

Pension scheme investment governance

A toolkit for success

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14 June 2018



Agenda for today

How do you achieve success?

1

Delegation and
accountability

2

Know where your
risks lie

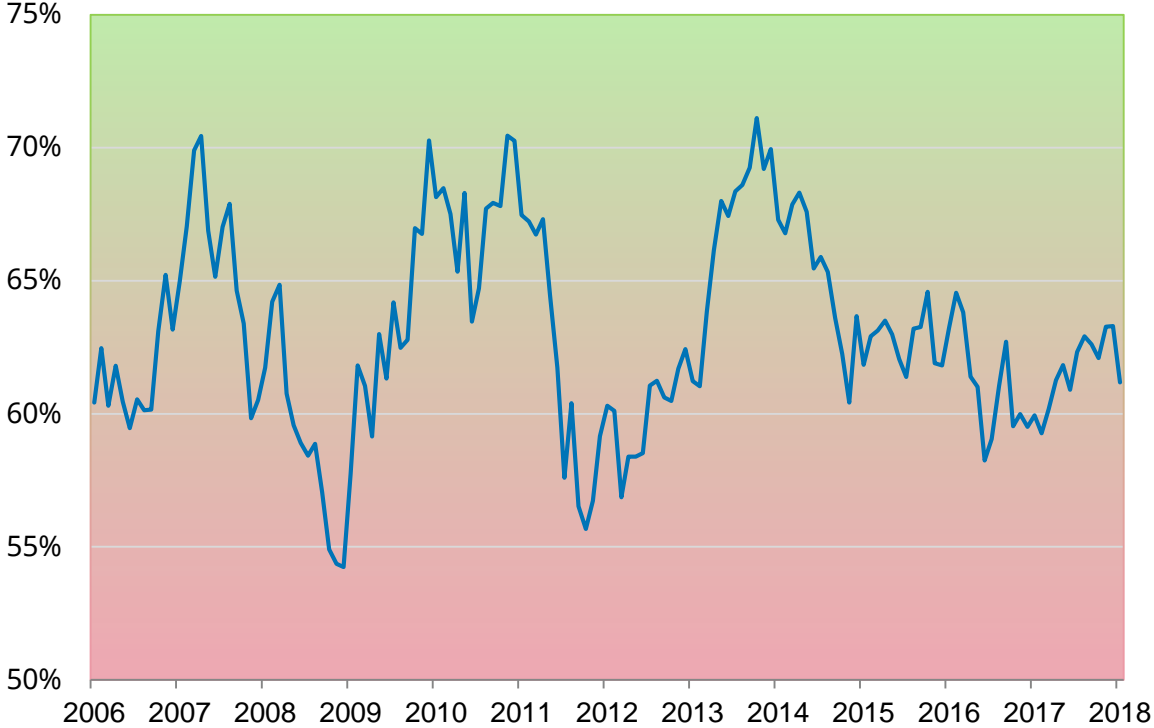
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Use the right
tools for the job

