

The 2nd European Colloquia

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How Pioneer Investments is Reacting to These Challenges

**Economic
Research**



**Product
Development**

Understand the Complexities of the Challenge

Pioneer Investments' Proprietary Research Programmes

- In association with leading minds in the field
- Creating original databases and analyses

Macroeconomic Trends in Savings and Wealth

- Joint Project with OECD since 2001,
- Factors underlying growth of financial assets and the main components in various countries

Microeconomic Behavioural Studies

- With UniCredit and in Partnership with Central Banks since 2003
- Investor attitudes and behaviour towards savings and risk taking. Defining investor clusters according to socio demographic variables (input from J. Stiglitz)

The Theory of Risk factors in Financial Portfolios

- Ways to optimize portfolio choice over time
- Developed an ALM Model with Cambridge

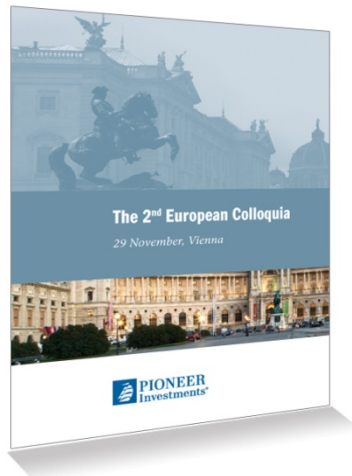
Sharing Our Understanding, Driving the Debate



Trend in Savings and Wealth

www.savingsandwealth.com

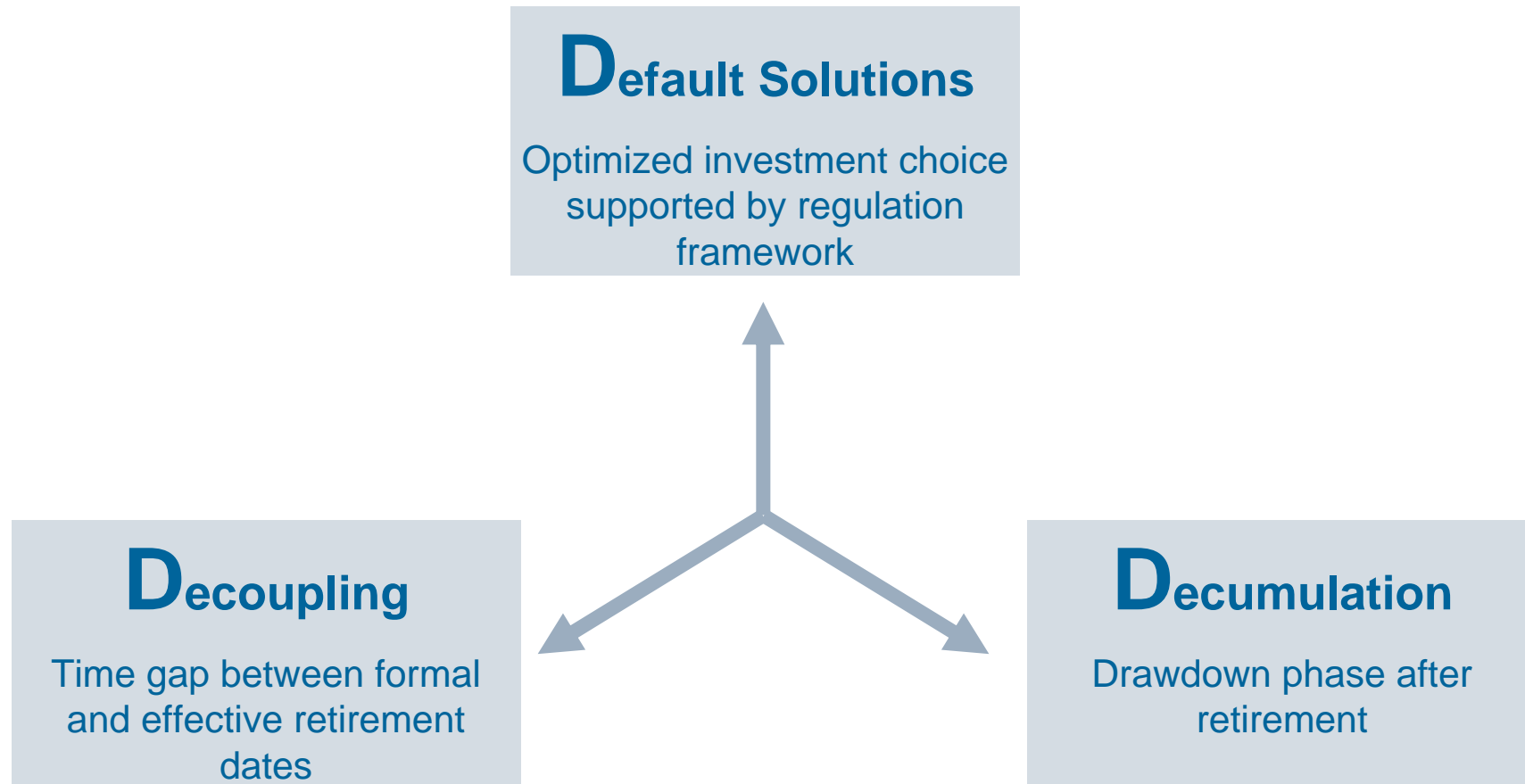
- Deep resource of research and reference material, including
- Pioneer Investments Proprietary Research
- Contributions from Partner academics and independent researchers
- Available to relevant professionals through simple registration process



