

The roadmap to improving prosperity in retirement

Lesley-Ann Morgan, Global Head of Defined Contribution and Retirement

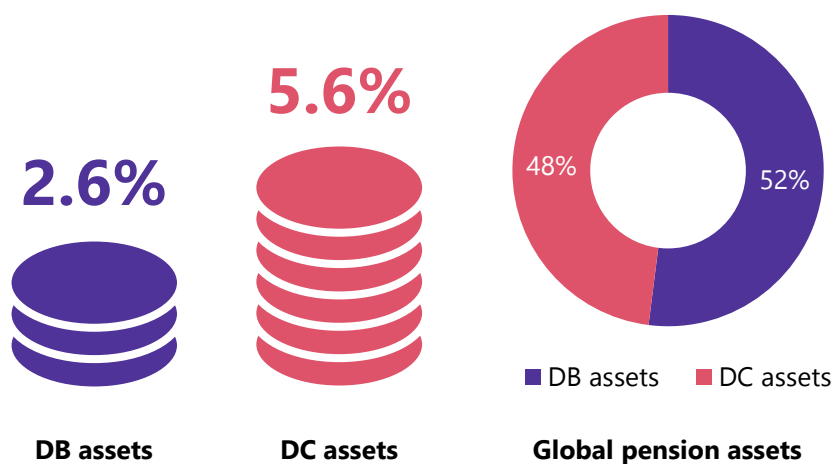
Oct 2017

Area of secular growth

Individualised pre-retirement

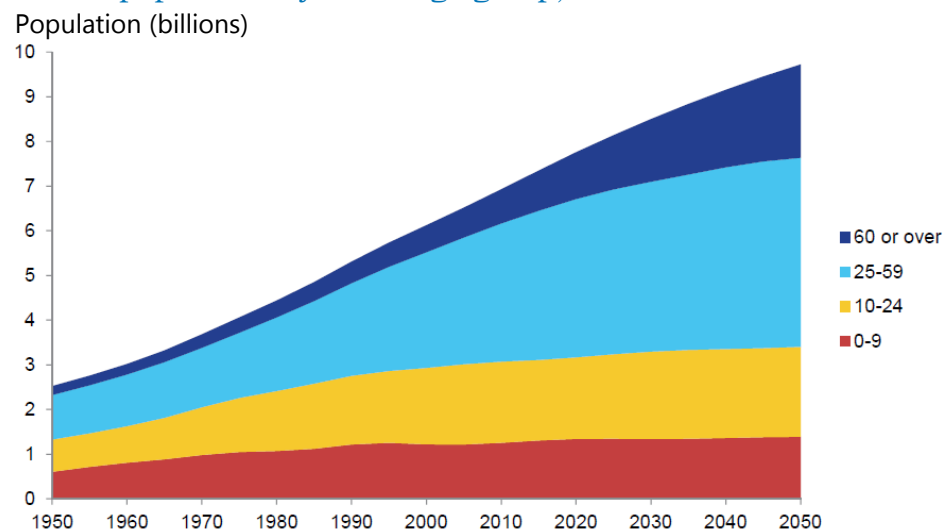
- DC pension assets (as a % of total pension assets) have grown from 41.1% in 2006 to 48.4% in 2016¹
- Over the last 10 years:
 - DC assets have grown at a rate of 5.6% pa while DB assets have grown at a slower pace of 2.6% pa¹
 - The fastest growing pension markets have been Hong Kong (7.8%), Australia (6.9%) and Chile (6.8%) when measured in USD terms (all DC predominantly)¹

Large proportion of assets and growing fast¹



Demographics point to further growth

Global population by broad age group, 1950 – 2050



¹Source: Willis Towers Watson, Global Asset Study 2017. Chart source: United Nations (2015). *World Population Prospects: The 2015 Revision*.

