The Actuarial Profession
making financial sense of the future

Pensions Conference 2012
Jeremy Lee – Redington

# DGFs
## What's in a name?

1 June 2012



## What is a DGF?

Multiple asset classes

Diversification

Access to alternatives

Capital protection

Diversified Growth Fund

Volatility

Absolute return

Short-term tactical

Access to illiquids

## How are DGFs commonly used?

Alternative to equity

"Pooled" access to investment expertise

Diversified Growth Fund

Delegation of tactical allocation

Partial outsourcing of strategic asset allocation

Growth asset backing LDI





## A more efficient use of governance budget?

| | | |
|---|---|---|
| Strategic | Trustees | Long-term strategy |
| Tactical | Asset Manager | Ability to act quickly |
| Stock Picking | Analyst | Sector Knowledge |

## Are all DGFs the same?




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## 1. Active beta

- “Long only”
- Long term asset allocation vs shorter term tactical allocation
- Willing to move into “safe” assets for capital preservation/downside protection

Some managers*

BARINGS

BAILLIE GIFFORD

* Provided as examples only. Not exhaustive and not a recommendation.



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# 1. Active beta


Source: Baillie Gifford





# 2. Growth focussed

- “Long only”
- Focus on “growth”
- Typically less concerned with capital preservation
- Typically higher volatility than “active beta”

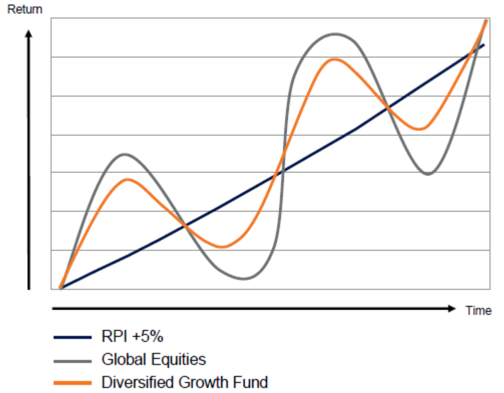
Some managers*

Schroders

NEWTON
The Power of Ideas

* Provided as examples only.  Not exhaustive and not a recommendation.

## 2. Growth focussed




Source: Schroders





## 3. Absolute return

- To generate positive performance in all market conditions
- Mixture of “long only” and long/short
- Seek market anomalies
- Very dynamic
- Some complexity
- May rely on derivatives

Some managers*

STANDARD LIFE INVESTMENTS

RUFFER

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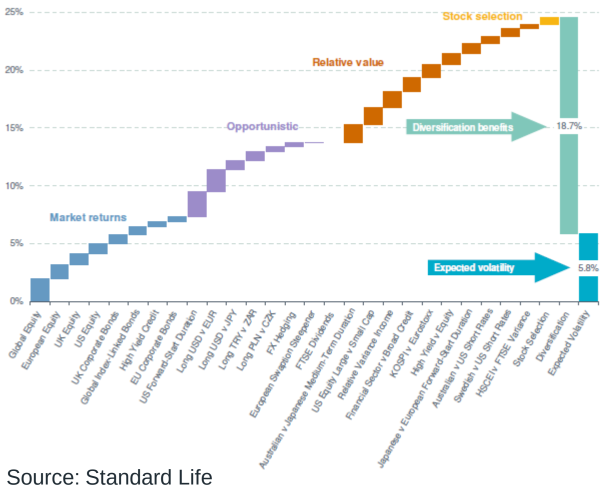
## 3. Absolute return




Source: Standard Life





## 4. Risk parity

- Focus on risk factors rather than asset classes
- “Sharpe ratio is equal for all asset classes”
- Lower equity allocations
- Use of derivatives fore leverage
- More systematic
- Rebalancing