The European Colloquia

- The showcase for the work we have been inspiring
- A forum for informed debate
- Helping our clients and business partners understand the challenges and future strategic options

Product Development on Long Term Solutions: The 3D Contextual Framework



2 Key Steps to Provide Multiple Default Solution

Know your clients

- Analyze **different factors** that drive individual choices
- Need for efficient **client mapping by risk tolerance**
- Reduce complexity by **building clusters of clients** to identify common patterns

Understand the environment

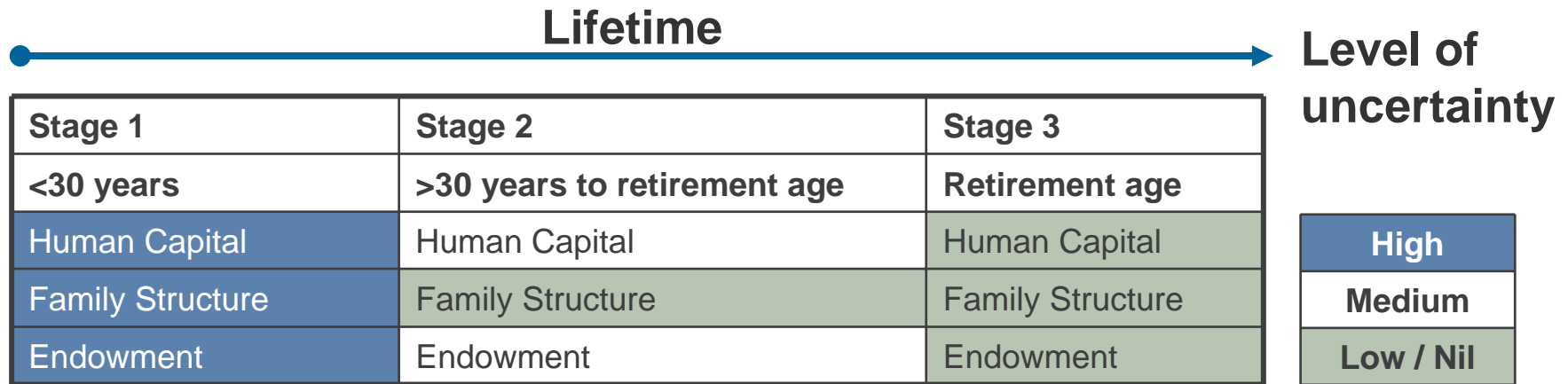
- **Analyse trends** through statistical and fundamental tools
- **Identify more probable scenarios**
- Build sophisticated models to **simulate the macro scenario**



