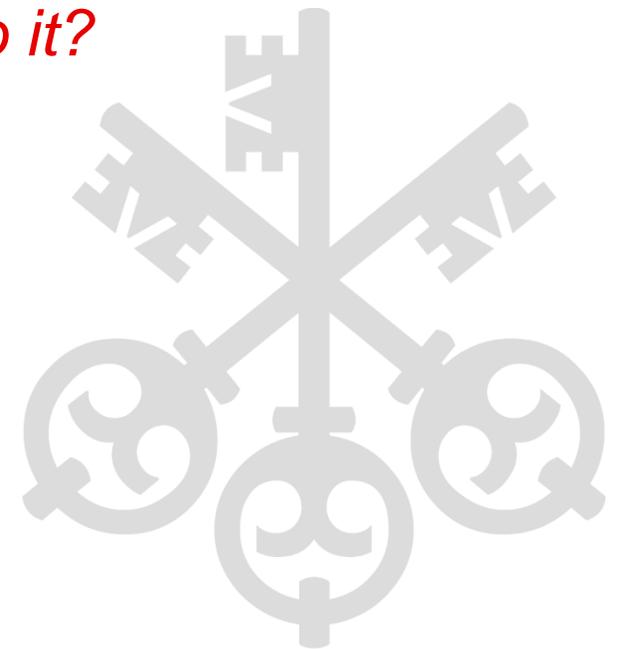


The CIPFA Pensions Network Workshops

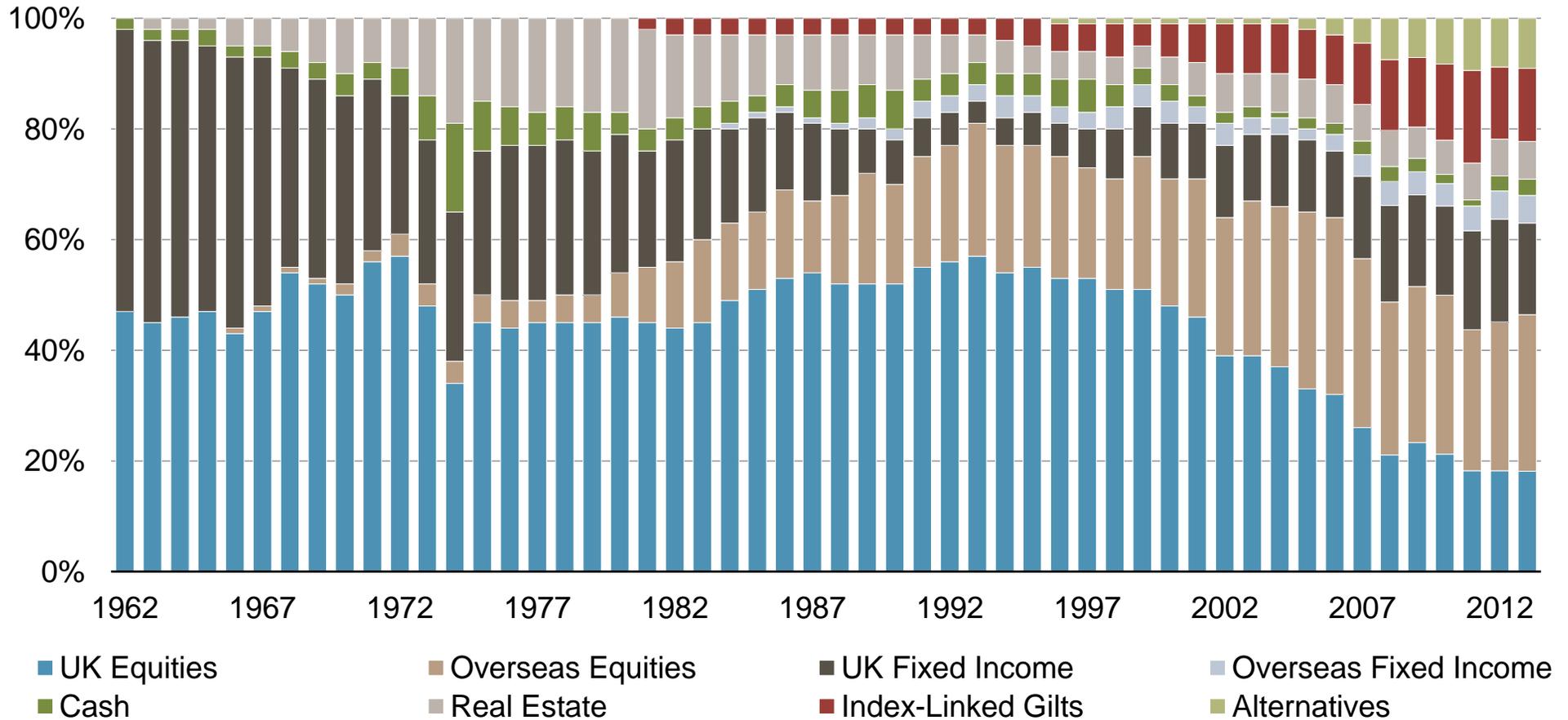
Meeting the Efficiency Challenge – *Can you do it?*
London



