



**Irish Life**

*Supporting  
your pension  
plan*

NATIONAL CONVENTION CENTRE 25 SEPTEMBER 2012

# PENSIONTENSION<sup>2012</sup>

planning the new reality

# The Investment Quandary

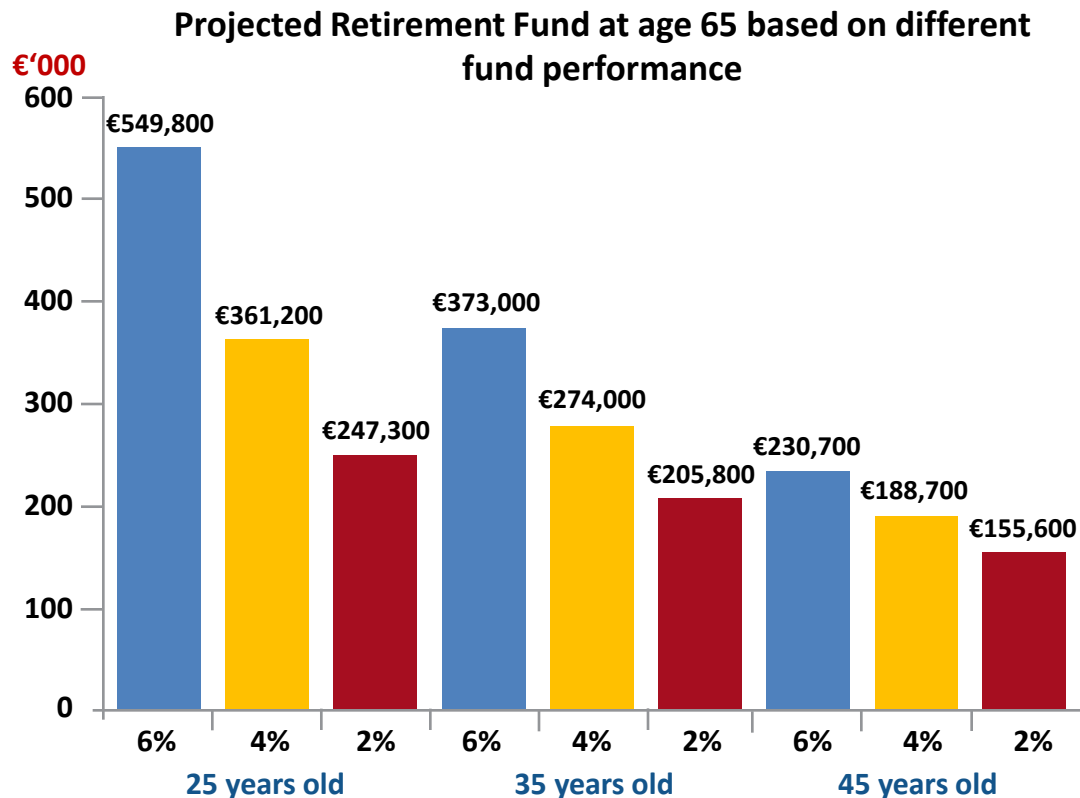
To Invest

or

To Save

**For Retirement**

# Can Cash Deliver ?



## ASSUMPTIONS

### Commencing Salaries

Age 25 €25,000

Age 35 €35,000

Age 45 €50,000

**Salary Growth** 3% p.a.

**Contribution Rate** 10%

### Growth Rate

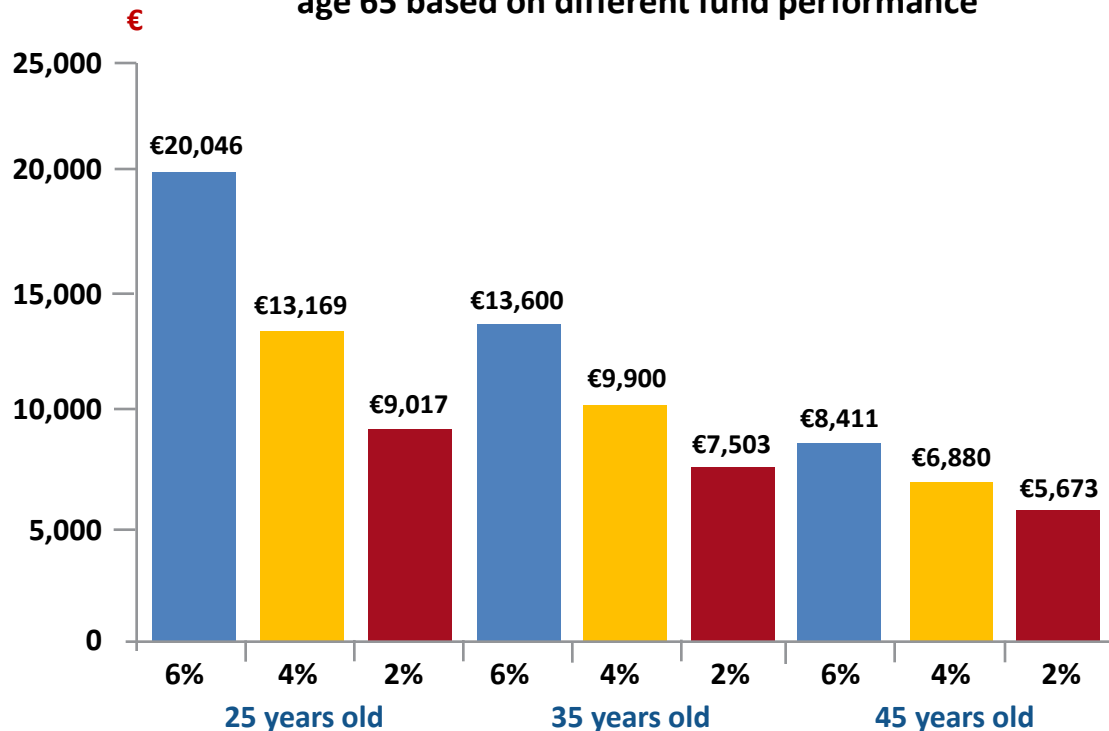
6%

4%

2%

# Can Cash Deliver ?

Projected Annual Single Life Pension increasing by CPI at age 65 based on different fund performance



## ASSUMPTIONS

### Commencing Salaries

Age 25 €25,000

Age 35 €35,000

Age 45 €50,000

Salary Growth 3% p.a.

Contribution Rate 10%

### Growth Rate

6%

4%

2%

Annuity Rate 3.65%

# Cash as an Investment Trend

- % of pension assets held in cash deposits has grown dramatically in recent years
- + 80% since 31.12.2011
