



Your success. Our priority.

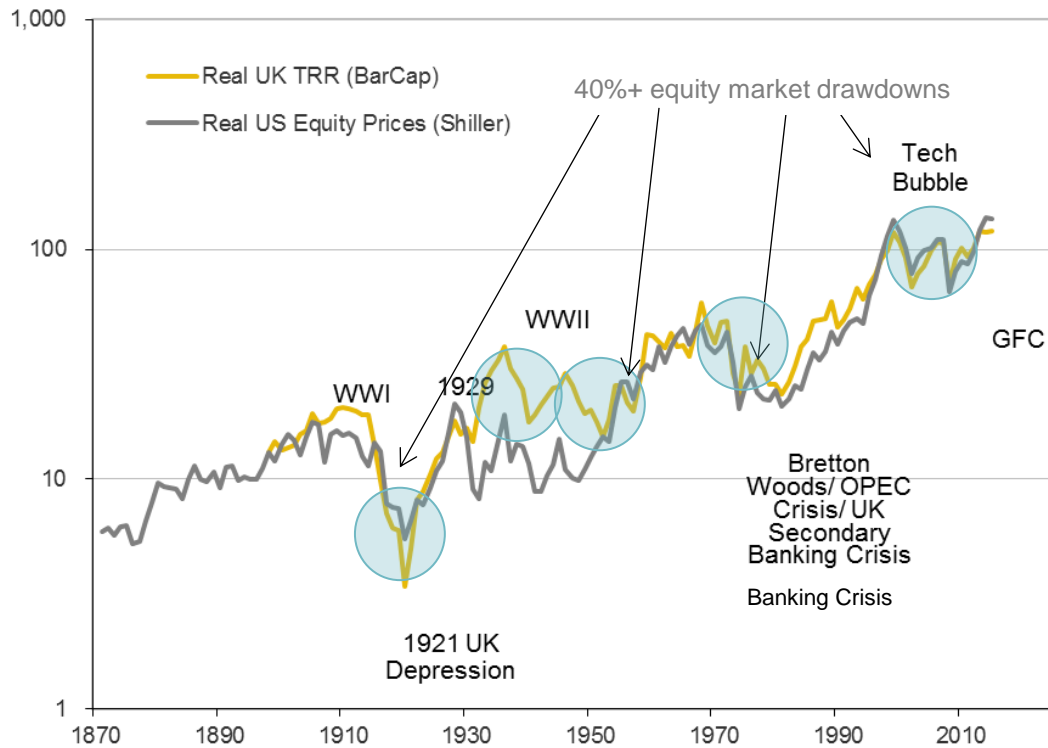
IFoA Current Highlights in Pensions Seminar DGFS – Too Much D and not Enough G?

For professional investors only
November 2017



Why Multi Asset

Volatility-controlled approach seeks equity-like returns with less volatility



■ We believe that

- Multi asset investing can provide attractive positive returns whilst helping to keep volatility in check
- Equities will continue to deliver attractive long-term returns
- Equities are volatile and can underperform when investors most need good returns
- Volatility is here to stay

Sources: Columbia Threadneedle Investments, Barclays Capital and Robert Shiller, as at June 2016.

Appropriate benchmarks?