Asset Allocation Trends

Average UK Pension Fund

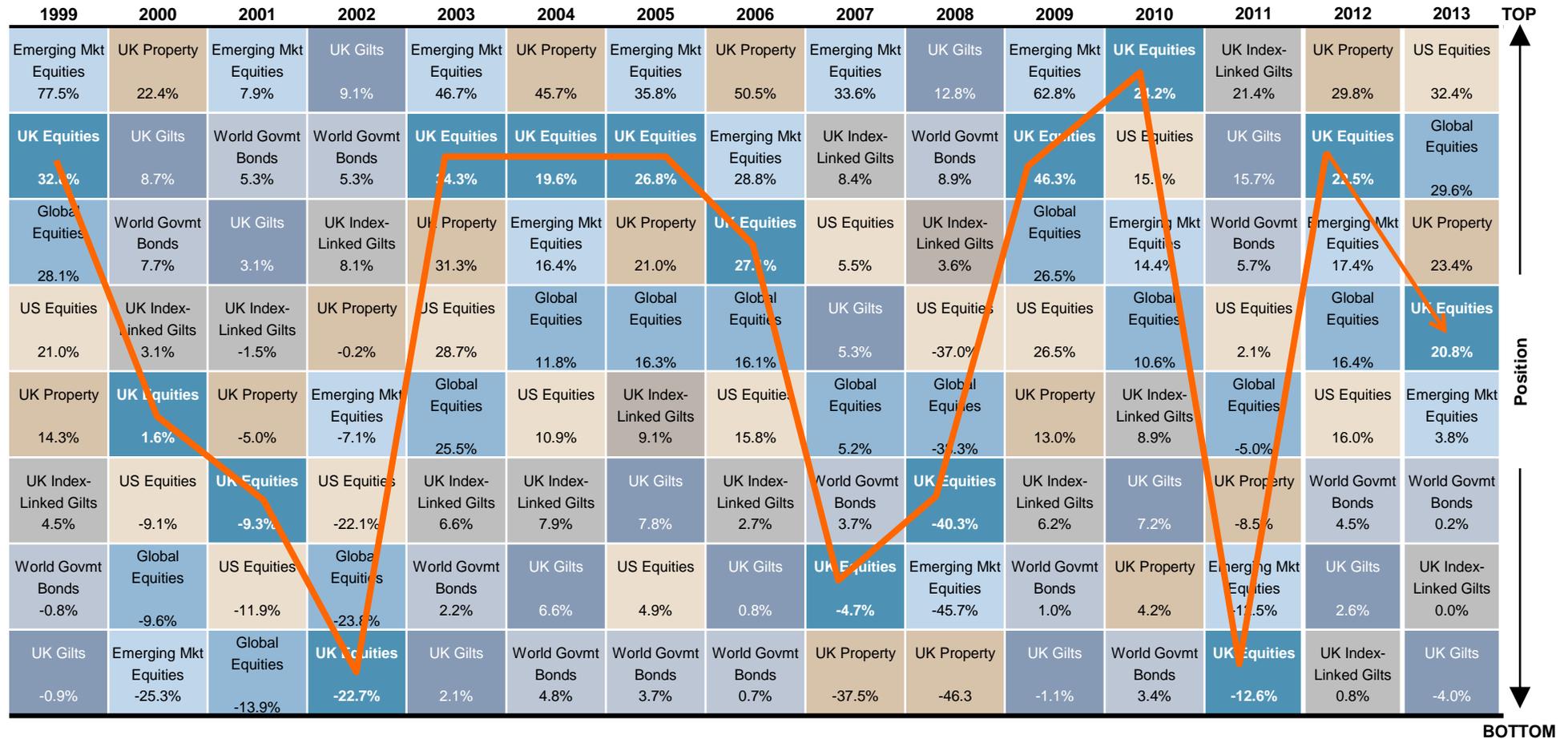
Asset allocation – average pension fund, 1962 – 2013



Source: National Statistics (until 1995), WM (1996 onwards). As at end December 2013.

