P-Solve

Are defined benefit schemes prepared for potential economic changes?

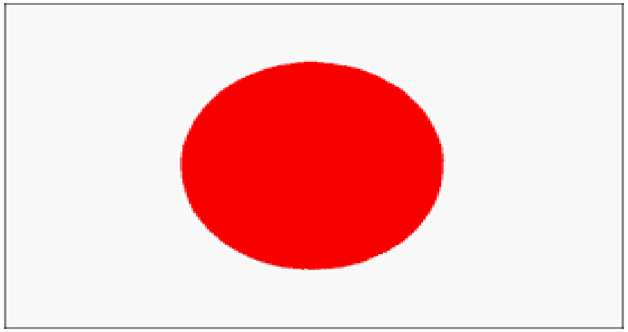
William Compton

6 February 2015

Central banks experimental monetary policy

$4.5 trillion

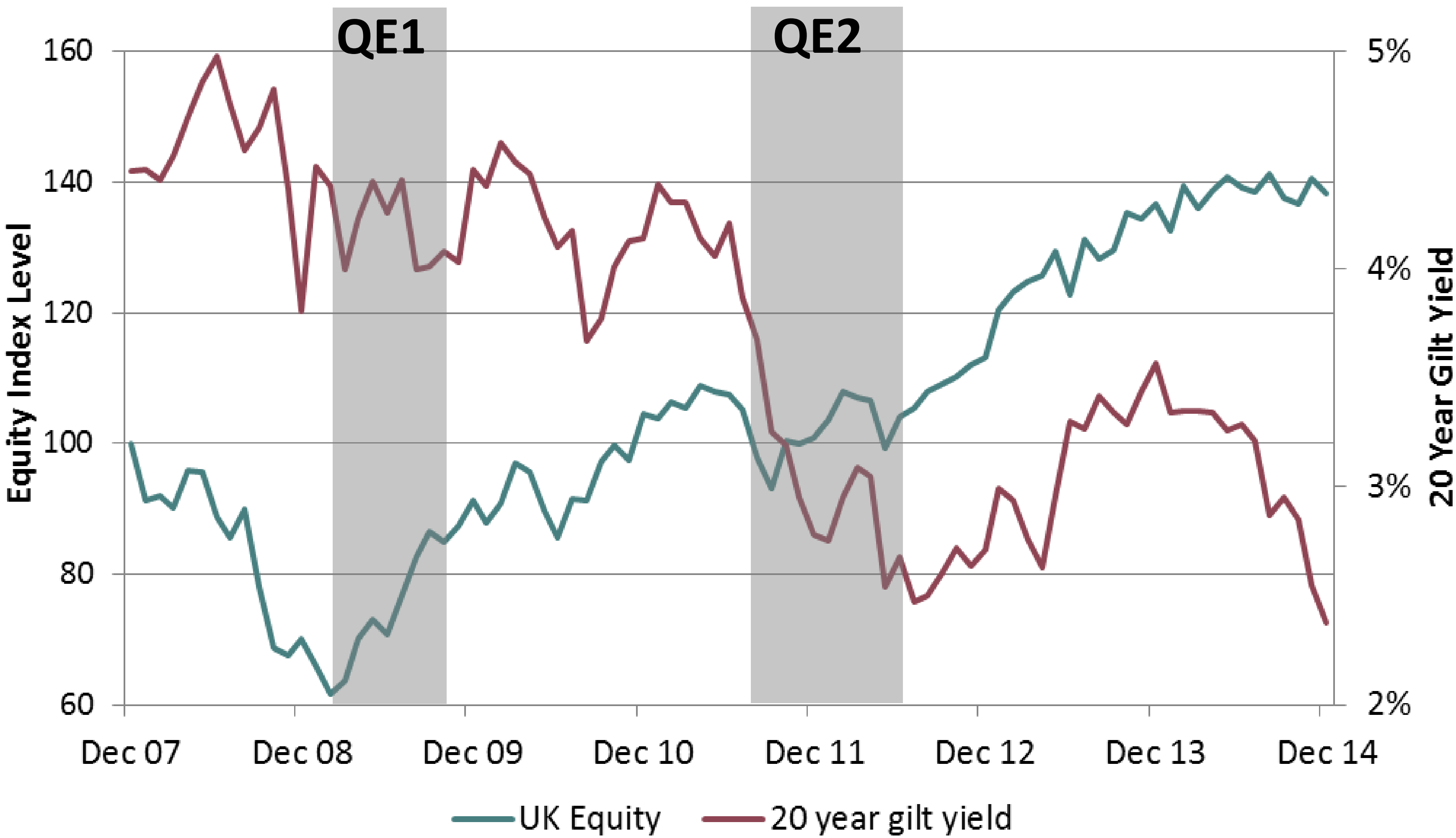
