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Implementation of Investment Strategy

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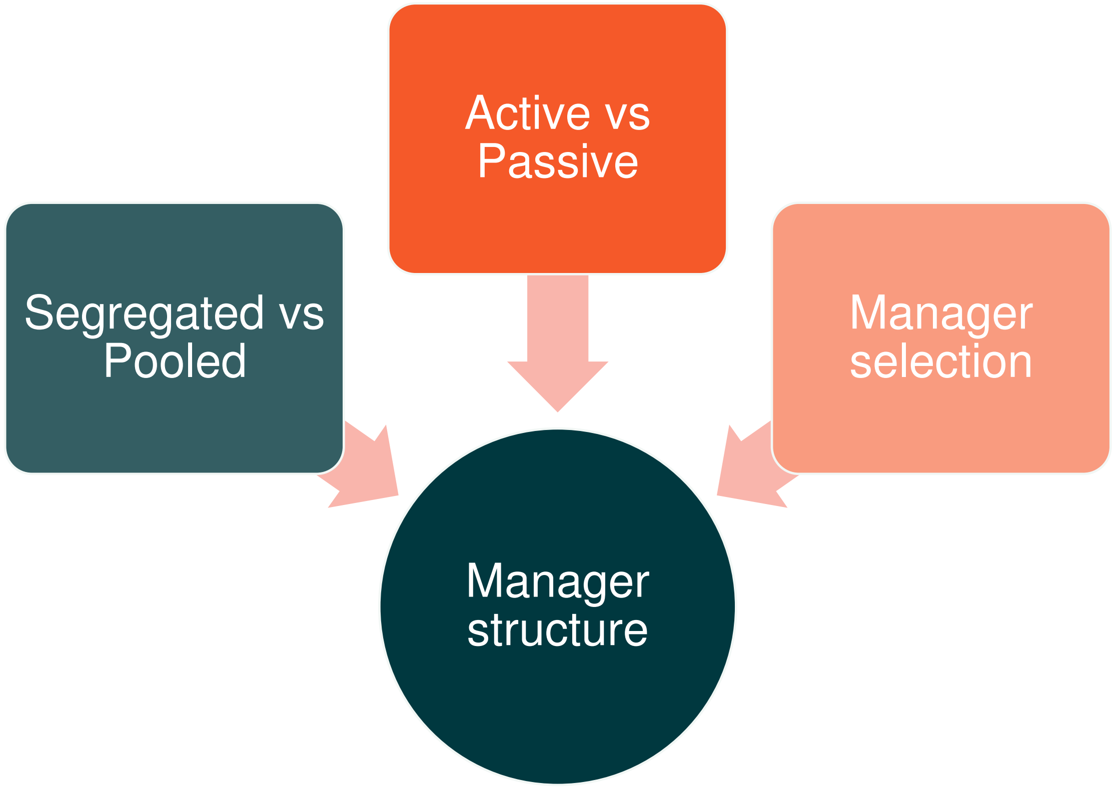
Agenda:

- High level considerations
- Detailed aspects
- Transitioning assets
- Statement of Investment Principles
- Ongoing monitoring

