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## Designing a risk-led investment strategy at the Pension Protection Fund

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19 June 2013



**Know what your vision is, have objectives, develop  
a plan and stay focused**

“Ignoranti quem portum petat,  
nullius suus ventus est.”

*“If a man does not know  
to what port he is  
steering, no wind  
is favourable to him.”*



Lucas Annaeus Seneca  
Epistolae, LXXI., 3.



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## PPF has experienced rapid growth in its eight year history 2005 - 2013

- 6300 eligible DB plans with £1 trillion liabilities and 12 million members;
- A further 135,000 members in assessment from around 215 cases;
- 168,000 members transferred into PPF from over 574 plans;
- Assets including plans in assessment of around £19 billion.
- Consequence of sponsor failure and persistent underfunding of UK DB pension;



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## The context for us is that PPF is on a flight-path to self-sufficiency in 2030



### Self sufficient means

- No more levies
- Minimal residual risk (on *and* off balance sheet)
- Reserve (10% of liabilities) to hedge future claims and longevity risk

### Measured as

- Probability of success – 2013/14 target is 84%
- Downside risk – worst deficit at 90<sup>th</sup> percentile
- Investment risk appetite – 4% annual balance sheet volatility



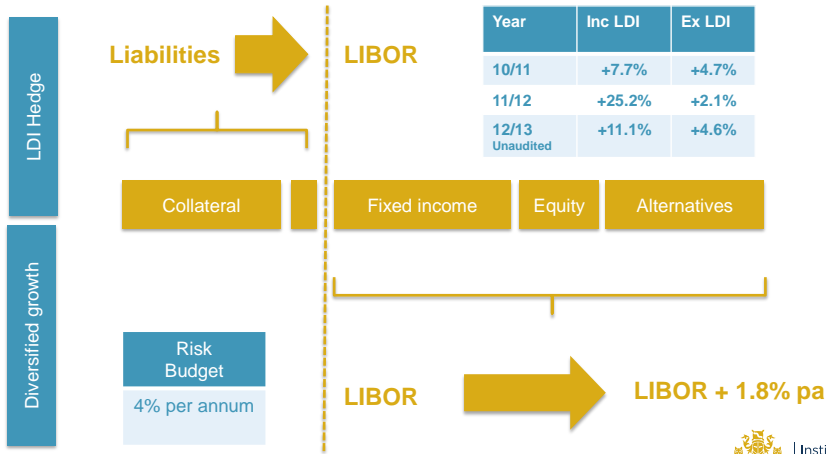
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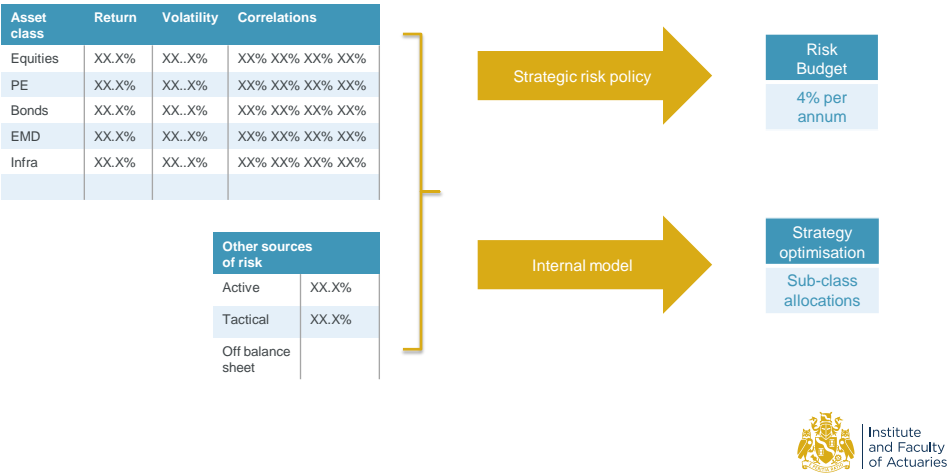
PPF risk appetites are set at Board level and quantified within the overall risk management framework

Governance layer	Relevant functions
PPF Board	Identifies and agrees the strategic risks and their risk appetite . Owns the valuation and internal model assumptions
Investment Committee (a Board subcommittee)	Maintenance of the investment strategy. Oversees investment performance and financial risk management
Audit Committee (a non-executive Board subcommittee)	Evaluates effectiveness of internal controls and risk management
Asset and Liability Committee	Executive oversight of the implementation of investment and financial risk management strategies
Funding Strategy and Modelling Committee	Executive oversight of internal model
Internal teams	Execution of investment, risk and modelling strategies

The investment strategy seeks to beat the replicating portfolio by hedging risk and diversifying growth



Strategic risk is subject to a specific risk policy; the internal model helps evaluate compliant investment strategies



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As the Fund grows so do the risks and opportunities - what are our thoughts for the future?

- Developing our “three lines of defence” independent risk management framework.
- Potential overdependence on unfunded hedging strategies. Fully exploiting the illiquidity of our liabilities. Developing a hybrid hedge and return framework.
- Accessing genuine alpha, generating a return from our “active management” budget and not paying alpha rates for beta performance.

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**Questions**



**Comments**

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

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