£375 billion



¥175 trillion

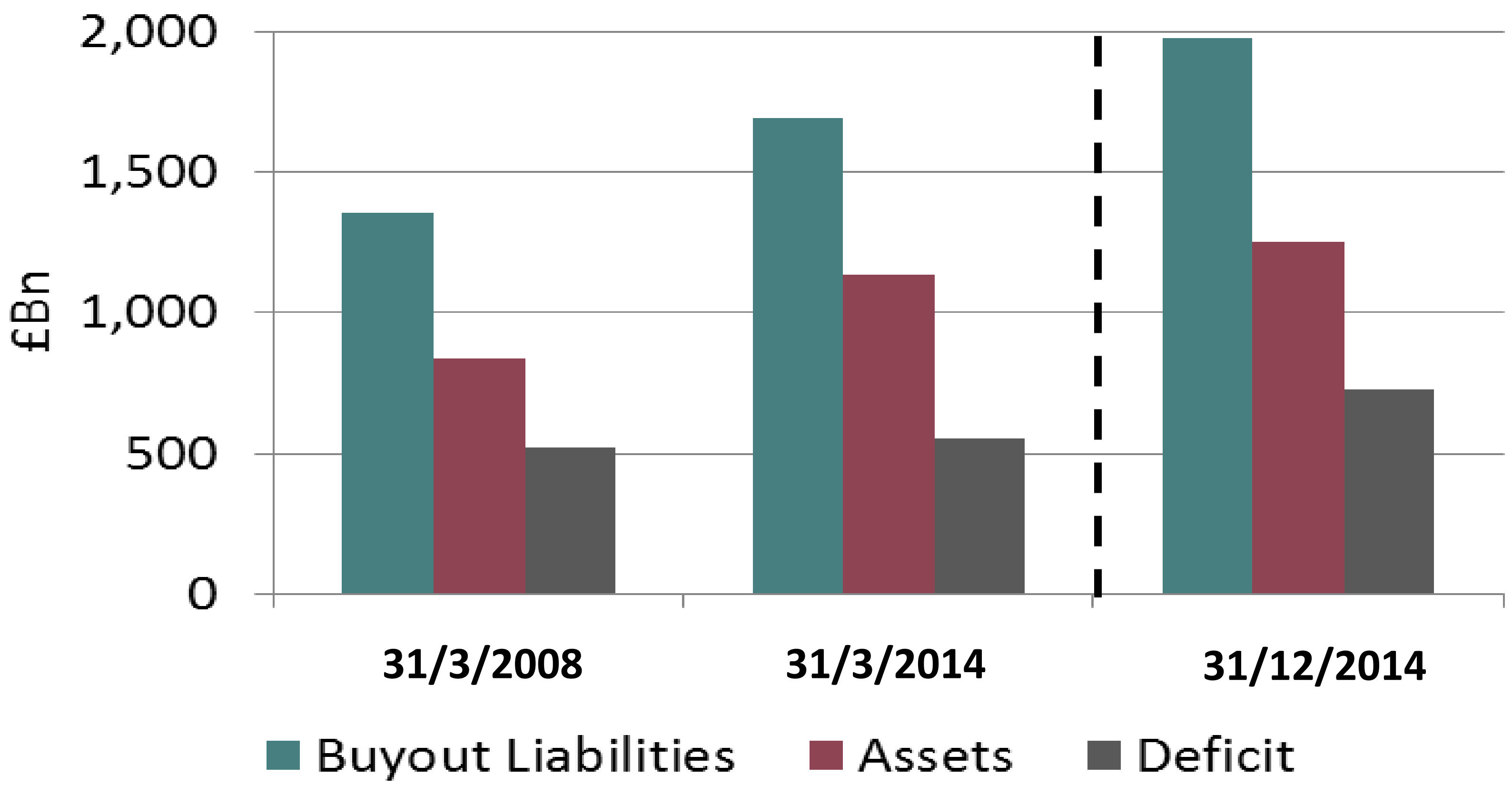
€1.1 trillion

Impact of liquidity experiment



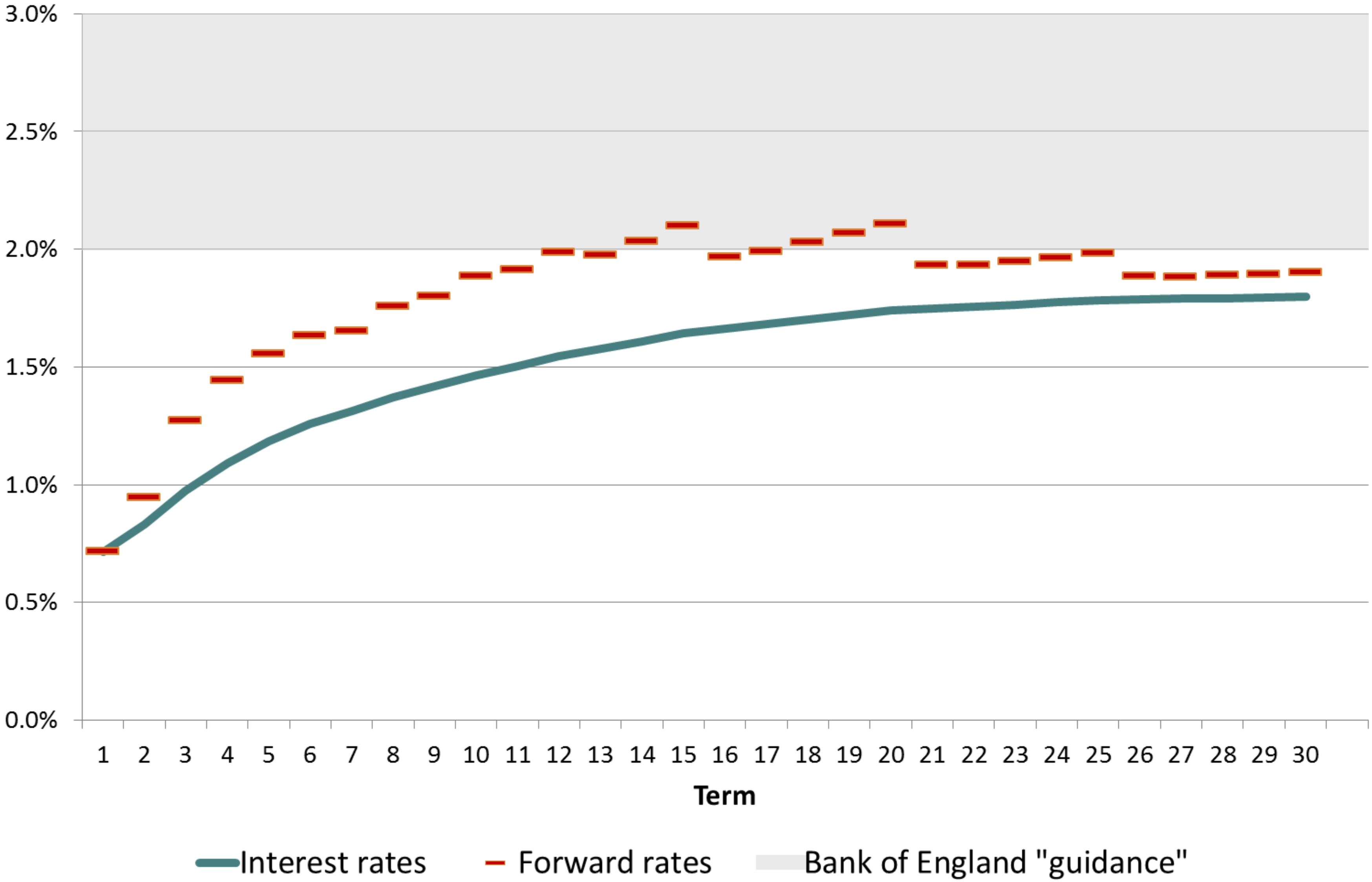
Source: Bloomberg, P-Solve. UK Equity is FTSE All-Share Total Return Index

