

Strategies to Deliver Income

CIPFA CFO Pension Briefing

Gavin Lewis

Business Development, UK & Ireland

Institutional
Matt Bance, CFA

Strategist, Global Investment Solutions



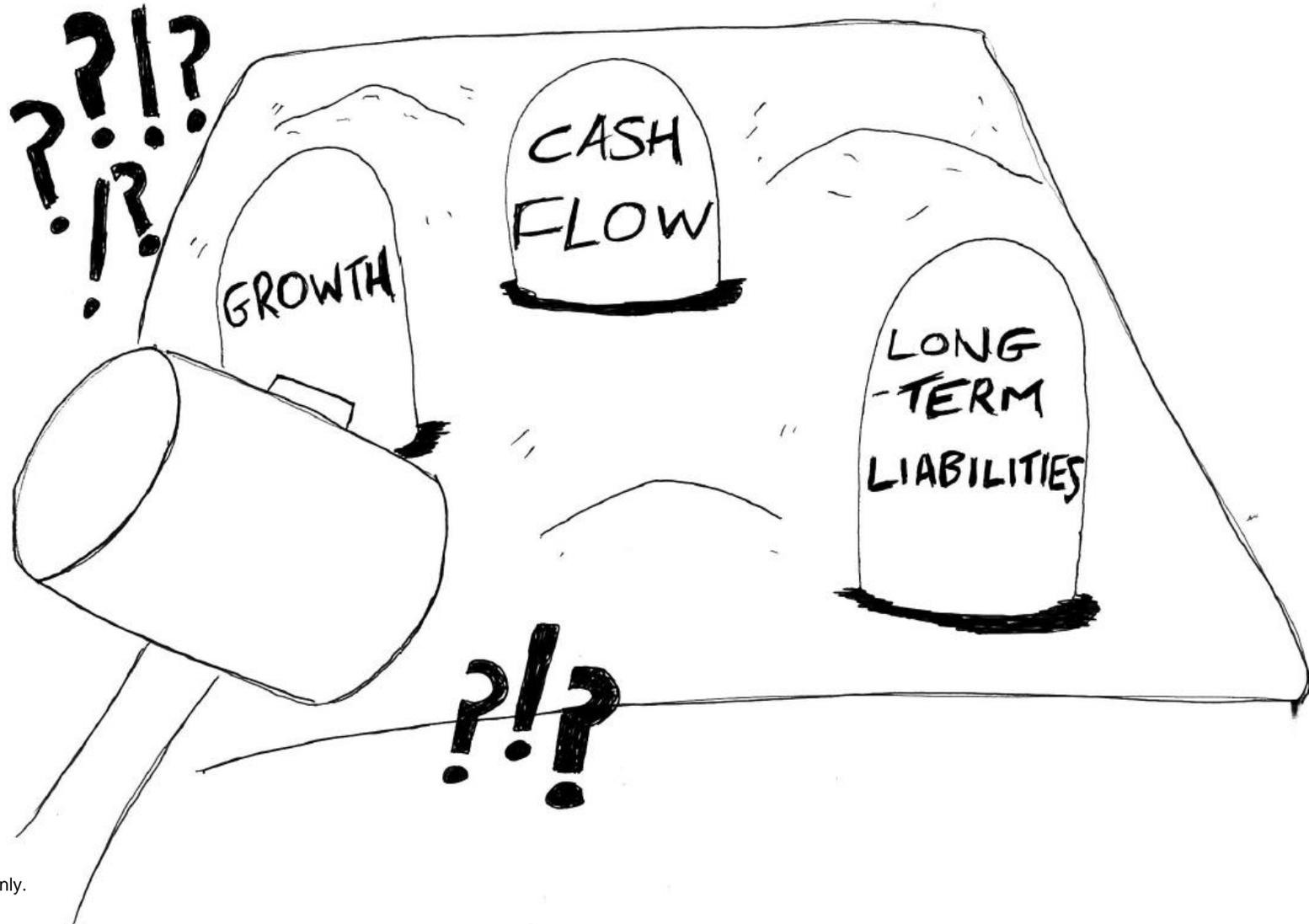
The challenges facing UK pension funds

Match long-term liabilities

Recover scheme deficits

Meet short-term liabilities

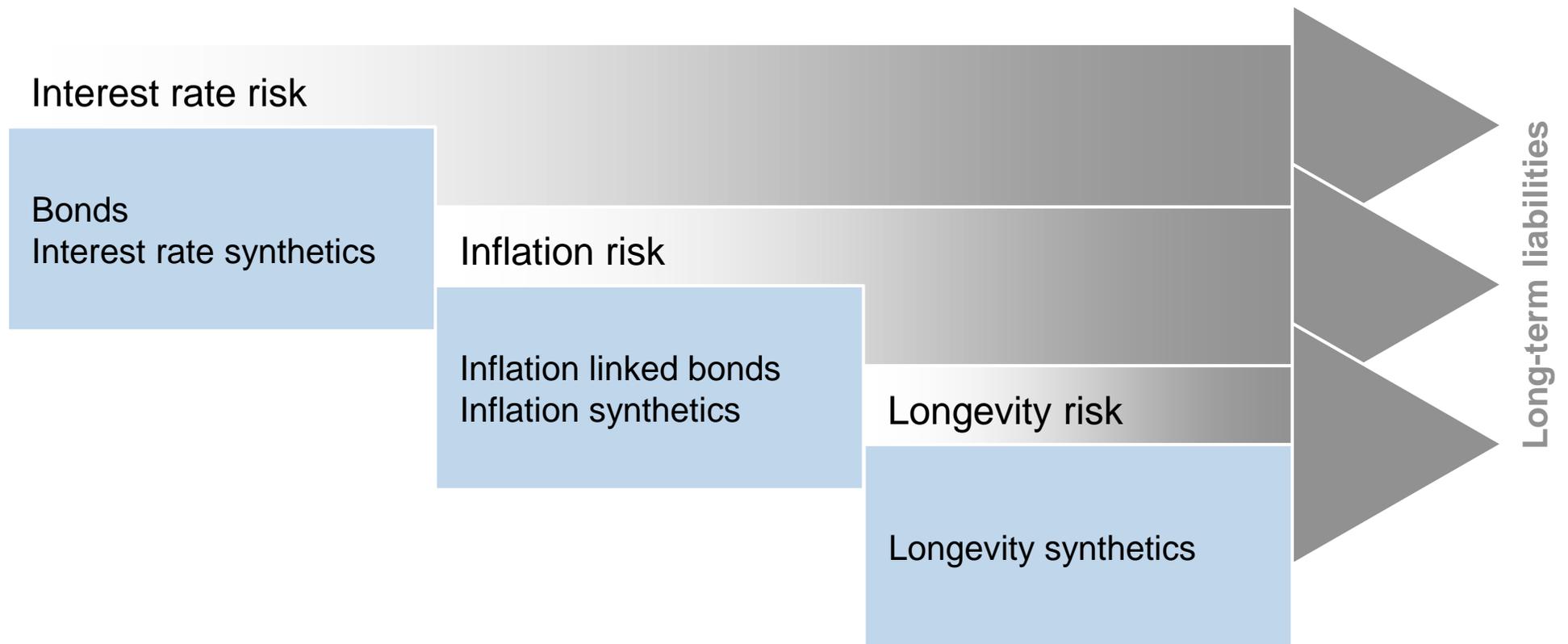
Everything's a trade off...



For illustrative purposes only.

Current approach to meet long-term liabilities

Pension scheme risk management



Source: UBS Global Asset Management. For illustrative purposes only.

What are the alternatives?

In an environment of low yields

