

# Annual Conference 2011



## Implementing Tailor Made Solutions

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# Tailored Solutions

- Evolution of defensive assets
- Evolution of growth assets
- Building long term strategic growth asset allocations
- Understanding the Defined Contribution Pension Plan member
- Managing the Destination and the Journey

# Evolution of Fixed Income Range

## Growth in Fixed Income Assets

Growth in Fixed Income Assets	
2006	25.2% of all assets
2007	22.3% of all assets
2008	27% of all assets
2009	29.1% of DB assets
2010	33.8% of DB assets

Source IAPF Investment Survey

## Expansion of Defensive Assets

Expanding Fixed Income Range
Indexed > 10 Year AAA/AA EMU Government Bond Fund Indexed > 10 Year AAA EMU Government Bond Fund Indexed > 5 Year AAA EMU Government Bond Fund
Long Dated German Government Bond Fund Long Dated Dutch Government Bond Fund
Indexed Inflation Linked Bond Fund - All Maturity Indexed Long Inflation Linked Bond Fund Indexed 2040 Inflation Linked Bond Fund
Nominal Target Duration Fund - out to 2055
Indexed GDP Weighted Over 5yr EMU Government Bond Fund Indexed GDP Weighted Over 10yr EMU Government Bond Fund Indexed GDP Weighted Inflation-linked Bond Fund

# Evolution of Equity Allocation

- Country allocation based on single active manager view
- Country allocation based on consensus of Irish managers views
- Country allocation based on global index but with regional split amended to manage currency volatility
- Country allocation in line with global index with currency hedge – full or partial
- Long term strategic allocation to sub-sectors of the equity universe – small cap equities, emerging market equities

# Absolute Return Funds

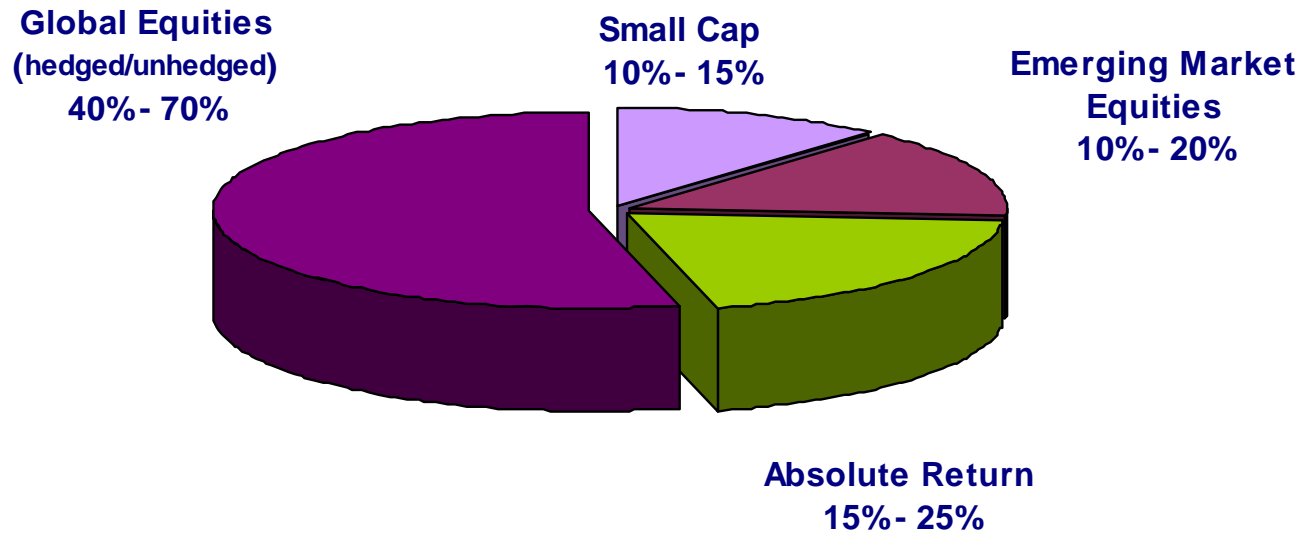
## The Challenges

- Ability to identify skilled managers
- Skill in selecting genuine alpha strategies
- Ability to monitor and understand performance drivers
- Ability to tactically allocate between strategies
- Due diligence/operational

## The Solutions

- Partnership with Aksia
- Remove systematic beta exposure
- Ongoing strategy & manager monitoring  
Ongoing manager research
- Proven skill in tactically allocating between strategies
- Significant resource and experience

