
The Approach to Future Liability Management

Thursday, 7 September 2017

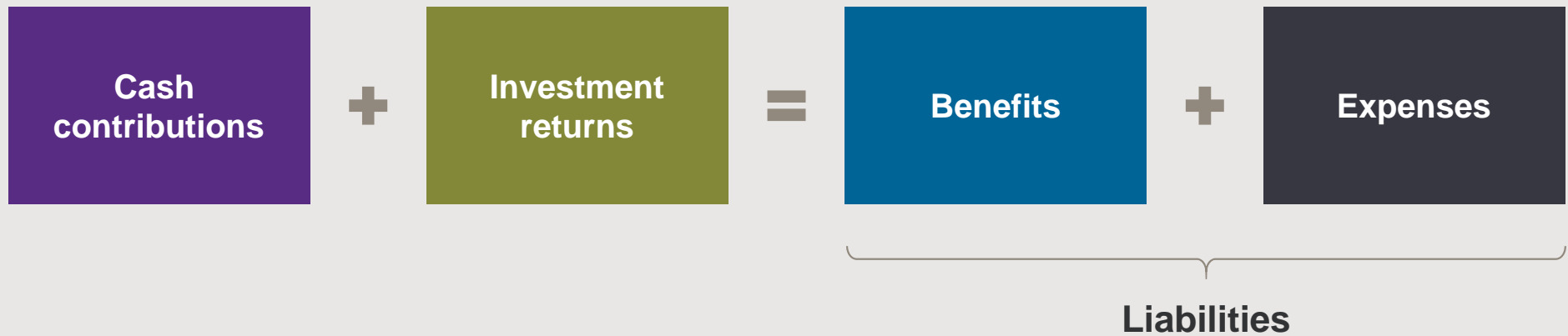
Sorca Kelly-Scholte, Head of EMEA Pensions Solutions & Advisory

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J.P.Morgan
Asset Management

Two sources of funds to pay the benefits

The Pension Equation



Source: J.P. Morgan Asset Management, for illustrative purposes only.

Two opposing perspectives on pension investment

Funding-led philosophy versus a collateral-led philosophy

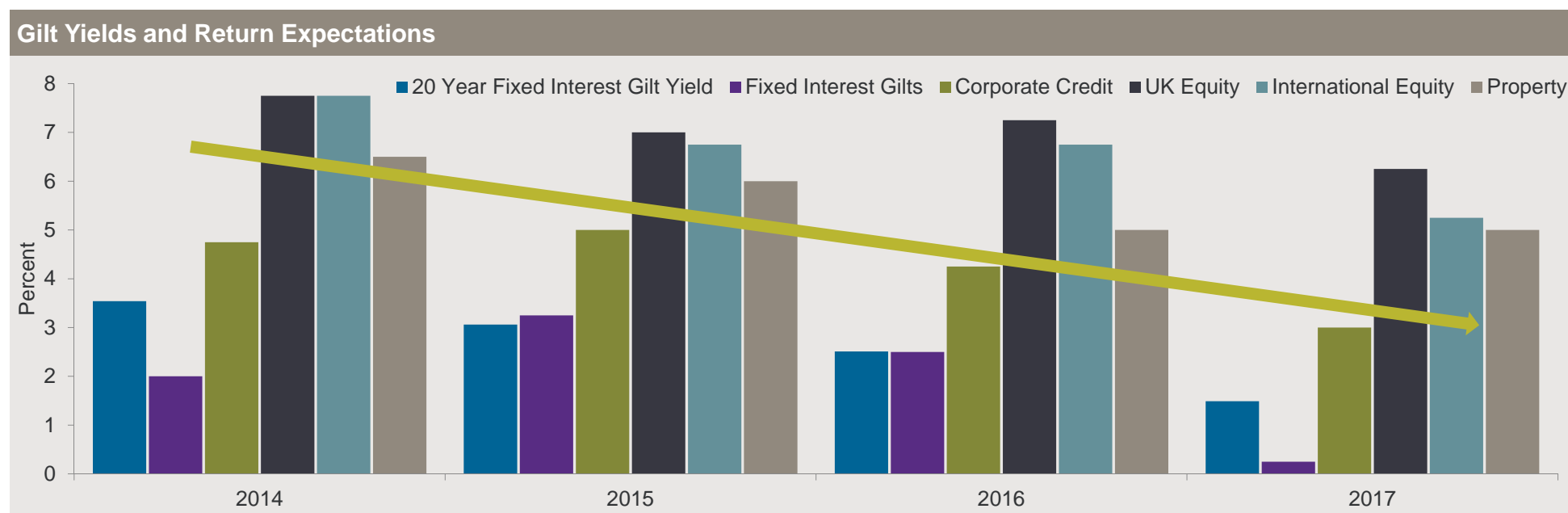
Asset returns
**fund the
promised
benefits**