	Asset	Yield	Diversification from traditional assets
	High Yield	Yes	Yes
	Leveraged Loans	Yes	Yes
	Bank Loans	Yes	Yes
	Real Estate Debt	Yes, future cash flows built into loan terms	Yes
	Infrastructure Debt	Yes, future cash flows built into loan terms	Yes
	Multi-asset	Yes	Yes

Source: UBS Global Asset Management. For illustrative purposes only.

Make sure you go through your check list

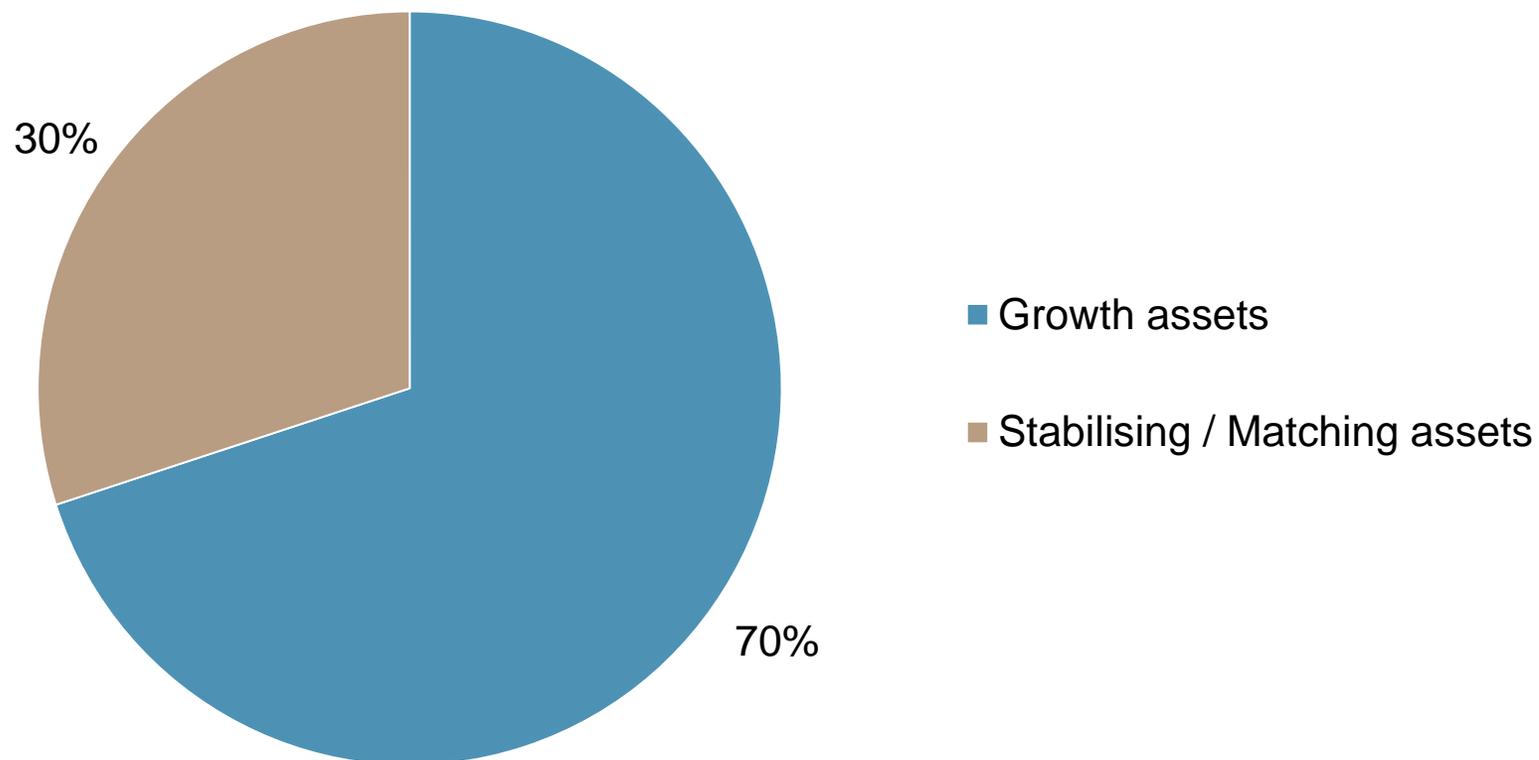
- Are the assets yield focused with future cash-flow
- What is the maturity profile of the investment?
- How often is yield paid out?
- Are the assets diversified from traditional stocks
- What is the liquidity profile of the asset?