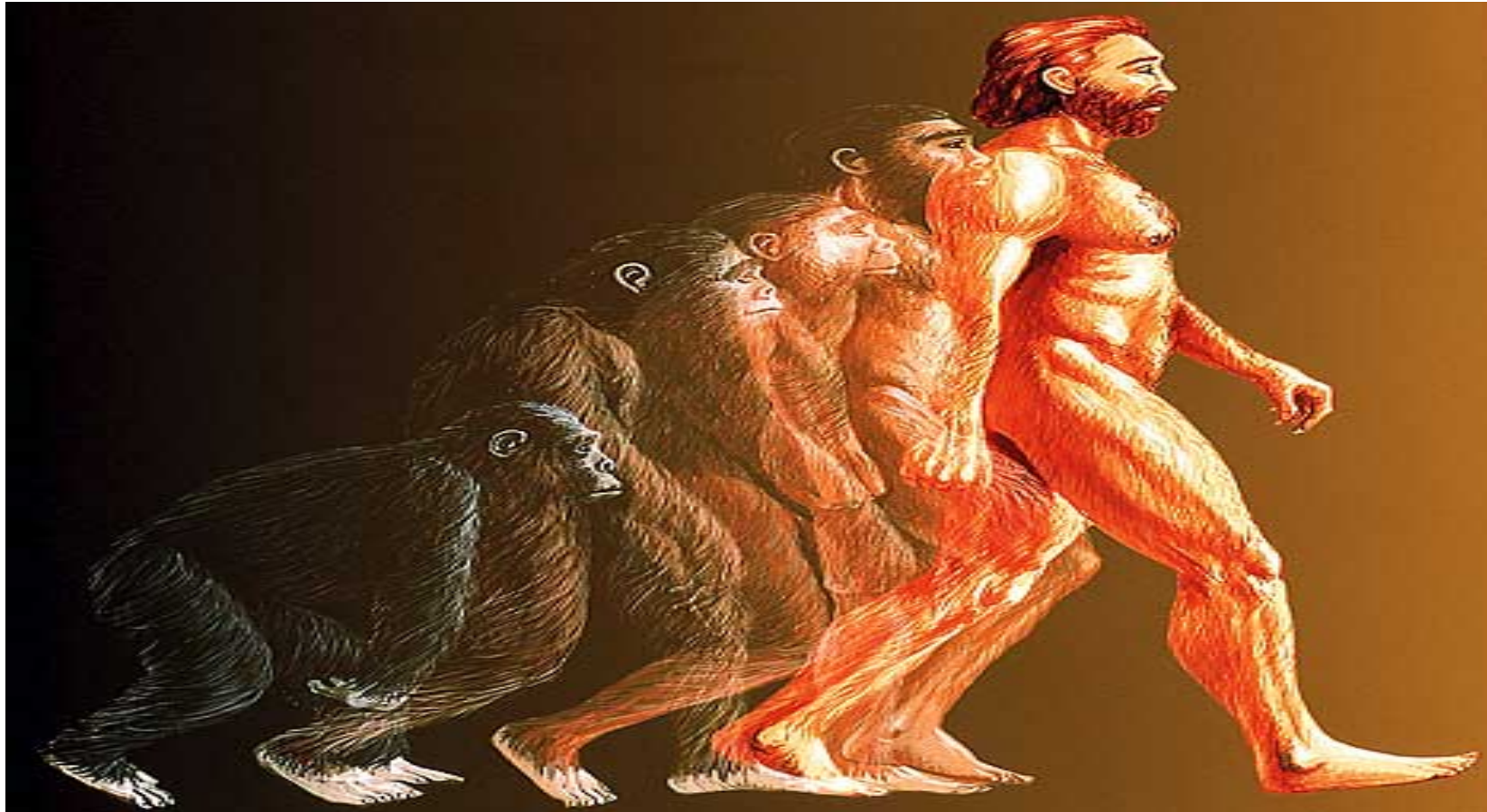
# Long Term Strategic Growth Asset Allocation



- |                              |   |
|------------------------------|---|
| <b>Volatility Management</b> | – Absolute Return                                   |
| <b>Equity expansion</b>      | – Emerging Markets Equities<br>– Small Cap Equities |
| <b>GDP Global Growth</b>     | – Global Equities                                   |

# Defined Contribution Overview

Has come a long way – but further to go ...