Meeting the majority of client profiles in a multiple aggregated solution: clustering

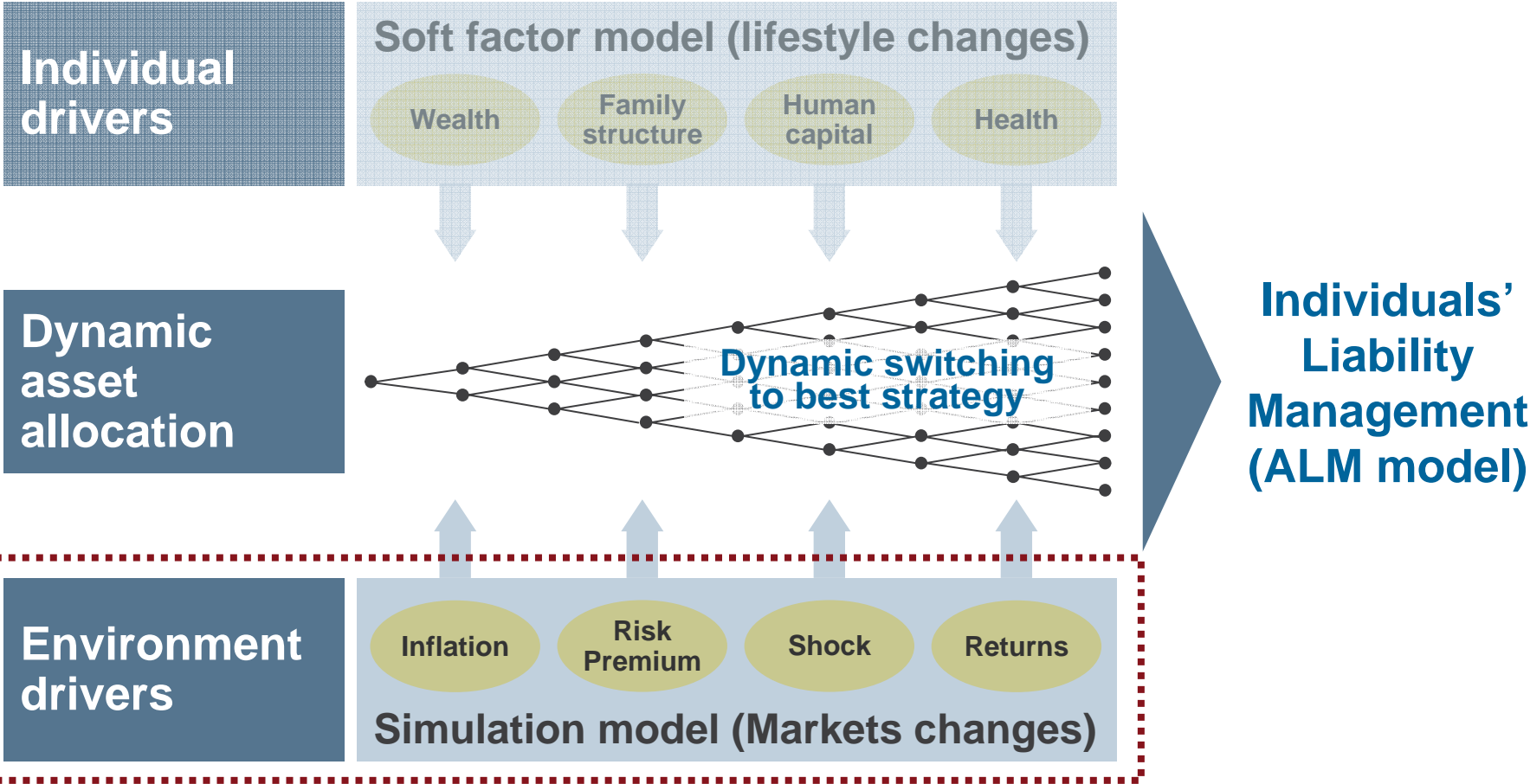
Know Your Clients: Understand the Factors That Drive Decisions