- +200% since 31.12.2010
- Currently longer duration fixed-term deposits attractive (BBB+ & lower) – but temporary
- Can Cash deliver as a long-term investment strategy

# Outlook for Cash/Deposit Rates

- Central Banks Supports      ECB, US Federal Reserve, Bank of England etc.  
ECB      **LTRO – Long Term Refinancing Operation**  
                 **OMT – Outright Monetary Transactions**  
                 **Accommodative Interest Rate Policy**  
                 **Impact - Lower Global Interest Rates**
- ECB Inflation Target      Close to but under 2% - what is the real long-term return for Cash?
- Irish Bond Yield      Continued contraction
- Interest Rates      Continued tightening

# Outlook for Cash/Deposit Rates

## Irish Bond Yields – 2018 Bond



## Interest Rates

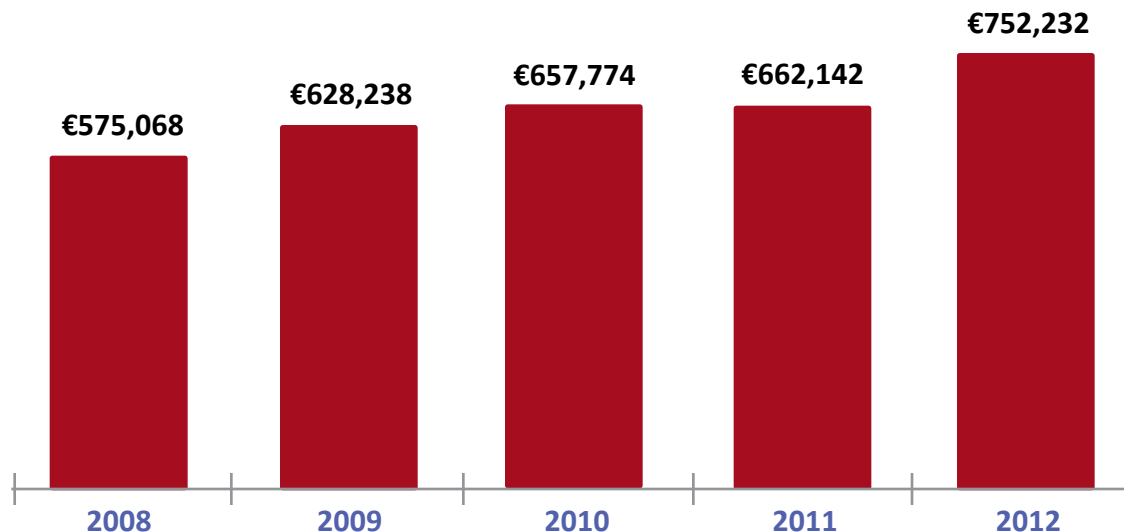
1 Year Fixed Deposit Rates			
Year	AIB Bank	Rabobank	CBA
2010	3.20%	1.04%	0.80%
2011	4.40%	1.40%	0.66%
2012	2.85%	0.25%	0.00%