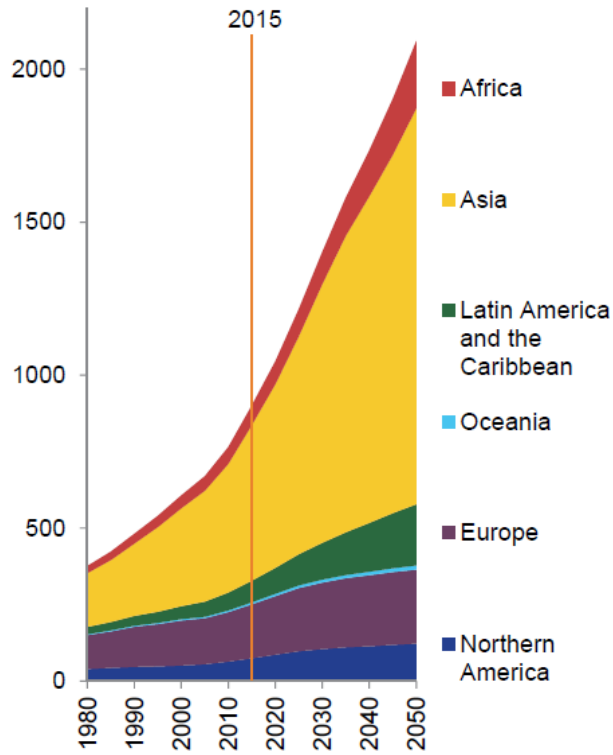
Area of secular growth

Post-retirement population set to increase

By region

Population aged 60 years or over

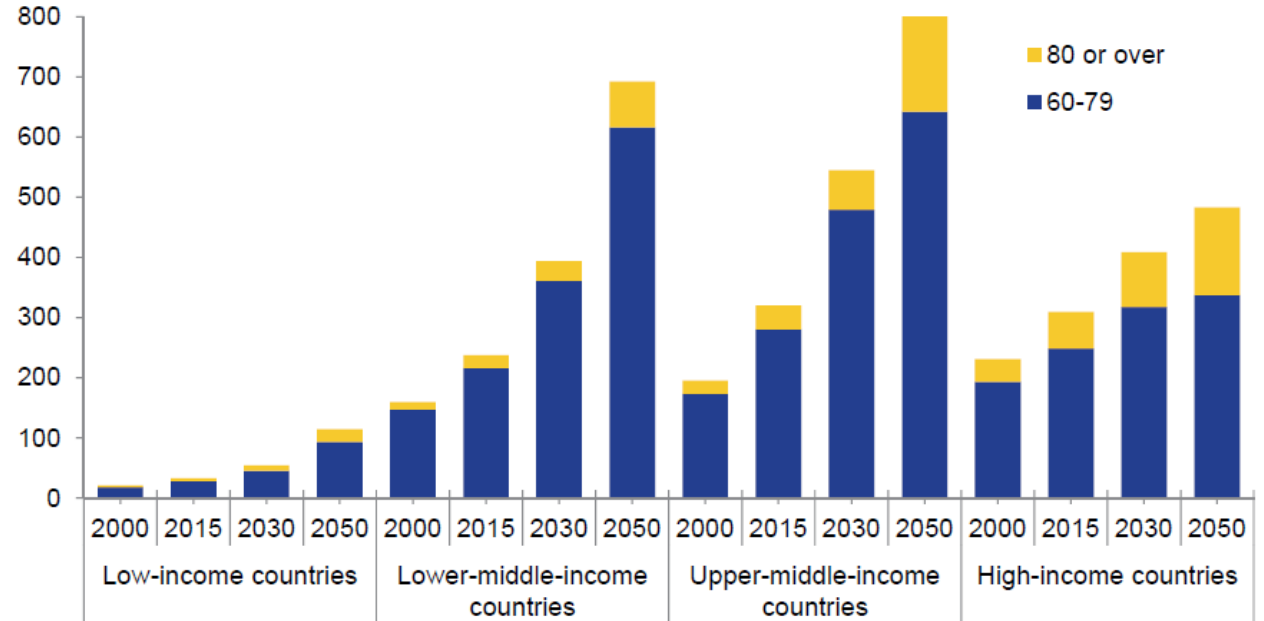
Population (millions)



By country's income

Population aged 60 – 79 years and aged 80 years or over by income group, 2000, 2015, 2030 and 2050

Population (millions)