Tactical decisions can enhance returns

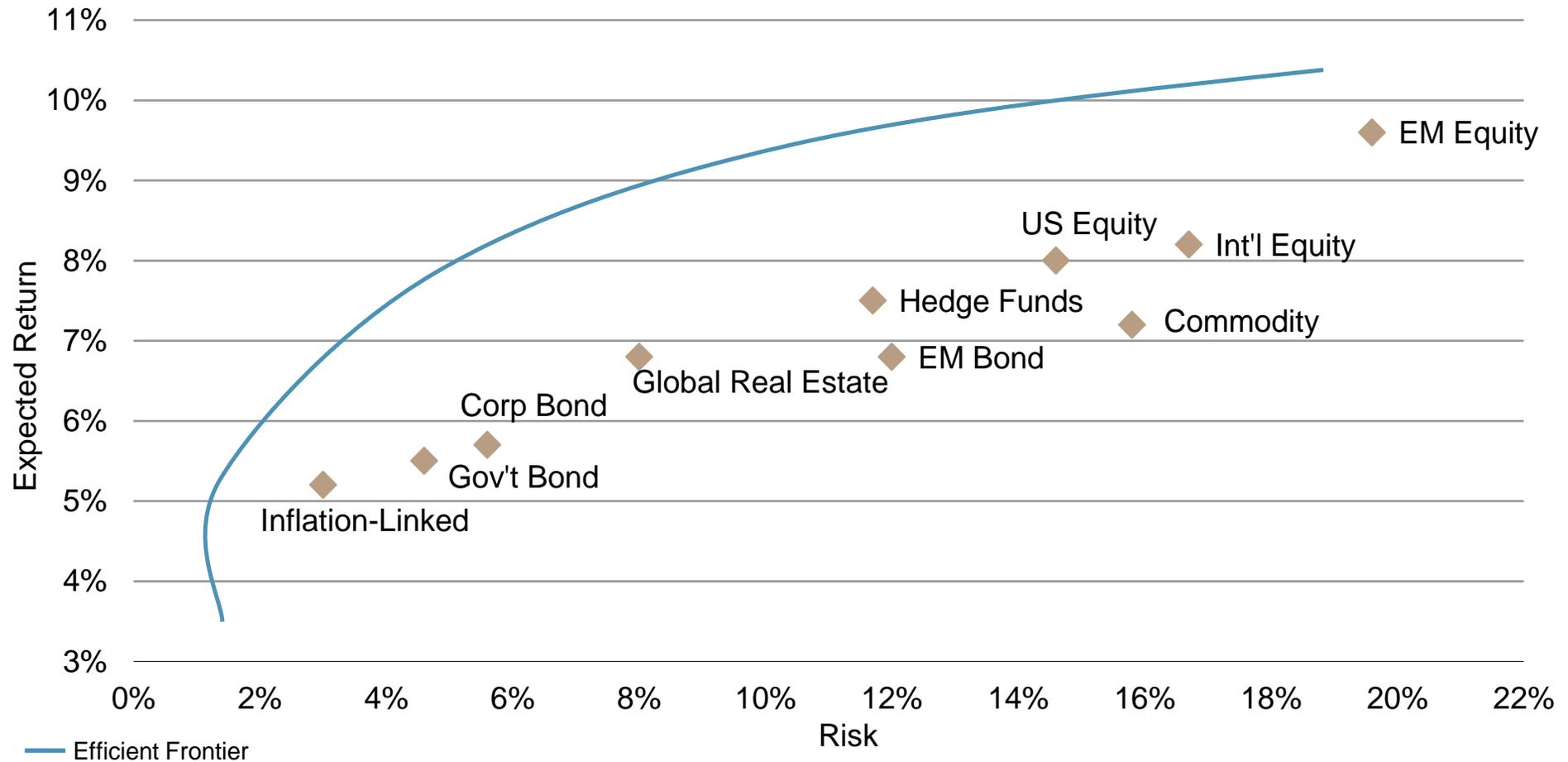
No single asset class delivers consistent top performance



 Movement of UK Equities returns
 Source: Datastream
 Note: Calendar year returns in local currencies.