Compromise?

Assets are
**collateral
against
guaranteed
liabilities**

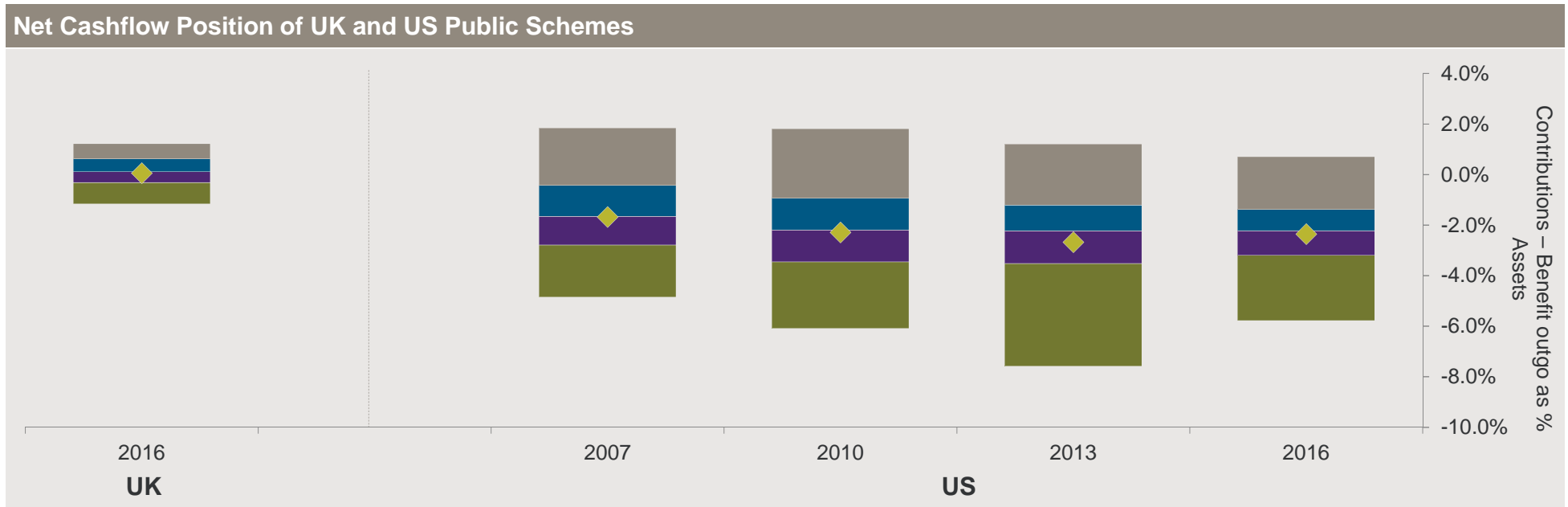
Source: J.P. Morgan Asset Management. For illustrative purposes only.

Return expectations have been falling steadily



Source: J.P. Morgan Asset Management, Bank of England. Expected returns from J.P.Morgan Asset Management Long-Term Capital Markets Assumptions for 2014, 2015, 2016 and 2017 respectively, effective as of 30 September of the prior year in each case. For illustrative purposes only.

