Whole fund management

ACA Meeting

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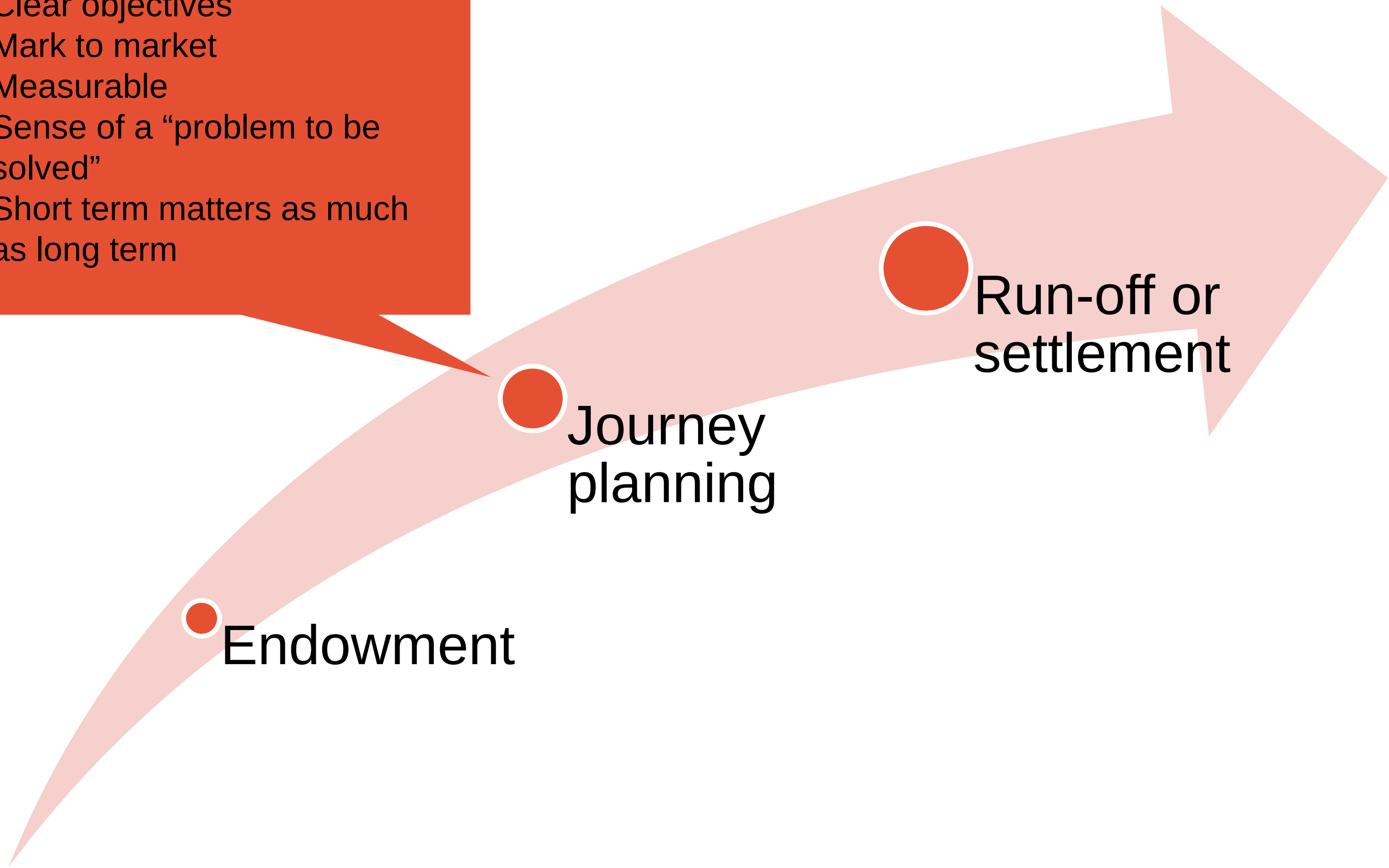
TOWERS WATSON