Net impact on pension schemes



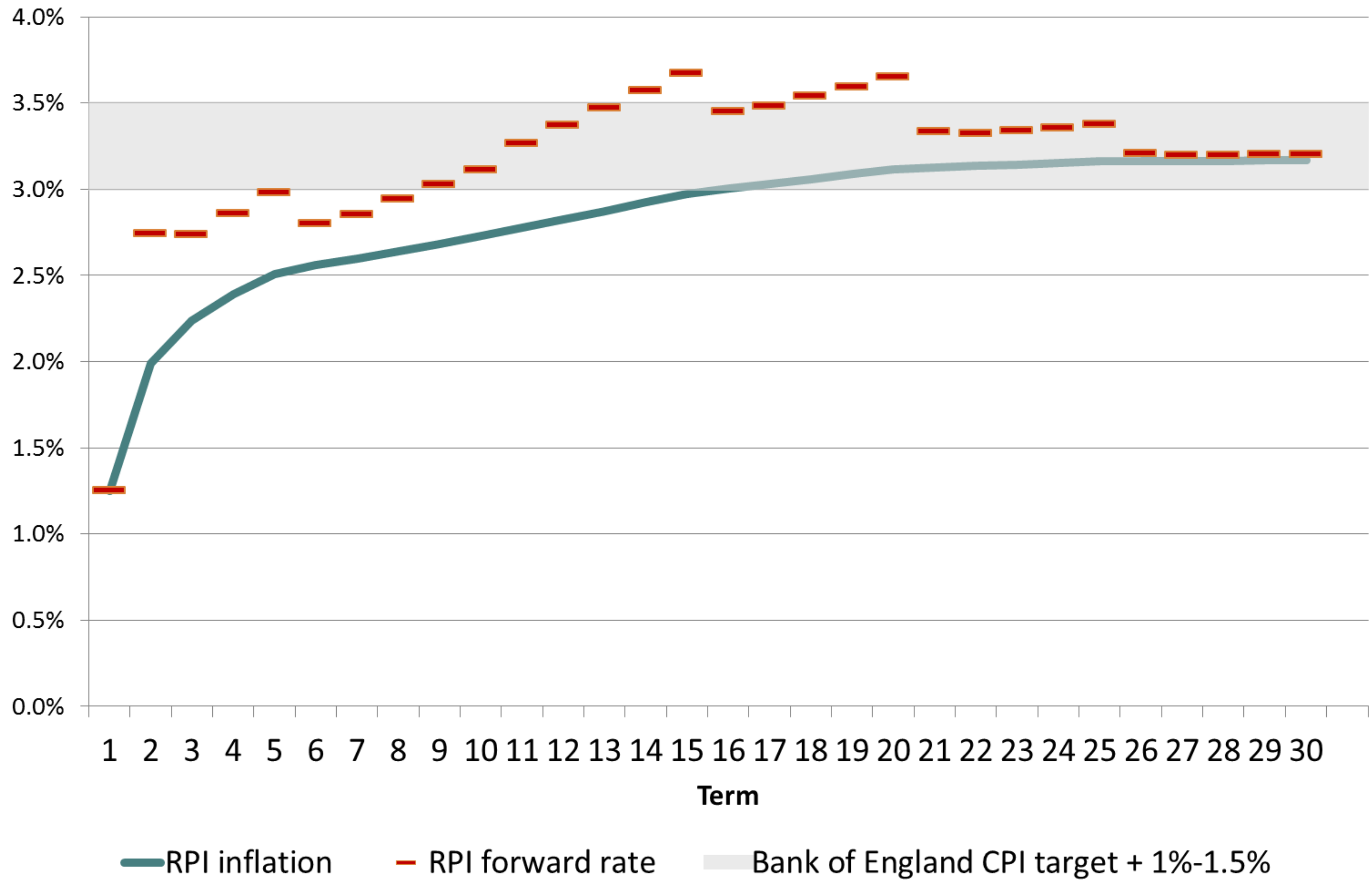
Source: The Pensions Regulator and Pension Protection Fund Purple Book 2014, P-Solve.

Market expectation of interest rates



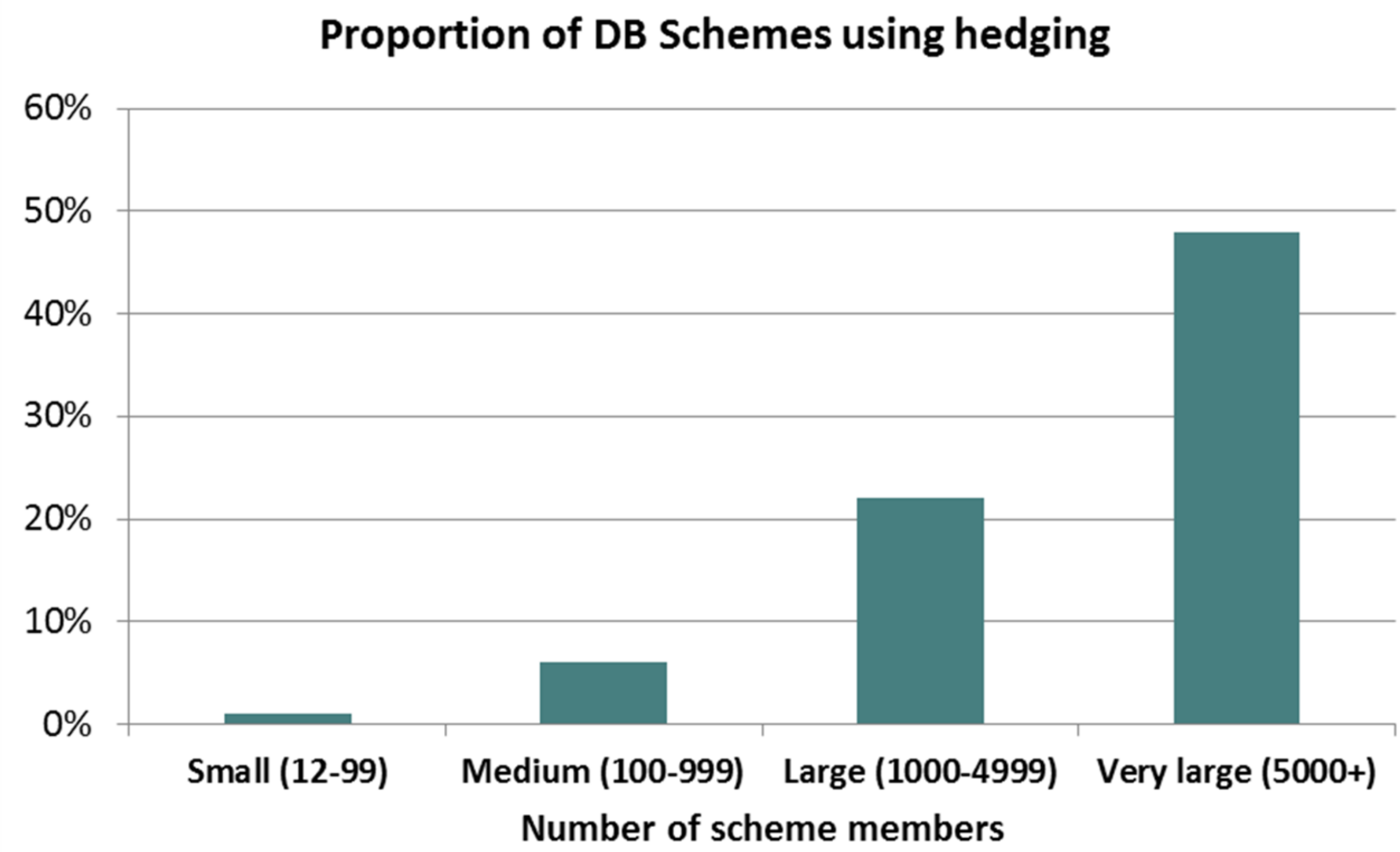
Source: Bloomberg, P-Solve. As at 31 January 2015.

