

MERCER 2014 DB RISK WEBCAST SERIES

# GETTING OFF THE ROLLERCOASTER

## HOW ARE PENSION SCHEMES MANAGING THE VOLATILITY OF THEIR JOURNEY?

3 JUNE 2014

Alan Baker  
John Benfield  
Andrew Leslie

Date	Topic
6 March	Risk transfer solutions – The beginning of the end ...or the end of the beginning?
13 March	Pension plan data – Why improving it benefits everyone
1 April	Member options – More choice for members, less risk for schemes and sponsors
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15 May	Investing for income – Using benefit cash flows in setting investment strategy
<b>3 June</b>	<b>Getting off the rollercoaster – How are pension schemes managing the volatility of their journey?</b>
19 June	Approaches to delivering long-term self-sufficiency
10 July	Kick-starting your risk management programme – LDI without the tears



**Alan Baker**  
Partner



**John Benfield**  
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**Andrew Leslie**  
Principal

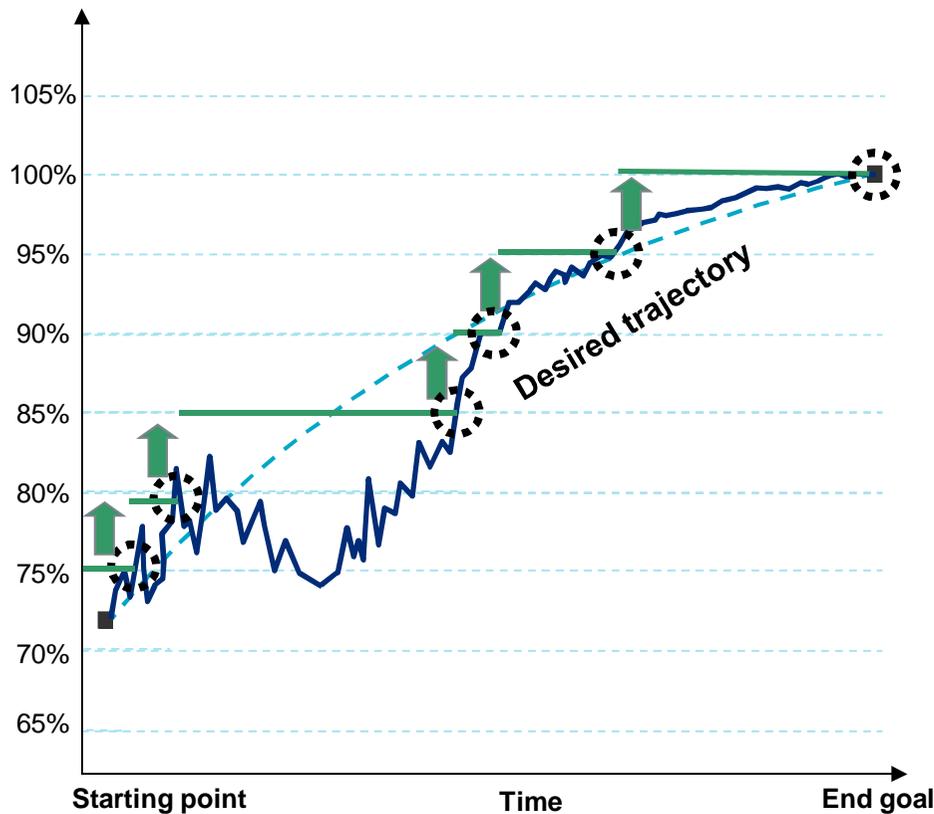
# FTSE 350 aggregate funding level from 30 April 2007 to 30 April 2014 (Technical Provisions)



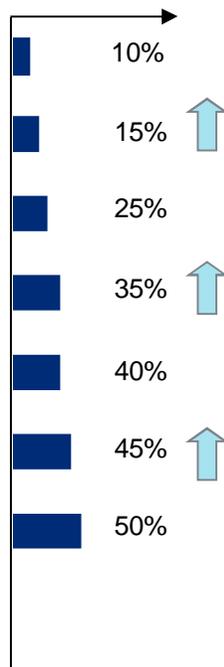
The calculations are approximate and intended to give a broad indication of the trend in the funding level over time. The assets are updated in line with market indices.