1 High Level Considerations

High Level Manager Structure Decisions

Mandates should be consistent with strategic objectives



Segregated or Pooled

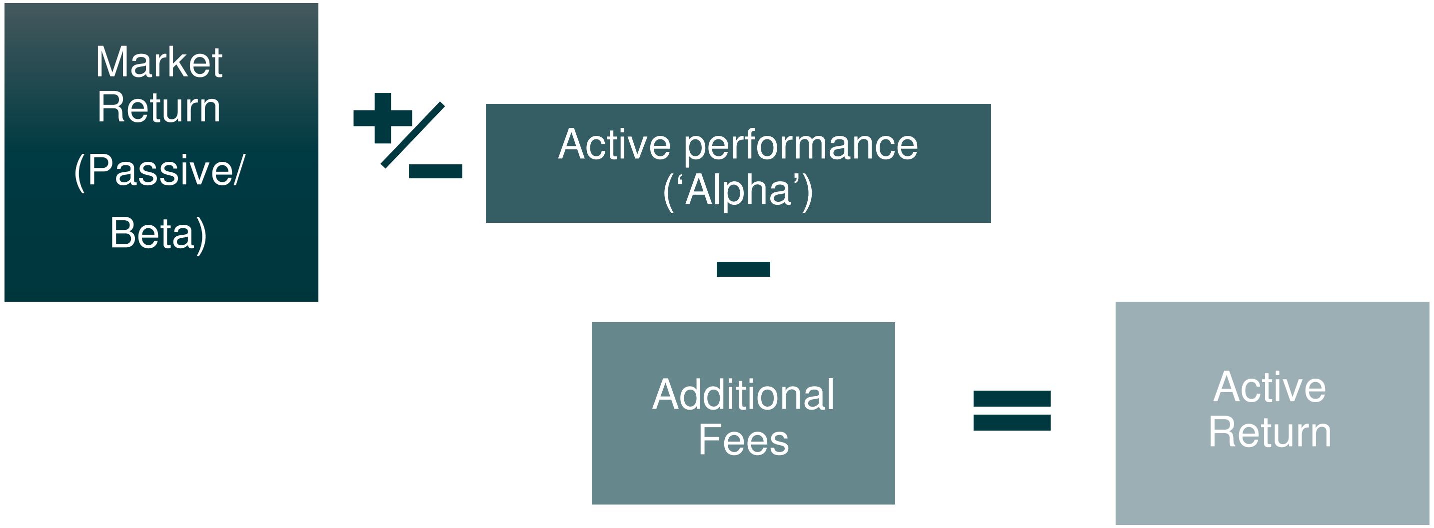
Segregated	Pooled
• Stand-alone portfolio • Bespoke approach • Trustee influence • Typically used by larger schemes • Increased level of scrutiny and monitoring require	• Funds pooled with those of other investors • Available to all pension schemes • Economies of scale • Access to markets • Standardised services • Trustees likely to have little influence

Can be a mixture of both approaches

Active or Passive

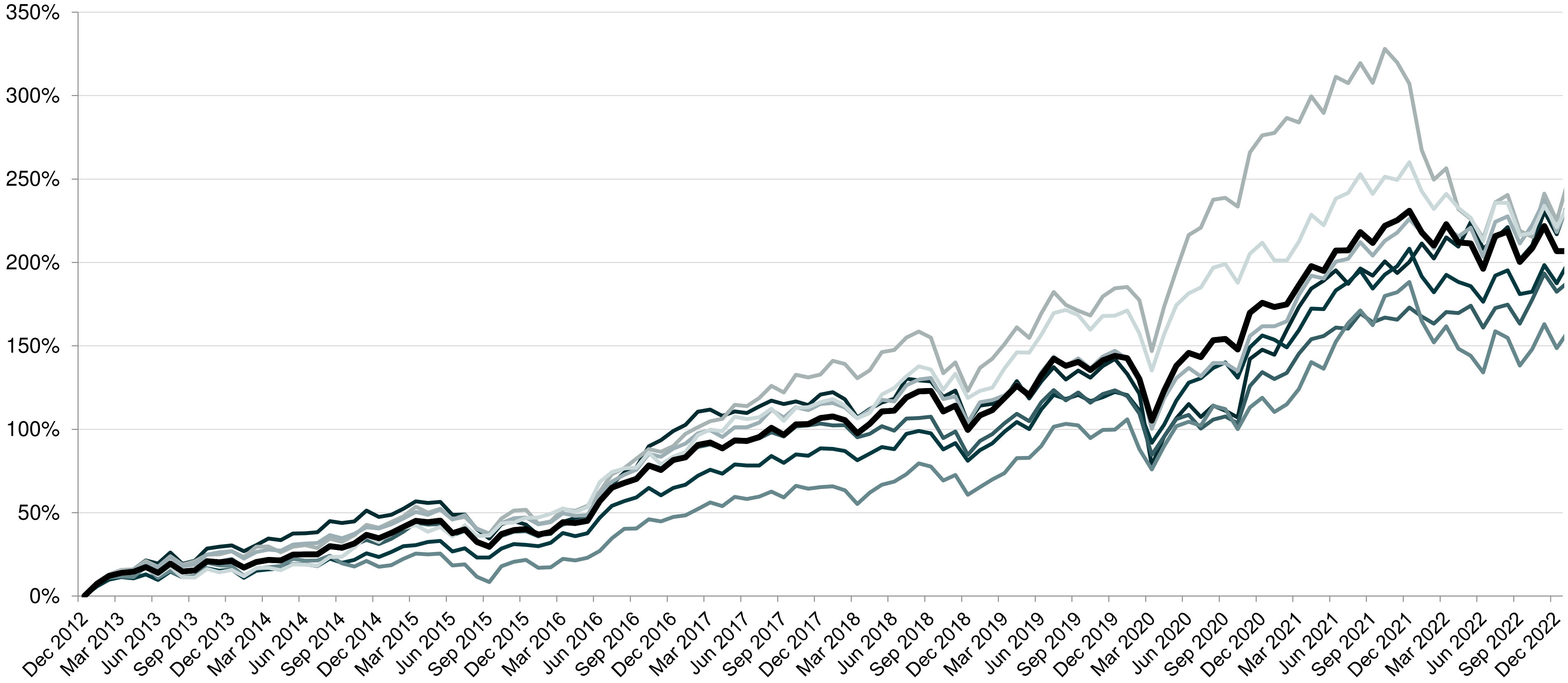
Active ('Human Skill')	Passive ('Rules Based')
• Objective is usually to outperform the market (or 'generate alpha') • Based on manager knowledge and inefficient markets • Higher fees • Requires more in-depth monitoring • Many different styles of active management • Can target certain types of exposure or aim to reduce risk • Needed where passive approaches are not viable	• Objective to match the market ('beta') • Based on efficient markets • Process largely systematic/ computerised • Relatively cheap • Less intensive monitoring • Can include tilts/variations to standard index exposure • Not viable for all asset classes