Source: UBS Global Asset Management. For illustrative purposes only.

Growth

Example pension fund portfolio



Source: UBS Global Asset Management. For illustrative purposes only.

What are the options...

...to achieve sustainable growth



Source: UBS Global Asset Management. For illustrative purposes only.

The onset of cash flow negativity

CLOSED
New members

CLOSED
Future accrual

“

The public sector workforce grew by over 600,000 over the 2000s. Even so the scale of the reductions expected over the next few years looks challenging. If delivered, the 1.1 million drop in general government employment forecast by the OBR between 2010 – 11 and 2018 – 19 would be almost three times larger than the previous drop during the early 1990s.

”

Jonathan Cribb

Research Economist at Institute for Fiscal Studies

How are pension funds responding?

Use or maintain cash balances

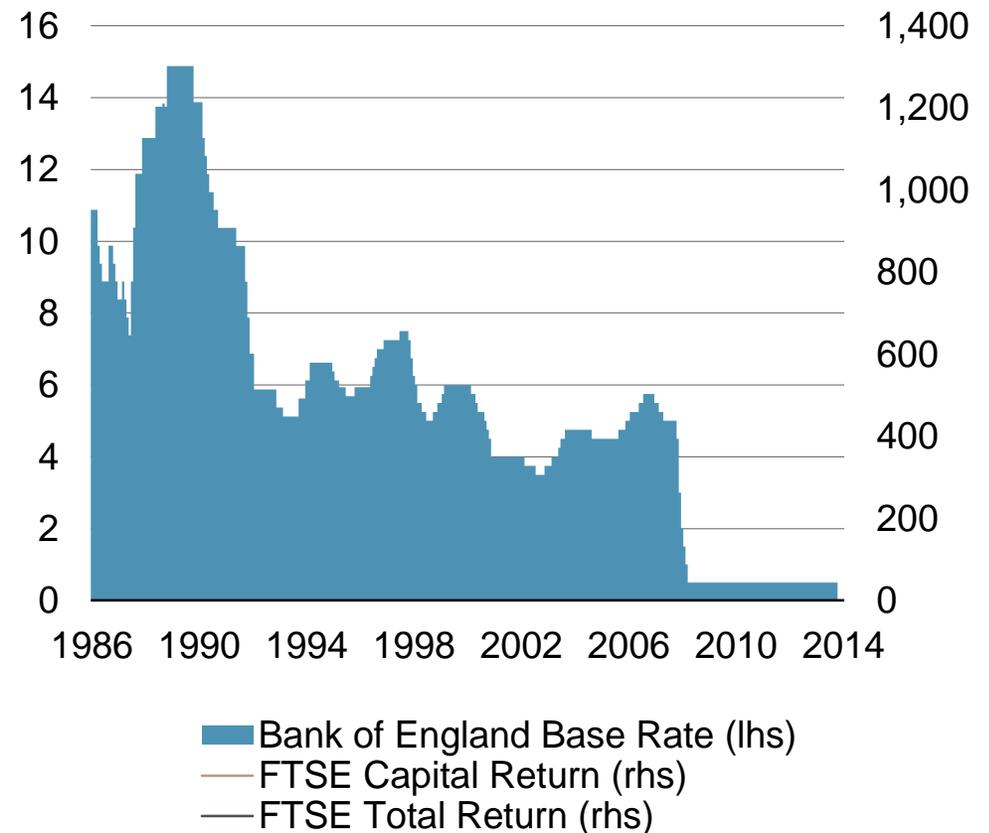
- Low cash rates
- Out of market risk: high opportunity cost

Strip income

- Which income?
- May inhibit compounding power of growth assets
- Governance budget & oversight

Draw down investments

- What to sell?
- When to sell?
- Transaction costs?
- Missed growth opportunities
- Governance budget & oversight



Source: DataStream as at 31 January 2015.

How are pension funds responding?