**Single Manager  
Active Managed Fund**

**Default Fund that removed  
Single Manager Risk  
Asset Allocation Risk  
Stock Selection Risk**

**Default  
Lifestyle Strategy**

# Defined Contribution Overview

- Defined Contribution Members – the last of the long term investors
- Behavioural Economics – greatest risk to adequacy of benefits
- Risk must be taken when appropriate – thus exposure to growth assets
- Risk must be reduced when appropriate – orderly and strategic way

# Managing the Destination

- Time is a natural smoother of volatility
- But.... members must not step off the journey
- Risk reduction can be strategically scheduled – via lifestyling
- Typical fund mix in the accumulation phase with a strategic Lifestyling strategy will deliver

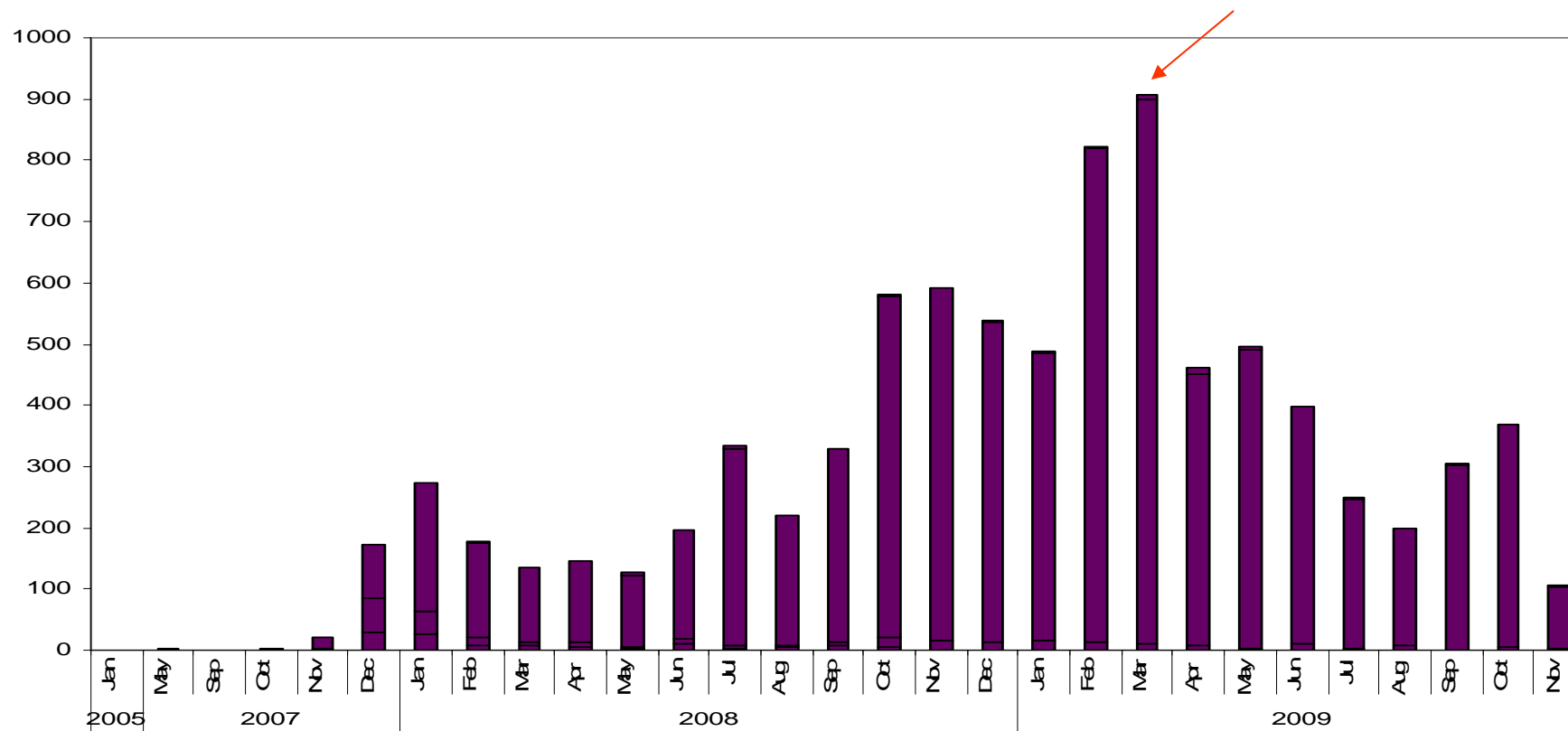
## **Example**

75% Growth Assets  
25% Defensive Assets

***However.....***

# For some it's not just about the destination

## Member activated switching activity



Source Irish Life Corporate Business

# Managing the Journey

- Recognise that risk appetite and time horizon (age) are not necessarily linked
- Behavioural economics explores the difference between 'savers' and 'investors'
- Research suggests that members evolve from one to the other
- How do we:-
  - Segment the membership
  - Monitor the behaviour
  - Ensure movement between segments
- Ultimately as part of the drive for retirement income adequacy:-
  - Risk is required
  - Risk must be desired and understood
  - Risk must be appropriate