Source: Thomson Reuters, The Pensions Regulator, Mercer

Funding level (%)



% growth portfolio allocation

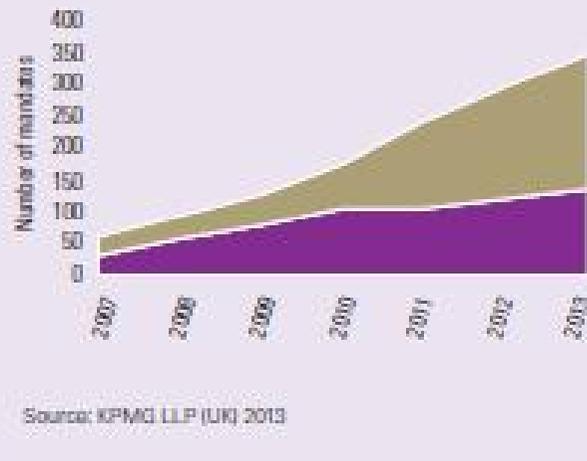


### Key Stages

- Setting strategy and trigger levels
- Monitoring of assets & liabilities
- Implementing asset switches

— Actual funding level   
 ↑ Gradual de-risking   
   Trigger breached   
 — Upside Trigger   
 ↑ Next upside Trigger

*Figure 1:  
Growth of both the partial and full  
delegation markets by mandate number*



*Figure 2:  
Growth of both the partial and full  
delegation markets by AUM (£bn)*



KPMG 2013 survey shows fiduciary market continues to grow

2012: £50bn through 300 mandates    2013: £58bn through 350 mandates

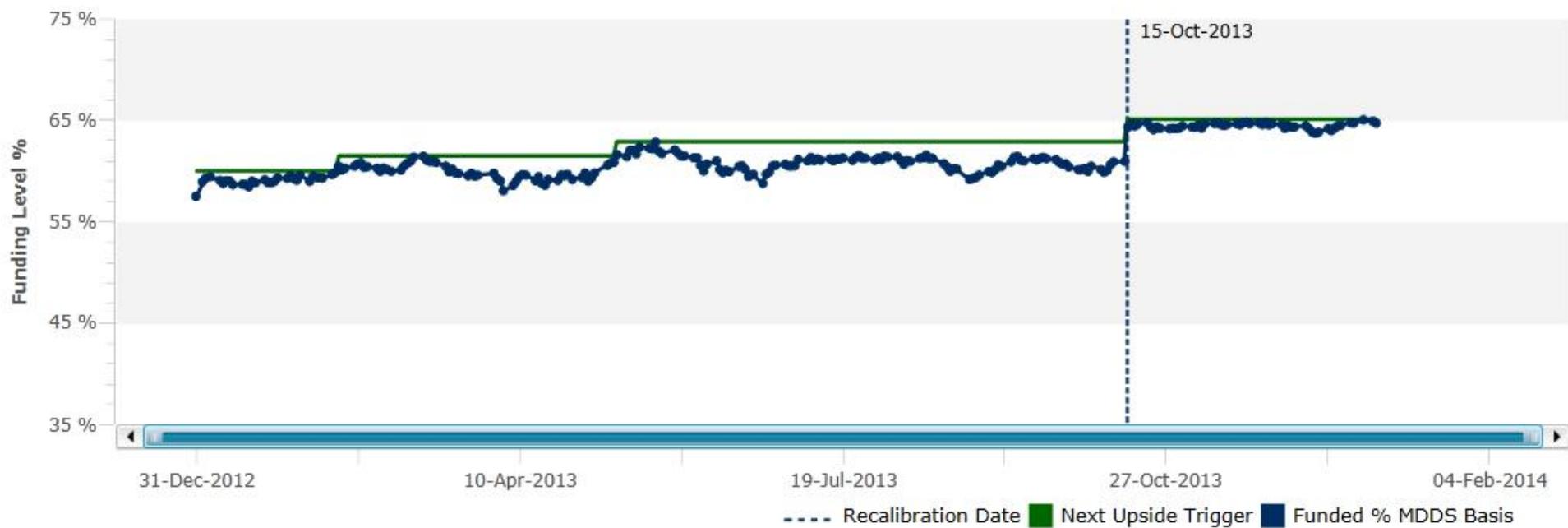


Increasing corporate risk co-ordination across geographies  
Fiduciary assets increased from \$69bn (March 2013) to \$98bn (March 2014)