Diversification helps

...but correlations change over time



Source: UBS Global Asset Management
For illustrative purposes only

The governance challenge

Make efficient use of time... delegation

Financial Objectives

Tactical Asset Rotation

Investment Strategy

Manager Selection

Asset Allocation

Alternatives

Liability Hedging

Stock selection

Counterparty Selection

Custodian Selection

Risks in a pension fund



Investment Related

Inflation

Interest rates

Credit

Counterparty

Currency

Reinvestment

Liquidity

Non-investment

Longevity

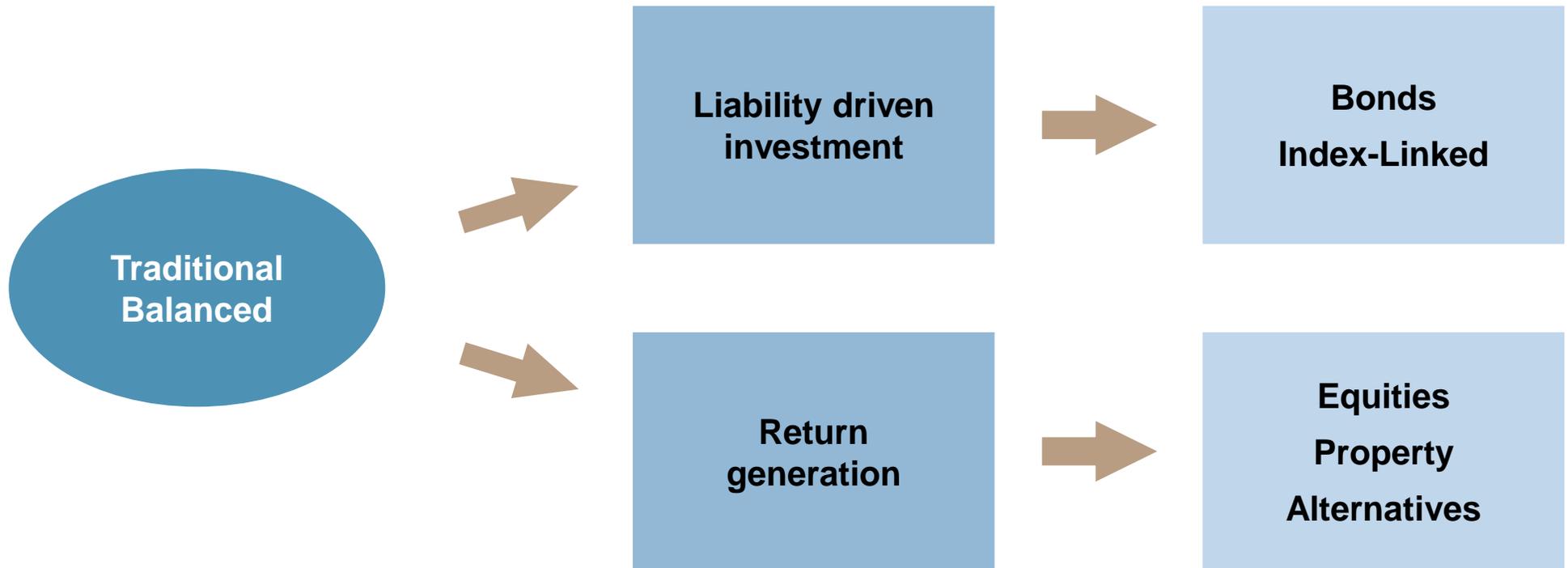
Legislation changes

Unions

Taxpayer

Current thinking in pension fund investment

Asset liability investment solutions



Corporate Schemes
Public Schemes