UK DB Evolution

- Clear objectives
- Mark to market
- Measurable
- Sense of a “problem to be solved”
- Short term matters as much as long term



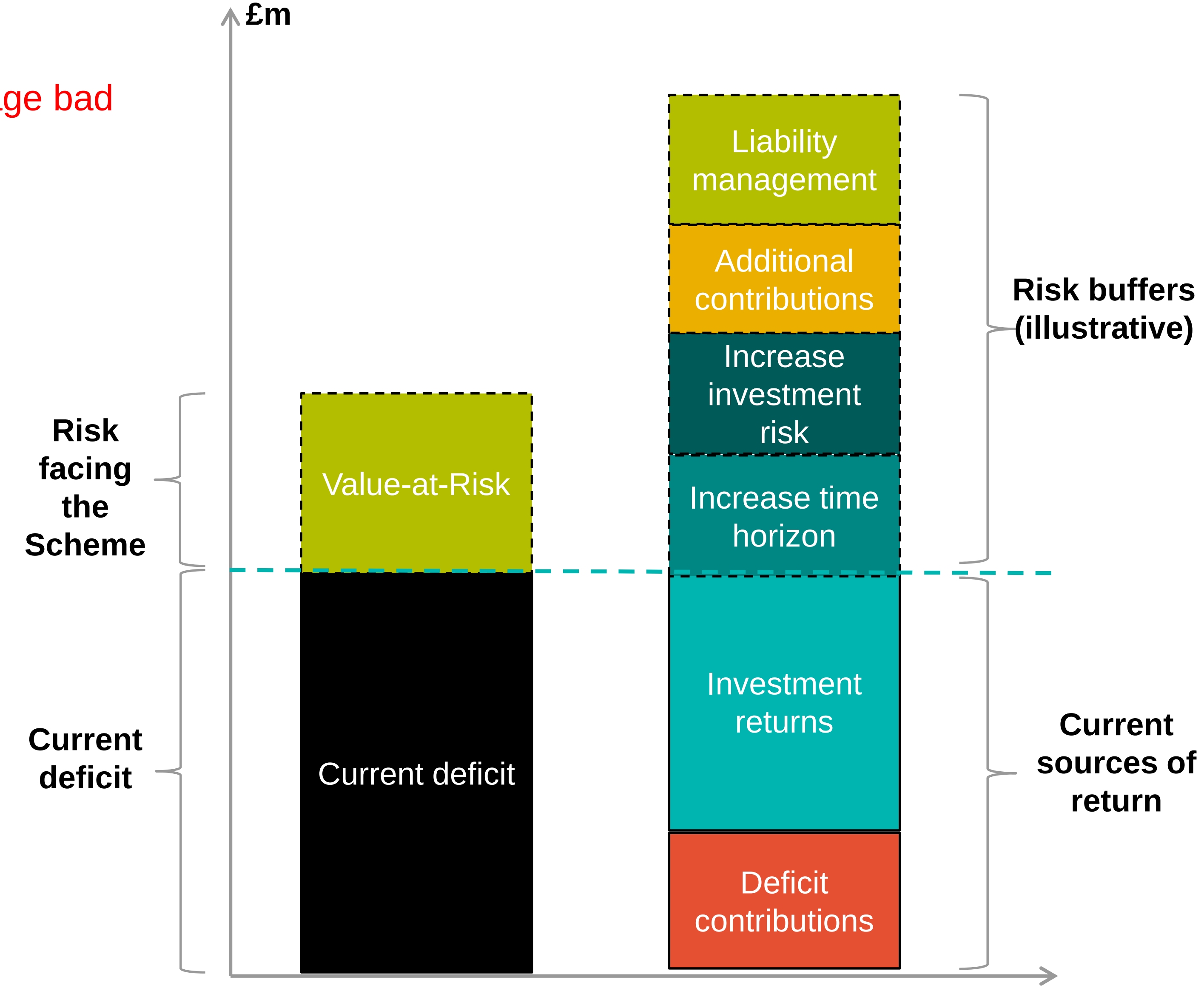
Past Present Future

Journey planning 2.0

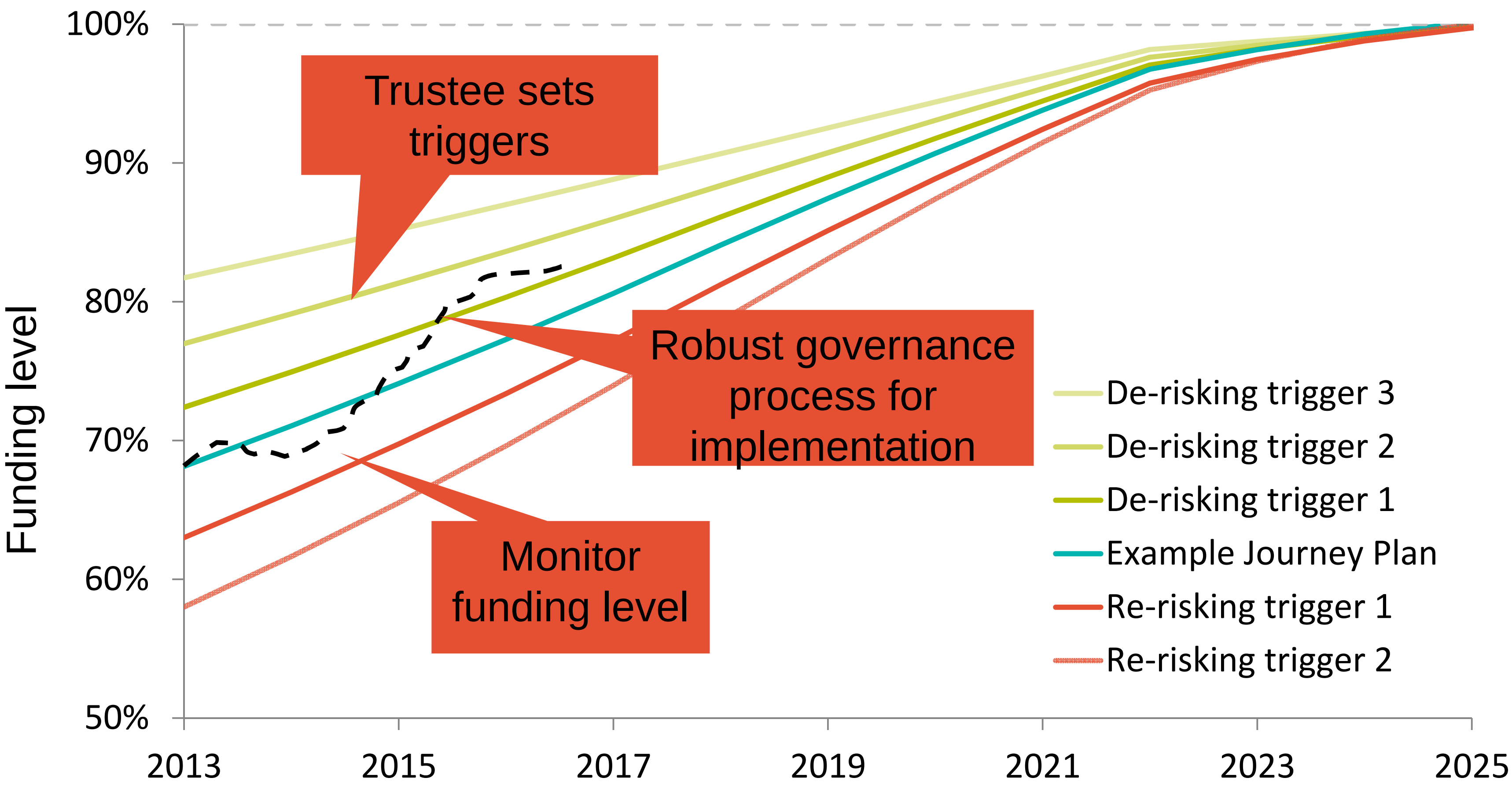
- Most schemes have a journey plan (***Journey Planning 1.0***)
  - Where?
  - When?
  - How?
- The question now is how do we manage to it? (***Journey planning 2.0***)
  - What deviation from plan is it reasonable to expect, what is acceptable?
  - What will you do if you deviate too far?
  - What is the endgame – long turn run-off or settlement?
  - Correlation of bad funding level outcomes and bad sponsor outcomes
- **Critically, who is accountable for meeting the journey plan?**