- **Not only age** but: family structure, human capital, starting level of wealth, ownership of a house, ...
- **Risk tolerance reflects uncertainty** in different stages of life



These factors change over time for individuals at a different pace and should be taken into account to build efficient default solutions

Understand the Environment: Dynamic Switch to Best Strategy



Combining Accumulation and Decumulation to create an effective ALM Solution

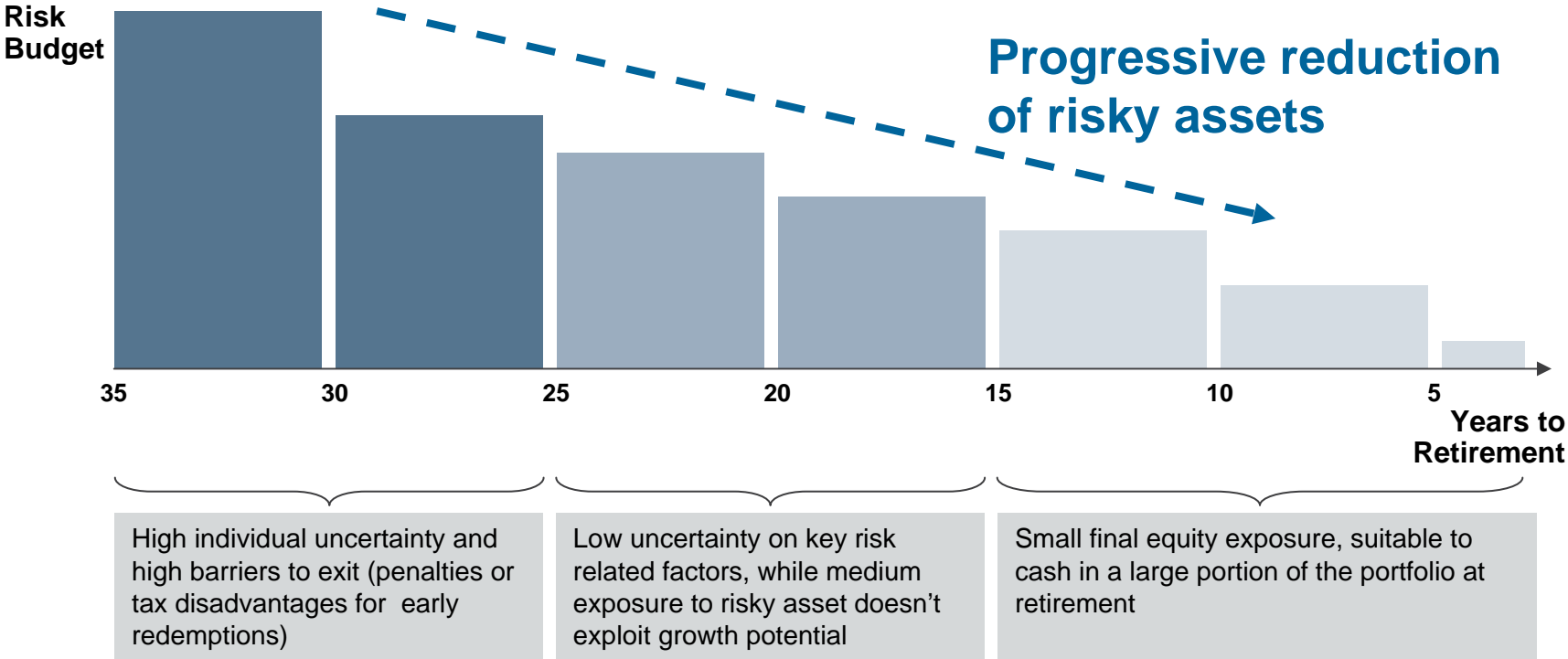
- **Lifetime approach** to incorporate individuals' risk aversion in every stage of life
- **Decumulation phase as important** as accumulation
- The possible **decumulation solutions depend on accumulation patterns** in a single financial solution, without separating accumulation and decumulation phase
- Implies a **higher advisory need for the client near the formal retirement date** to reconfirm decumulation planning