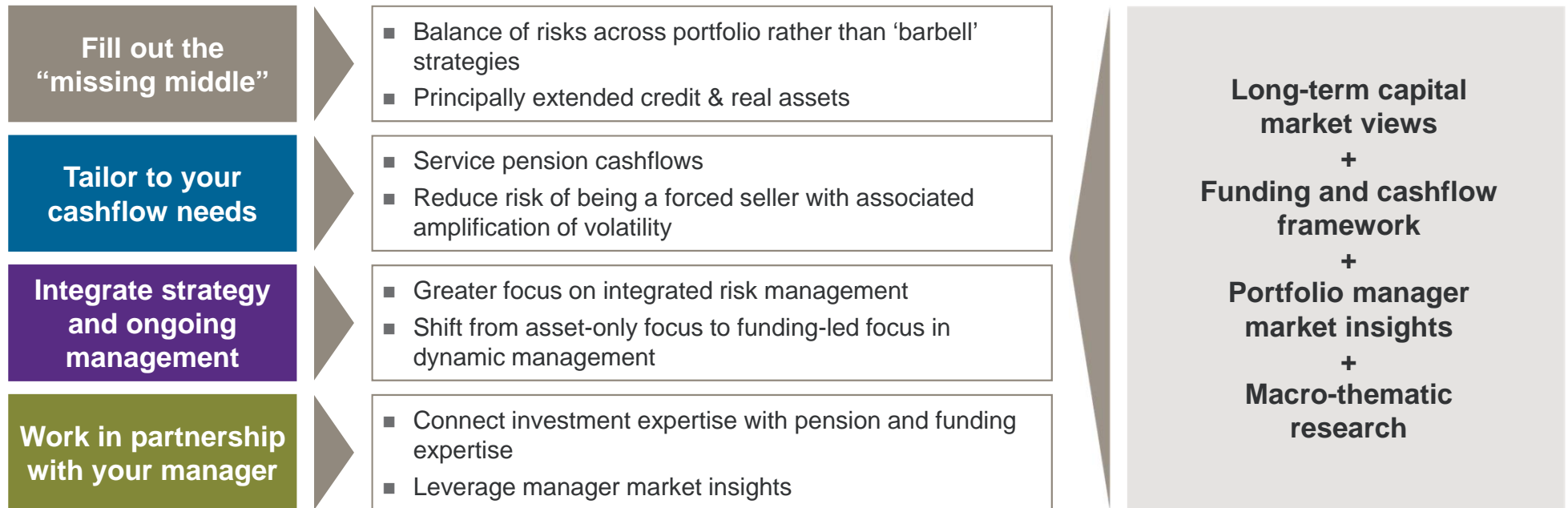
Managing cashflow is increasingly important



Source:
 UK Data - J.P. Morgan Asset Management and Department for Communities and Local Government.
 US Data - J.P. Morgan Asset Management and Public Plans Data (www.publicplansdata.org)

Funding-led investment

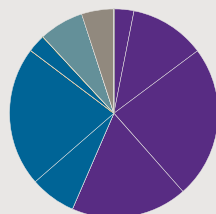
Rebuilding funding levels, servicing cashflows



Filling out the ‘missing middle’

Representative Pension Plan

Current Portfolio



Asset Allocation:

- Core bonds	57%
- Equities	32%
- Extended Credit	-
- Hedge Funds	7%
- Real assets	5%