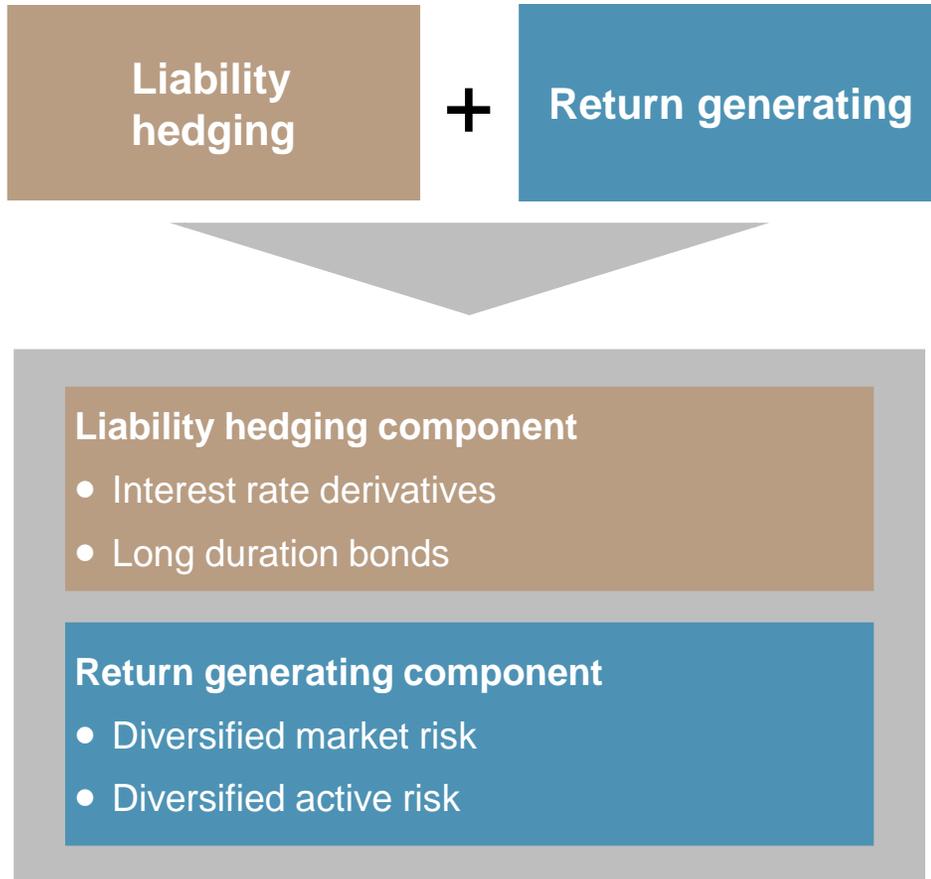
Generally closed
Open

Shorter term horizon
Indefinite horizon

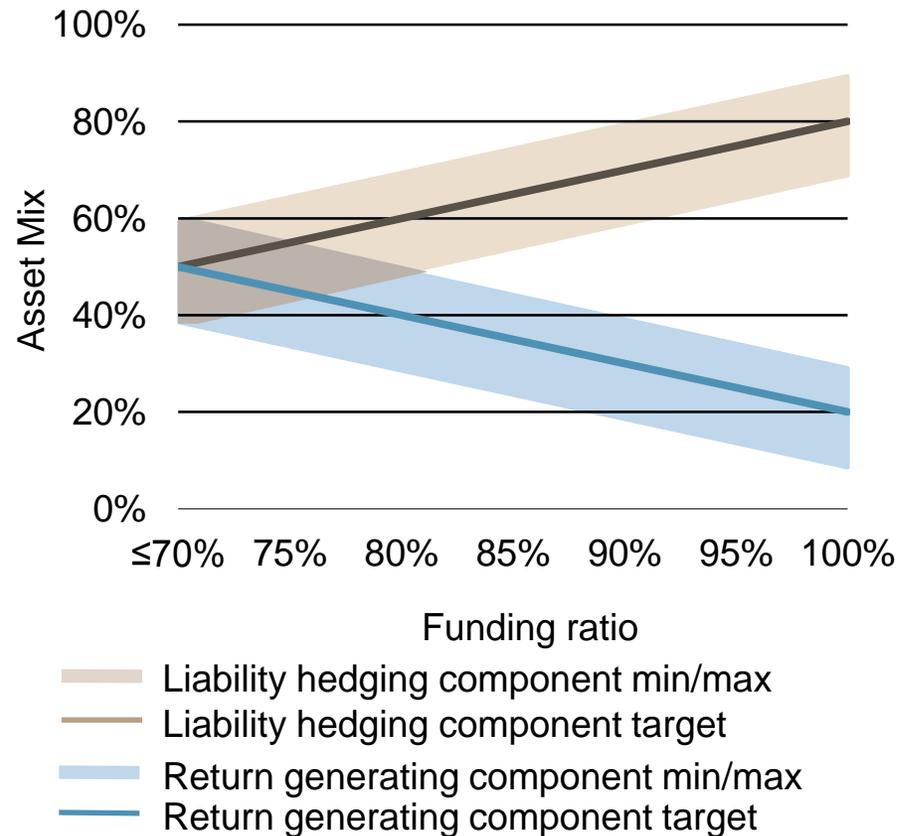
Risk reduction
Risk seeking

Liability hedging and return generating assets

Importance of a roadmap



Sample De-Risking Schedule



As the plan's funding ratio improves, assets are moved from return generating to liability hedging, to reduce funding volatility

For illustrative purposes only.

Role of alternatives

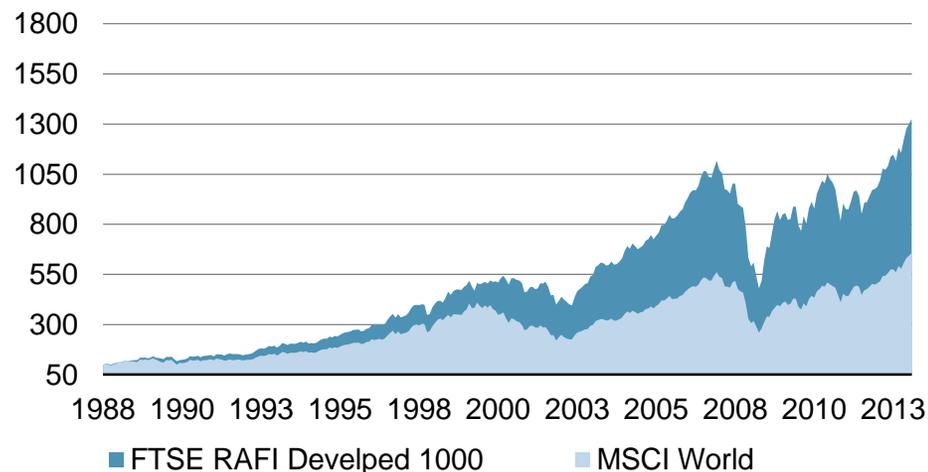
Helps portfolio efficiency

	Real Estate	Infrastructure	Private Equity	Hedge Funds
Preserves real value	✓	✓✓	?	?
Cash flow	✓	✓✓✓	✓	?
Portfolio efficiency	✓	✓	?	✓
Management cost	?	?	?	?
Liquidity	Quarterly	Illiquid	Illiquid	Quarterly