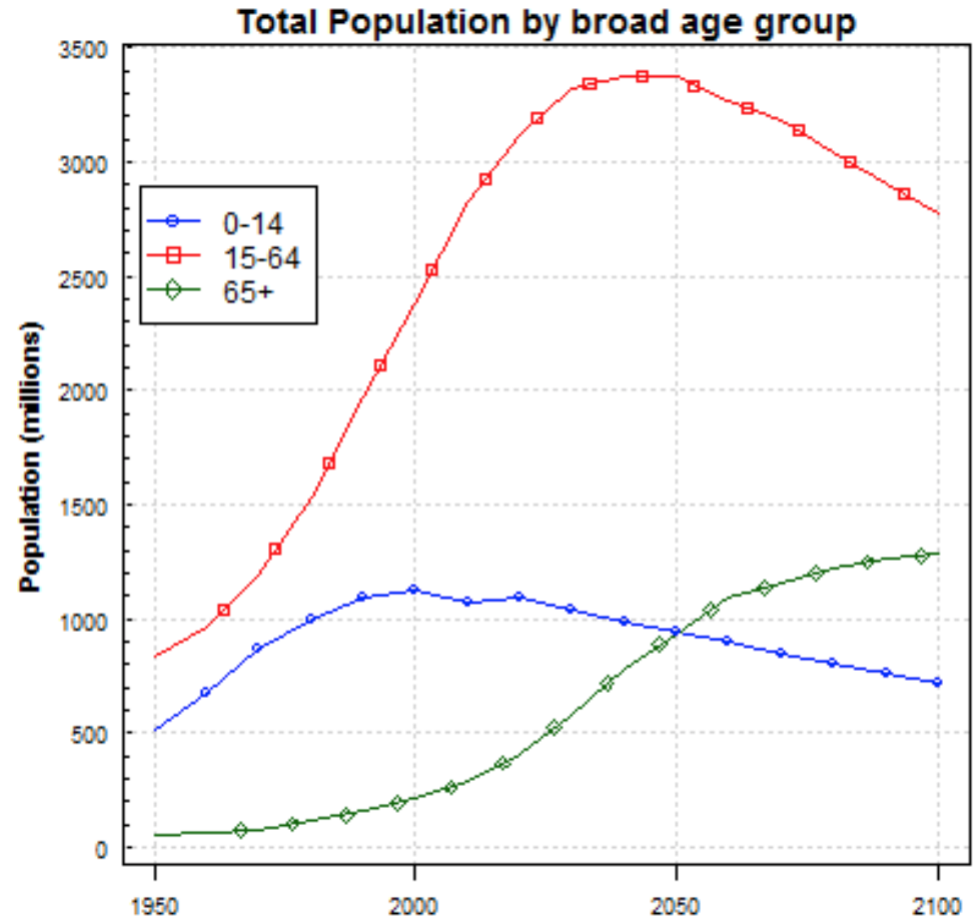


Source: United Nations (2015). *World Population Prospects: The 2015 Revision*.

The number of Asian savers and retirees are increasing

- Life expectancy improvements
- Births have significantly fallen
- High proportion of the population in 15-64 ag group
- Increasing proportion in the 65+ age group

People need to get serious about
'properly' saving and investing
for retirement



Source: United Nations, Department of Social Affairs, Population Division (2017)

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Pre-retirement Design



Understand the problem first

What are we all trying to achieve in pre- and post- retirement?

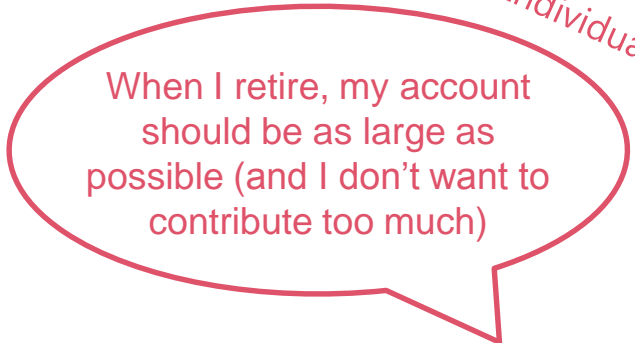
What's the objective of saving and investing for retirement?

