

Linking ALM Engines with Investors Clusters

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Big Mismatch between supply & demand side for Retirement Solutions

Main requirements on the demand side

- Consider individual goals. Assess total net wealth (Net Home Equity, Financial & Retirement Wealth)
- Consider different present value of future social security benefits across countries
- Deploy Individual 'glide path' (at least at cluster level) targeting substitution rate
- Offer simplicity of access at member level
- Maintain simplicity of manufacturing to keep overall cost low
- Deliver insightful individual information and transparent communication



Customization -:- Flexibility -:- Transparency

Big Mismatch between supply & demand side

Current solutions and offerings

The current supply side of the market is not fully prepared for the challenges and the opportunities arising. This is particularly true for default investors which is by far the biggest cohort: default members typically are in excess of 90% of Scheme (universal)

- Standardised solutions with undifferentiated risk profiles
- Limited choices. Missing link with substitution rate
- Default members are usually offered fixed weight products (or lifecycle at best)
- “One-size-fits-all” products do not by definition meet member goals
- Lack of transparency ...and often returns below expectation



Standardization -:- Rigidity -:- Poor Communication

Big Mismatch between supply & demand side

The case of Target Date funds

Halos

- **Big Flows** (more than 250 bln/\$ since 2007)
- **Simplicity** – you chose the date we take care of all the rest
- **Automation** – dynamic reallocation from equity to fixed income with age
- **Diversification** – well spread exposure to multiple markets and asset classes

Horns

- **Risk Control weakness** – lack of risk alignment of TD funds vs members' expectations
- **Performance issue** – very poor 2008 for 2010 TD funds with an average of -23% (peak at -41%) driven by an equity allocation from 26% to as much as 72%
- **High Fees** – overall TER for members extremely high (with the exception of passive managers)
- **Not Transparent** – equity/bond allocation at each point in time is not clearly communicated. Lack of simulation of expected wealth distribution
- **Partial perspective** – focus on accumulation phase but provide no solution for post retirement
- **Usually Mono-brand solutions** – conflict of interests