Active or Passive – zero sum game



1) Will Active Return Deliver Higher Returns Than Market Return?
2) Will Active Return Deliver Same Return As Market Return With Lower Levels of Volatility?

Active vs Passive – Global Equities



Source: CAMRAData, FTSE, Broadstone, net of fees

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Manager Selection Process

Consider manager structures

- Active vs Passive
- Segregated vs Pooled

Consider investment manager

- Beauty parade vs investment consultant advice
- Assess product, process, resources, people, performance
- Consider custodian (if applicable)

Appoint investment manager

- Agree mandate terms and period of review

Monitor and review

2 Detailed Aspects

Fees and Charges

- Annual Management Charge (AMC)
- Total Expense Ratio (TER)
- Ongoing Charge Figure (OCF)
- Fixed vs tiered fees
- Minimum fee thresholds (e.g. £10,000 per annum)
- Performance related fees

Important to standardise costs to understand what you are paying for

Security of Assets

Cons:
- No choice
- Reliance on manager

Manager Appointed Custodian

Pros:
- Low governance solution
- Low costs
- Regularly audited

Cons:
- More expensive
- Time consuming
- Complex

Trustee Appointed Custodian

Pros:
- Full control/oversight
- Potential for greater safeguards

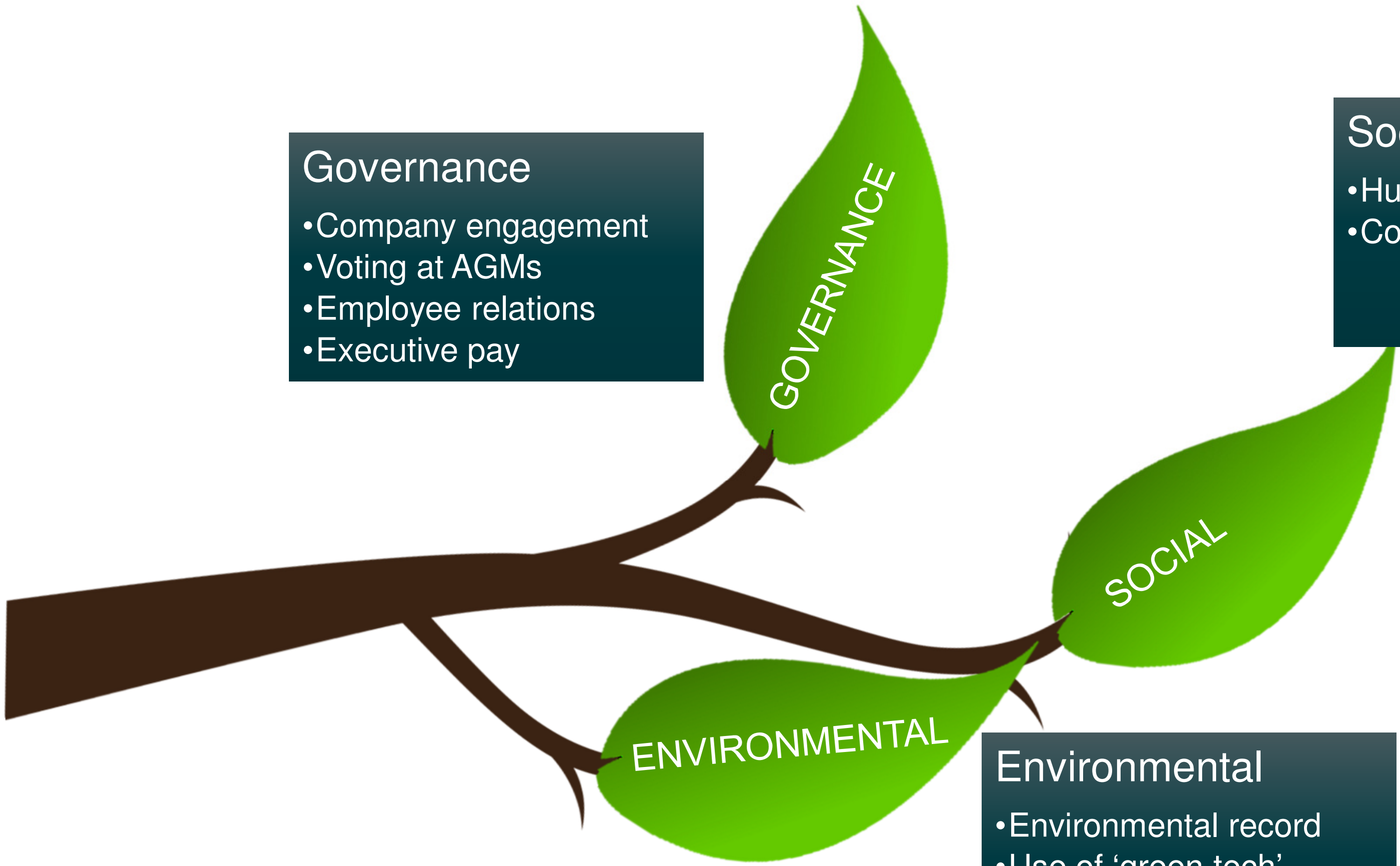
Environmental, Social and Governance considerations