Dynamic risk management – risk buffers

Scope to manage bad outcomes



Dynamic management of the journey plan



What is needed for success?

- Clear objectives
- Monitoring
- Portfolio construction
- Robust operational support
- Hedging
- Return generation
- Manager hiring and firing
- Liability management
- Settlement

Essential

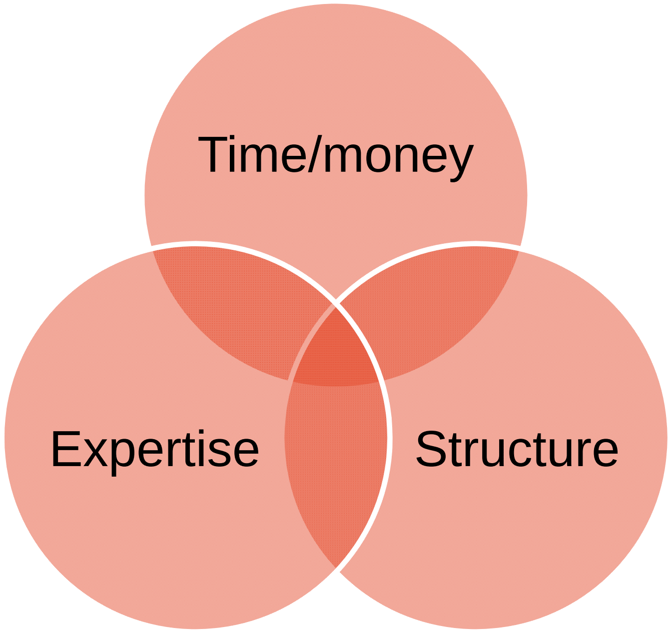
Needed on a calendar basis

Needed on an opportunistic/market basis

Governance and resources

What do Trustees need to be able to:

- Decide when to carry out the activities on the previous page
- To implement?