## UK Assets and client numbers



Source: Mercer

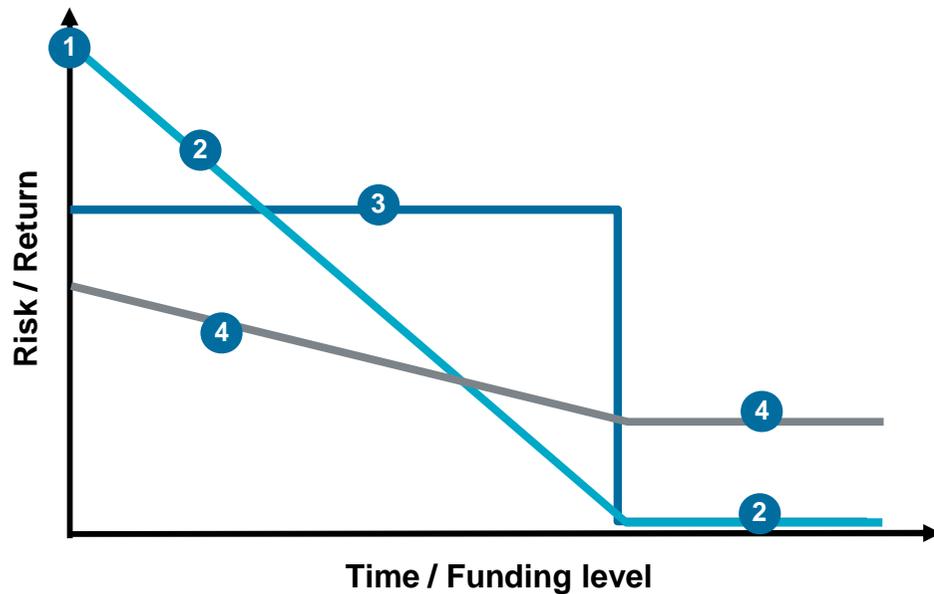


During 2013, Mercer Fiduciary clients implemented 96 funding level triggers

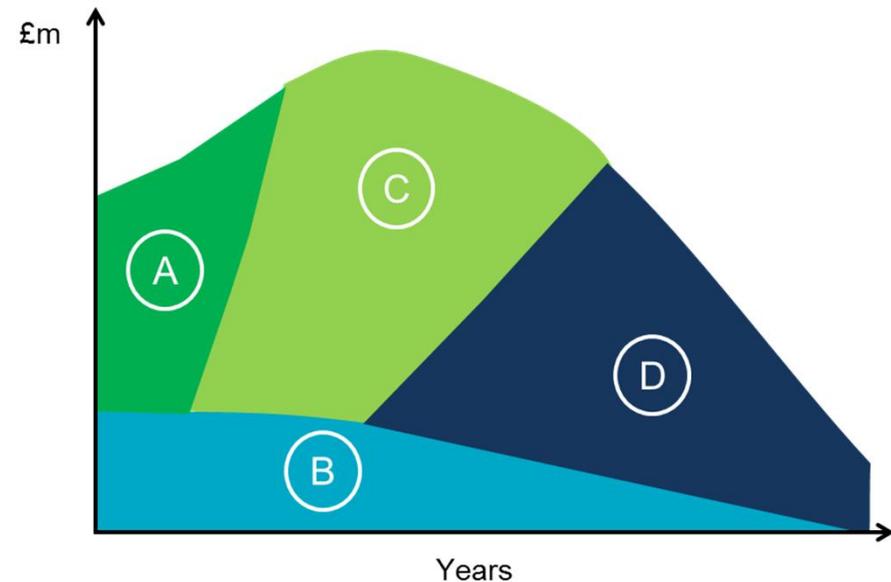


Source: Mercer 2014 European Asset Allocation Survey

<b>Step 1</b>	Training	Initial and ongoing training on LDI
<b>Step 2</b>	Liability Benchmark Portfolio	Derivation of the hedging benchmark
<b>Step 3</b>	Current Hedge position	Assessment of the current position
<b>Step 4</b>	LDI Objectives	Identify goals and objectives for the LDI strategy only
<b>Step 5</b>	LDI Vehicle	Type of vehicle – pooled approach most suitable given size of assets
<b>Step 6</b>	Implementation approach and parameters	Immediate and trigger based
<b>Step 7</b>	Trigger monitoring	Identification and monitoring of yield triggers
<b>Step 8</b>	LDI Manager Selection	Identify LDI manager (s)
<b>Step 9</b>	LDI Portfolio Structure	Derivation of the initial portfolio structure
<b>Step 10</b>	Documentation	Manager agreements
<b>Step 11</b>	Suitability Letter	Suitability letter summarising recommendations as well as risks etc
<b>Step 12</b>	Recalibration prior to implementation	Annual recalibration of the LBP and portfolio structure
<b>Step 13</b>	Transition facilitation	Transition of assets
<b>Step 14</b>	Monitoring	Provision of on-going monitoring reports and analysis to monitor hedge

