



Your success. Our priority.

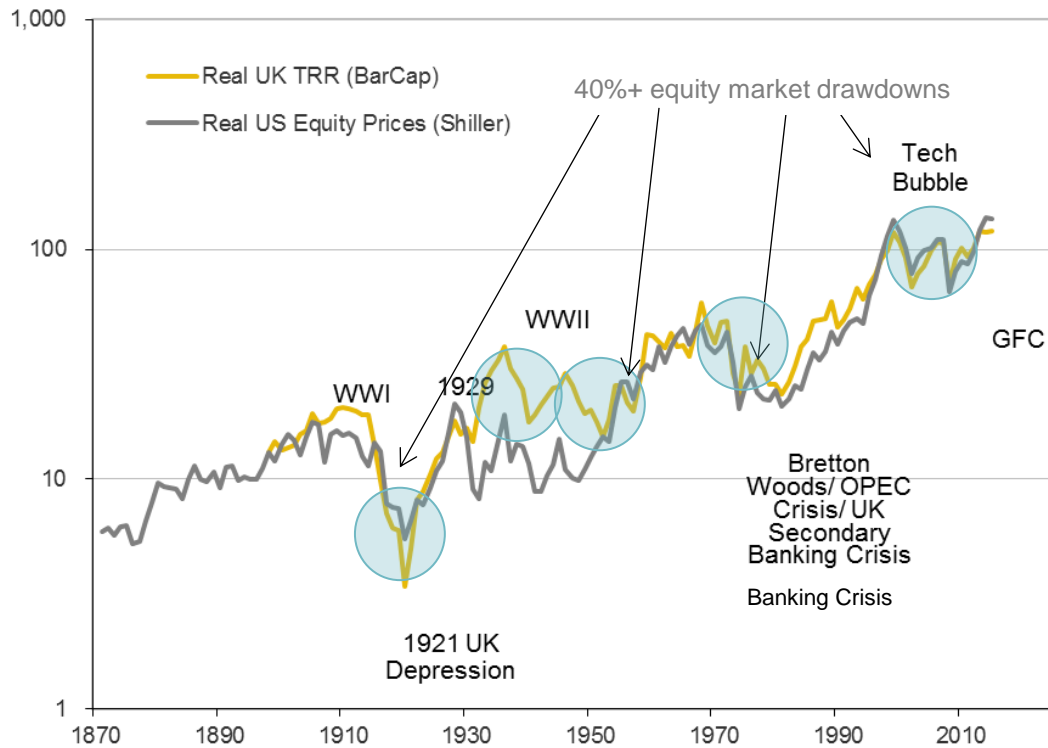
# IFOA's joint Risk, Investment, Pensions conference DGFS – Too Much D and not Enough G?

For professional investors only  
November 2017



# Why Multi Asset

Volatility-controlled approach seeks equity-like returns with less volatility



## ■ We believe that

- Multi asset investing can provide attractive positive returns whilst helping to keep volatility in check
- Equities will continue to deliver attractive long-term returns
- Equities are volatile and can underperform when investors most need good returns
- Volatility is here to stay