Managers' self-appointed targets

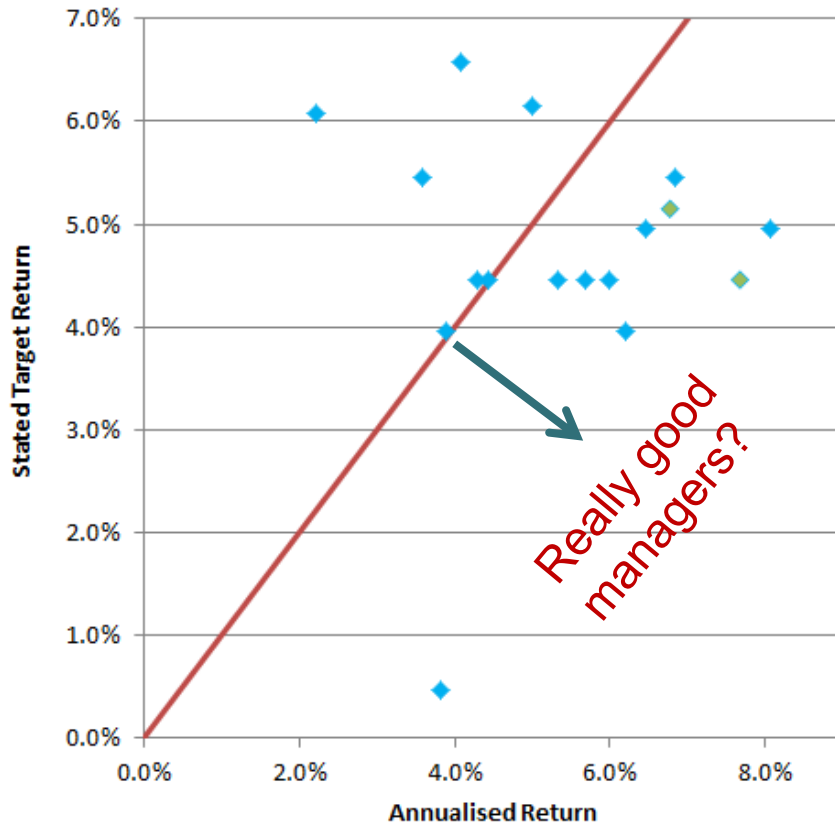
Firm Name	Product Name	Product: Preferred Benchmark	Period Return	Period Target	Met Target
Ruffer LLP	Global long only absolute return strategy	Cash	3.82%	0.46%	√
Baillie Gifford & Co	Diversified Growth	Base Rate + 3.5%	6.21%	3.96%	√
BlackRock	Dynamic Diversified Growth	LIBOR + 3.5%	3.88%	3.96%	
Barings LLC	Dynamic Asset Allocation	LIBOR + 4%	5.69%	4.46%	√
F&C (BMO Global Asset Management)	Diversified Growth strategy	LIBOR + 4%	4.43%	4.46%	
Insight Investment	Diversified growth	Cash +4%	5.34%	4.46%	√
Newton Investment Management	Newton Real Return GBP	LIBOR +4%	4.28%	4.46%	
Threadneedle Asset Management Ltd	Threadneedle Pensions Multi Asset Fund	Base Rate +4%	7.68%	4.46%	√
Aberdeen Asset Management PLC	Diversified Multi Asset Growth	LIBOR +4.5%	6.48%	4.96%	√
Legal & General	Dynamic Diversified (Active)	Base Rate +4.5%	8.07%	4.96%	√
Threadneedle Asset Management Ltd	Threadneedle Dynamic Real Return Fund	UK CPI +4%	6.77%	5.10%	√
Fulcrum Asset Management	Fulcrum Diversified Absolute Return Strategy	RPI + 3-5%	2.23%	5.30%	
Fidelity International	Diversified Growth	Cash + 5%	6.85%	5.46%	√
M&G Investment Management Ltd	M&G Episode Allocation	Cash + 5%	10.12%	5.46%	√
Standard Life Investments Limited	Global Absolute Return Strategy (GARS)	LIBOR +5%	3.58%	5.46%	
Investec Asset Management	Diversified Growth	UK CPI + 5%	5.00%	6.10%	
Fulcrum Asset Management	Fulcrum Diversified Growth	RPI + 4-5%	5.56%	6.30%	
Schroder Investment Management	Diversified Growth	RPI +5%	5.99%	6.80%	

- Included are Diversified Growth Funds in the eVestment database with:
 - A specified total return target, and;
 - 4 years track record to June 30 2017.

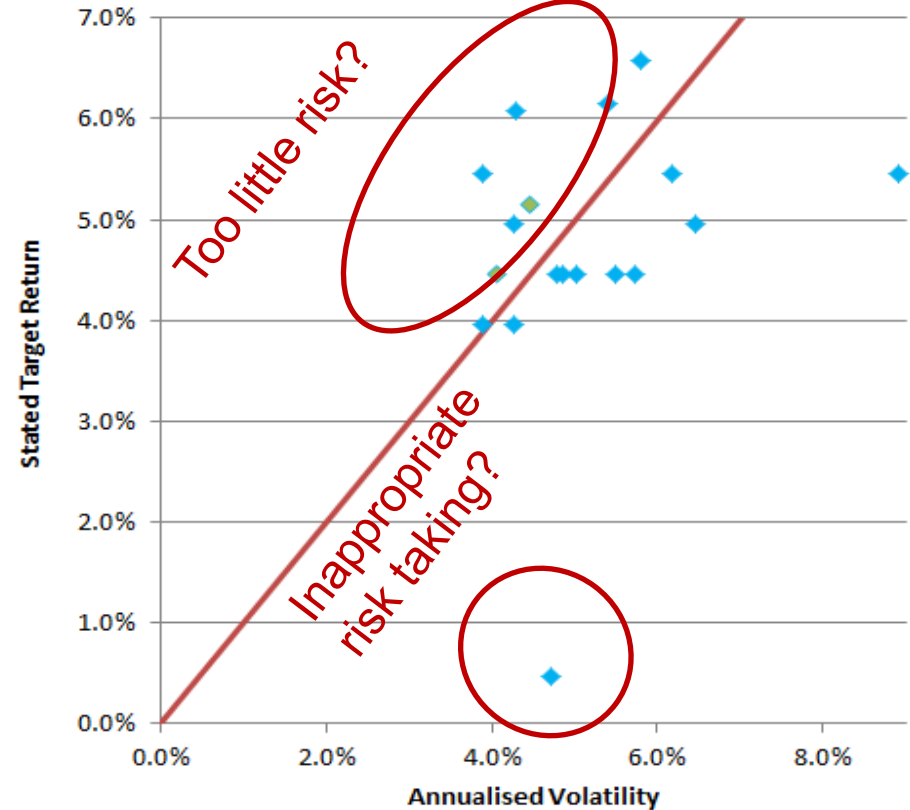
Appropriate benchmarks?

