



*Performance Matters*

## The decision dilemma: DIY or outsource?

**Paul Kemmer**

# Today

- Introduction
- The ages of modern pension investment
- Where we are today
- Models of delegation
- Why delegate

# The first age

<b>Period</b>	Pre-90s
<b>Seminal event</b>	Scottish Widows pooled investment vehicle in '68
<b>Performance measure</b>	Backward looking median
<b>Strategy</b>	Balanced mandate to beat the median

## Trustees' Responsibilities

Financial Reporting

Manager Selection

Financial Objectives



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# The second age

<b>Period</b>	90s – 2000
<b>Seminal event</b>	Mirror Group Pension collapse First Gulf War
<b>Performance measure</b>	Weighted Market Basket
<b>Strategy</b>	Equity / Bond split ALM studies

## Trustees' Responsibilities

Financial Accounts

Statement of Investment Principles

Minimum Funding Requirement

Asset Allocation

Asset Liability Modelling

Financial Reporting

Manager Selection

Financial Objectives



# The third age

<b>Period</b>	2000 - 2007
<b>Seminal event</b>	Dot-com bubble bursts in 2000
<b>Performance measure</b>	Absolute return benchmark
<b>Strategy</b>	Diversify Hedge

## Trustees' Responsibilities

Myner's principles on objectives

Liability Hedging

Greater Diversification

Financial Accounts

Statement of Investment Principles

Minimum Funding Requirement

Asset Allocation

Asset Liability Modelling

Financial Reporting

Manager Selection

Financial Objectives



# The fourth age

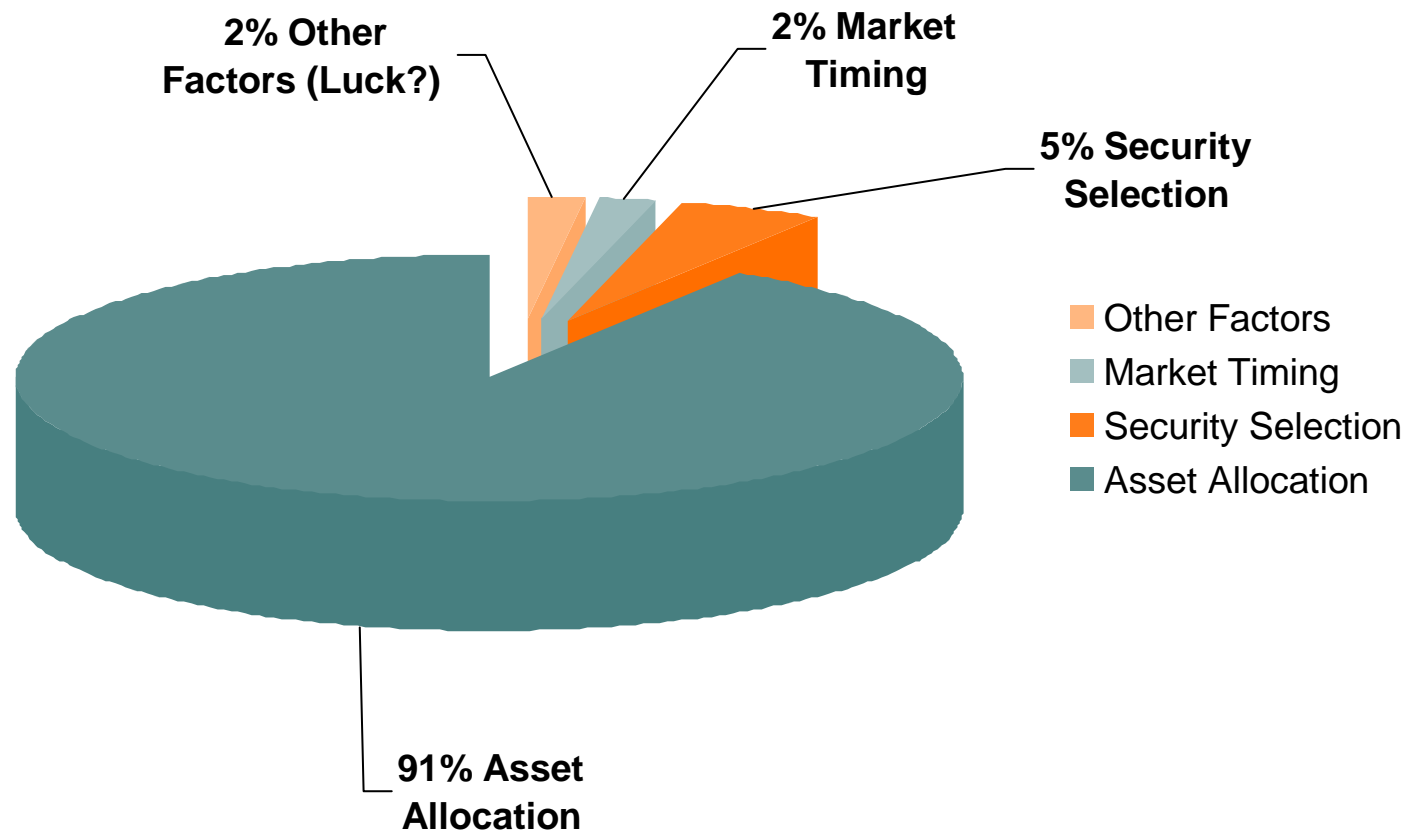
<b>Period</b>	2007 - today
<b>Seminal event</b>	Credit Crisis Markets crash
<b>Performance measure</b>	Absolute return benchmark
<b>Strategy</b>	Diversify Hedge Rotate