Governance

- Company engagement
- Voting at AGMs
- Employee relations
- Executive pay

Social

- Human rights
- Consumer protection



Environmental

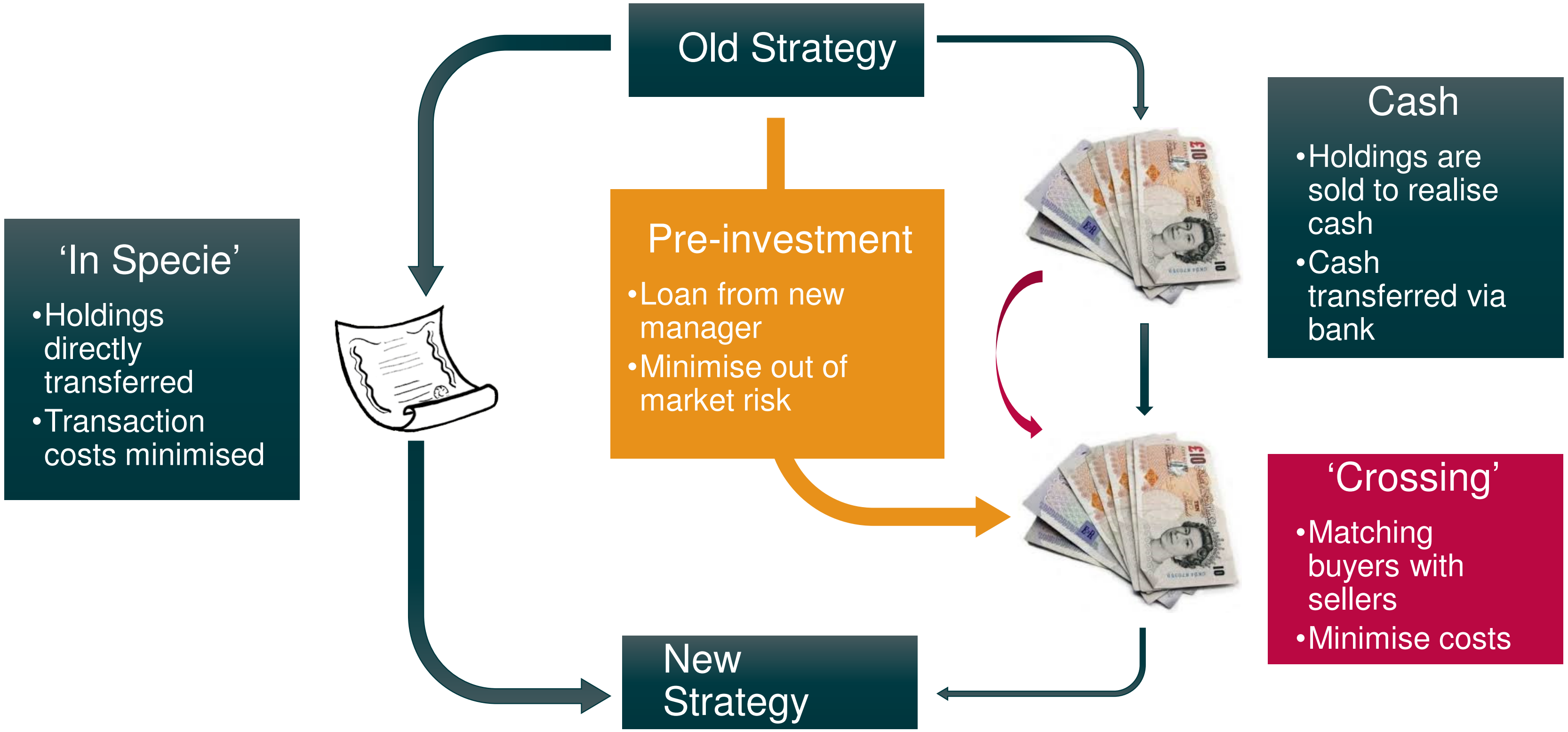
- Environmental record
- Use of ‘green tech’
- Climate change impact
- Sustainability

Direct or Fiduciary?

Direct	Fiduciary
• Appoint investment managers • Retain responsibility for monitoring • Regular contact and engagement with manager • Control on management costs	• Offers a ‘one stop shop’ • Appointment and monitoring of managers delegated away • Regular contact and engagement with fiduciary manager only • Can implement a range of strategy constraints • Adds extra level of cost • Oversight of fiduciary manager required