Use or maintain cash balances

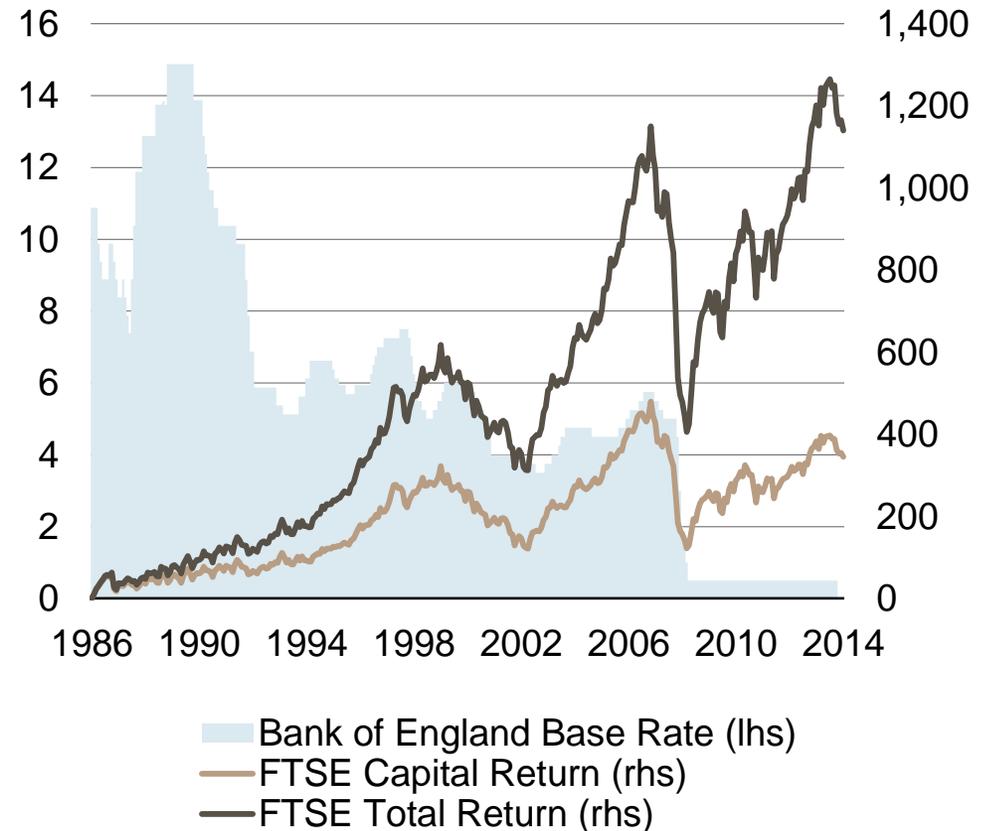
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Source: DataStream as at 31 January 2015.

Considerations for a viable solution

What are your investment options?

Income considerations	Cash	Bonds	Real Assets	Equities
Stable & predictable cash flow	High	High	Medium	Low
Frequency of cash flow	High	Medium	Medium	Medium
Size of cash flow	Low	Low	High	Medium

Growth considerations

Capital growth	None	Low/None	Medium	High
Volatility of capital	Low	Medium	Medium	High

Other considerations

Inflation protection	Low	Low	Medium	Medium
Liquidity of underlying	High	Medium	Low	High