## Trustees' Responsibilities

- Asset Rotation
- Myner's principles on objectives
- Liability Hedging
- Greater Diversification
- Financial Accounts
- Statement of Investment Principles
- Minimum Funding Requirement
- Asset Allocation
- Asset Liability Modelling
- Financial Reporting
- Manager Selection
- Financial Objectives



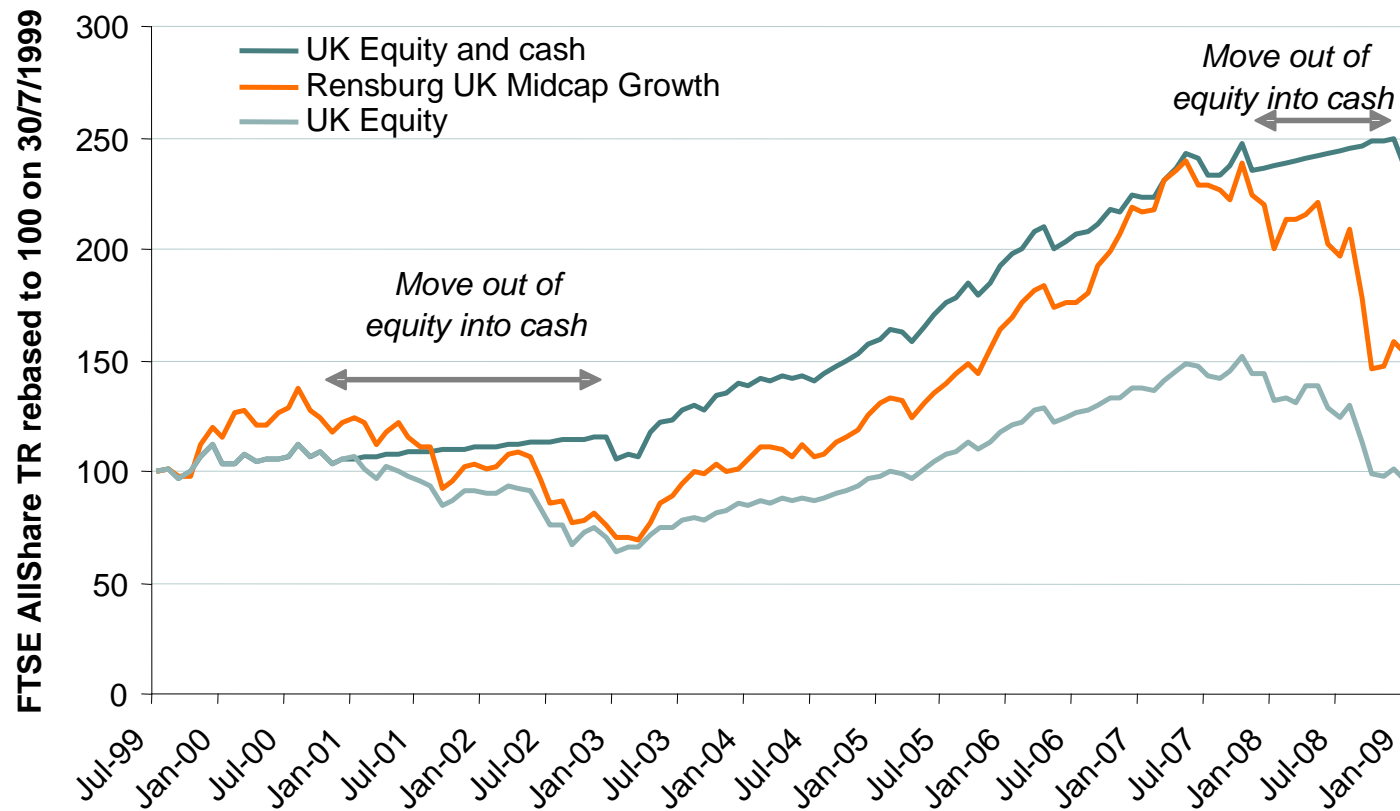
# Importance of getting the strategy right



**Source:** Ibbotson Associates et al, 2000

# Be out of the market, rather than buy the best stocks...

Avoiding the bottom of the market greatly increases returns



Source: Bloomberg

## Where we are today

- Diversify
- Hedge
- Rotate

# Cutting through the fog

Fiduciary Management

Solvency Management

Outsourced CIO

Implemented  
Consulting

Delegated Consulting

# Investment Decisions

Financial  
Objectives

Manager  
Selection

Asset  
Allocation

Liability  
Hedging

Fund  
Selection

Investment  
Strategy

Level of  
Liability  
Hedging

Custodian  
Selection

Asset  
Rotation

Counterparty  
Selection

Security  
Selection

Alternatives



# Why delegate?

Factor	Need
<b>Time</b>	Trustees bodies are stretched for time to manage complexity Decision delay
<b>Expertise</b>	Specialist skills and expertise
<b>Performance</b>	Drive performance between trustee meetings
<b>Risk</b>	Enhance risk management
<b>Governance</b>	Strengthen scheme governance
<b>Sponsor</b>	Coordination of views between trustees and sponsor

# Governance in the world of delegation

- How to govern the fiduciary manager?
- What is success?
- What benchmark to use?
- Use auditors or third party consultants
- Independent trustees can reinforce oversight capabilities
- Myners: delegate where you lack the skills, information or resources

## Delegation going forward

- Demonstrate added value *after* fees
- Flexible design to suit *your* needs
- Performance matters

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