Expected total return 3.6%

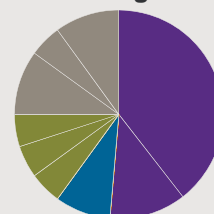
Expected surplus return 2.7%

Expected surplus volatility 9.1%

Surplus VaR95* -11.4%

Surplus Sharpe ratio 40%

Risk Reducing Portfolio



51%
9%
15%
-
25%

Expected total return 3.6%

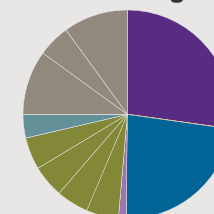
Expected surplus return 2.7%

Expected surplus volatility 6.4%

Surplus VaR95* -7.0%

Surplus Sharpe ratio 56%

Return Enhancing Portfolio



27%
24%
20%
4%
25%

Expected total return 5.3%

Expected surplus return 4.4%

Expected surplus volatility 9.1%

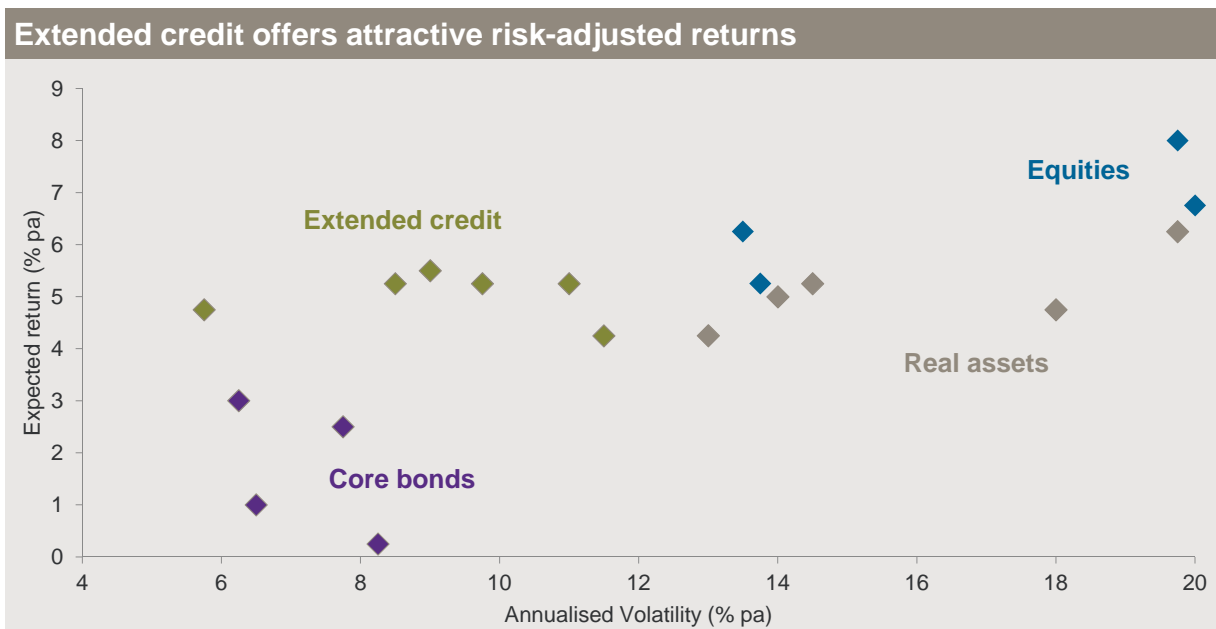
Surplus VaR95* -9.7%

Surplus Sharpe ratio 58%

Source: J.P. Morgan Asset Management as of August 30, 2017 based on Long-Term Capital Markets Assumptions 2017. The opinions and views expressed here are those held by the author at the date of publication which are subject to change and are not to be taken as or construed as investment advice. Forecasts, projections and other forward looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated. Expected returns are arithmetic returns. Surplus VaR95 is measured as the return that 5th percentile of the surplus return distribution assuming returns follow a normal distribution. This means that the portfolio will generate a surplus return less than the Surplus VaR95 return in 5% of outcomes. Surplus Sharpe is measured as the Surplus Return divided by Surplus Volatility. The Representative Portfolio comprises 3% Cash, 12% Gilts, 24% Index-Linked Gilts, 18% Global Investment Grade Corporate Bonds, 7% UK Equity, 22% International Equity, 3% Private Equity, 7% Hedge Funds, 5% Property.