***Is one default fund the solution.....***

# Member Engagement

- In excess of 80% of members are in the default fund/strategy
- Default strategy manages the risk from a benefit draw down perspective
- In general little consideration given to differing levels of risk appetite

**So**

- Trustees need to consider segmentation of the members

**Or/and**

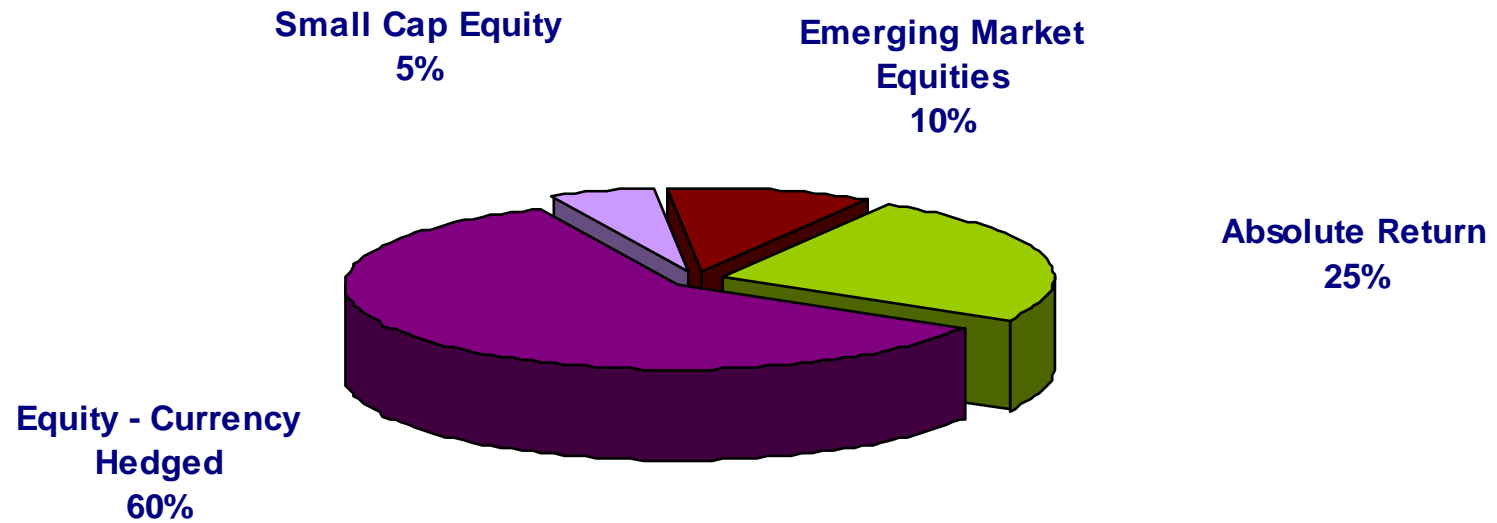
- Members need to engage on the subject of their risk appetite