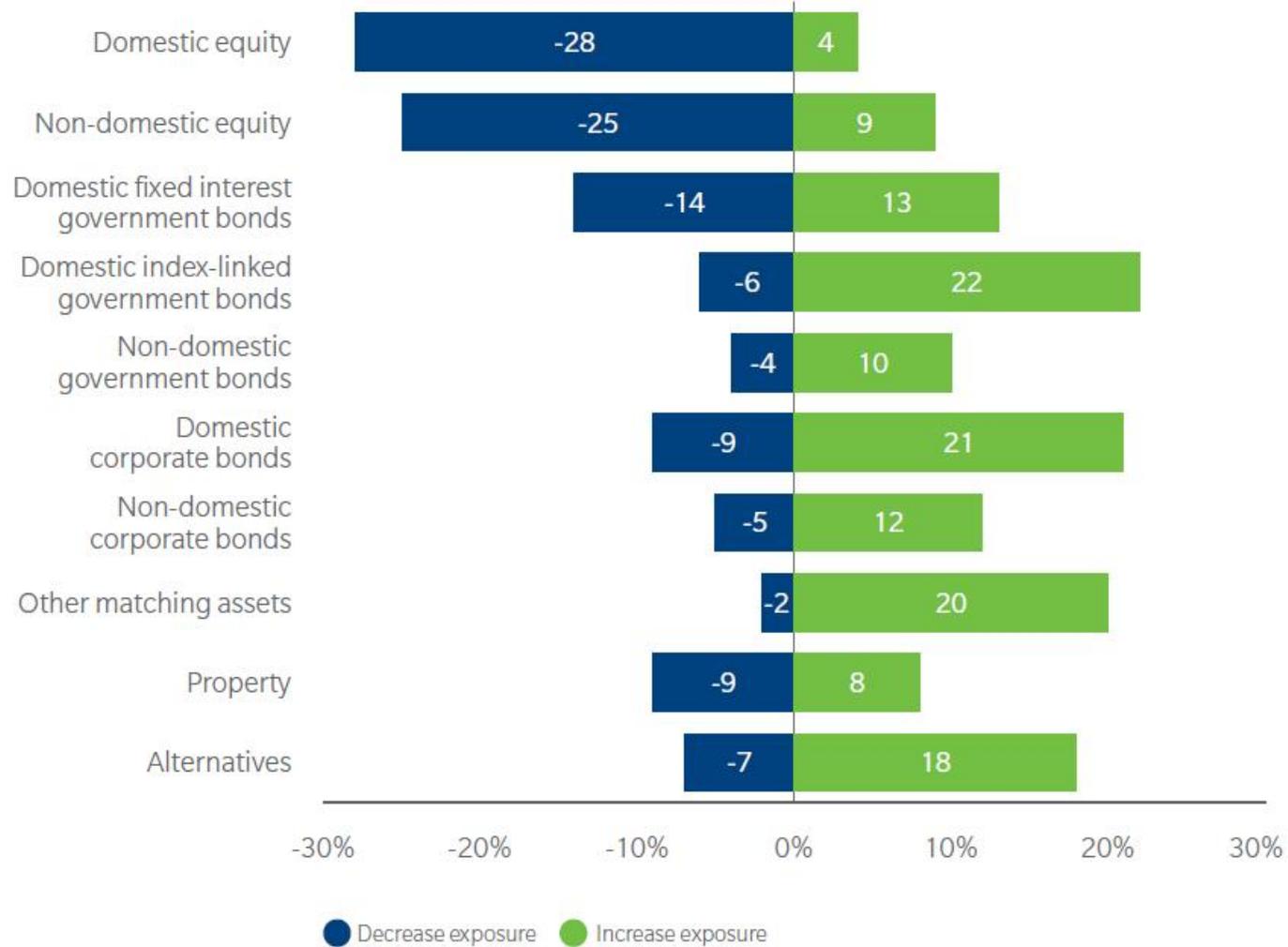


- 1 Risk / return position of current strategy
- 2 A strategy that seeks to gradually derisk to a very low level may mean too much risk is retained in the short to medium term
- 3 A strategy that keeps a constant risk level (to full funding) is exposed to significant risk for longer – note the covenant may be less certain further into the future
- 4 Accepting a modest level of long term risk allows the dynamic risk management journey to start earlier and for a more efficient allocation of risk



- A Higher-yielding credit
- B Income-producing illiquid assets
- C Investment-grade corporate debt on a “buy and maintain” basis
- D LDI portfolio

Chart 23: Percentage of plans expecting to change investment strategy



Source: Mercer 2014 European Asset Allocation Survey



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TO "ALL PANELISTS"

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## Still to come...

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## INTEGRATED PENSIONS BALANCE SHEET

**B** Decision matrix  
**B** est practices  
**R** esearch  
**I** nsights  
**S** olutions  
**K** ey tips

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