# Can Cash Deliver



# The Cost of Replacement Income

**Cost of €500 per week Single Life Pension increasing by CPI at age 65**

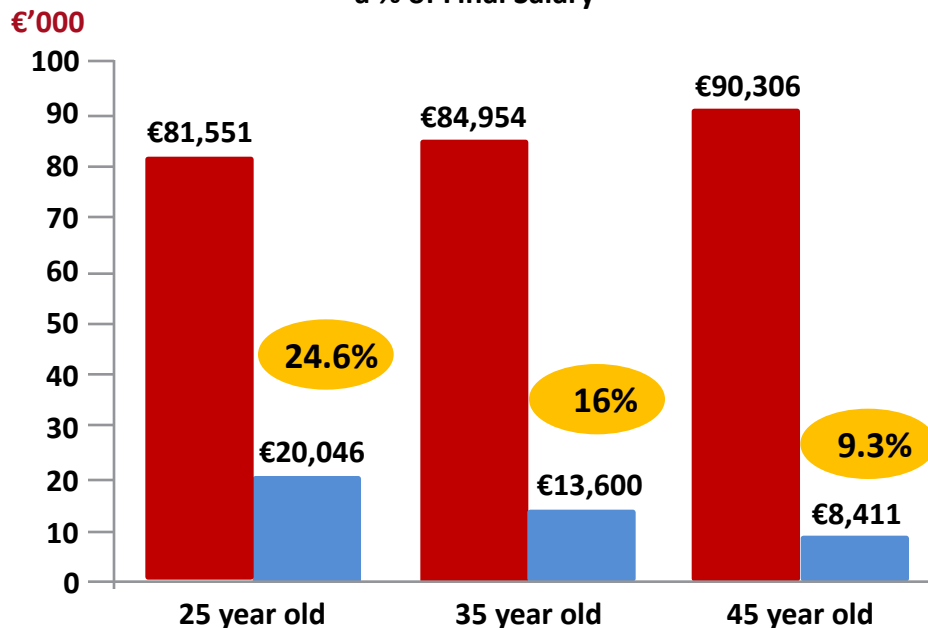


**Impact of longevity and interest rates**

**Cost of €100 per week annual pension has increased by 30% since 2008**

# Can Cash Deliver ?

Projected Single Life Annual Pension at age 65 increasing by CPI as  
a % of Final Salary



## ASSUMPTIONS

### Commencing Salaries

Age 25 €25,000

Age 35 €35,000

Age 45 €50,000

**Salary Growth** 3% p.a.

**Contribution Rate** 10%

### Growth Rate

2% - gross

**Annuity Rate** 3.5%

# Managed Investing

# Investing in Real Assets

- Recognise risk aversion/nervousness
- Recognise capacity to invest for retirement
- Address it
- Design an Investment Strategy
- Use Risk Management Tools

Diversified Asset Classes

Volatility Management Tools

Drawdown Management

De-risk as appropriate

# Diversified Asset Classes

## ■ Equities

Developed World Equities

Emerging Markets Equities

Minimum Volatility Equities

High Yield Equities

Commodities – energy, non-energy, agri,  
metals – industrial, precious etc.