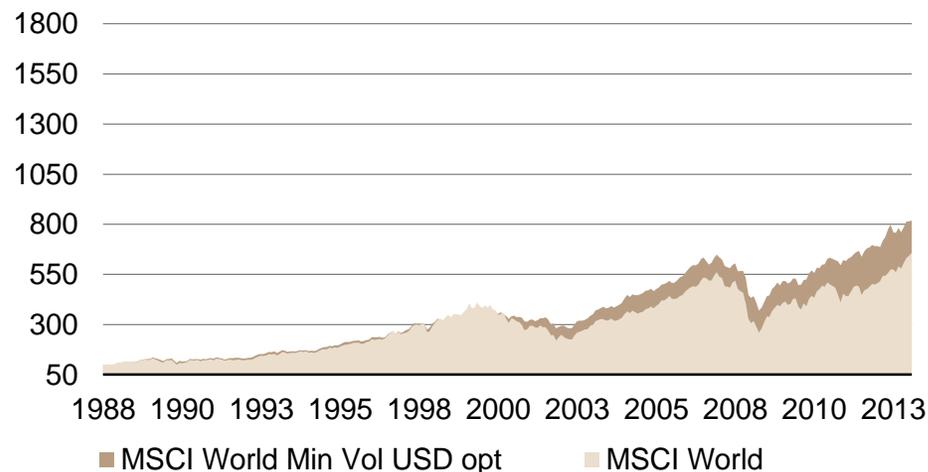
Alternative indices

... a blend provides efficient exposure to equities?

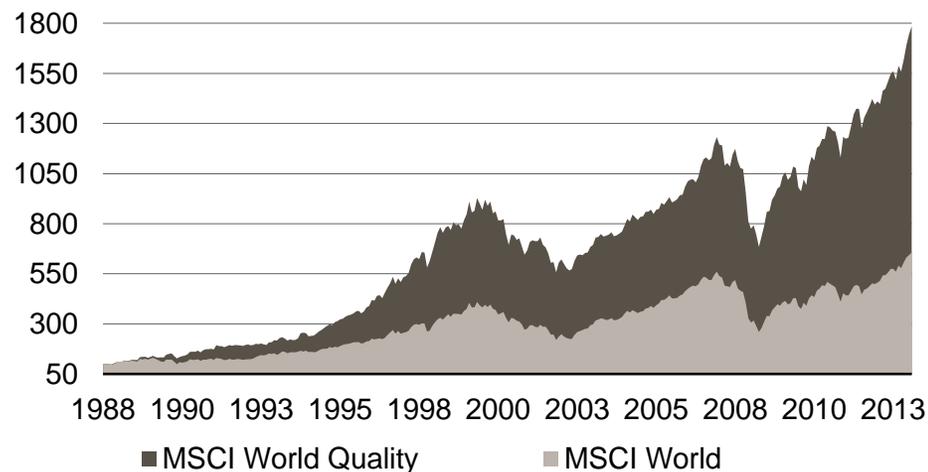
Value: FTSE RAFI Dev. 1000 (annual rebalance) vs. MSCI World



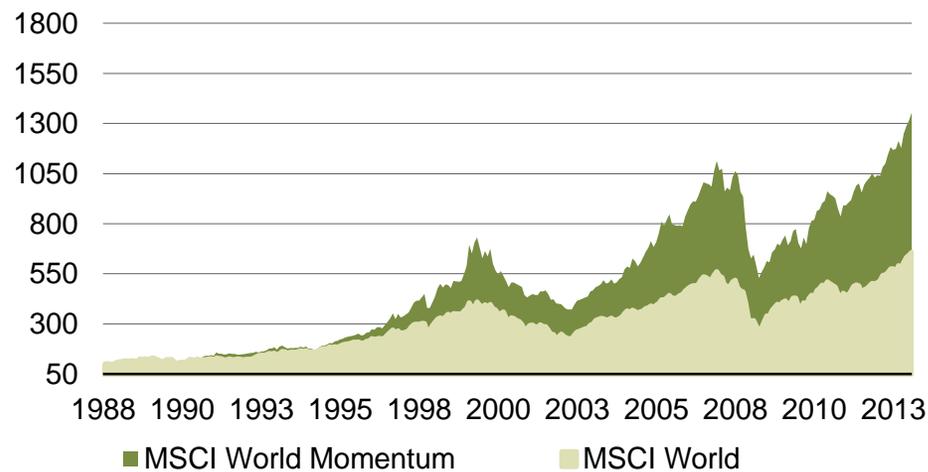
Volatility: MSCI World Min Vol USD opt vs. MSCI World



Quality: MSCI World Quality vs. MSCI World



Momentum: MSCI World Momentum vs. MSCI World



Source: UBS Global Asset Management, Bloomberg, FTSE, MSCI. TR gross index performance data in USD to 31 December 2013, rebased to 100.
 Note: Data from 31 May 1988 (earliest date when data is available for all examined indices) to 31 December 2013.
 Data for alternative indices contains live and back-tested data. Past performance is not a reliable indicator of future results.