# Appropriate benchmarks?

## Managers' self-appointed targets

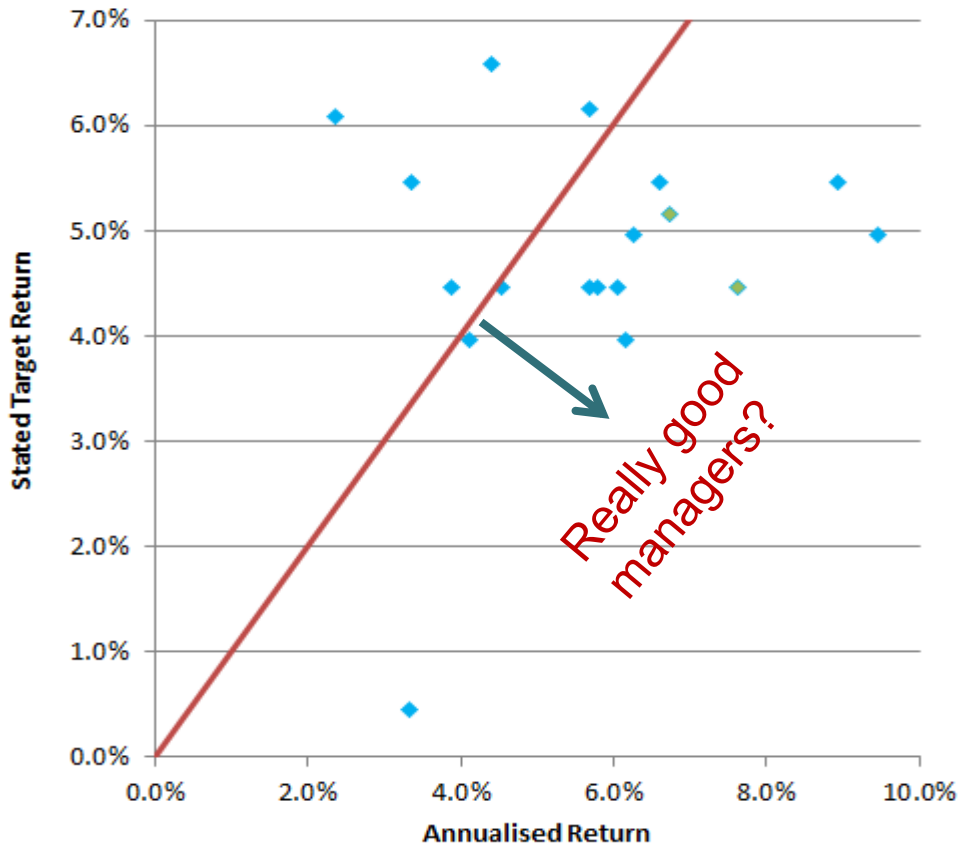
Firm Name	Product Name	Product: Preferred Benchmark	Period Return	Period Target	Met Target
Ruffer LLP	Global long only absolute return strategy	Cash	3.34%	0.46%	√
Baillie Gifford & Co	Diversified Growth	Base Rate + 3.5%	6.17%	3.96%	√
BlackRock	Dynamic Diversified Growth	LIBOR + 3.5%	4.10%	3.96%	
Barings LLC	Dynamic Asset Allocation	LIBOR + 4%	5.80%	4.46%	√
F&C (BMO Global Asset Management)	Diversified Growth strategy	LIBOR + 4%	4.52%	4.46%	
Insight Investment	Diversified growth	Cash +4%	5.68%	4.46%	√
Newton Investment Management	Newton Real Return GBP	LIBOR +4%	3.88%	4.46%	
Threadneedle Asset Management Ltd	Threadneedle Pensions Multi Asset Fund	Base Rate +4%	7.61%	4.46%	√
Aberdeen Asset Management PLC	Diversified Multi Asset Growth	LIBOR +4.5%	6.27%	4.96%	√
Legal & General	Dynamic Diversified (Active)	Base Rate +4.5%	9.47%	4.96%	√
Threadneedle Asset Management Ltd	Threadneedle Dynamic Real Return Fund	UK CPI +4%	6.74%	5.10%	√
Fulcrum Asset Management	Fulcrum Diversified Absolute Return Strategy	RPI + 3-5%	2.35%	5.30%	
Fidelity International	Diversified Growth	Cash + 5%	6.60%	5.46%	√
M&G Investment Management Ltd	M&G Episode Allocation	Cash + 5%	8.93%	5.46%	√
Standard Life Investments Limited	Global Absolute Return Strategy (GARS)	LIBOR +5%	3.36%	5.46%	
Investec Asset Management	Diversified Growth	UK CPI + 5%	5.68%	6.10%	
Fulcrum Asset Management	Fulcrum Diversified Growth	RPI + 4-5%	4.40%	6.30%	
Schroder Investment Management	Diversified Growth	RPI +5%	6.06%	6.80%	

- Included are Diversified Growth Funds in the eVestment database with:
  - A specified total return target, and;
  - 4.25 years track record to September 30 2017.