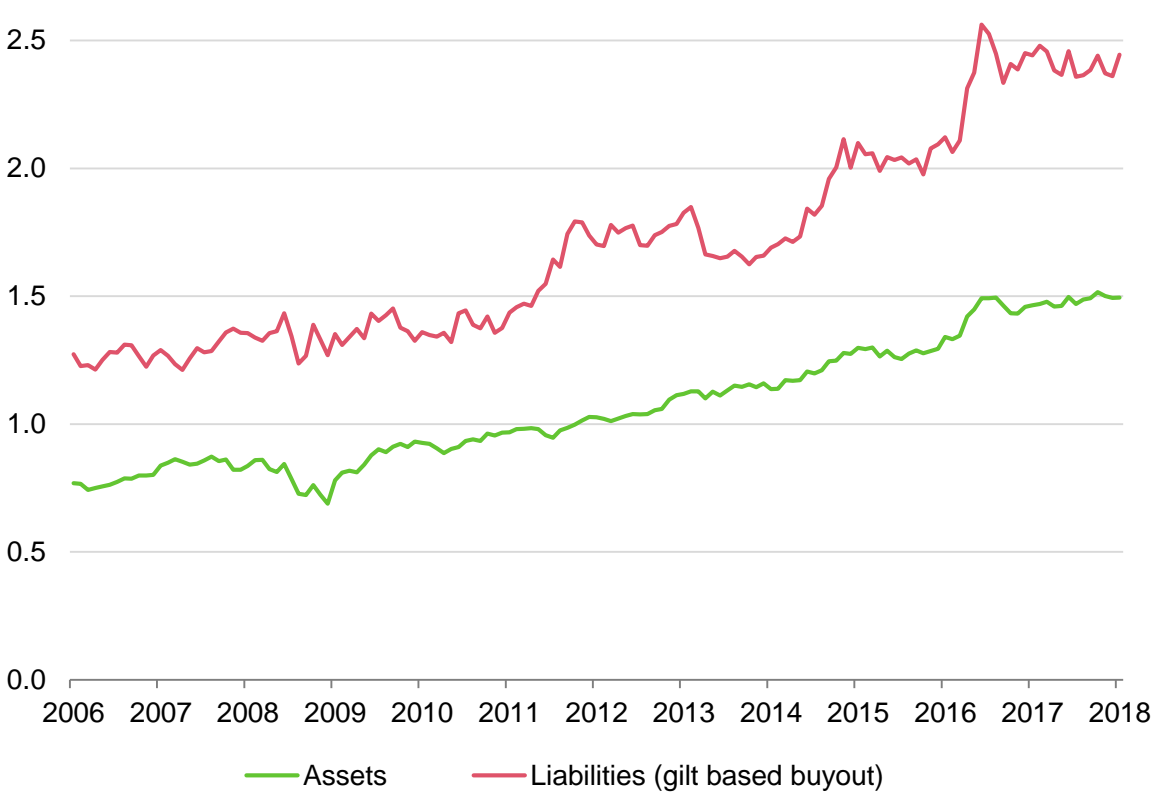
Where are we today?

A funding gap persists

Average funding level¹



Liability growth outpaces assets



Source: The Purple Book 2017 published by the Pension Regulator, Schroders' calculations. As at 30 March 2018. For illustration purposes only. ¹Funding level based on liabilities valued on a gilts basis.

1. Delegation and accountability

Trustees can choose which activities to delegate



1. Delegation and accountability

How can delegation help?



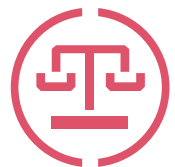
Increased **focus** on the decisions that **matter most**



Higher **expertise** in investment **decision-making**



Greater **speed** of **implementation**



Better **risk management** and **planning** for the future

1. Delegation and accountability

Who is accountable for what decision?

Discover and translate

Decision/activity	Trustee	Implementer	Overseer
Funding objective	Owner	Advisor	
Time horizon	Owner	Advisor	
Risk tolerance (over time)	Owner	Advisor	
'Flight path' framework	Owner	Advisor	
Liability coverage	Owner	Advisor	

Implement

Decision/activity	Trustee	Implementer	Overseer
Manage total portfolio risk	Overseer	Owner	
Manage growth portfolio	Overseer	Owner	
Manage matching portfolio	Overseer	Owner	
Implementation methodology	Overseer	Owner	
Manager selection/deselection	Overseer	Owner	