Source: UBS Global Asset Management
 Note: For illustrative purposes only

No single asset class offers a silver bullet

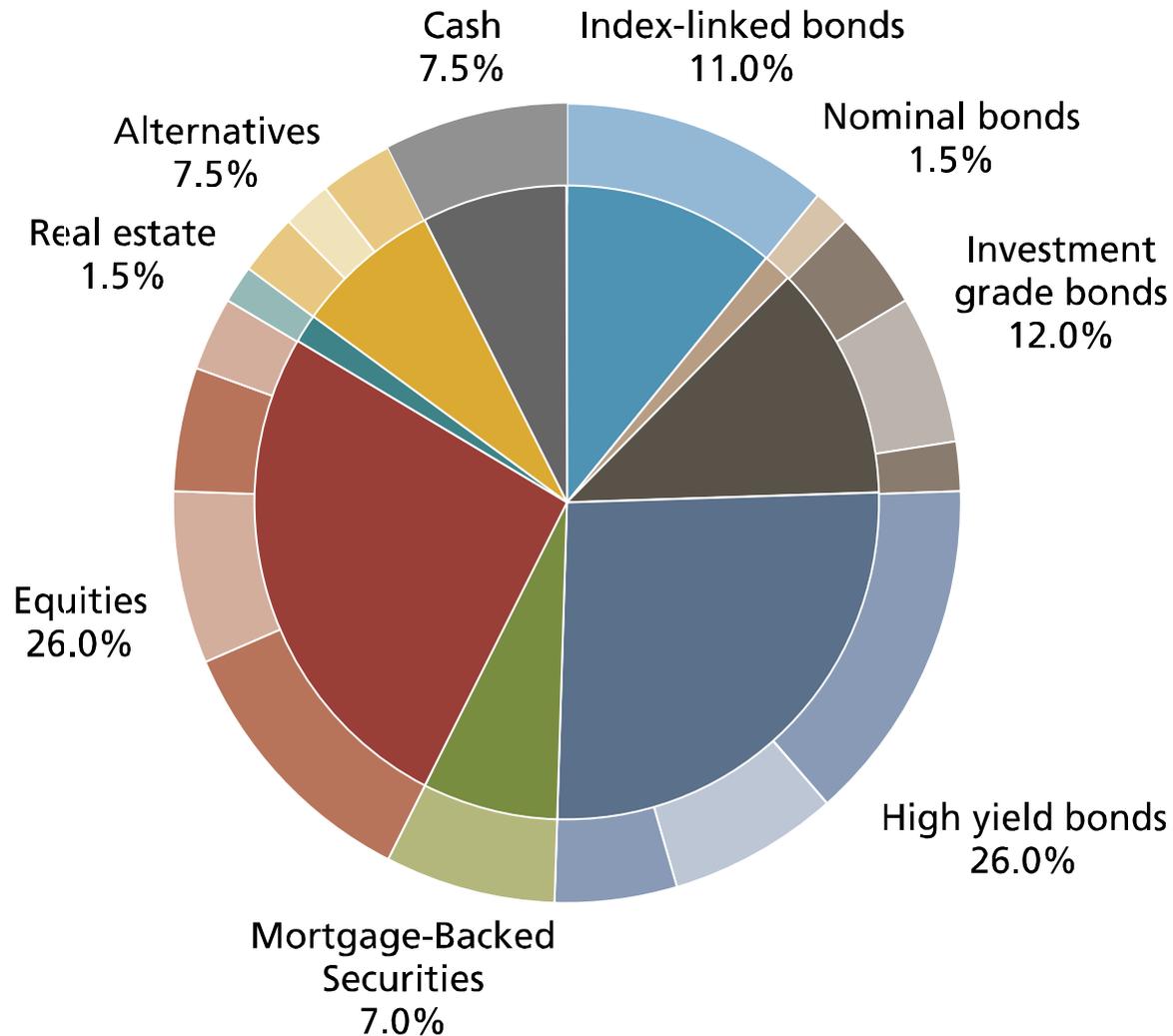
Our approach to building a *better* mallet!

Focussed on income without compromising growth and liquidity

- Diversify across and within asset classes
- Offering potential for inflation protection
- Consider the full range of investment opportunities
- Actively manage asset allocation

Example investment strategy

Broadly diversified across asset classes and geographies



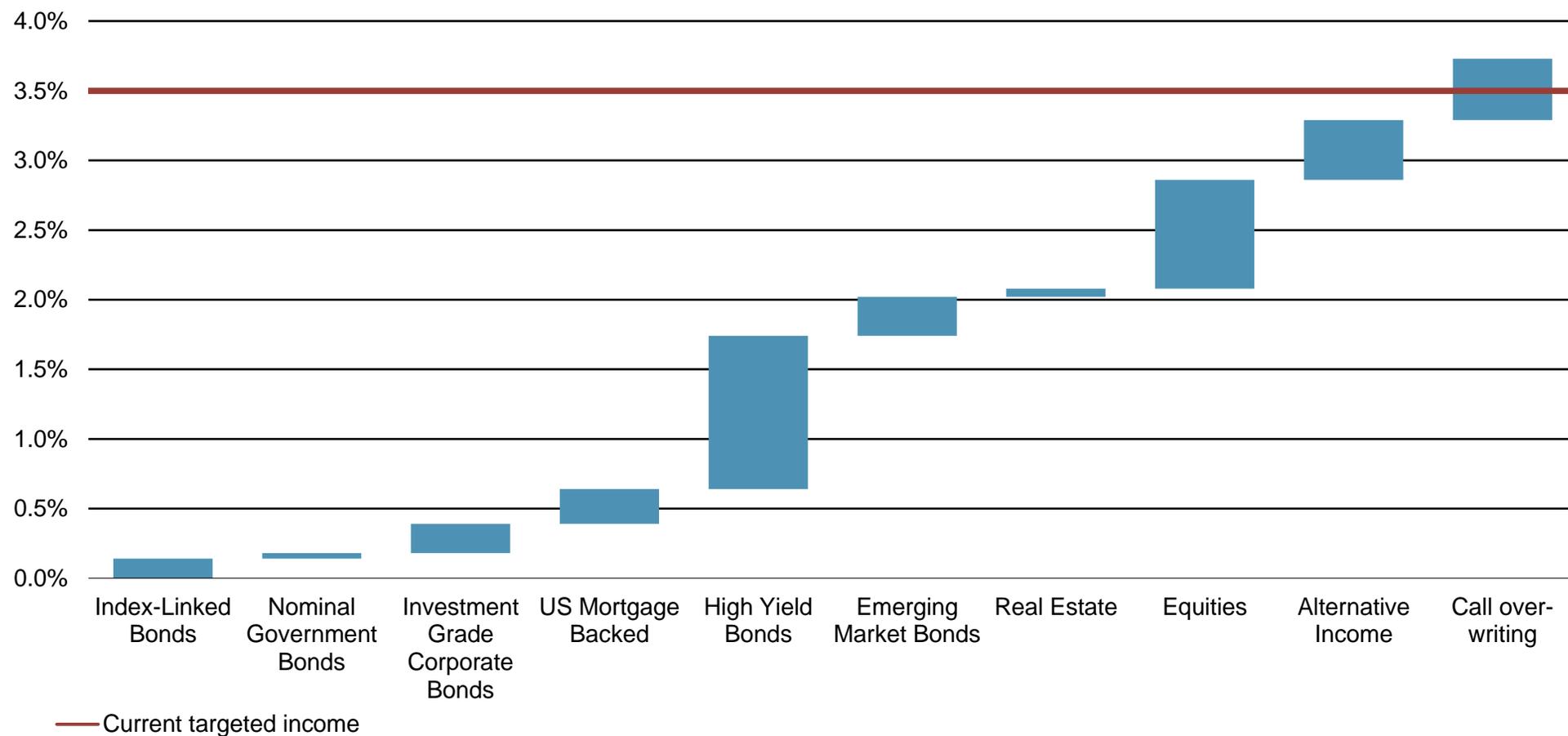
Current income target	3.80%
Expected capital growth over full market cycle	0-2% p.a.
Expected risk	5-8% p.a.
Beta ¹	0.31
Duration	3.21 years