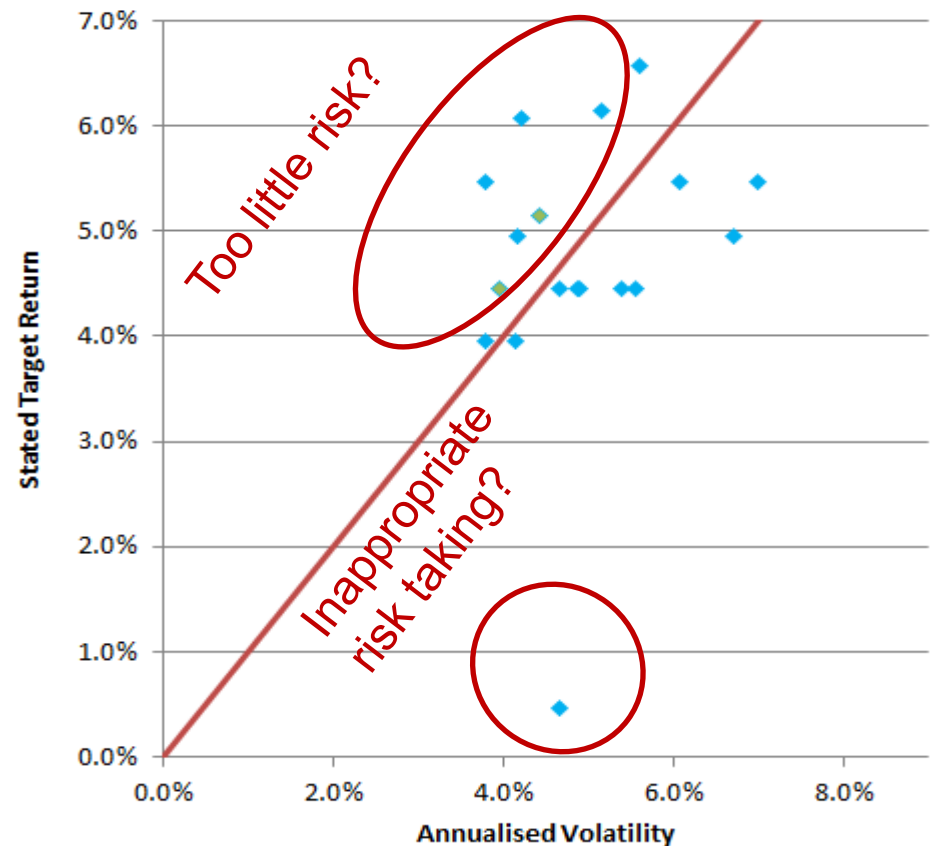
# Appropriate benchmarks?

Managers' self-appointed targets have been poor guides to returns

**DGF Target returns vs Experienced Returns since June 2013**



**DGF Target returns vs Experienced Volatility since June 2013**



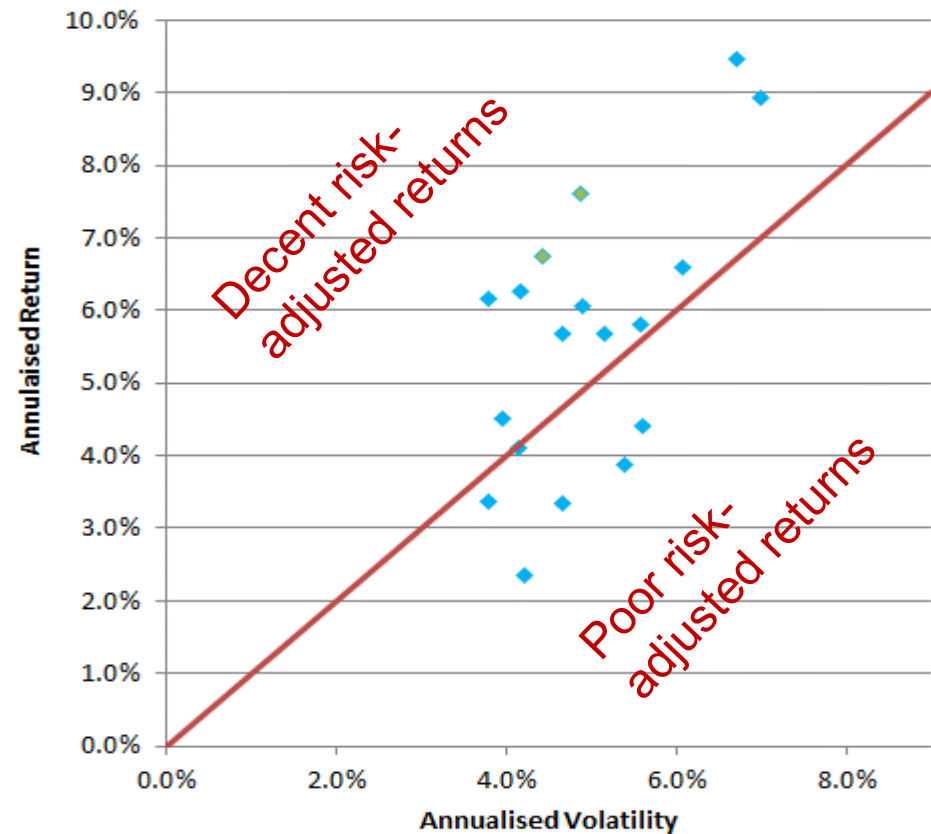
Source: Columbia Threadneedle and eVestment, September 30 2017.