Market expectation of inflation



Source: Bloomberg, P-Solve. As at 31 January 2015.

Schemes continuing to bank on rates rising?



Source: The Pensions Regulator “Defined Benefit (DB) Running Cost Research” survey April 2014

The path of long-term interest rates

Unwind of QE

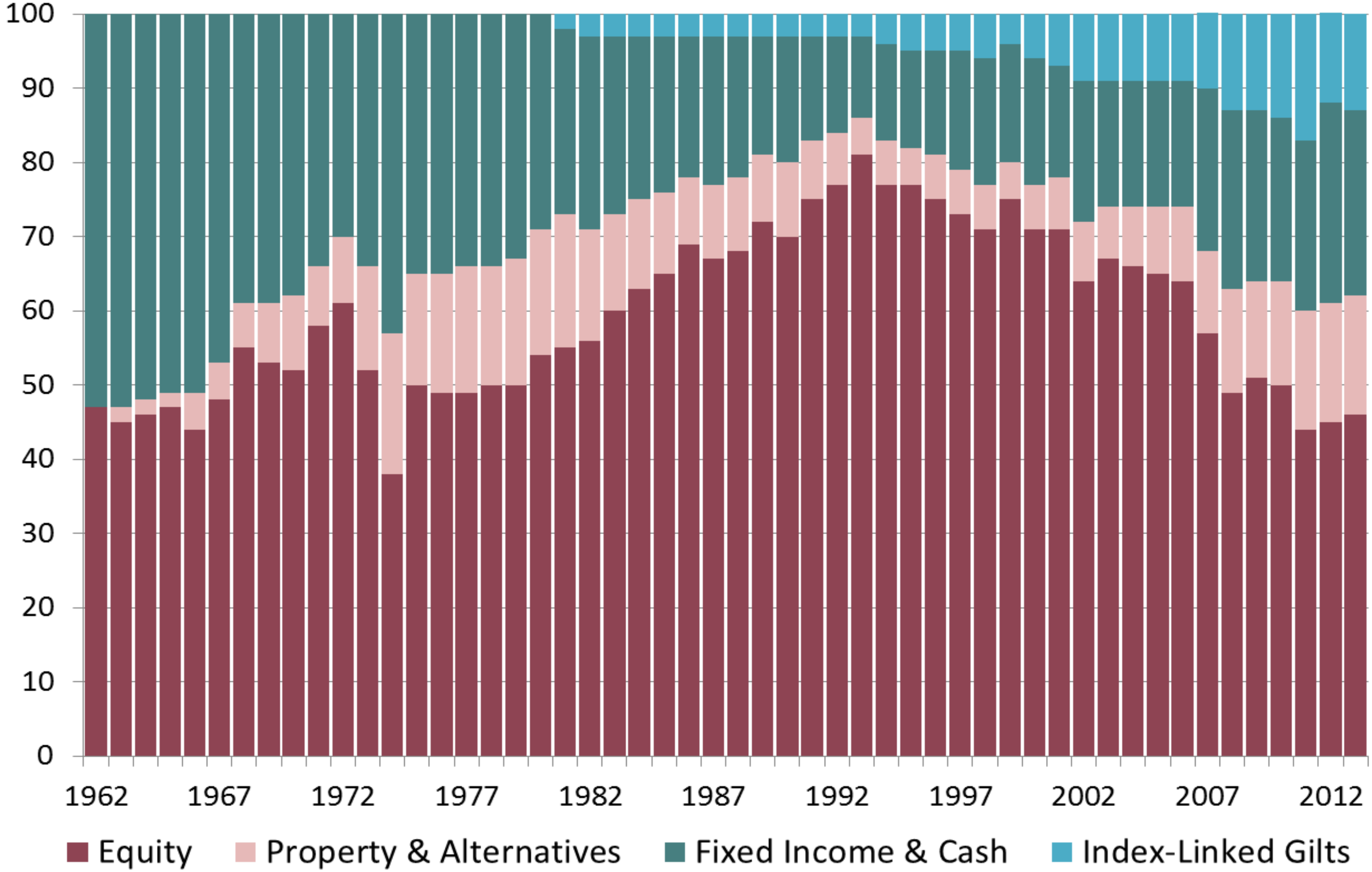
UK specifics

Safe haven status

Inflation