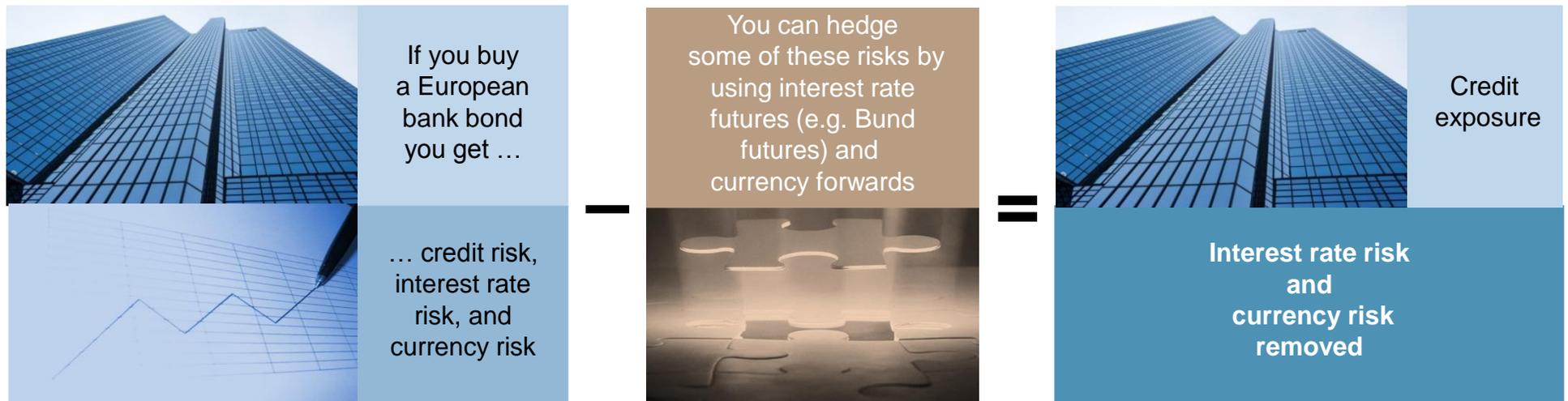
Use of derivatives

It's all about efficiency of implementation

Derivatives, such as options and futures, are used in the strategy:

- As a source of potential return
- To obtain exposure to certain markets
- To replace more traditional investments
- As a risk management tool (see illustration below)
- To improve portfolio liquidity

Bond exposure includes a number of different **risks** which can be **hedged** via derivatives, for example:

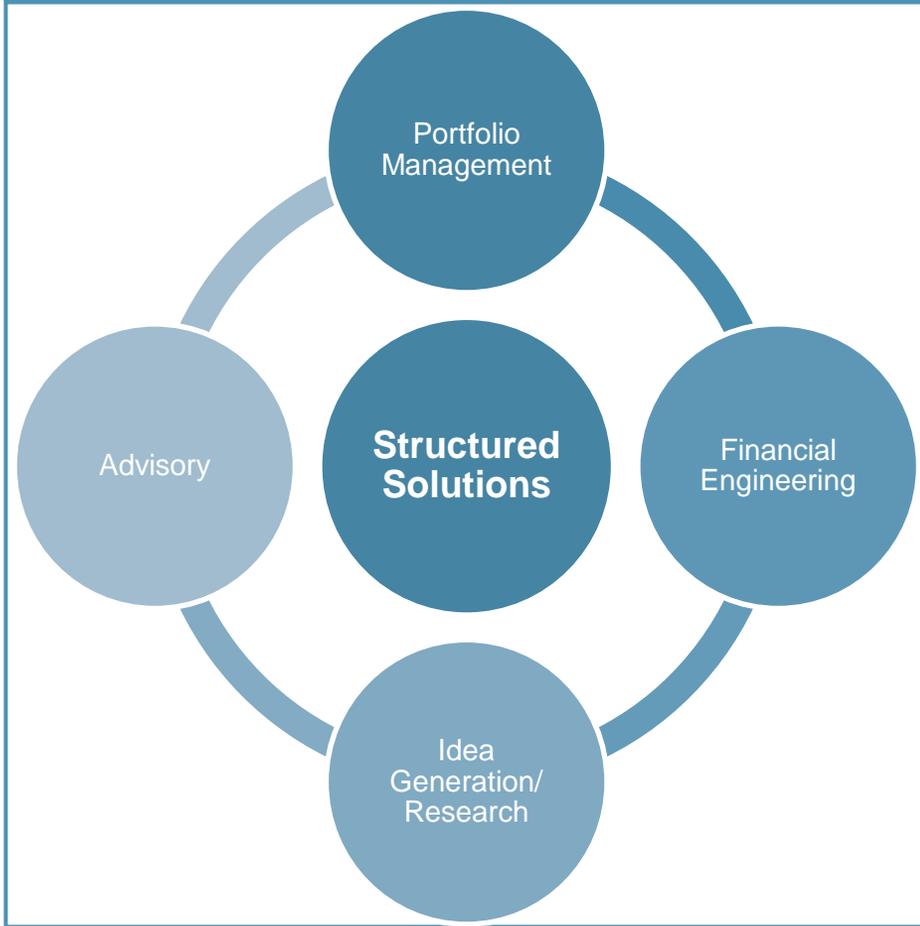


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Structured Solutions

What do you want to achieve?