Some managers*

AQR

BRIDGEWATER

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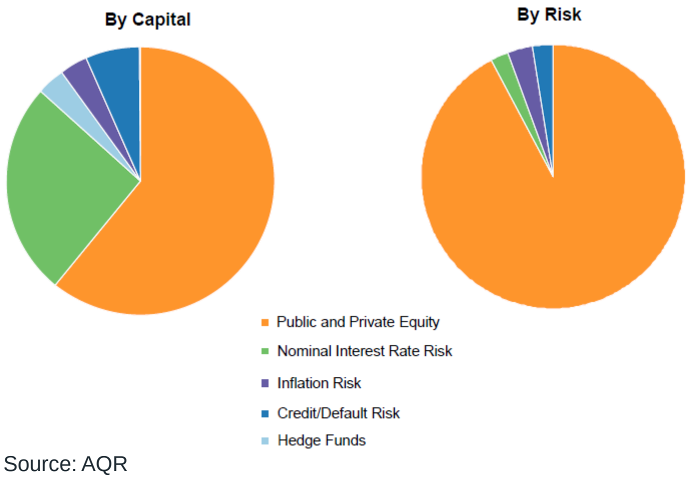
# 4. Risk parity

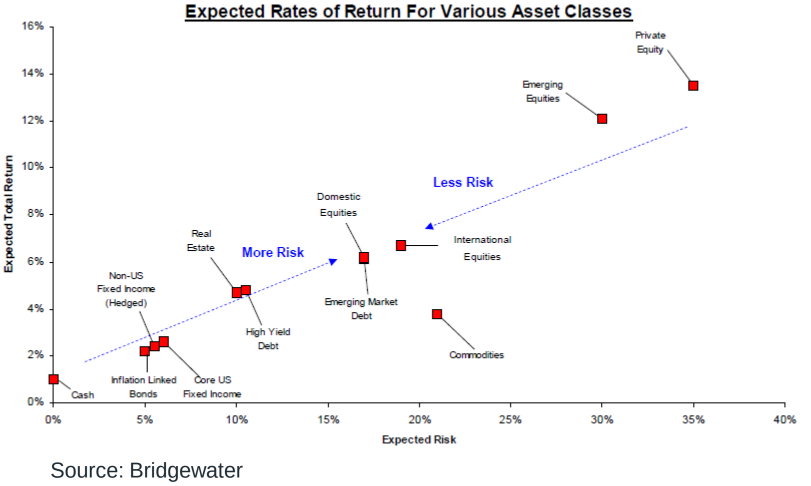



Source: AQR



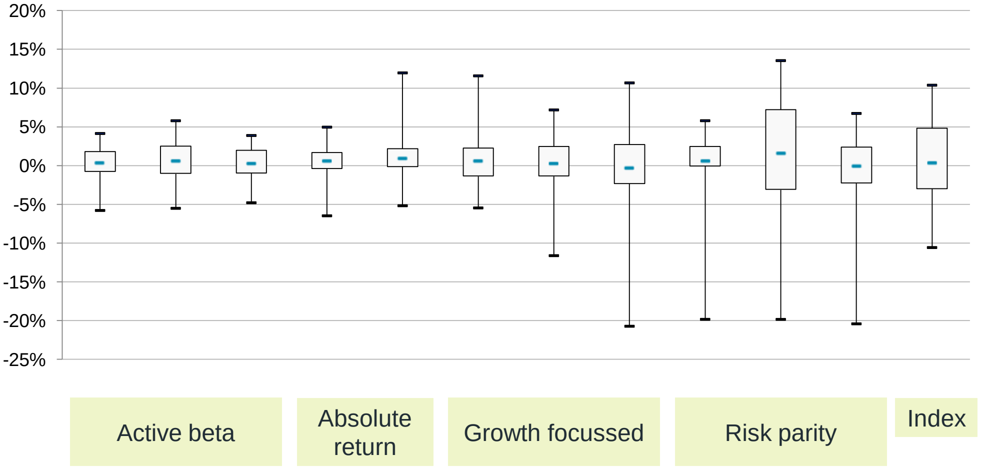


# 4. Risk parity




Source: Bridgewater

## Do DGFs work?
Monthly returns distribution since September 2007




Source: Managers, Redington. Index is FTSE All World Developed Total Return



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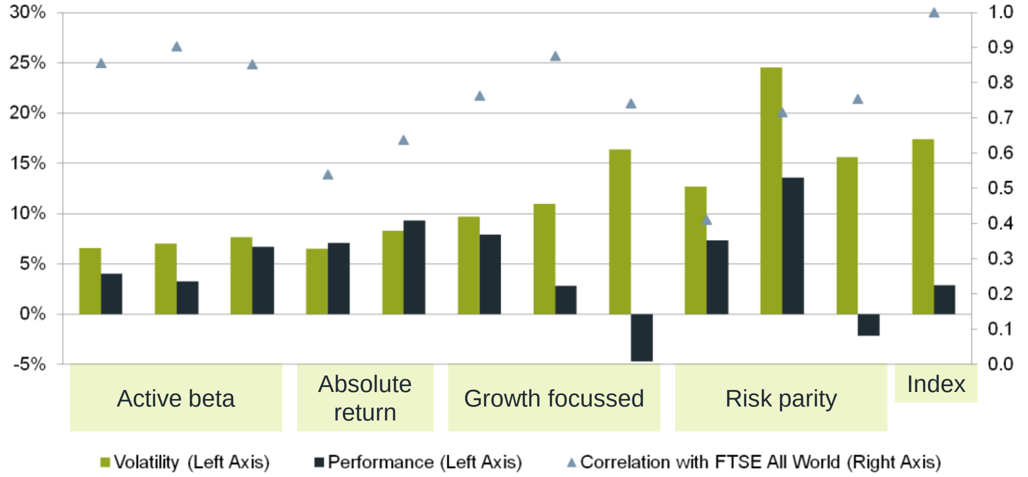
## Do DGFs work?
Volatility and correlation (since September 2007)




Source: Managers, Redington. Index is FTSE All World Developed Total Return