**Then**

- Provide default funds/strategies that meet these risk tolerance levels



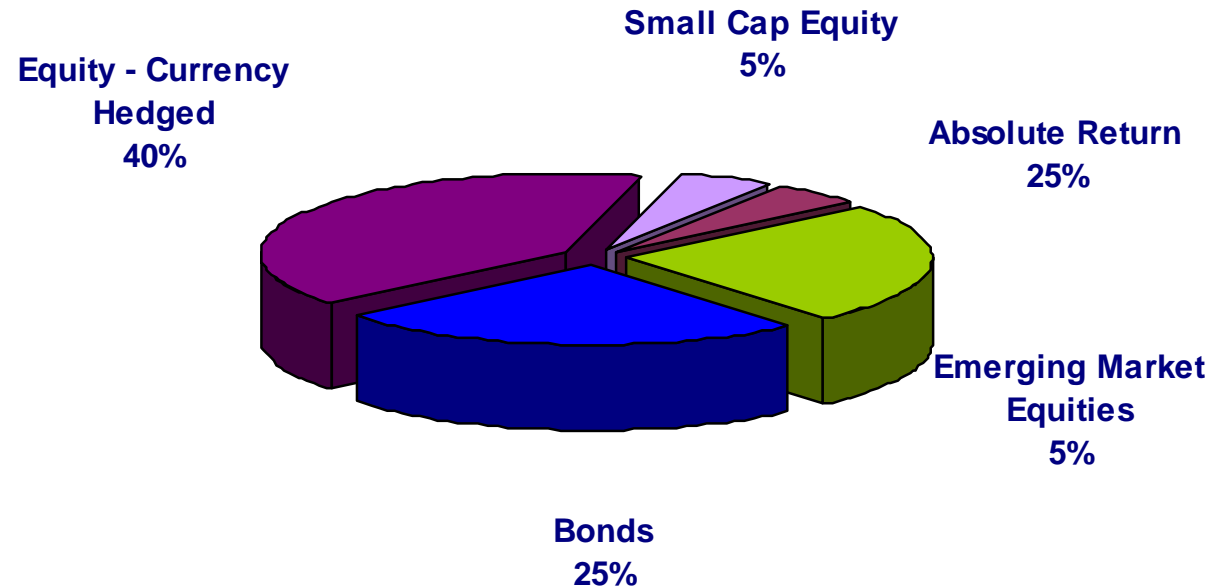
# ABC Range – Adventurous Default Fund



<b>Volatility Management</b>	– Absolute Return
<b>Equity expansion</b>	– Emerging Markets Equities – Small Cap Equities
<b>GDP Global Growth</b>	– Global Equities



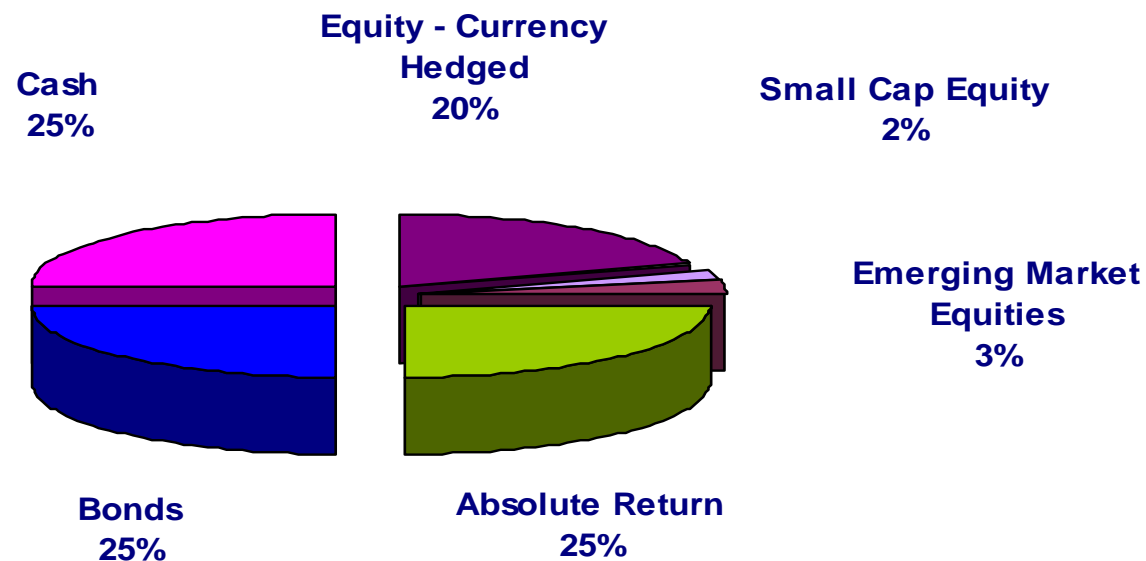
# ABC Range – Balanced Default Fund



<b>Volatility Management</b>	– Absolute Return
<b>Defensive Asset Allocation</b>	– Bonds
<b>Equity expansion</b>	– Emerging Markets Equities – Small Cap Equities
<b>GDP Global Growth</b>	– Global Equities



# ABC Range – Cautious Default Fund



<b>Volatility Management</b>	– Absolute Return
<b>Defensive Asset Allocation</b>	– Bonds
<b>Low Risk</b>	– Cash
<b>Equity expansion</b>	– Emerging Markets Equities – Small Cap Equities
<b>GDP Global Growth</b>	– Global Equities

# Conclusion

- Recognition of requirement for tailored solutions
  - Liability matching solutions
  - Volatility management solutions
  
- Recognise that for some DC members and Trustees the 'journey' matters
  
- Segmentation of membership
  
- Provide default fund range to meet these segments

# Disclosure Statement

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