Every unit of risk has to be paid for

Yield and stability **are** increasingly valuable for cashflow negative investors



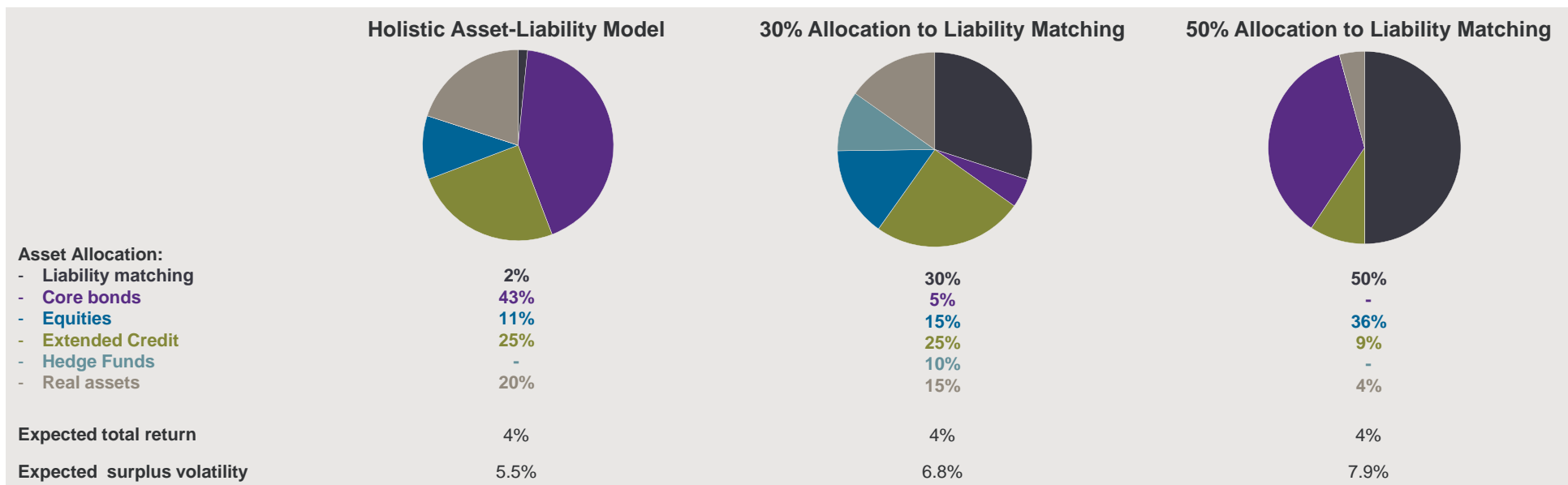
Real assets offer sustainable yield

	Sharpe Ratio	Current Yield
Euro Aggregate	0.21	0.48%
US Investment Grade*	0.35	3.07%
Europe High Yield	0.42	1.97%
US High Yield	0.53	4.19%
EMD – Sovereign	0.47	4.11%
US Direct Real Estate	0.19	4.5-5.0%
Global Infrastructure	0.25	5.5-6.0%
World Equity	0.37	2.47%

Note: This is a projection used for illustrative purposes only and does not represent investment in any particular vehicle. References to future returns are not promises or even estimates of actual returns you may experience. Past performance is no guarantee of future results. It is not possible to invest directly in an index. Return and risk expectations based on J.P. Morgan Assets Management Long-term Capital Markets Assumptions 2016, denominated in Euros. Source: J.P. Morgan Asset Management. US Direct Real Estate and Global Infrastructure Current Yields are J.P. Morgan Asset Management estimates. Fixed Income yields are estimates based on representative indices sourced from Barclay's Point. Euro Agg = Euro Aggregate, US Investment Grade = US Credit Corp, Europe High Yield = Euro High Yield B or better, US High Yield = US High Yield 2% Cap BB, EMD – Sovereign = EM Hard Currency Aggregate. World equity current yield is the current dividend yield for the MSCI world index (Bloomberg Ticker: MXWO). Yield is not guaranteed and may change over time. Yield data as of August 30, 2017 obtained from Barclay's Point. *USD Yield.