Managers' self-appointed targets have been poor guides to returns

DGF Target returns vs Experienced Returns since June 2013



DGF Target returns vs Experienced Volatility since June 2013



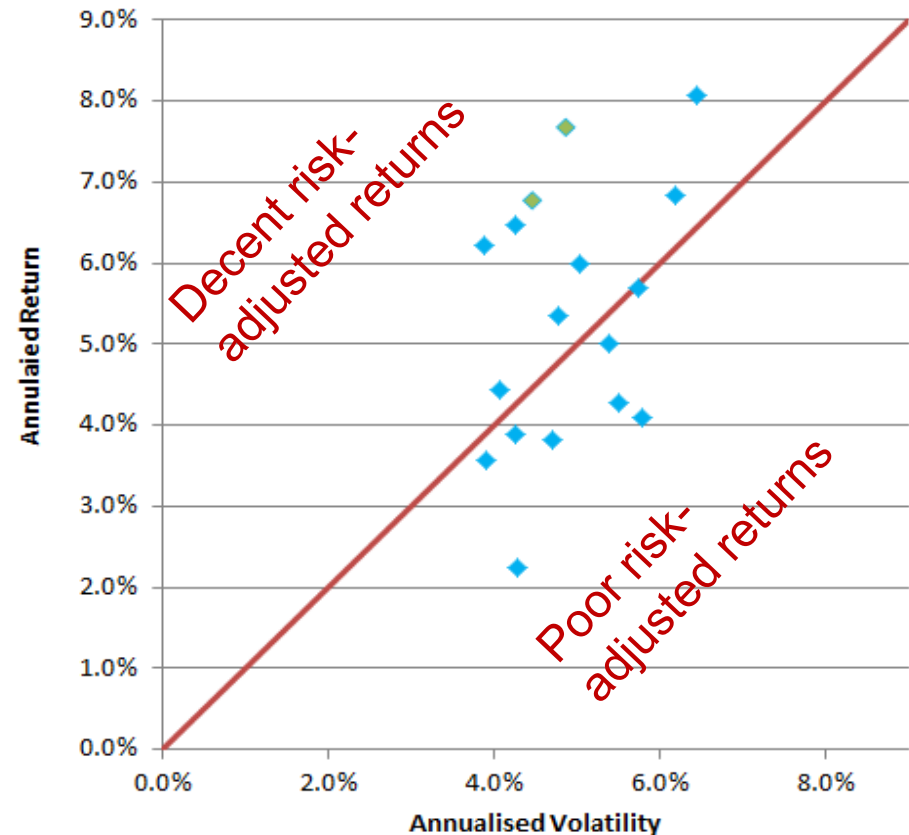
Source: Columbia Threadneedle and eVestment, June 30 2017.

Appropriate benchmarks?