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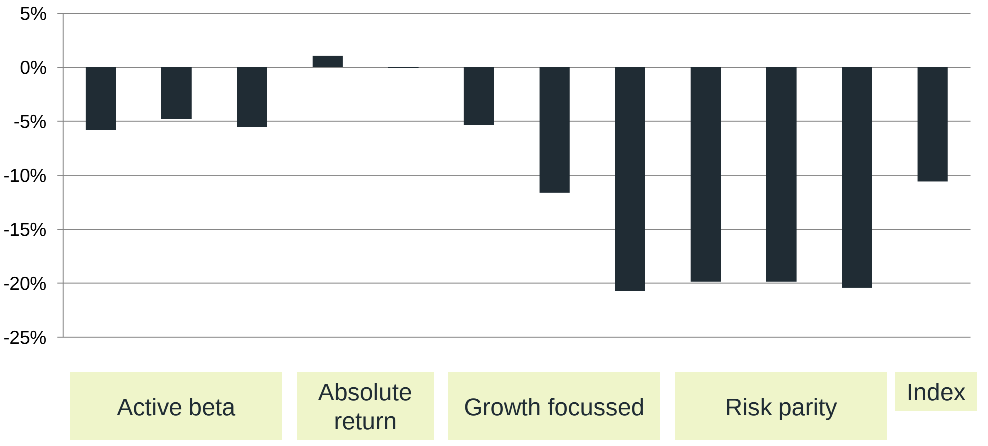
## Do DGFs work?
Performance in October 2008




Source: Managers, Redington. Index is FTSE All World Developed Total Return





## How to choose a DGF manager

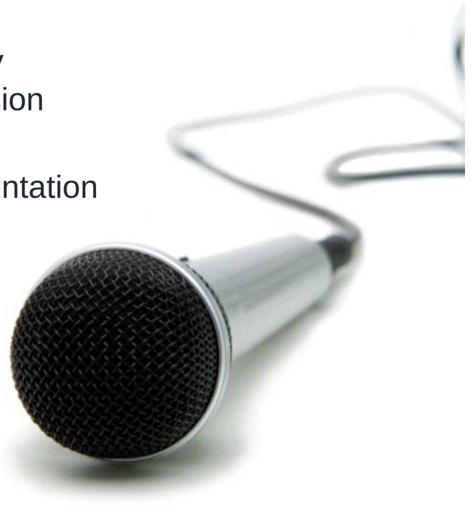
**Investment style**
- Reason for using DGFs
- Use of derivatives
- Long/short
- Transparency
- Correlation

**Manager due diligence**
- Investment process
- Risk management
- Internal resources
- Track record
- Use of internal funds

## Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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