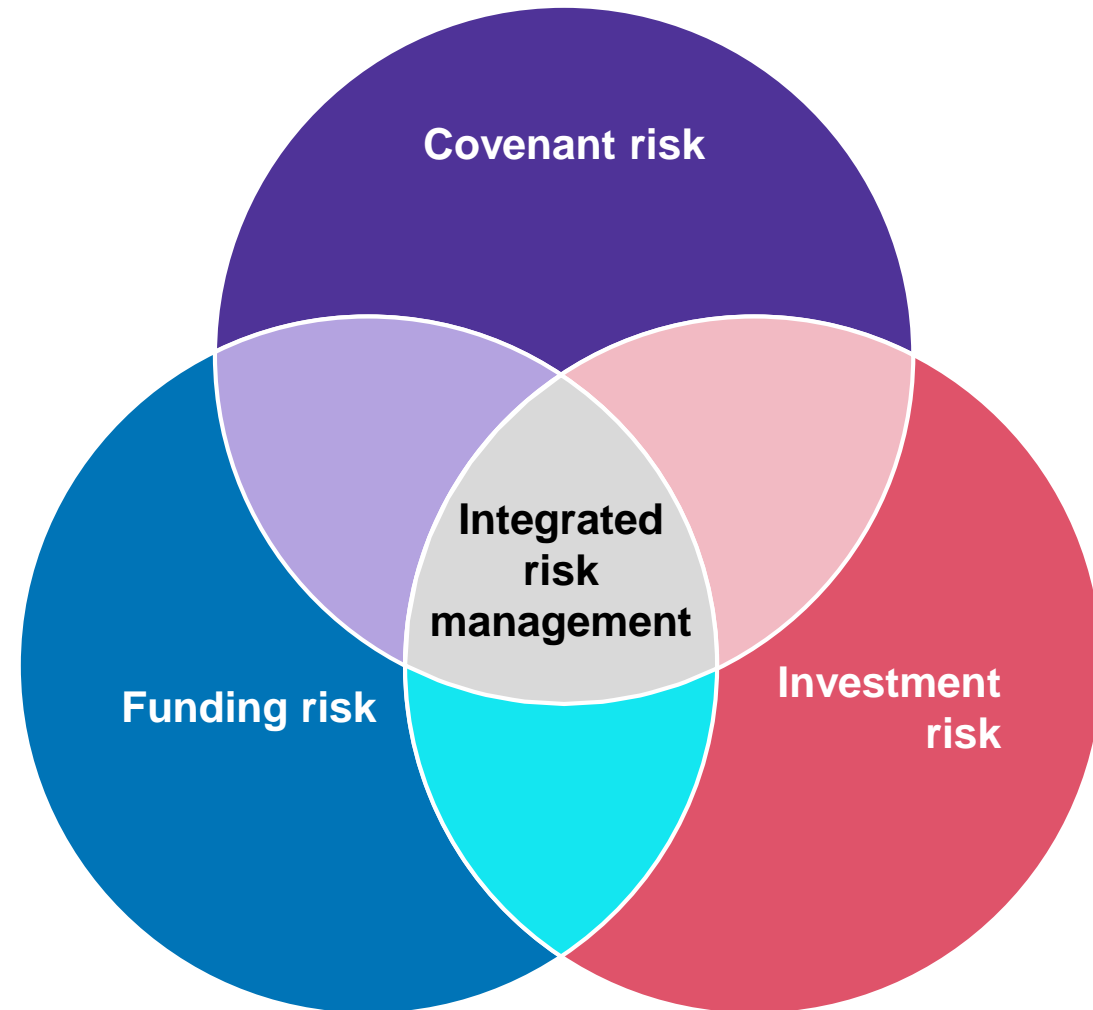
Review and adapt

Decision/activity	Trustee	Implementer	Overseer
Funding level reporting	Overseer	Owner	Overseer
Review of suitability of flight path	Overseer	Owner	Overseer

2. Know where your risks lie

Integrated Risk Management

“Covenant, funding and investment decisions interact... a material change to one affects the other two¹”