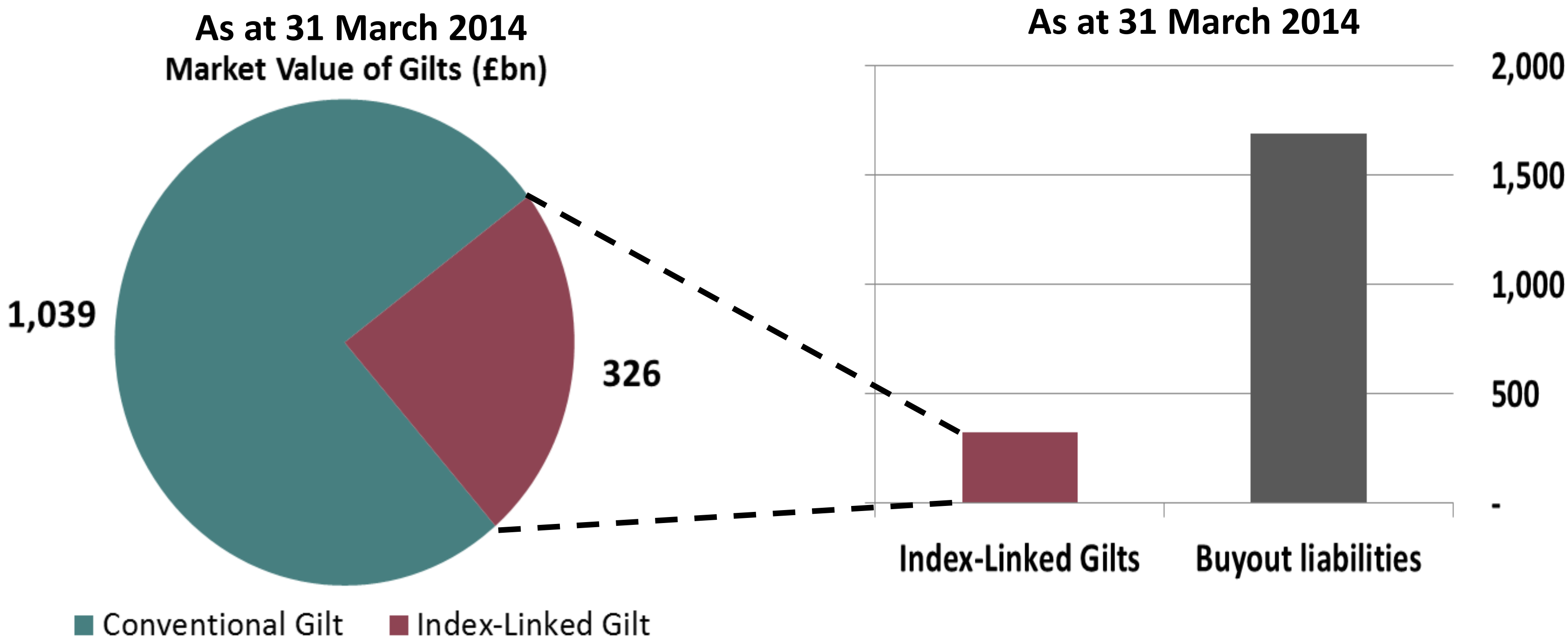
Growth

Schemes’ allocation to index-linked gilts



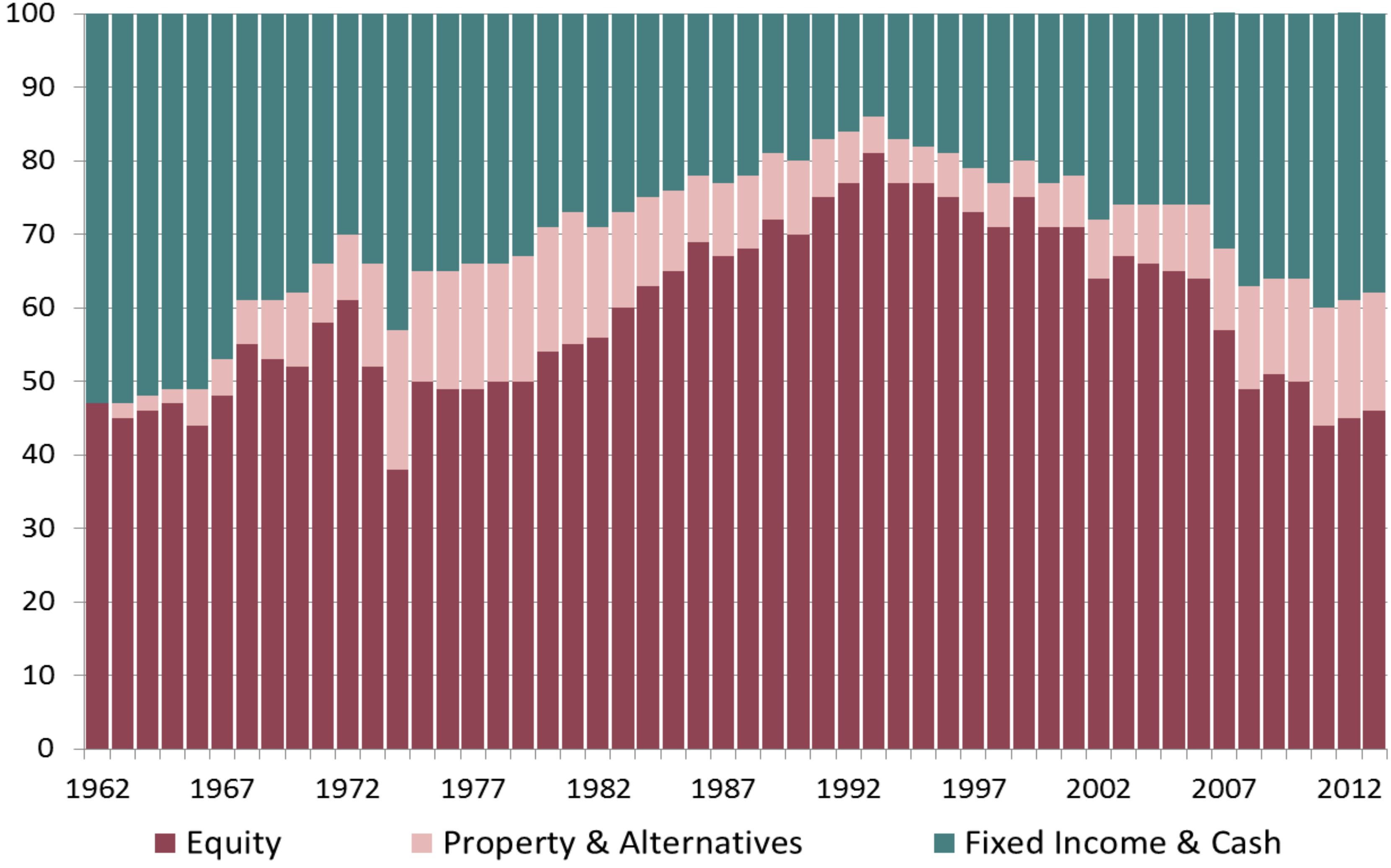
Source: UBS, P-Solve

Accessibility of inflation protection



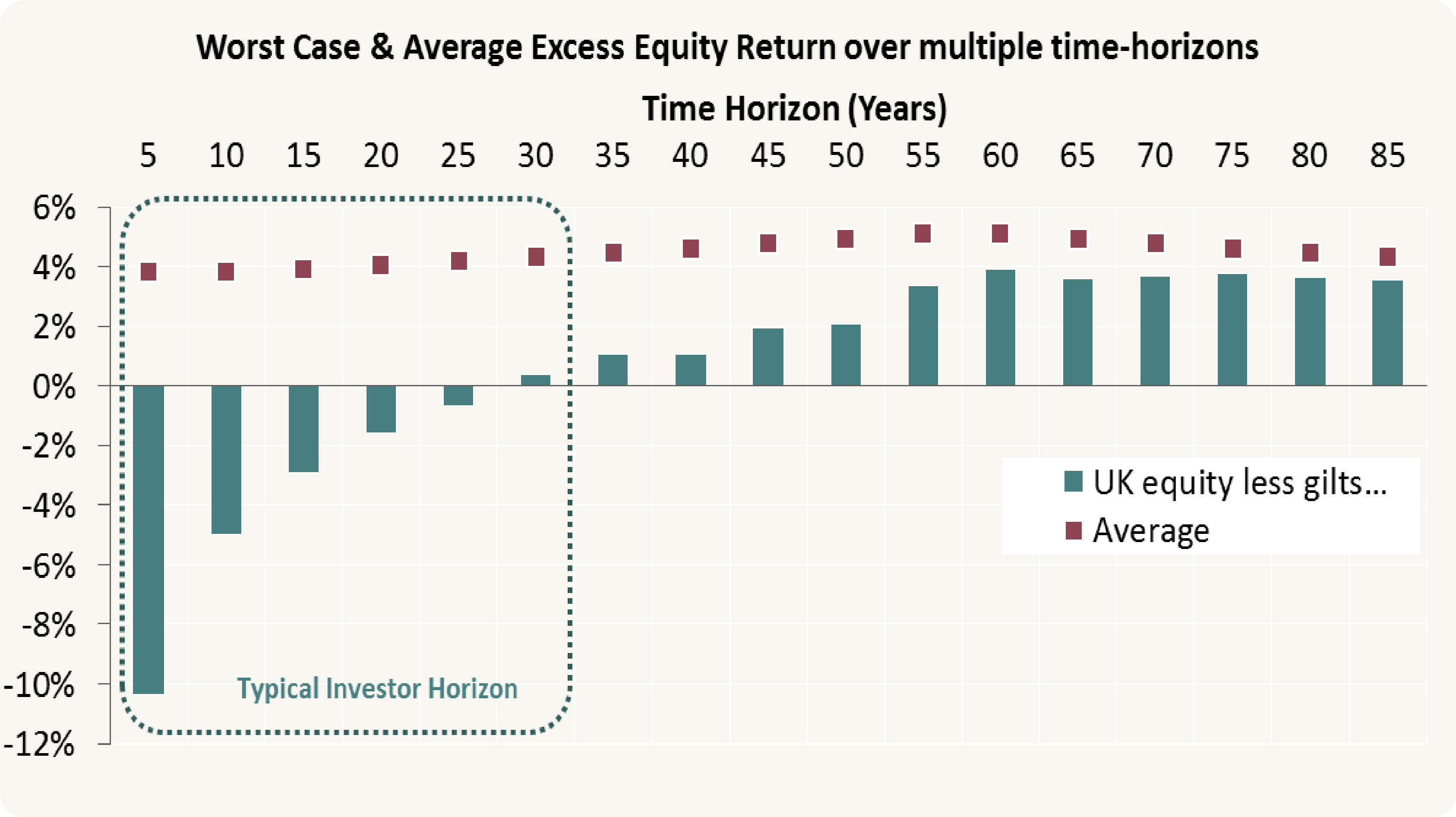
Source: P-Solve, UK Debt Management Office Quarterly Review June 2014, The Pensions Regulator and Pension Protection Fund Purple Book 2014