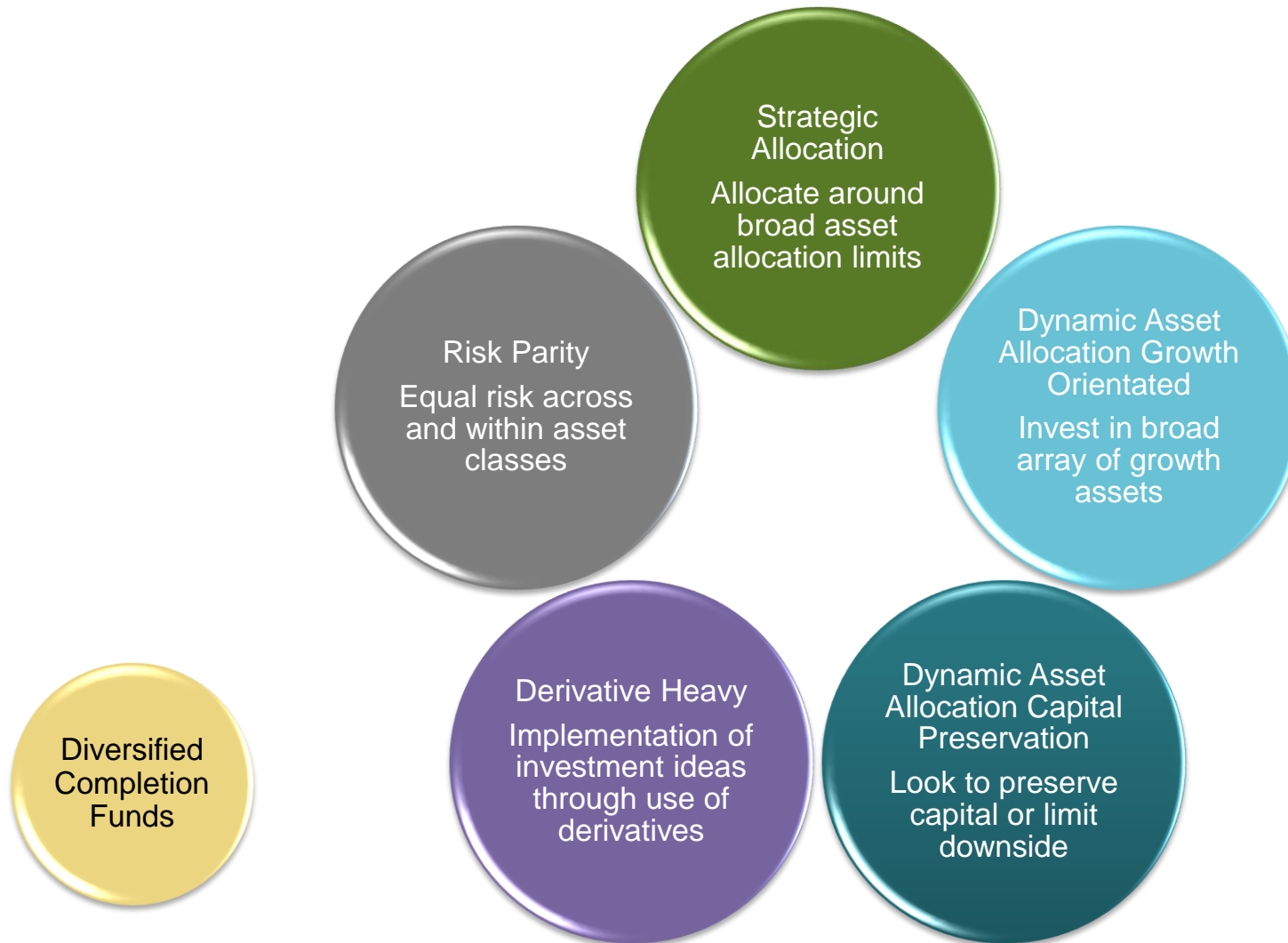
Managers' self-appointed targets have been poor guides

- Self-appointed benchmarks do not correlate well with ex post performance or ex post risk.
- DGF managers are all seeking to meet clients' needs and expectations.
- DGF managers are operating differing investment processes to achieve these client outcomes, the success of which can be seen ex post in risk-adjusted returns.
- Investment approaches differ wildly across investment managers, and it is important to understand your manager's approach.

DGF Experienced returns vs Experienced Volatility since June 2013



DGF Landscape – Real Return and Income



Summary and Conclusions

- Diversified Growth Funds are designed to deliver decent medium-term returns with a much lower level of volatility than equities

- How can schemes effectively choose DGFs to suit their risk and return appetite?
 - Looking at the target is disastrously unhelpful
 - Looking at the style and type can be helpful

- Appropriate benchmarks?
 - Ask the manager what success looks like in different environments *ex ante*
 - Keep an eye on ‘what you could’ve won’

- Think about what you are hoping the manager to achieve:
 - Good risk-adjusted returns on an outright basis?
 - Active asset allocation overlay to deliver continual governance at a scheme level?
 - Investments that you can understand and defend to your members?
 - Correlation characteristics with other investments held?

- Successfully delivered, DGFs can be hugely helpful for pension schemes both DC and DB – but don’t appoint one just because it is fashionable to do so.

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