Fiduciary thinks



Improve the size of the account at retirement for everyone in the plan

Individual says



When I retire, my account should be as large as possible (and I don't want to contribute too much)

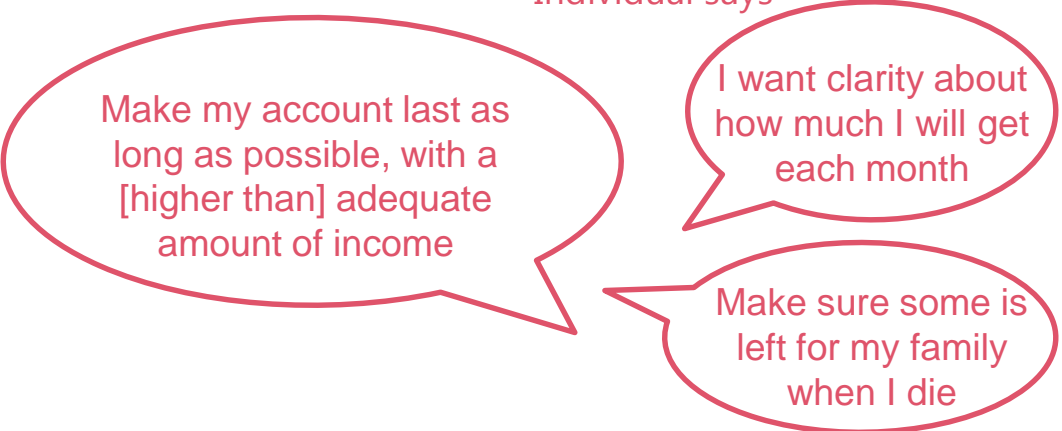
What's the objective of investing in retirement?

Fiduciary thinks



Not my problem

Individual says



Make my account last as long as possible, with a [higher than] adequate amount of income

I want clarity about how much I will get each month

Make sure some is left for my family when I die

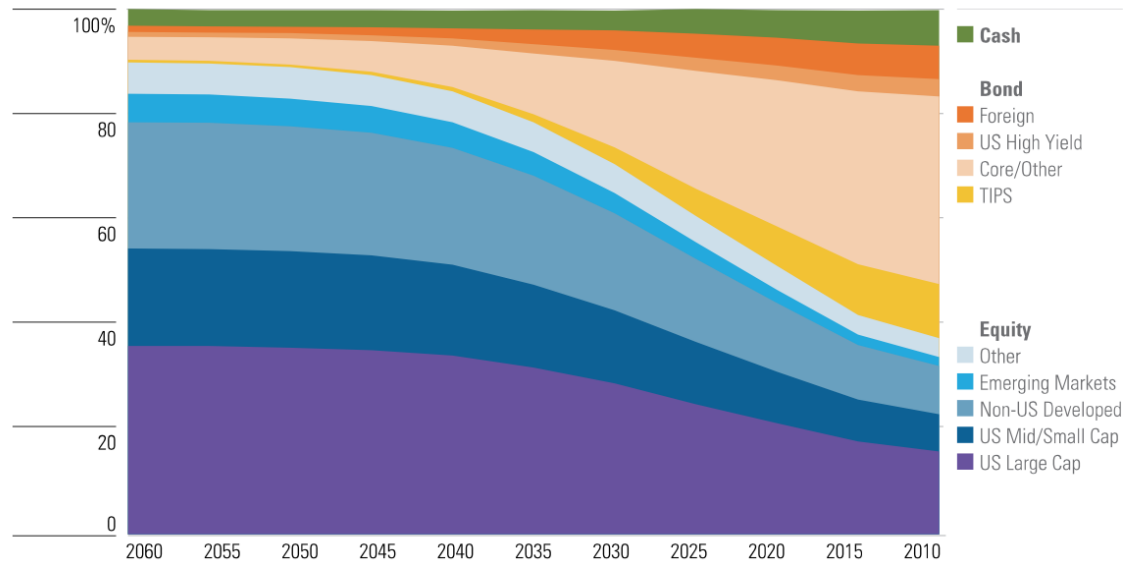
Being clear and realistic about expectations is imperative to success

Target Date Funds have become the most popular default

Why?

What are they?

- Asset allocation automatically switches from growth assets to bond assets as someone ages



Source: Morningstar 2017 Target-Date Fund Landscape

What's great about them?

- Easy to explain
- The individual tells the manager his/her likely retirement age and the manager takes care of everything...

But does it meet the objectives?

Assessing Target Date Funds

Do they achieve the individual's objectives in pre-retirement?

A few concerns...