Absolute Return

*Diversification*

## ■ Bonds

Eurozone Government Bonds

Corporate Bonds

Emerging Markets Debt

# Volatility and Drawdown Management

## ■ Absolute Return

### *Strategic Asset Return Fund*

Invest in Alternative Strategies

Invest with Best-in-class global managers - with independent robust operational due diligence and manager monitoring process

Ensure diverse range of alternative strategies

## ■ Drawdown Management Quantitative Process

### *Equity/Cash Overlay Model*

Tactical Asset Allocation Process

De-risk and re-risk the portfolio based on:-

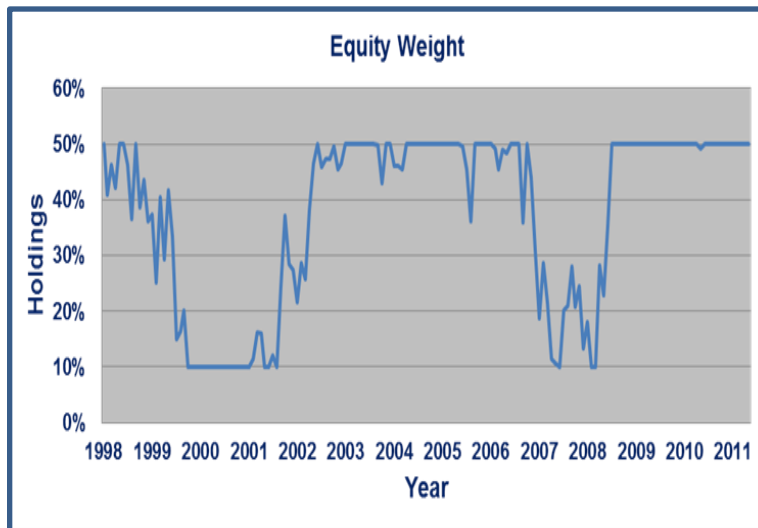
Momentum Factors

Macroeconomic Factors

Valuation Factors