Source: UBS Global Asset Management, data as at 31 January 2015.

Note: The alternative component is currently composed of infrastructure, insurance-linked securities and bank loans. Positions rounded to nearest percentage point, Beta to FTSE All World Hedged in GBP. ILS refers to Insurance-linked securities

Asset class contribution to income target

Balancing the need for income with the desire for low levels of capital volatility



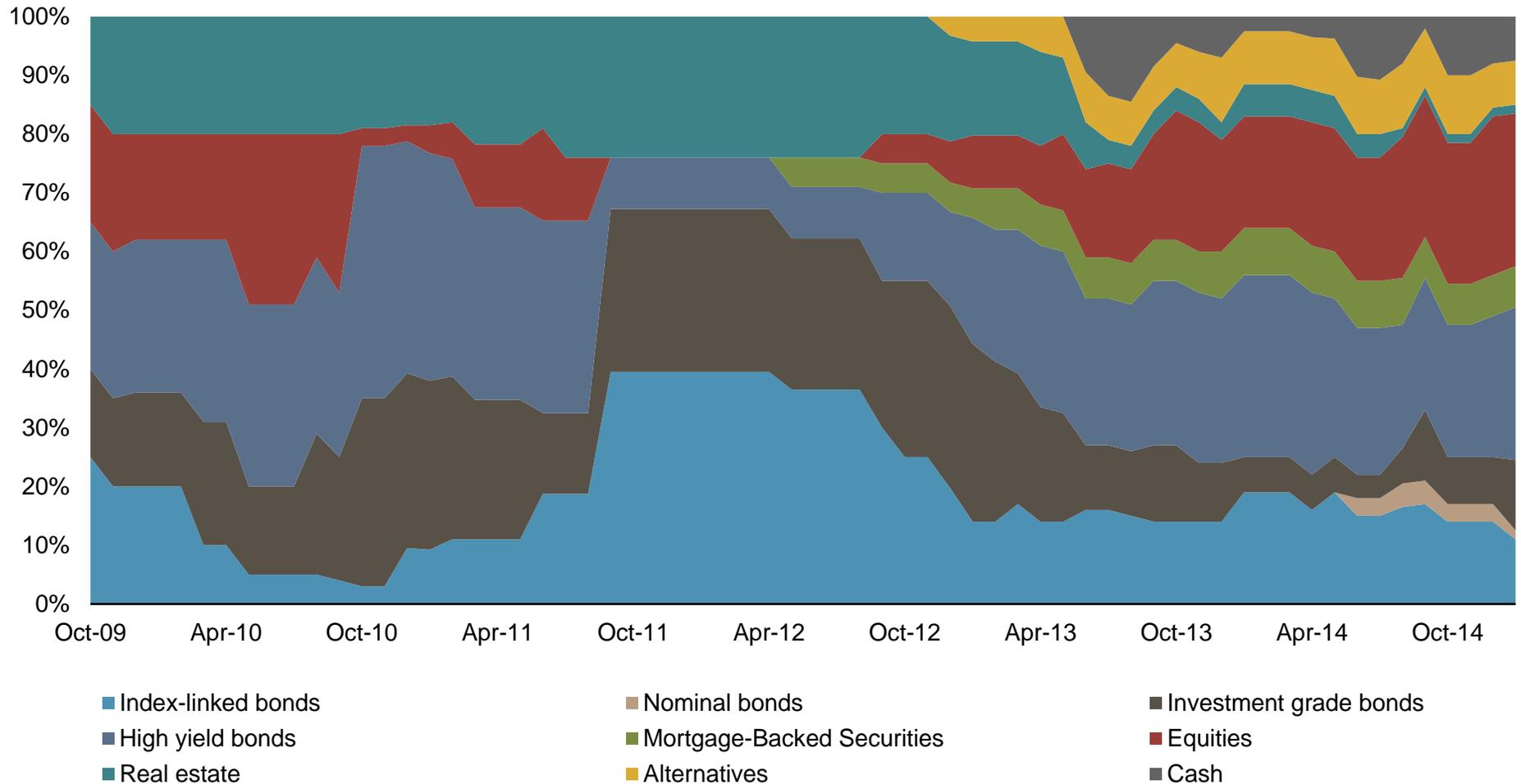
Source: UBS Global Asset Management & Bloomberg as at 31 January 2015

Note: The alternative component is currently composed of infrastructure, insurance-linked securities and bank loans.

Dynamically managed to achieve sustainable income...