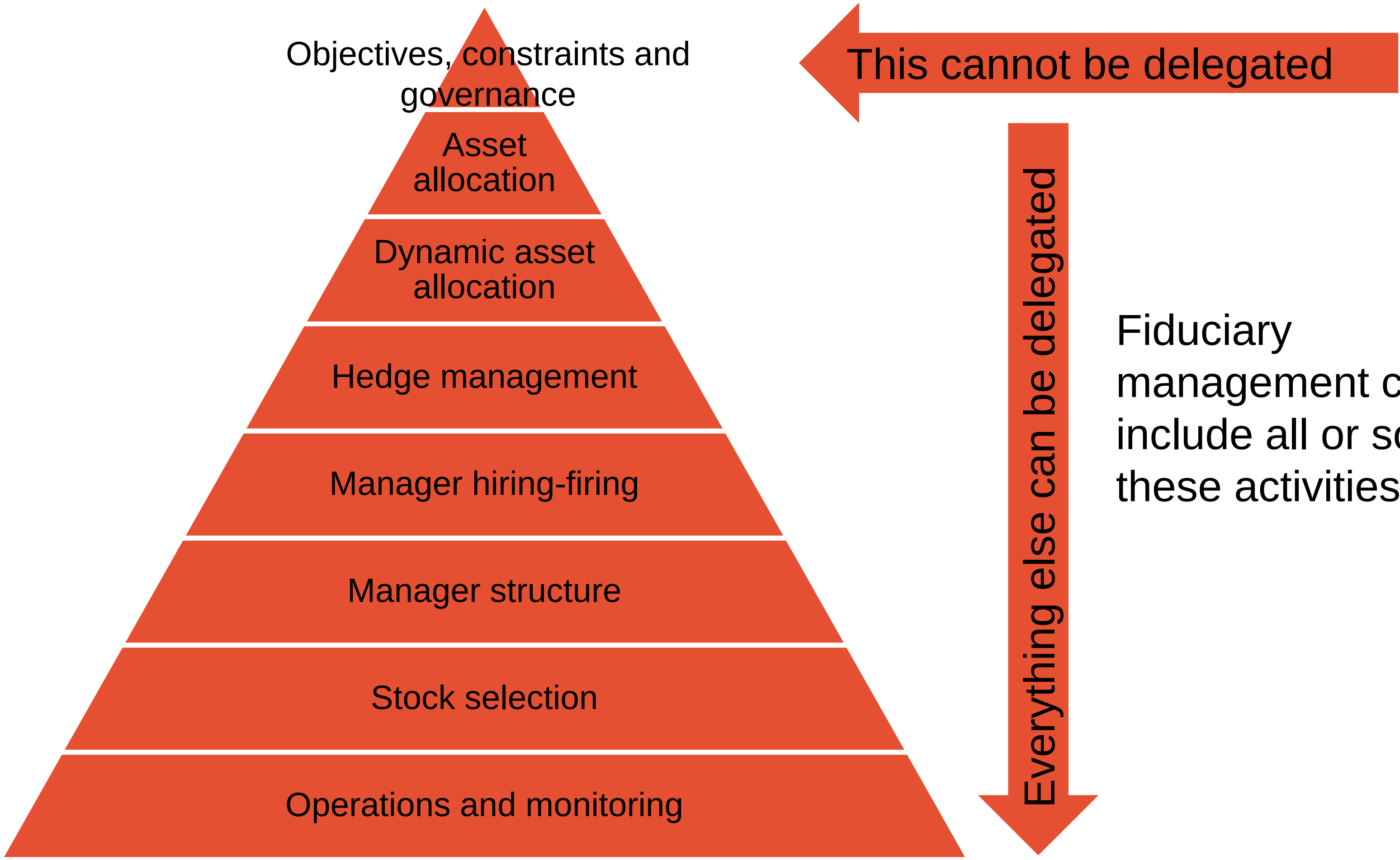
Typical approaches

In-house CIO + CEO +In-house support

In-house CIO + CEO + Outsourced support

Full fiduciary

Fiduciary management – what is it?



Fiduciary management can include all or some of these activities

UK Fiduciary management market

Market size

- £60bn UK Pension Scheme assets using some form of fiduciary management
  £30bn using "full fiduciary"
- Around 3% of UK market
- Role of third party selectors and monitoring is increasing