# Example of Outcome

## Equity/Cash Model

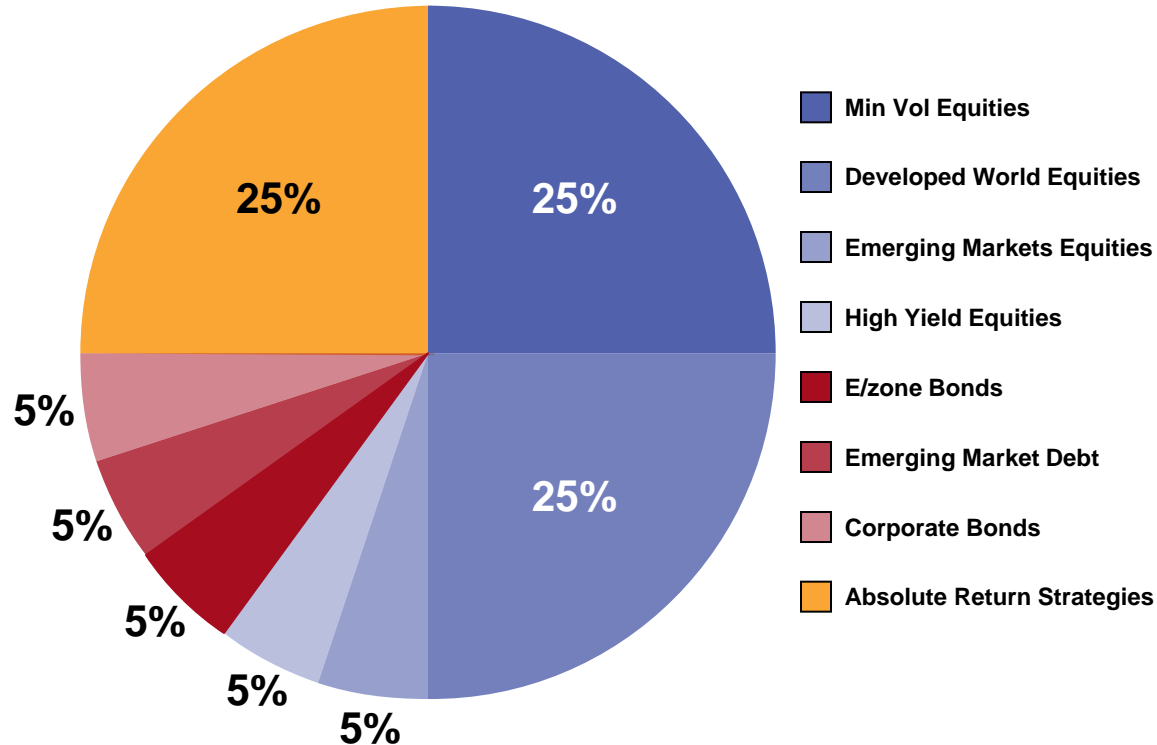


## Minimum Volatility Equities

Period of Analysis 30/06/88 - 30/06/12	MSCI World Mkt Cap	MSCI World Min Vol (US)
Annual Return (%)	6.64	7.74
Annual Volatility (%)	15.59	11.57
Sharpe Ratio	-0.04	0.20
Tracking Error (%)		6.92
Max Drawdown (%)	-53.65	-42.59
Historical Beta		0.68
Japan Crash*	-24.01	-19.71
Dot Com Crash**	-46.31	-16.94
Subprime Crash***	-53.65	-42.59

\* Total Return over 31 Dec 1989 - 30 Sep 1990  
\*\* Total Return over 31 Mar 2000 - 30 Sep 2002  
\*\*\* Total Return over 31 Oct 2007 - 28 Feb 2009

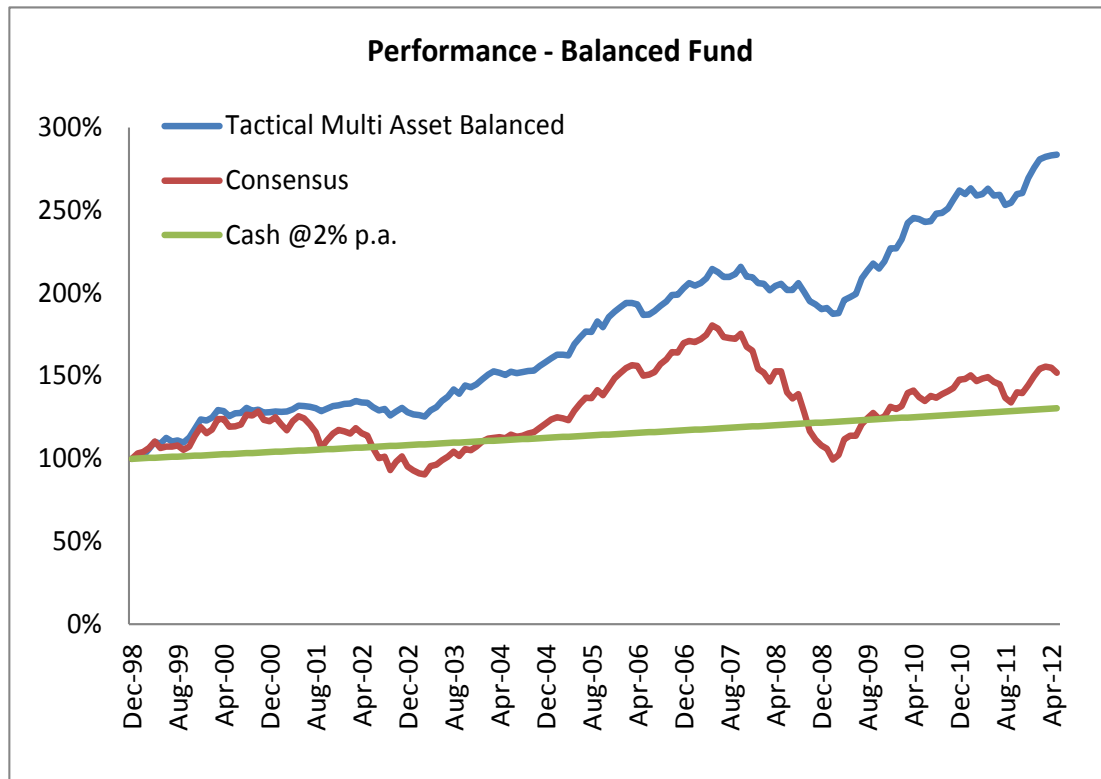
# Tactical Multi Asset Balance Portfolio