# Appropriate benchmarks?

## Managers' self-appointed targets have been poor guides

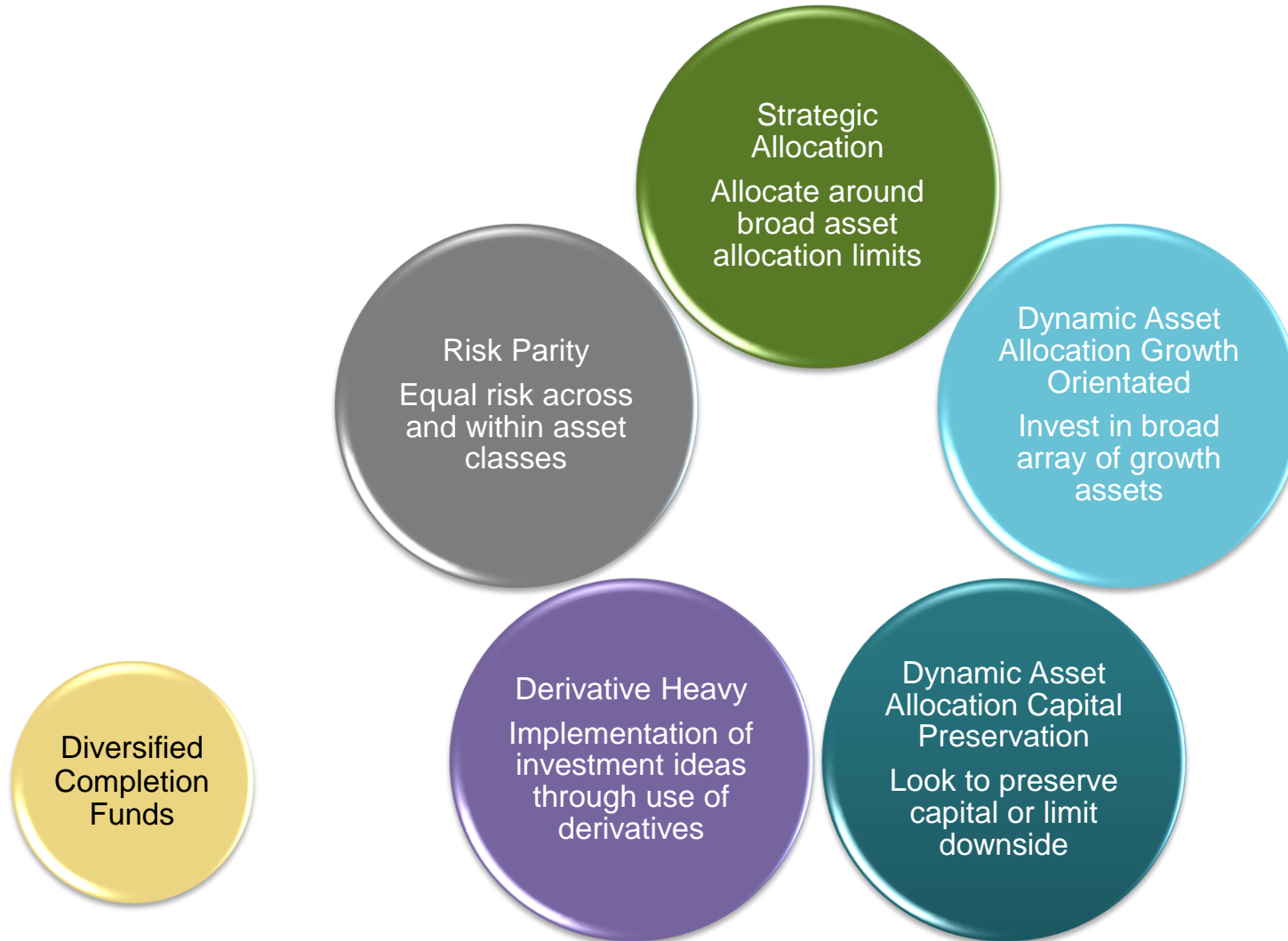
- Self-appointed benchmarks do not correlate well with ex post performance or ex post risk.
- DGF managers are all seeking to meet clients' needs and expectations.
- DGF managers are operating differing investment processes to achieve these client outcomes, the success of which can be seen ex post in risk-adjusted returns.
- Investment approaches differ wildly across investment managers, and it is important to understand your manager's approach.

**DGF Experienced returns vs Experienced Volatility since June 2013**



Source: Columbia Threadneedle and eVestment, September 30 2017.

