

Evolution of Pension Fund Investment Strategies

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UK & Irish Pensions & Investing Summit, 24th October 2005



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Agenda

- Evolution of Pension Fund Investment Strategies
- Why do investment strategies evolve?
- Today's Pension Funds
- Traditional Asset Classes
- Tomorrow's Pension Funds
- Obstacles
- What can the Industry do?
- The next generation

In the Beginning...

“Safe” assets – Bonds & Cash

In the 1950's...

Equities added to the mix

Then...

The Balanced Fund - One size fits all

Over time...

Asset Liability Modelling adopted by larger schemes

But then...

Dot Com Bubble Burst

So...

Pension schemes realized the importance of asset liability matching

Too late?

Now...

Liability Driven Investing

Next...



Why do investment strategies evolve?

- Pay pension liabilities as they arise
- Maximum return for minimum risk
- Minimize cost to employer
- Increased trustee understanding of investments
- Falling markets - can no longer rely on equities to deliver

Today's Pension Funds

- Invest in traditional asset classes
 - Cash
 - Bonds
 - Equities
 - Property
- Objective of Fund – Benchmark relative to assets

Traditional Asset Classes

- Cash** Considered “Low Risk”
But only in nominal terms
- Bonds** Values move in tandem with cost of pensions
Poor match for real liabilities
- Equities** Provide returns in line with economic growth
Volatile
- Property** Also linked to economic growth
Less volatile than equities, but illiquid

Tomorrow's Pension Funds

- “New” Asset Classes
 - Hedge Funds
 - Private Equity
 - High Yield Equities
 - Derivatives
 - Swaps
 - Currency
 - Other?
- Objective of Fund – Benchmark relative to liabilities

Obstacles

- “New” asset classes are:
 - Poorly understood
 - Illiquid
 - Finite
 - Not transparent
 - Risky
 - Expensive
 - Not available in “small” lots
- Performance of liabilities difficult to measure
- Increased complexity of strategies difficult to understand
- Herd mentality

What can the industry do?

- Trustee education
- Increase transparency
- Develop new markets
- Innovative solutions

The next generation

- Death of Defined Benefit schemes
- Shift of emphasis for Defined Contribution schemes
- Risk has a different meaning
- Member education

Thank You for Listening



Enjoy your cocktails!