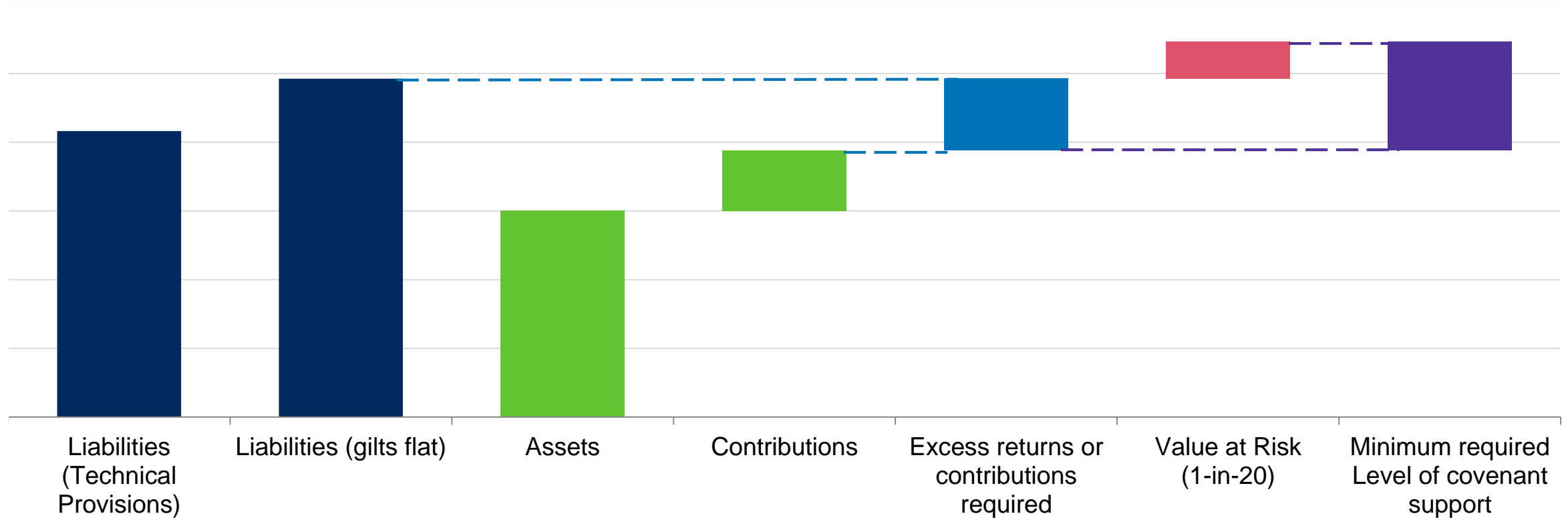


¹Source: The Pensions Regulator Code of Practice July 2014.

2. Know where your risks lie

The IRM equation

$$\boxed{\text{Liabilities} - \text{Financing} = \text{Gap}} + \boxed{\text{Risk}} = \boxed{\text{Covenant}}$$



Source: Schroders. Example pension scheme for illustration only.