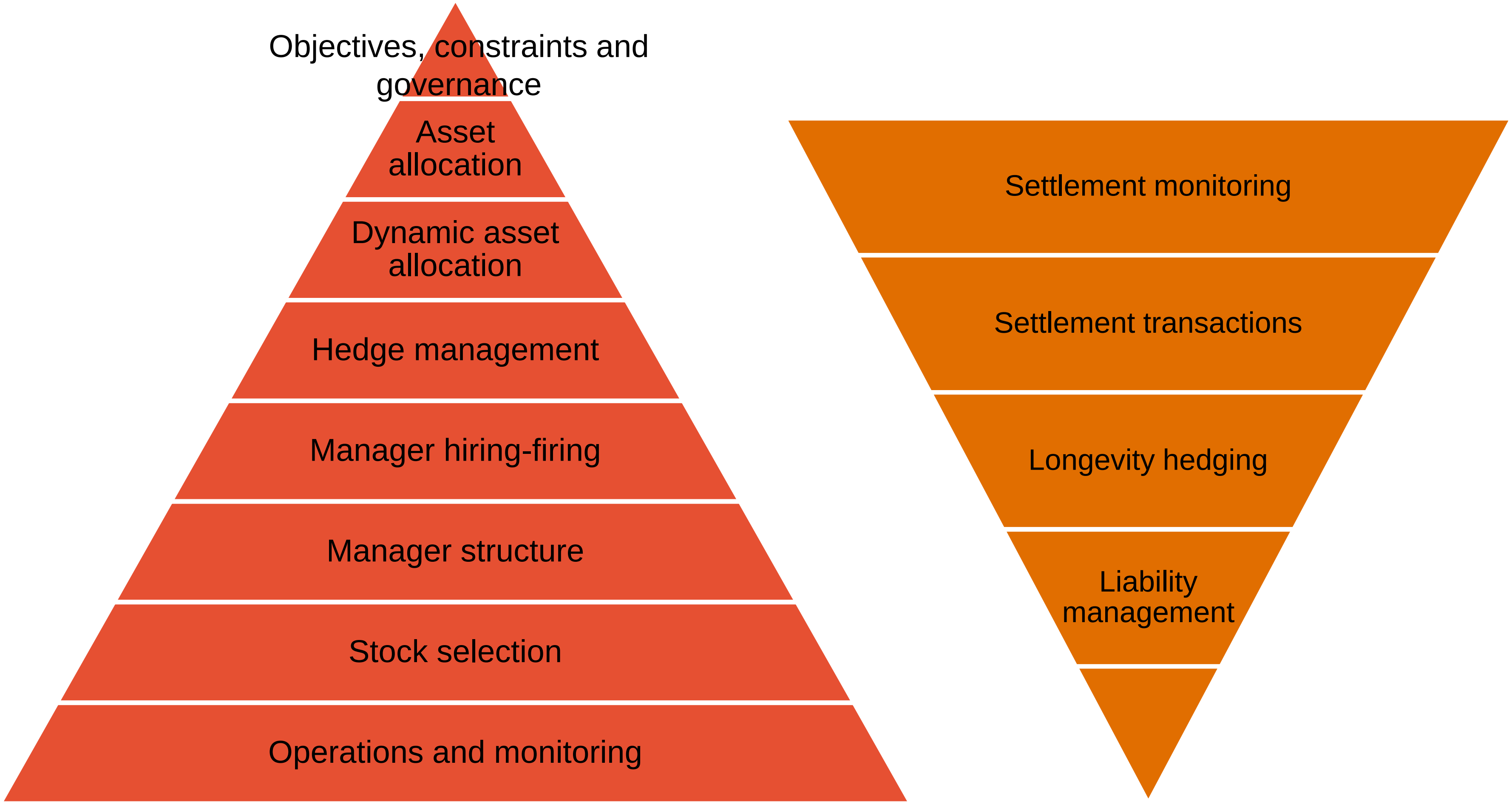
Market growth

- Market has grown significantly in the last 3 years (albeit from a low base)
- Further growth expected: 10% of investors expecting to use some form of fiduciary management in the future (source – internal survey)

Characteristics

- Highest adoption rate is among schemes of £250m and below
- Bespoke solutions for larger end of the market
- Organisations with consulting (rather than asset management) heritage dominate

