



Model Solutions for Pension Investment Strategy

Giving trustees the tools they need to make investment decisions

Pension scheme trustees have a responsibility to set, monitor and – where necessary – change investment strategy.

Since few trustees are professional investment managers, they normally need help from external advisers. But how do they assess the effectiveness of that advice, and satisfy themselves that the strategy is the best it could be, with the correct risk profile?

Xafinity Consulting has changed the way trustees can approach investment strategy, by putting the tools and information they need in their own hands, with the aid of our powerful and unique interactive modelling tool, Model Solutions for Pension Investment Strategy.



A huge and growing responsibility for trustees

Trustees have personal responsibility for the efficacy of the investment strategy – and this responsibility has become more onerous under the new Scheme Specific Funding regulatory regime.

The prevalence of deficits in Defined Benefit schemes under FRS17/IAS19 and the need to value closing schemes at full buy-out cost, mean that smarter decisions have to be made in setting investment strategy.

In addition, annual marking-to-market, required to determine the sponsor's Pension Protection Fund levy, means that investment strategy has to be far more detailed than in the past.

Decisions can have major impacts on sponsors: a pension fund deficit can significantly affect the sponsor's credit rating, liquidity, market value and corporate strategy.

So getting the strategy right – and being able to constantly see, in detail, how it's performing – is of paramount importance.

Model Solutions for Pension Investment Strategy

This interactive tool, developed by Xafinity, provides trustees and sponsors with the ability to perform hands-on modelling of:

- *Effects of volatilities in inflation, bond yields and equity markets on their strategy*
- *Alternative asset allocation strategies, to deliver the optimal risk-return profile*
- *Underlying fundamental assumptions, to test actuarial predictions*
- *Variations in future service contributions and other factors*

Its functions include:

Portfolio Optimiser

Delivers an automatically optimised asset strategy based on scheme objectives.

Efficient Frontier

Charts the optimum strategic asset allocations, matching asset return with predictable volatility levels, based on long term historic data.

Long Term View

Shows the progression of funding levels into the future, to test the outcomes of chosen strategies and plot progress against deficit targets.

Unlike most consulting tools, Model Solutions is specifically designed for the client to use, with assistance from their Xafinity consultant – so trustees can see first-hand how changes in key variables or decision will impact fund performance in the short, medium and long terms.

HOW IT WORKS

1. Set objectives

Under the new regulatory environment, the pension scheme's Statement of Investment Principles requires a more explicit recognition of risk from trustees.

Xafinity Consulting helps trustees and sponsors to explore and agree the broad investment objectives, based on an ability to evaluate the detailed structural outcomes of the various options available.

2. Decide long-term strategy

Depending on the objectives and prevailing factors, trustees may wish to invest for maximum return on assets, to protect assets from excessive volatility, or to ensure that assets match liabilities.

The strategy will be based on several factors, including:

- *The current funding position*
- *The agreed Schedule of Contributions*
- *The financial status and covenant of the sponsor*
- *Scheme size relative to sponsor's market capitalisation*
- *The sponsor's issues and priorities*

Setting the strategy depends on a range of assumptions on expected rates of return, and the effect of potential shifts in bond yields, inflation and equity volatility on the overall funding strategy.

3. Determine investment and manager structure

Having set objectives and decided the long-term strategy, the trustees need to satisfy themselves that their investment strategy is structured to provide the optimum level of return at the lowest level of volatility risk.

This depends upon a long-term historic analysis of the absolute and relative volatilities between the various classes of investment available.

4. Select managers

Xafinity Consulting uses carefully selected managers in each asset class to provide choices to clients while maintaining high standards of management. We then closely manage the process of appointment and engagement of managers to match the strategy.



THE BENEFITS

- Enables modelling of all variables and volatilities to optimise investment strategy.
- Helps trustees to manage their regulatory duties with transparent information.
- Helps sponsors to minimise impact on their balance sheet and bottom line.
- Provides a platform for long-term control and risk-mitigation.

Managing the engagement of asset managers enables Xfinity to save clients money through:

- Moving funds at most efficient times to avoid investment 'gaps'
- Incorporating the use of lower-cost 'passive' managers, where appropriate
- Optimising fund movements between managers to minimise buy and sell costs
- Minimising stamp duty liabilities through fund selection

5. Monitor results against objectives

Today's regulatory regime requires annual review of scheme performance.

Xfinity supports clients' strategies by monitoring managers' performance, but also by providing the ability to review the strategy constantly, against changing variables. Model Solutions continues to provide support for this, over the long term.

Putting the client in the driving seat

With the Xfinity Consulting approach – and the unique Model Solutions tool – trustees and sponsors have the chance to take real control over their investment strategies, and maintain that control over the long term.

Strategies can be optimised constantly, and remodelled whenever shifts in market variables occur, to assess where even small volatilities may have major effects on investment outcomes.

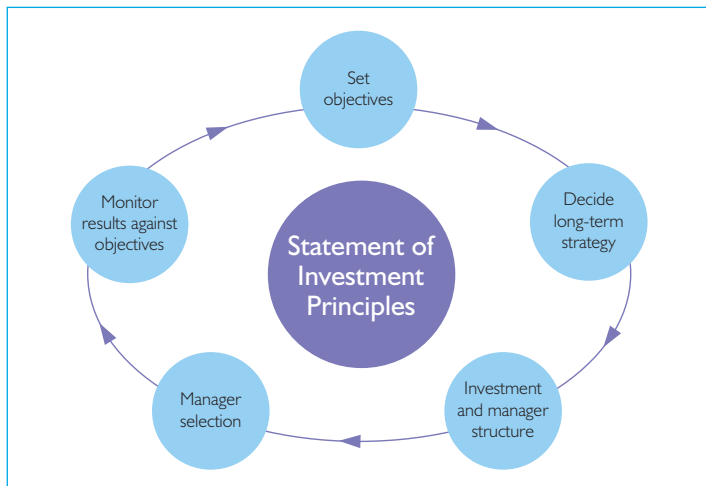
This new way of working delivers a new level of knowledge for pension trustees, enabling them to adapt confidently to the new regulatory environment.



Sensitivity Modeller – Given the choice between two investment portfolios with the same expected return, a rational trustee will always prefer the portfolio with the lower volatility of return.



Investment Strategy Optimiser – Model Solutions helps trustees consider the impact on risk versus return of various solutions, illustrating the current and proposed position, as well as the concept of optimal portfolios and Efficient Frontier.



Statement of Investment Principles diagram – With the aid of Model Solutions, Xfinity Consulting supports clients through the whole investment decision cycle.



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Xafinity Consulting (formerly Entegria) is the UK's leading specialist in employee benefit innovation and optimisation. Our expertise covers flexible benefits, pensions and actuarial services, healthcare, trusteeship and training. We are committed to working in partnership with our clients, providing a service to maximise the returns of their benefit strategies.

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