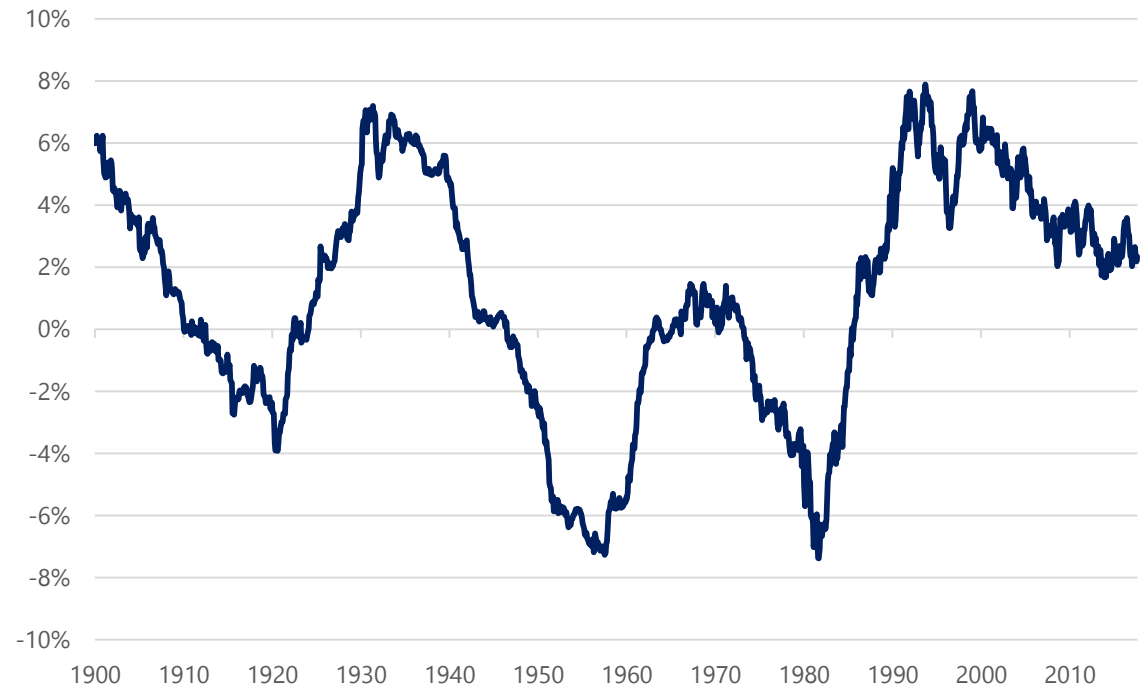
Would you buy bonds at this level?

- TDFs automatically buy bonds irrespective of the price or likely return

How should risk be considered in pre-retirement?

- Not taking enough risk is the biggest risk when you are young
- Capital losses are the biggest risk when you get close to retirement

US 10-year bond annualised 10-year real return



Source: GFD, Thomson Reuters Datastream

Assessing Target Date Funds

Do they achieve the individual's objectives in pre-retirement?

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How do you assess if the manager has done a good job?

- Most TDFs are compared against a peer group

Return of Target Date Funds Year 20XX



People can't live off relative returns

How to improve prosperity in pre-retirement

Three simple ways

1. Ensure the target outcome is clearly defined

- Understand how much someone needs at retirement
- Target this outcome

2. Set and forget can be improved!

- Valuations change
- Continually evaluate

3. Investment risks differ at different stages

- Take growth risk for as long as possible
- But try to reduce capital losses as retirement approaches by:
 - diversifying
 - being outcome aware and
 - using downside risk protection where suitable

Outcome-oriented products in DC Australia









Schroders' approach

- Dynamically managed multi-asset funds
- Flexible asset allocation that enables effective management of risk
- Adapt to different market environments
- High Growth version also available as an ETF and a USD pooled fund for international investors

Fund	Objective
Fund A – high growth	CPI + 5%
Fund B – medium growth	CPI + 3.5%

Applying that to a pension plan: QSuper

- Objective is based on age and balance in DC plan
- Reviewed twice a year and automatically changed

Group name	Your age	Lifetime balance	Objective *	Risk †
 Outlook	Under 40	Any balance	CPI + 4.5%	Medium to high
 Aspire 1	40-49	Less than \$50,000	CPI + 4.5%	Medium to high
 Aspire 2	40-49	\$50,000 or more	CPI + 4.0%	Medium to high
 Focus 1	50-57	Less than \$100,000	CPI + 4.0%	Medium
 Focus 2	50-57	\$100,000 - \$250,000	CPI + 3.75%	Medium
 Focus 3	50-57	\$250,000 or more	CPI + 3.5%	Medium
 Sustain 1	58 or over	Less than \$300,000	CPI + 2.5%	Low
 Sustain 2	58 or over	\$300,000 or more	CPI + 2.0%	Very low

* All objectives are after fees and tax, measured over rolling 10-year periods.