Ingredients to build our recommended Default Solutions

The Limits of the Traditional Accumulation Models

- Decreasing exposure to risky assets approaching the retirement date
- Tend to allocate risk where the uncertainty related to the individual factors is higher

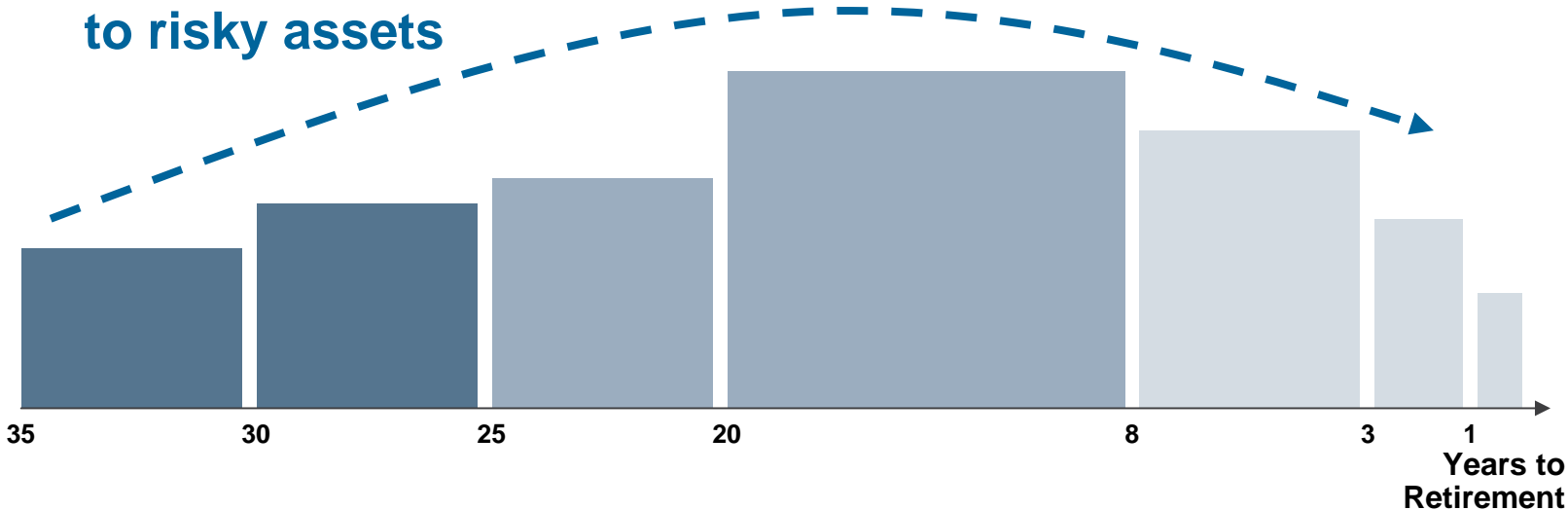


The Hump-Shaped Accumulation Path Incorporates the Individual Factors

Analysing real trends shows risk should be less during times of uncertainty and greater approaching retirement