3 Transitioning Assets

Asset Transfers



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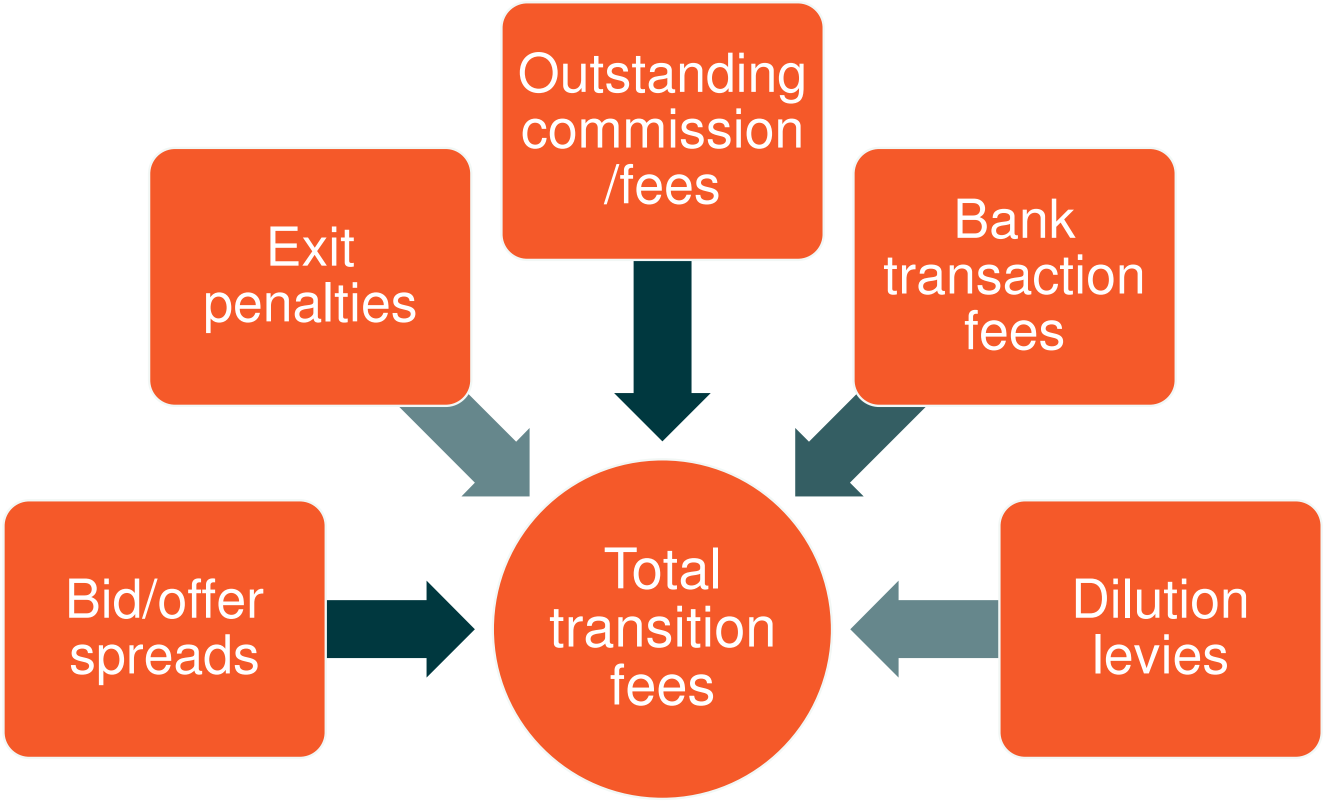
Transition Costs