...whilst aiming to minimise risk

Monthly strategy asset class weights of Multi-Asset Income Fund (UK) – Data to 31 January 2015



The governance challenge...

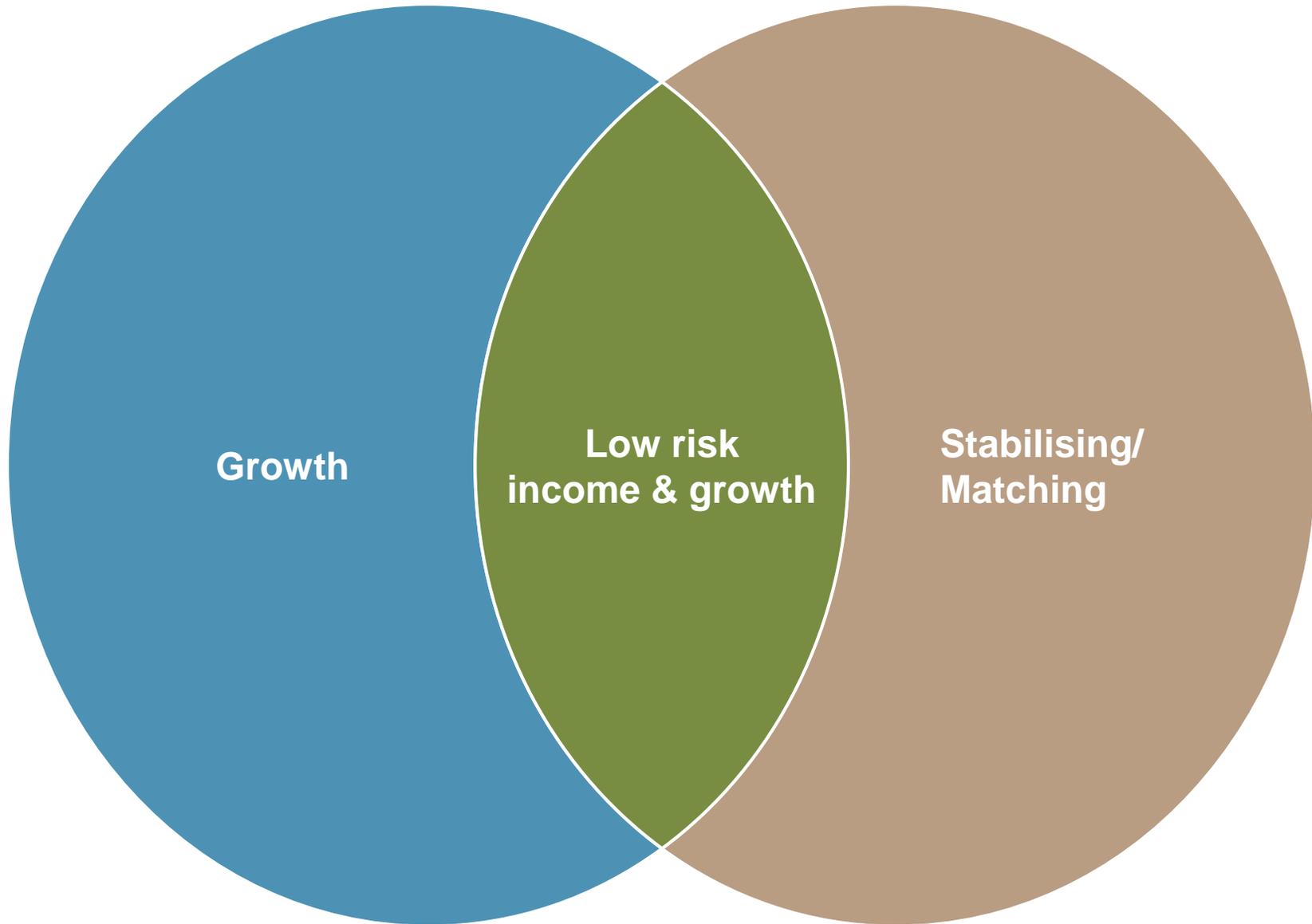


The governance challenge...