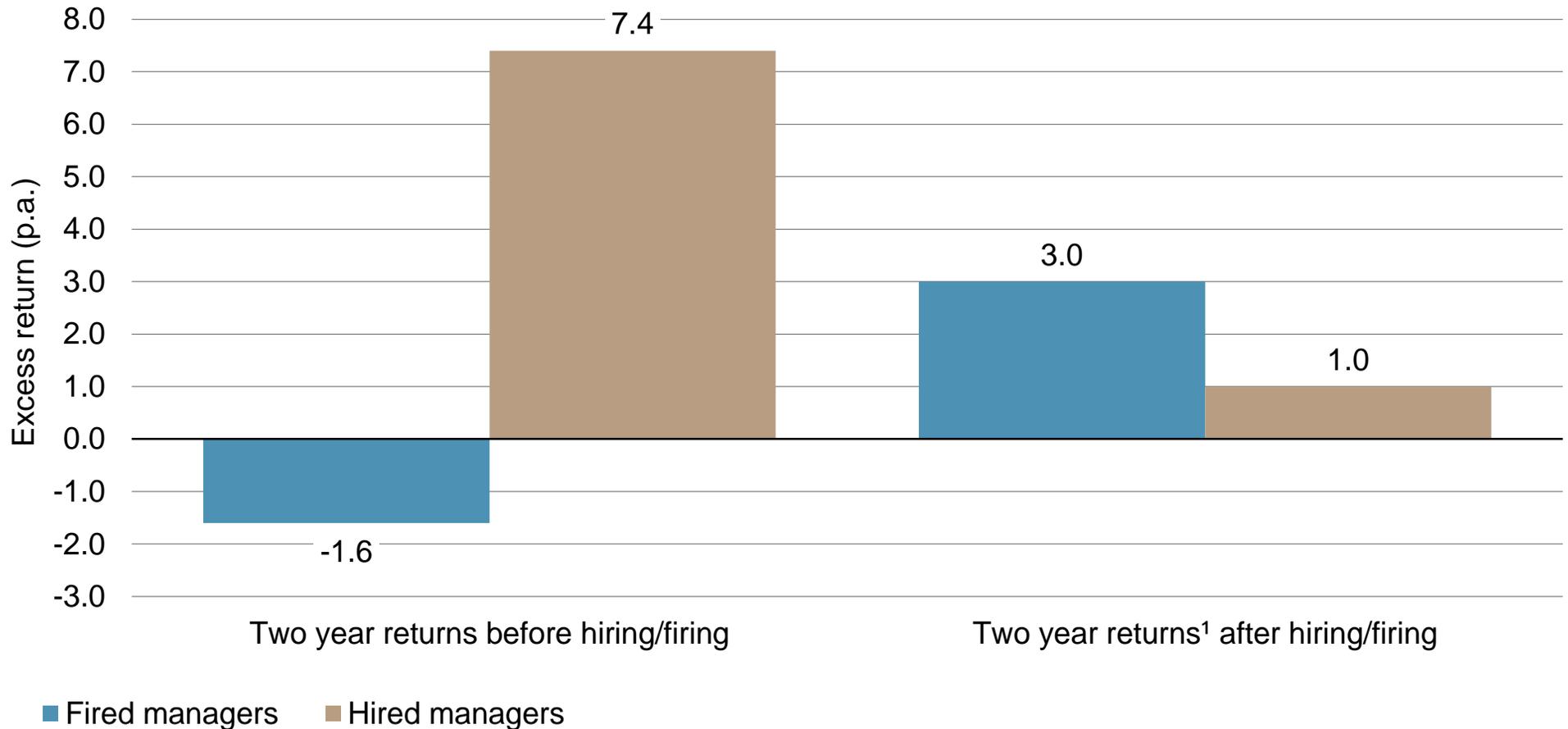
Dedicated team of financial engineers to offer client outcomes that may not be readily available via traditional investment strategies



Supplying a broad skill set to offer outcome oriented investment solutions



Hiring / Firing – the mistake some committees have made



Source: UBS Global Asset Management and Goyal and Wahal, "The Selection and Termination of Investment Management Firms"
1 Net of transition costs

Meeting the Efficiency Challenge – *Can you do it?*

- Pool intellectual capital – make use of fund managers to broaden the debate
- Greater awareness of the liability drivers and buckets
- Better informed decisions on the important stuff
- Are you exploiting temporary market inefficiencies across markets and currencies
- Embrace Alternatives
- Ensure managers know where they fit in with the overall strategy
- Holistic view of risk

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