Schemes remain reliant on equity performance



Source: UBS, P-Solve

Lowest equity risk premium by investment term



Source: P-Solve, Barclays Equity Gilt Study 2014

Being prepared means having the right governance

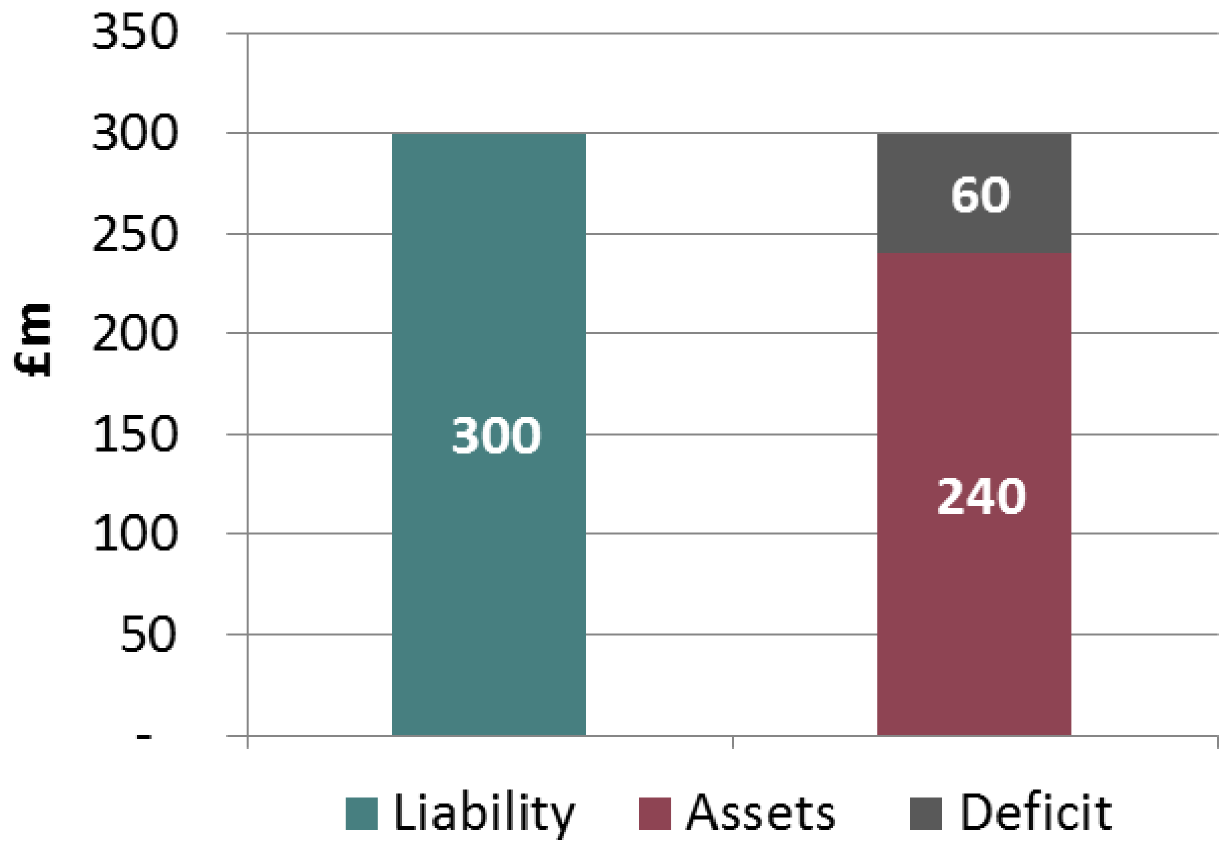
Flight paths