Final Points

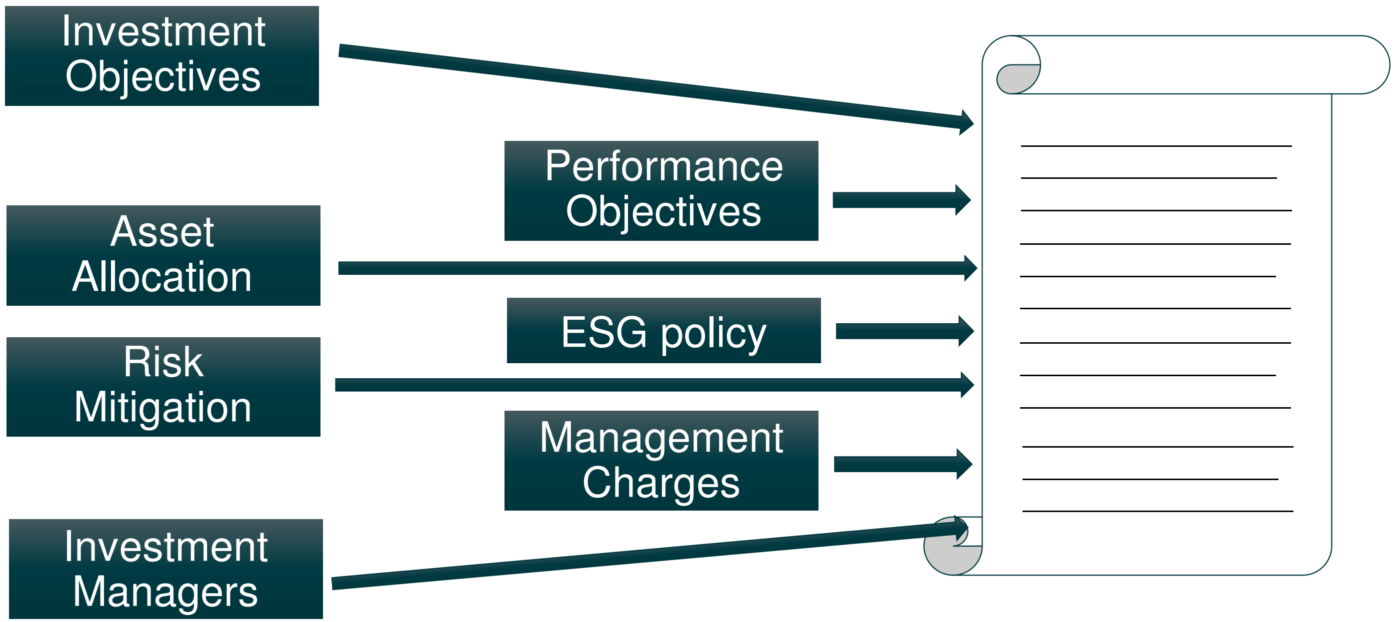
- Costs should be understood, and put in context of benefits of new strategy
- Assess level of out of market risk (varies by manager)
- Check any legal documents required
  - *Includes investment management agreements and pre-investment indemnities*
  - *Seek legal advice if any doubts*
- Signatory requirements
- Consider if regular disinvestment arrangements are in force

- Don’t forget Additional Voluntary Contributions

4 Statement of Investment Principles

Statement of Investment Principles – Contents

To document the new investment strategy



Record details of any DC default strategies and self-select options as well

Statement of Investment Principles – Updates

- Update the Statement of Investment Principles if:
  - Strategy has been changed
  - Manager or fund has changed
  - Status of the scheme has changed
  - Employer covenant assessment has changed
  - Regulations have changed requiring additional disclosures

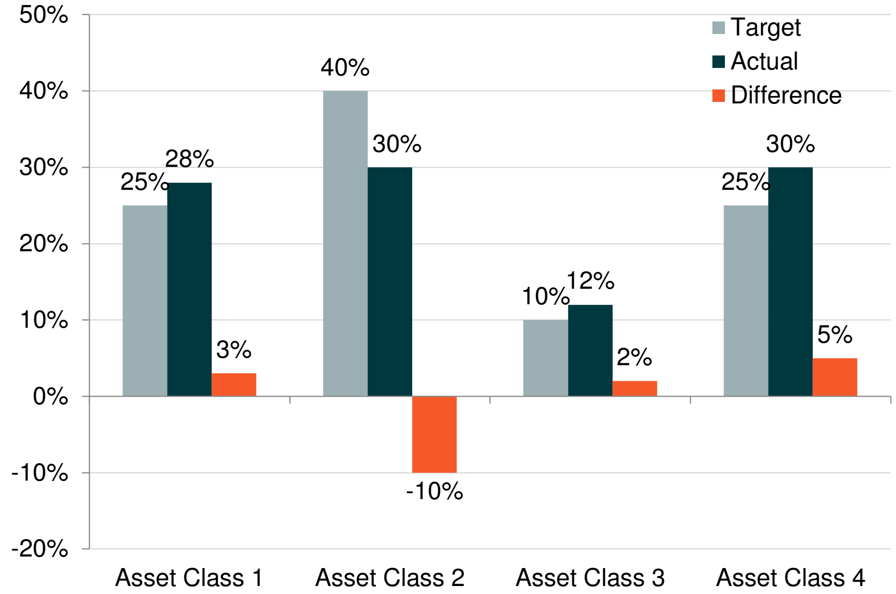
- Best practice is to re-issue a new Statement of Investment Principles where no changes have occurred every three years