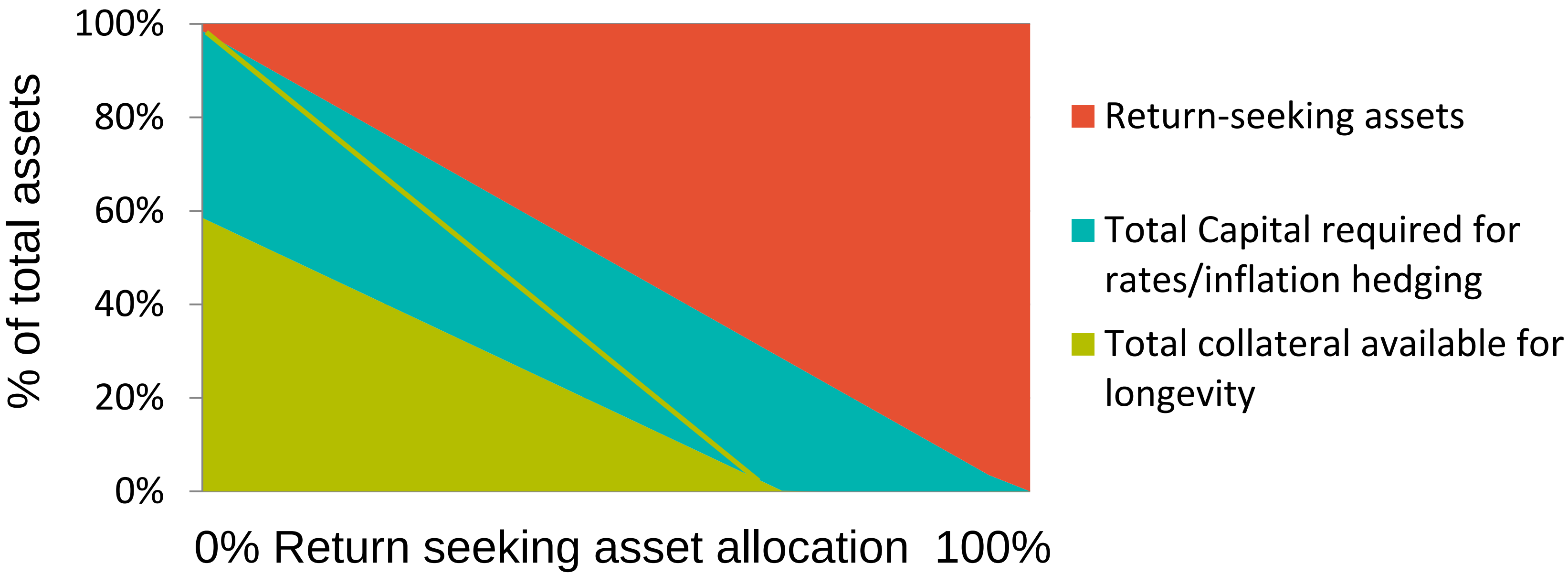
What do you need for a “whole fund” approach



Whole fund – an example

Integrating buy-in assets into a whole fund framework

- Buy-in is an asset class (and needs to be considered alongside other assets) in a consistent risk-return framework
- Unique characteristics (matching; regulatory, illiquid, irreversible; direct hedge for longevity risk
- Uses a lot of capital (that could be used elsewhere)



What can Trustees do?

Set objectives	• Journey plan 1.0
Manage to objectives	• Journey plan 2.0
Determine beliefs	• Active/passive • Diversified/single asset class
Examine governance	• In-house CIO/CEO + In house team • In-house CIO/CEO + In-house/outsourced • Fully outsourced CIO/CEO
Accountability	• Who is accountable for funding level improvement? • If delegated, how should manager be measured and rewarded?

What can we do?

- Focus on outcomes (rather than delivery mechanisms)
- Manage costs for our clients
- Simplify
- True integration of asset and liability solutions
- Build scaleable solutions (avoid the industry duplicating effort)
- Help providers innovate

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Mike is a lead consultant in Towers Watson's Delegated Investment Services team. He is leader of Towers Watson's whole fund management proposition and has been instrumental in its development. He is a member of the UK Portfolio Construction Group and provides advice on asset allocation and risk measurement to UK pension schemes or their corporate sponsors. He manages a range of strategies including conventional and alternative asset classes, the use of swaps to manage risk, development of longevity swaps, dynamic asset allocation and options strategies. His work also includes settlement transactions. Mike has over 20 years' industry experience during which he has advised on both liability-side consulting (benefit design, valuation and accounting) and asset-side management.

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