Forward planning

Hedging trigger strategies

Risk measures

Example: Focus of funding volatility



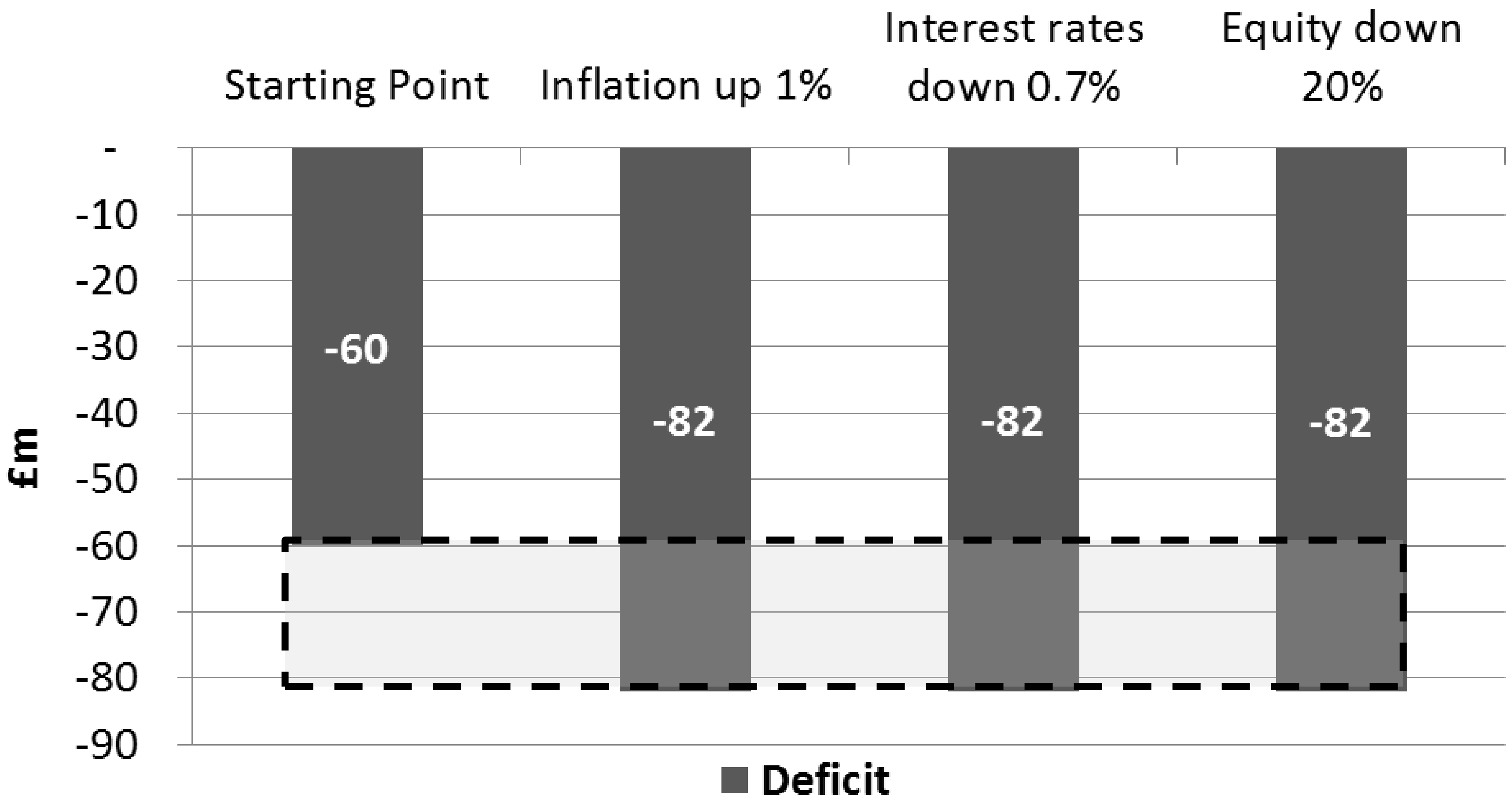
£1.0m for 15 years

70% growth/30% bonds

Self Sufficiency in 25 years

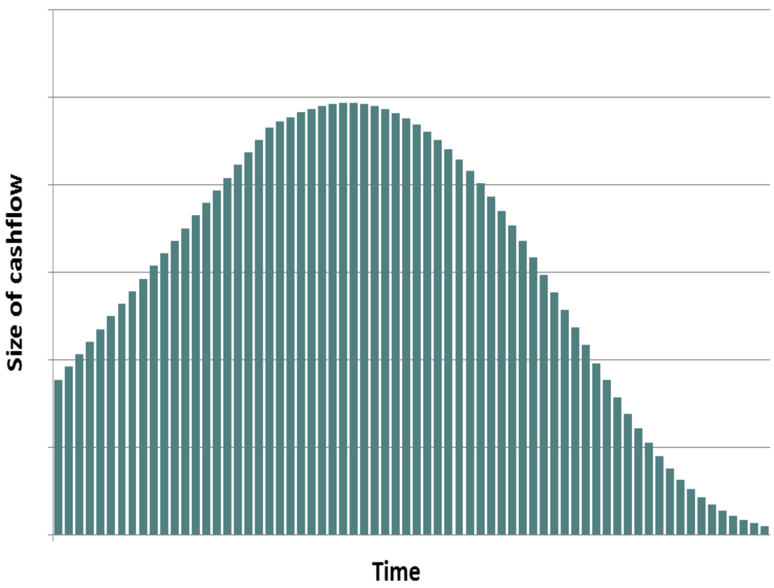
50% liability hedged