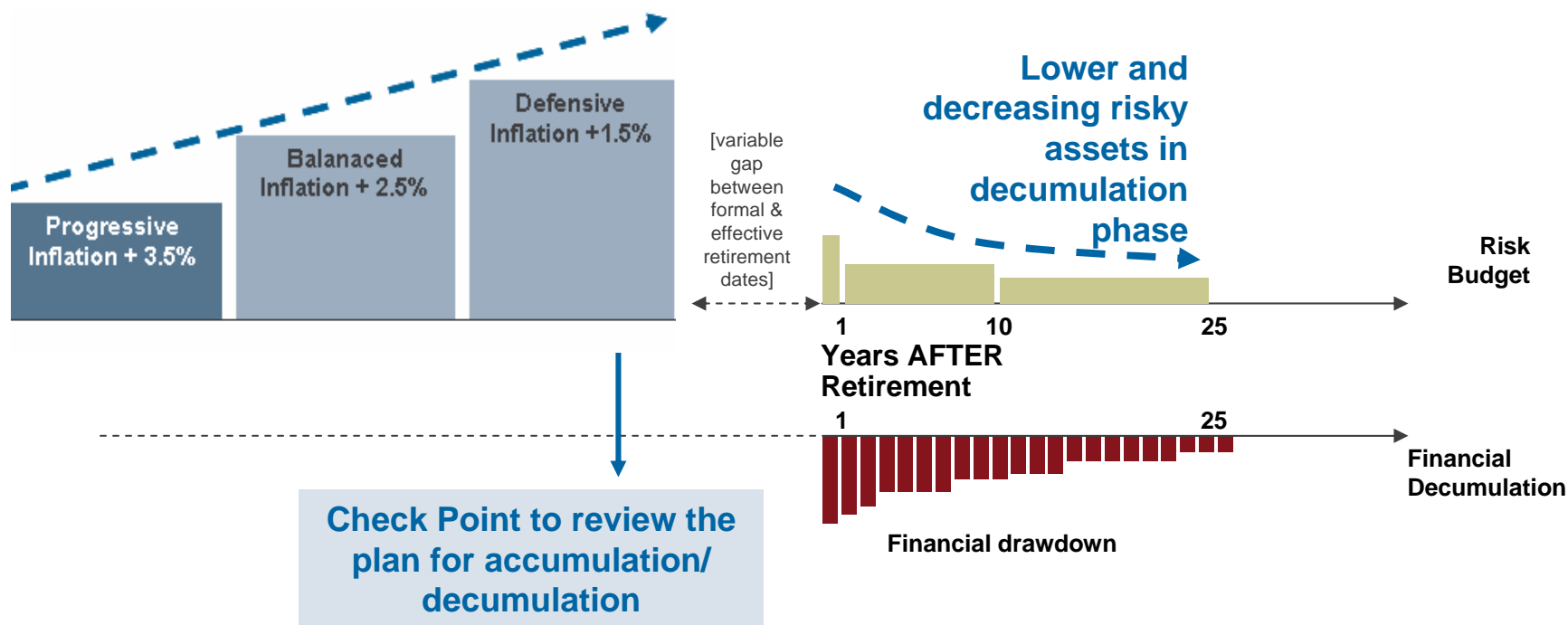
Individual (Cluster) Asset Allocation

Integrated Accumulation/Decumulation Default Solutions

Accumulation

Decoupling

Decumulation



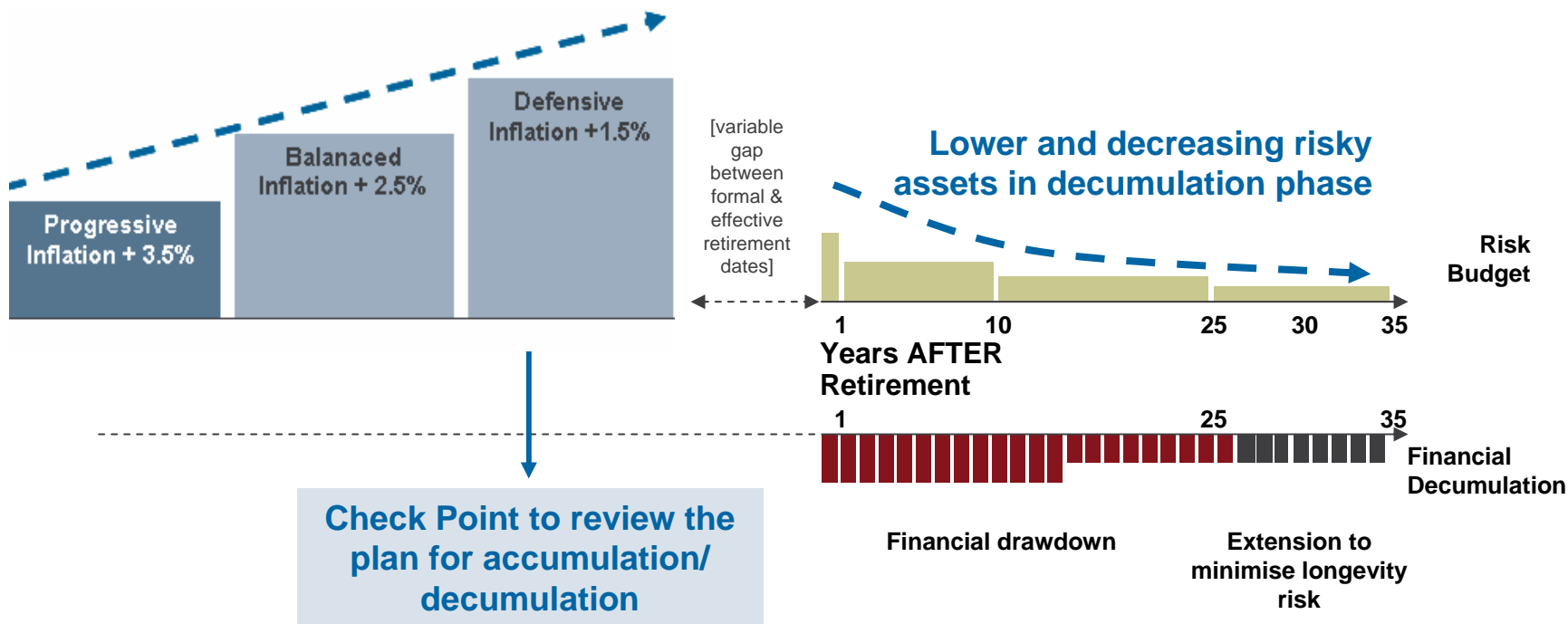
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Accumulation

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Decumulation



Thoughts

- Long-term savings decisions for individuals are among the most important they face and **default solutions, aiming to preserve the standard of leaving, should become the standard**
- An effective default solution needs to **integrate accumulation and decumulation patterns** taking into account individual specifics
- The **collaboration and partnership with all the players in the process is critical** to gather information and to tailor the product
- Despite the complexity of the models, **the commercial solution should be simple and transparent for the client**