† Standard risk measure

Source: Q Super. For illustrative purposes only

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Post-retirement Design



Solving post-retirement around the world

Same problem but the solutions differ



The problem

- Under-saved and underfunded
- Increasing life expectancy
- Lower returns than needed to meet retirement needs
- Desire for certain requirements for retirement

Deep and thoughtful retirement research

Global papers:

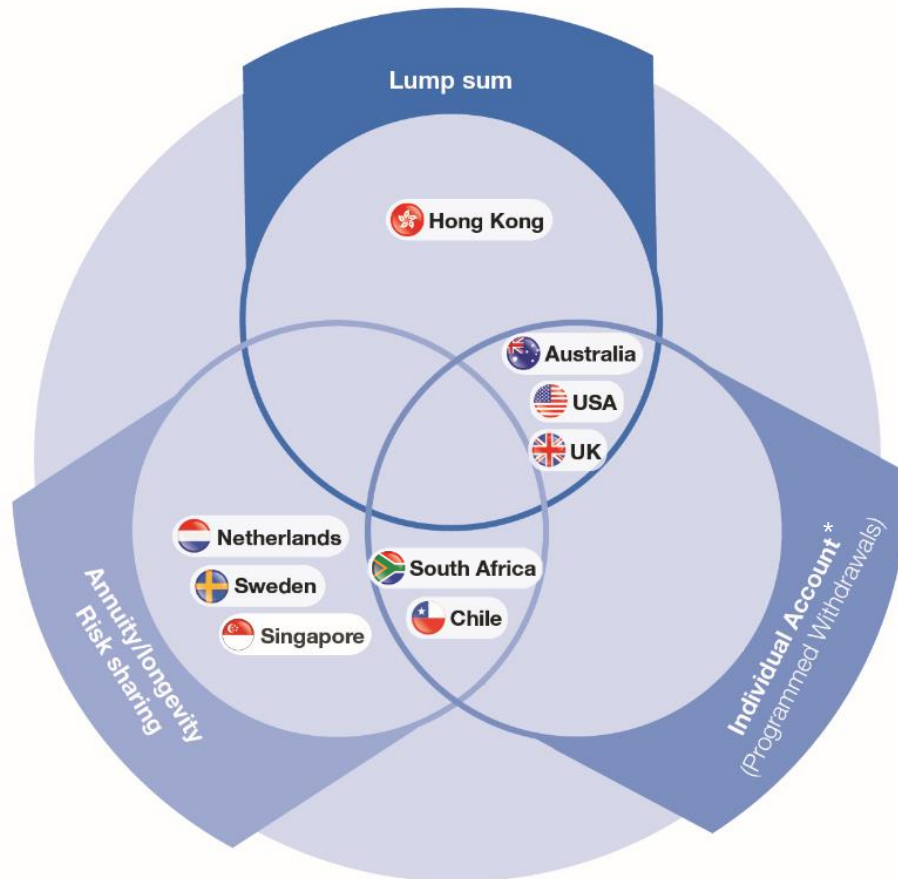
- Global lessons in developing post-retirement



2016 and 2017

Sources: Financial Times, October 2016. Institute for Health Metrics and Evaluation, 2014. Financial Review, February 2016. South China Morning Post, April 2017

No clear single answer in post-retirement investing



Moving in different directions

- Many Continental European retirees expect a guarantee
- While the appetite for guaranteed funds has declined
- UK and US retirees have a full choice menu with little advice taken/paid for
- Australia is considering a post-retirement default

* Known as living annuities in South Africa
Source: Schroders, for illustration only.