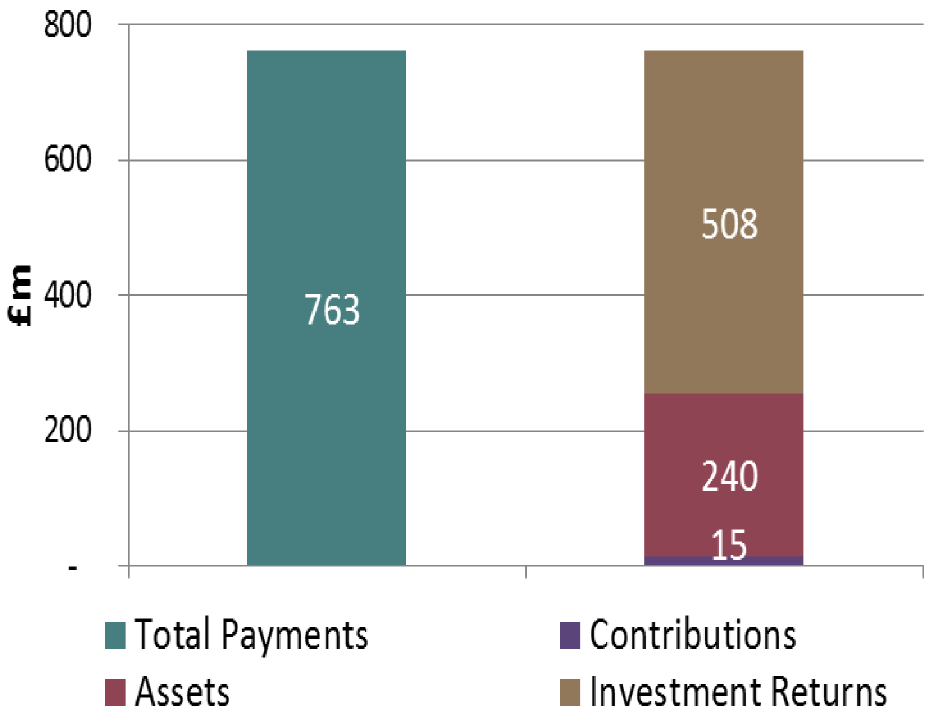
Example: Focus of funding volatility



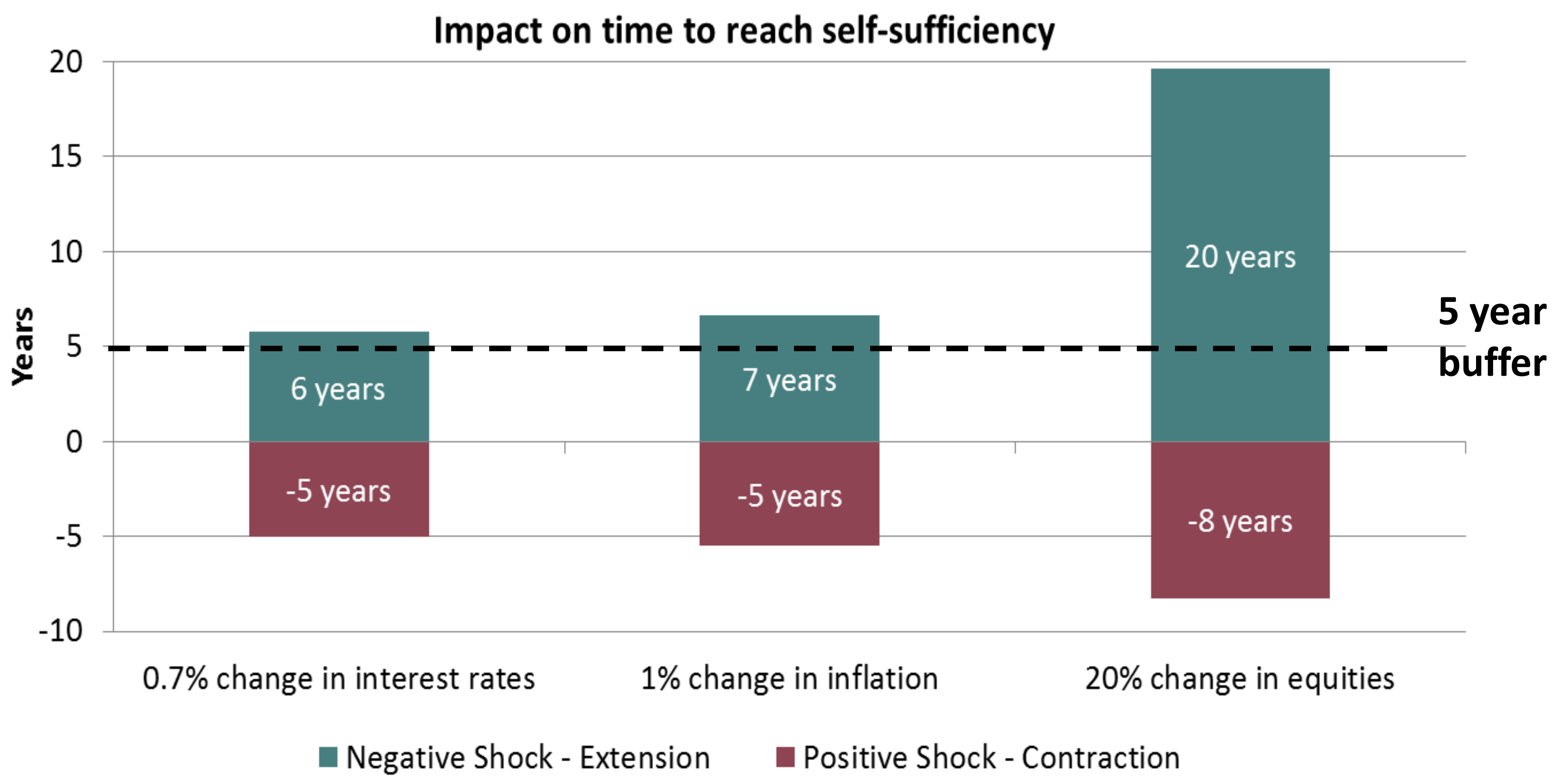
Increase in the deficit of £22m under all shocks

Example: Time based sensitivity analysis





Example: Not all shocks are equal over time



Any questions?