Trading Range for Equities	
Equity Type	% Range
Developed World Equities	0% - 25%
Minimum Volatility Equities	25%
Emerging Market Equities	0% - 5%
High Yield Equities	0% - 5%
Cash	0% - 35%



# Tactical Multi Asset Balanced Fund - The Result



Year	Tactical Multi Asset Balanced Fund	Average Managed Fund
1999	23.70%	19.10%
2000	3.50%	3.00%
2001	3.30%	-4.30%
2002	-3.10%	-18.70%
2003	13.20%	12.50%
2004	9.20%	12.90%
2005	19.30%	22.70%
2006	7.50%	14.20%
2007	3.30%	-2.60%
2008	-9.20%	-34.70%
2009	19.40%	21.80%
2010	15.40%	12.50%
2011	2.80%	-0.25%

**All Multi Asset Balanced Fund returns shown are back tested results**

# Overlay with Lifestyling Process for Annuity & TFLS

Lifestyle v No Lifestyle	
<b>Retirement date</b>	<b>31/08/2008</b>
Pension Value 6 Years from Retirement	€30,000.00
Pension Contributions per annum	€1,800.00
<b>Final Contributions plus Initial Pot</b>	<b>€40,800.00</b>
Fund Value after De-risking	€54,086.11
Fund Value if remained in Consensus	€51,462.12

Lifestyle v No Lifestyle	
<b>Retirement date</b>	<b>31/08/2010</b>
Pension Value 6 Years from Retirement	€30,000.00
Pension Contributions per annum	€1,800.00
<b>Final Contributions plus Initial Pot</b>	<b>€40,800.00</b>
Fund Value after De-risking	€58,609.92
Fund Value if remained in Consensus	€51,462.12

Lifestyle v No Lifestyle	
<b>Retirement date</b>	<b>31/08/2012</b>
Pension Value 6 Years from Retirement	€30,000.00
Pension Contributions per annum	€18,000.00
<b>Final Contributions plus Initial Pot</b>	<b>€40,800.00</b>
Fund Value after De-risking	€45,893.46
Fund Value if remained in Consensus	€42,504.21

# Cost Management - Maximise Efficiencies

- Indexation – efficient, predictable and cost effective

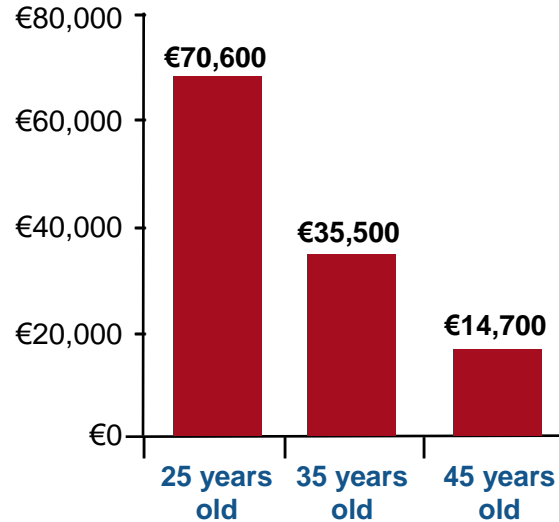
Indexed Options	
Developed World Equities	Small Cap Equities
Emerging Markets Equities	High Yield Equities
Minimum Volatility Equities	Minimum Volatility Equities
Commodities	Emerging Market Debt
Corporate Bonds	Government Bonds

- Skill – research, monitor, diversified

Genuine Skill	
Absolute Return Strategies	Tactical Asset Allocation
Hedge Fund Strategies	

- Understand impact of fees – cost leakage

Impact of 0.60% p.a. higher Fund Management Fee on Projected Fund Values at age 65



## Assumptions

### Commencing Salaries

Age 25 €25,000

Age 35 €35,000

Age 45 €50,000

Salary Growth 3% p.a.

Contribution Rate 10%

### Growth Rate

6%

# Conclusion

- Investing in Real/Growth Assets is necessary
- Impact of Fiscal and Social Policy – the new Reality
  - State Old Age Pension is unlikely to increase and more likely to contract in real terms
  - The Debt Burden the State faces will be met by Higher Income Taxes, VAT etc
  - Impact on purchasing power of retirement incomes
- We must work hard to manage clients concerns with diversification and volatility management tool
- We must understand how are clients going to drawdown their investments and plan accordingly