Integrate strategy and ongoing management

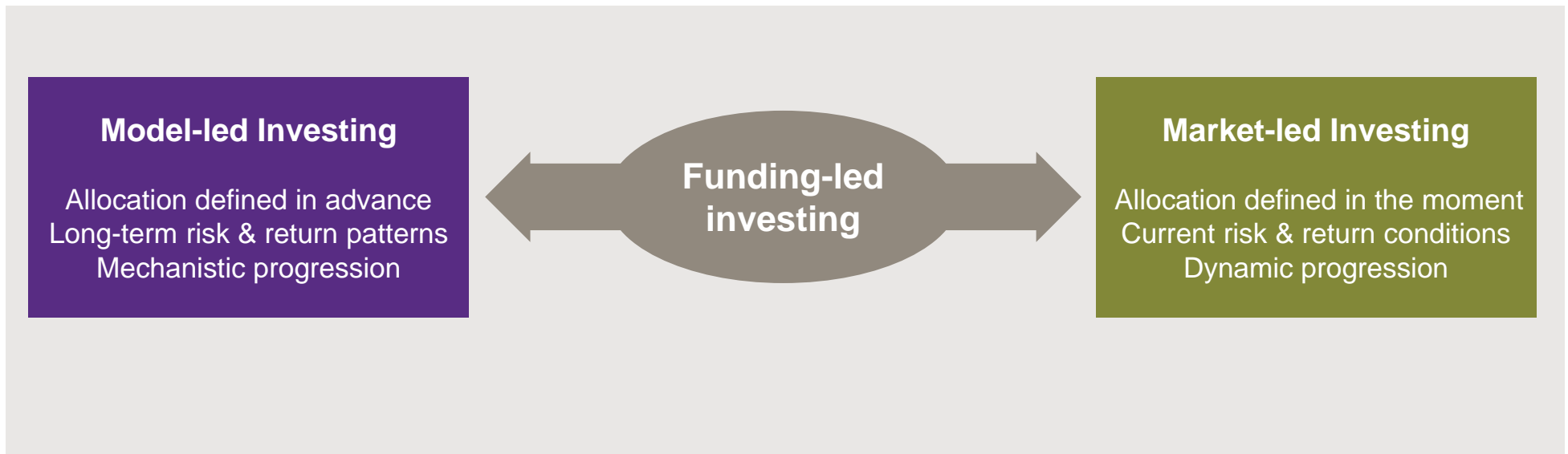
Holistic Asset-Liability Management versus “Liability Matching + Growth”



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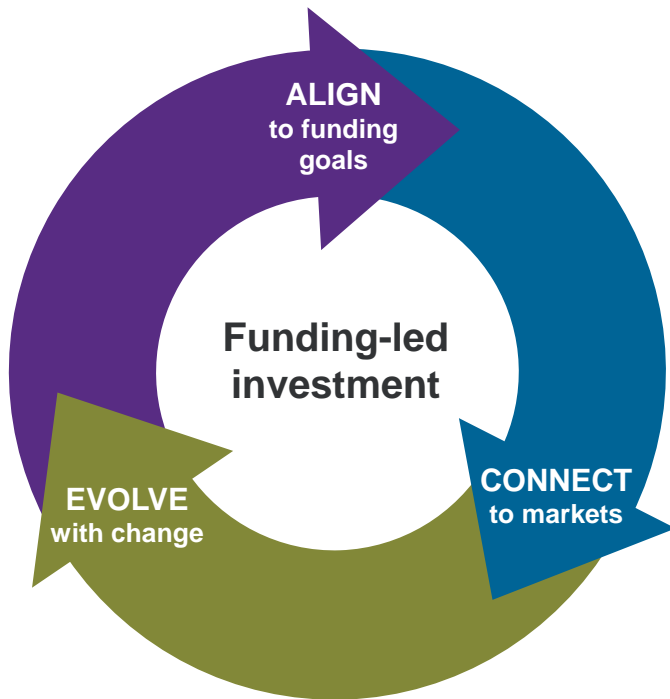
Capturing market perspectives within a strategic funding-led framework

Combining Model-Led and Market-Led Perspectives



Source: J.P. Morgan Asset Management. For illustrative purposes only.

Funding-led investment: a holistic approach



Align

- to funding goals
- to cashflow needs
- to investor preferences

Connect

- to current return opportunities
- to current risk conditions
- to current supply/demand dynamics

Evolve

- as the fund's needs evolve
- as markets evolve
- as beliefs change

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