Risk Budget

Lifecycle based exposure to risky assets



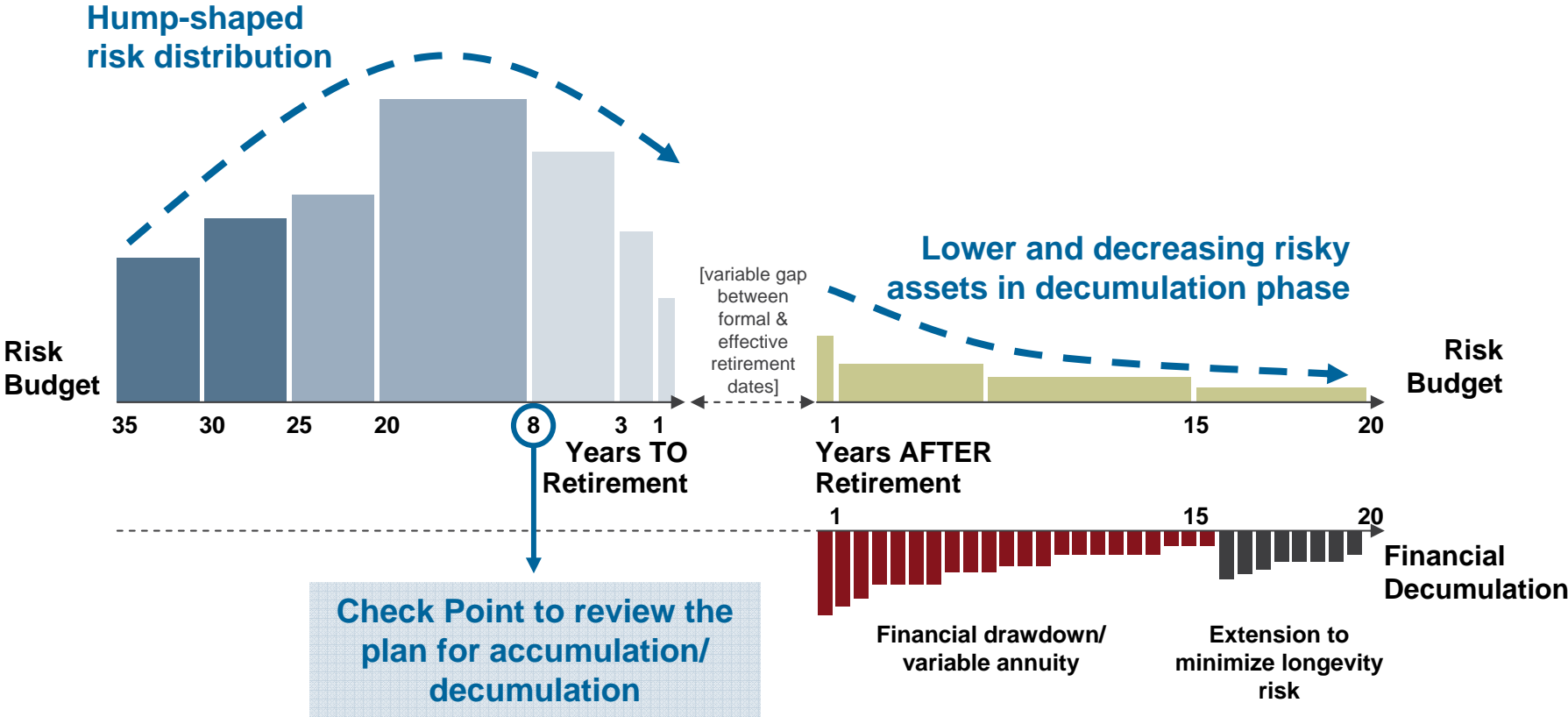
Lower initial risk budget reflects greater uncertainty due to individual factors

Low Uncertainty on key risk related factors.

Higher risk budget at retirement allows active management of decumulation phase

Integrated Accumulation/Decumulation Default Solutions

Accumulation Decoupling Decumulation




Commercial Application of an Integrated Accumulation/Decumulation Model

- **The approach** to designing a default solution **may be extended to both the second and third pillars**
- It can be implemented as a **Pension Scheme** built around a **“Default Solutions”** structure
- It can be implemented as a **“Target-Dated”** family of funds with **variable risk profiles**
- The product solution should incorporate complexity but be **presented to client in a simple and transparent way**

Conclusion

- Long term savings decisions for individuals are among the most important they face and **default solutions are recommended**
- **The asset manager has a key role** in developing a model that takes into account all macroeconomic, sector specific and individual factors
- The change in path of the **risk components** during the **accumulation phase is not linear**
- An effective default solution needs to **integrate accumulation and decumulation patterns** taking into account individual specifics
- Despite the complexity of the models, **the commercial solution should be simple and transparent for the client**

A nautical chart with various depth contours, soundings, and navigational symbols. The chart is rendered in shades of blue and white. The text is overlaid on the chart.

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