How to improve prosperity in post-retirement

Three simple ways

1. Recognise people are living longer and therefore need growth assets for longer

- The risk of running out of money is significant for many

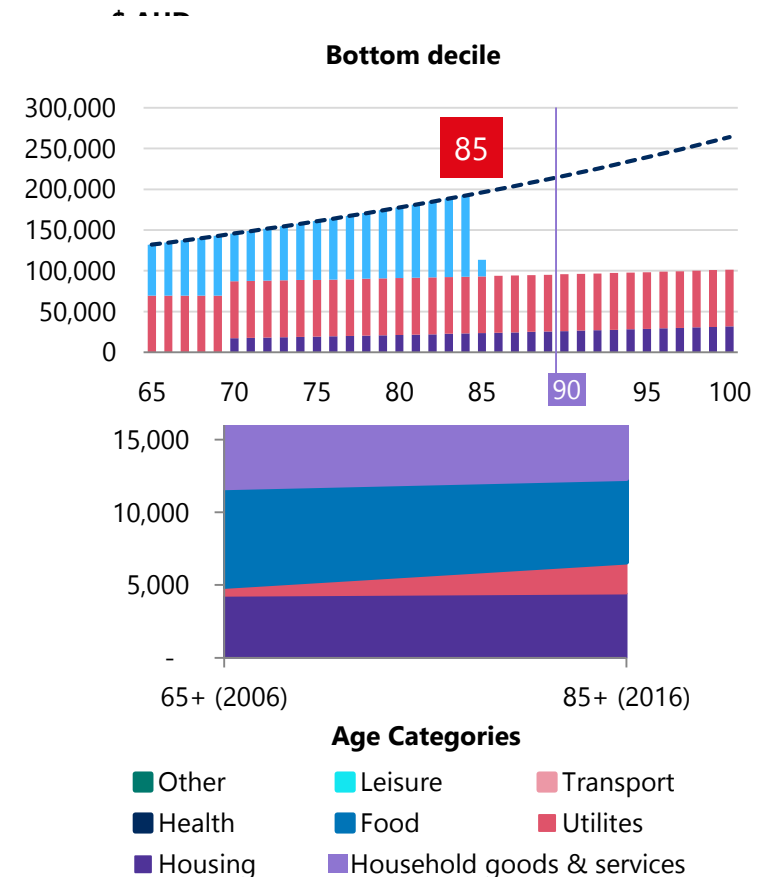
2. What are you going to consume in retirement?

- Consider essential vs non-essential expenses, inflation, medical and old-age issues
- It may amount to more than you expect
- Invest to pay for increases

3. Valuations still matter in post-retirement

- Think about how much you are paying for income.
- Is it better sourced from capital?

Australian consumption (2006 and 2016)



What can you do to improve prosperity in retirement?

One 'hero' is not going to save the day



Pre-retirement

- Understand how much you need
- Save more
- Take the right type of risk at the right time
- Take more efficient risk
- Valuations matter! Use skill in asset allocation

Post-retirement

- Re-evaluate what you may need to buy
- Withdraw/consume less if possible
- Take the right type of risk at the right time
- Take more efficient risk
- Valuations matter! Use skill in asset allocation

Investment solutions will not solve the problem on their own but...
they can help to improve prosperity in retirement

Biographies – Lesley-Ann Morgan

Global Head of Defined Contribution and Retirement



Lesley-Ann Morgan –
Global Head of
Defined Contribution
and Retirement

- Lesley-Ann has over 20 years of experience of providing investment solutions to global institutional clients
- Lesley-Ann is Global Head of Defined Contribution and Retirement at Schroders. In this role she is responsible for Schroders view on DC best practice and ensuring that there is a global strategy to deliver the best outcomes for DC members/participants. Previous to this, Lesley-Ann was the Head of the Global Strategic Solutions team, which is responsible for designing solutions for complex global clients
- Lesley-Ann joined Schroders from Towers Watson in July 2011 (previously named Watson Wyatt and R Watson and Sons), where she was a partner. At Towers Watson, she was Head of the Client Delivery Group, responsible for the delivery of investment solutions to clients and the lead consultant to a number of large pension schemes
- Previous roles at Watson Wyatt included manager research (Head of Pacific Basin equities and Head of Japanese equities) and Investment Head of Defined Contribution (North East US)
- Since she has been at Schroders, Lesley-Ann has worked with pension funds in North America, Mexico, Brazil and Asia.
- She has also worked with regulators and industry bodies, written and co-authored a wide range of papers, quoted in the press on significant issues facing the pensions industry, and she also speaks at conferences covering the appropriate investment approaches for institutions. Winner of the Funds Europe Thought Leadership award in 2015 for ‘Global Lessons in Developing Post-Retirement Solutions’. Published in the British Actuarial Journal in March 2017 ‘Designing successful post-retirement solutions by blending growth, income and protection’
- Fellow of the Institute of Actuaries
- BSc. (Hons) in Mathematics, Operational Research, Statistics and Economics from Warwick University

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