5

Ongoing Monitoring

Asset Allocation Rebalancing

- Are deviations material?
- Consider any costs in rebalancing
- Is the allocation automatically rebalanced by the manager?
- Is there a Liability Driven Investment strategy in place – deviations in liability hedge ratio?
- Rebalancing is generally desirable to maintain strategic objectives and can add value over time.



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Performance Measurement

Benchmarks – yardsticks for assessing performance

- Peer Group benchmarks
- Index benchmarks – e.g. FTSE All Share Index
- Absolute Return benchmarks – e.g. RPI + 5.0% per annum
  - Typically ‘cash +’ or ‘inflation +’ objectives

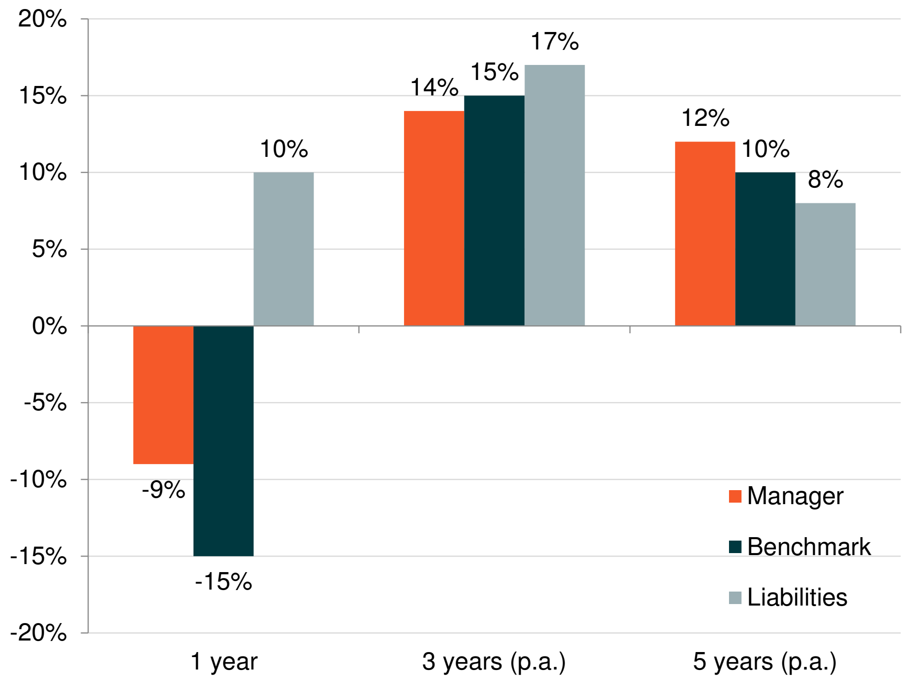
- Liability benchmarks – the most important measure of comparison

Performance Measurement

- Gross or net of fees?
- Outperformance required?
- Index or peer group benchmark?
- Period of assessment?

Attribution factors:

- Asset allocation
- Sector or stock selection
- Currency movements
- Change of manager



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Performance Review

- Must be a continual process (but not short-term)
- Always refer back to objectives, strategy, and employer covenant
- Ensure the strategy, managers, and performance targets continue to meet your objectives
- Ensure you get sufficient, clear information
- Be prepared to challenge manager views and decisions
- Don’t be afraid to change arrangements and managers
- Consider if performance will ‘mean revert’
- Has the manager performed badly but for the right reasons?

Actions from Review

When would you expect to replace your manager?

- When it has not met its objectives over a longer period
- When it has failed to explain its failure
- When you have given it a chance to improve but it still failed
- When you no longer have confidence and believe that it can add value
- After a significant change of process or key personnel
- When the manager's product no longer fits in with your strategic plan

6 Questions?

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