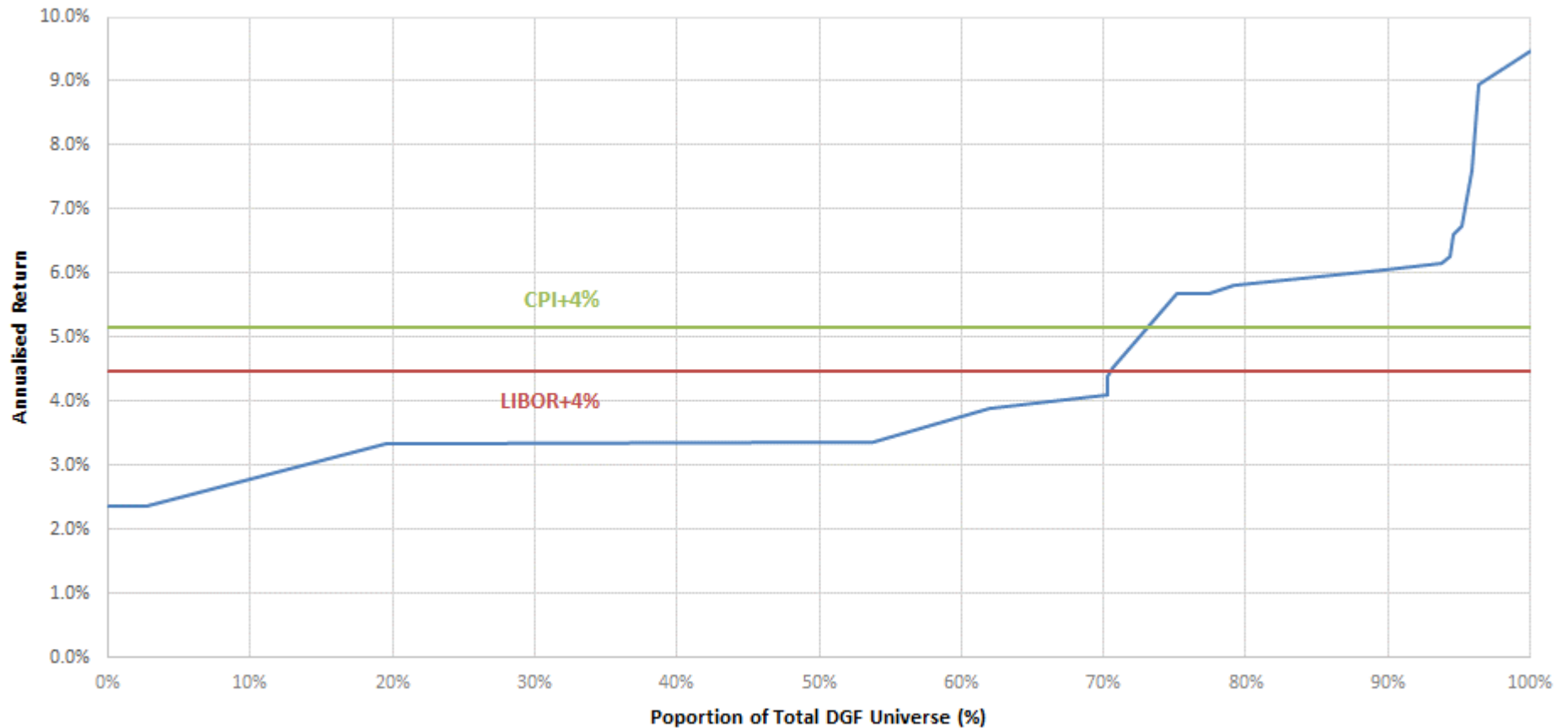
## DGF Landscape – Real Return and Income



# Too Much D not enough G?

## Returns v AUM in Strategy

***DGF Experienced returns since June 2013 vs Proportion of Total DGF Universe as at 30 September 2017***



Source: Columbia Threadneedle and eVestment, September 30 2017.

# Summary and Conclusions

- Diversified Growth Funds are designed to deliver decent medium-term returns with a much lower level of volatility than equities
  
- How can schemes effectively choose DGFs to suit their risk and return appetite?
  - Looking at the target is disastrously unhelpful
  - Looking at the style and type can be helpful
  
- Appropriate benchmarks?
  - Ask the manager what success looks like in different environments *ex ante*
  - Keep an eye on ‘what you could’ve won’
  
- Think about what you are hoping the manager to achieve:
  - Good risk-adjusted returns on an outright basis?
  - Active asset allocation overlay to deliver continual governance at a scheme level?
  - Investments that you can understand and defend to your members?
  - Correlation characteristics with other investments held?
  
- Successfully delivered, DGFs can be hugely helpful for pension schemes both DC and DB – but don’t appoint one just because it is fashionable to do so.



# Important information

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