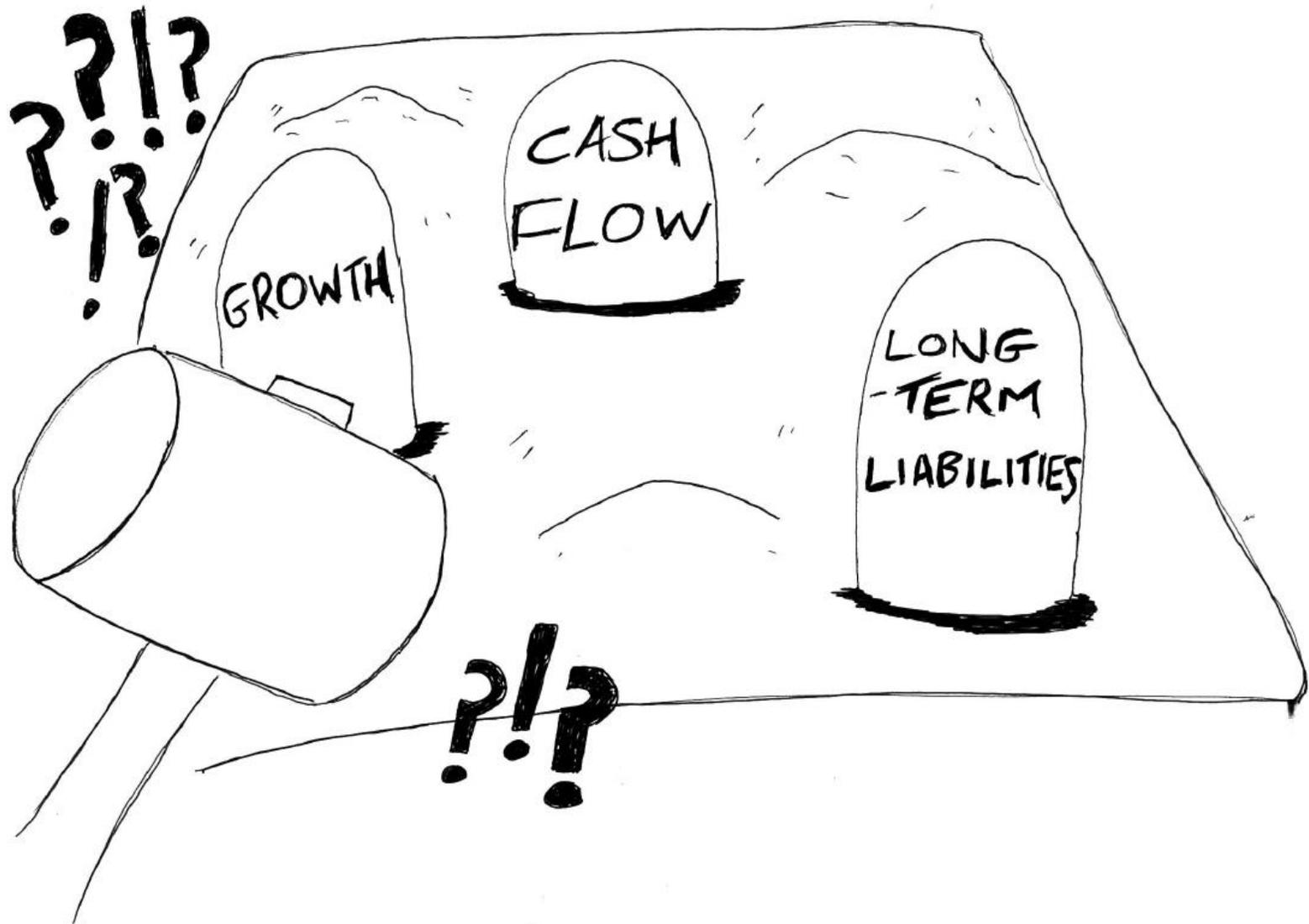


Scheme consideration	Individual Allocation	Blended approach	Pooled Solution
Growth	Equities Private Equity Hedge Funds		Diversified Growth
Inflation and long term income	Property Infrastructure Equity Farmland		Multi-Asset Real Assets
Liability hedging	Gilts Synthetics		Pooled LDI
Alternative liability hedging	Private debt Direct Lending		Multi-Asset Private Debt
Cash flow	Corporate bonds High yield Direct Lending Equities Listed Infrastructure Listed Real Estate Derivative Strategies		Multi-Asset Income

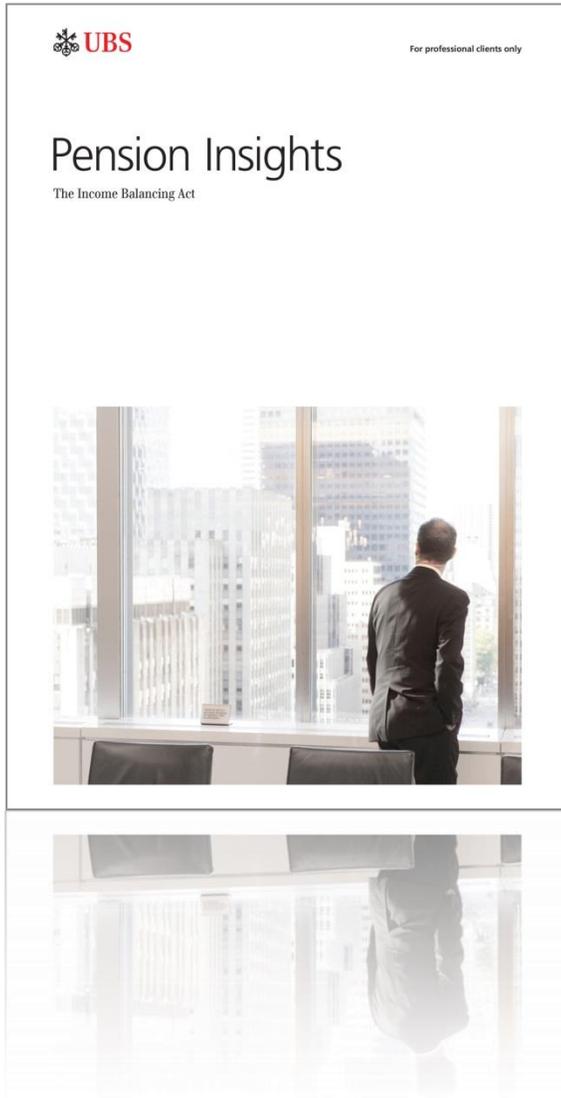
Asset allocation considerations



Don't act in isolation



Pension Insights



We welcome your input on this important topic

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