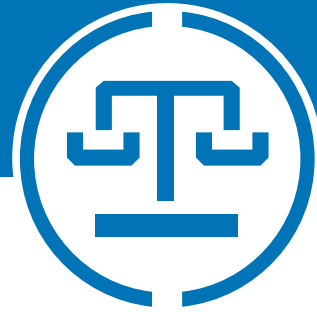
3. Use the right tools for the job

Three key components



Plan ahead with a well-defined long-term objective

Flight path
with pre-agreed
de-risking triggers



Manage your liability risks

Matching portfolio
tailored to your
liabilities

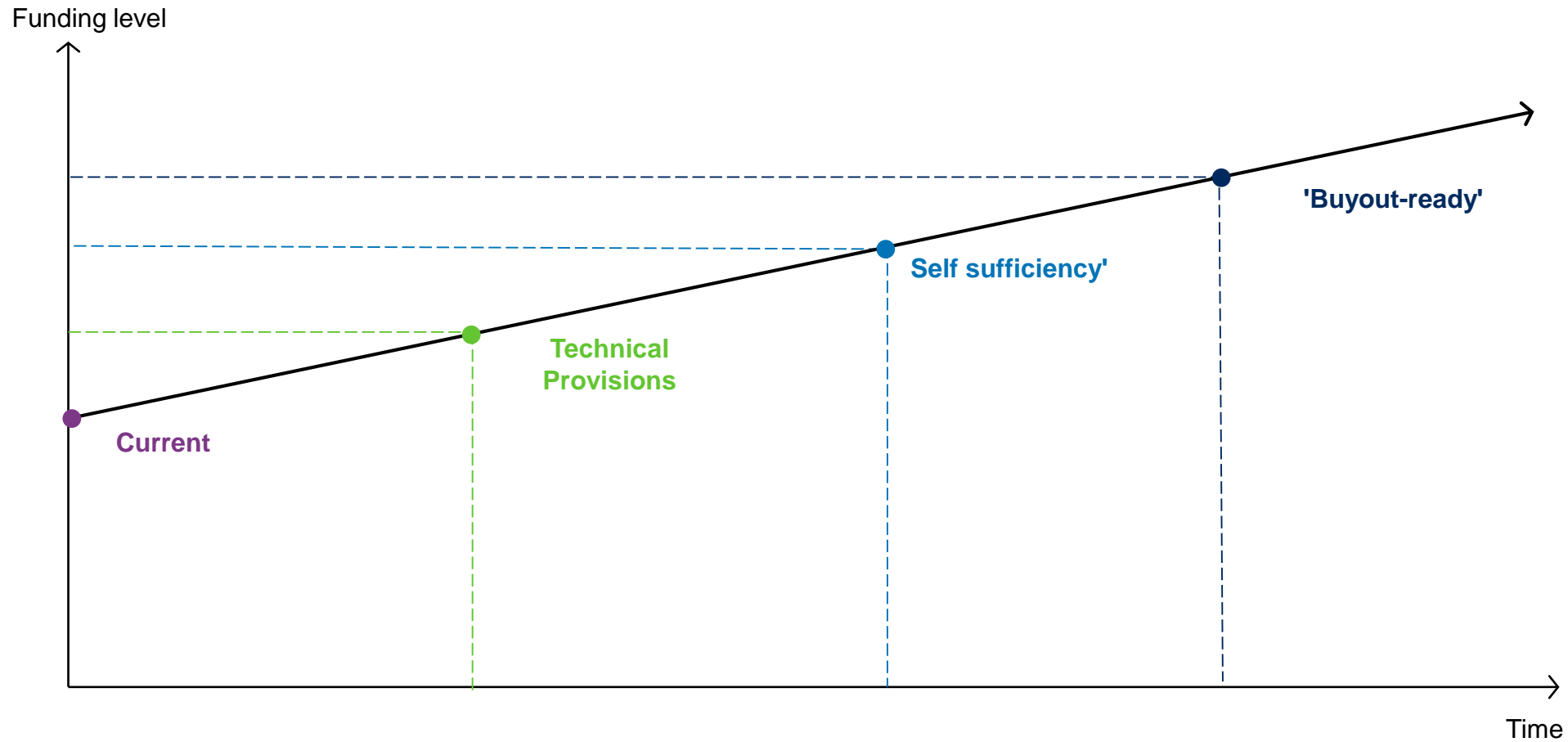


Growth portfolio returns to close the funding gap

Diversified portfolio
which evolves with
markets

3. Use the right tools for the job

Start with the end in mind

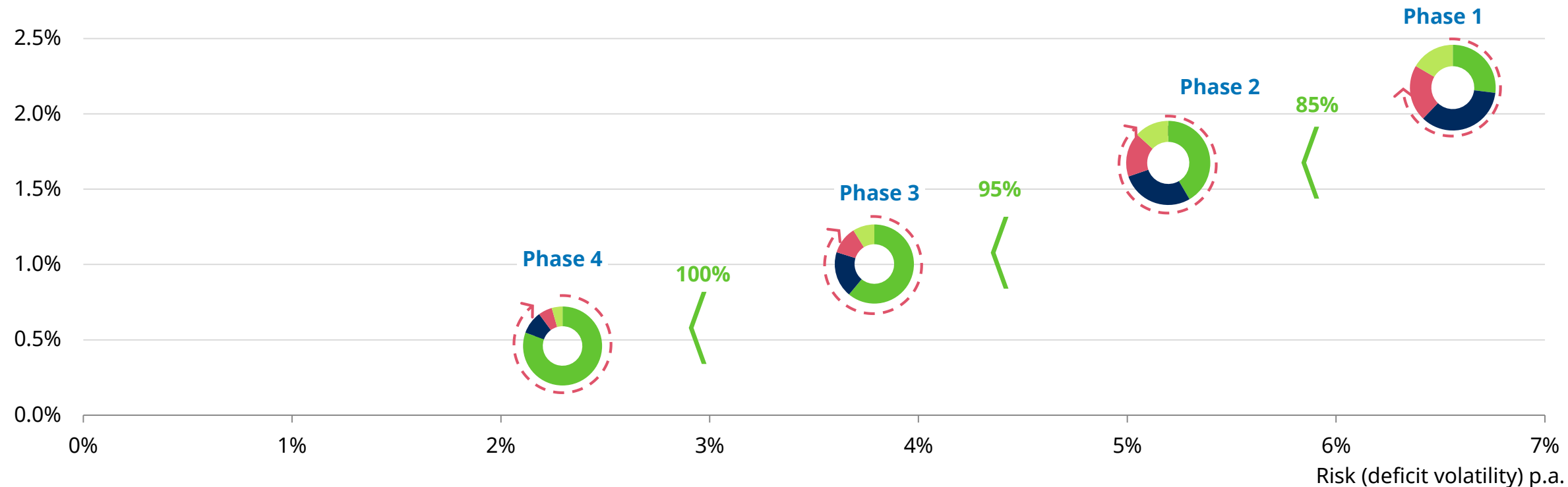


Source: Schroders. Example pension scheme for illustration only.

3. Use the right tools for the job

Capture opportunities along the way – 'Flight Path' de-risking

Expected return above liabilities¹ p.a. (net of fees)



{ De-risking trigger
 - - - Liability coverage
 ■ Equities
 ■ Alternatives
 ■ Credit and government bonds
 ■ Cash and matching portfolio

Source: Schroders. Example pension scheme for illustration only.

Pension scheme investment governance

Key takeaways

1

Delegation and
accountability

2

Know where your
risks lie

3

Use the right
tools for the job

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