



# **Enhancing your Pension Business in 2014**

**Newcourt Retirement Fund Managers Limited**

# Agenda



Gerard Keane

*Pension Developments and Opportunities for Advisors*



Ian Mitchell

*Conversations to Enrich your Practice*



Paul McCarville

*Risk Profiling and Fund Suitability*



# **“Pension Developments and Opportunities for Advisors”**

**Gerard Keane**

**Newcourt Retirement Fund Managers Limited**



## **Agenda**

- 1. Introduction**
- 2. Finance (no. 2) Act 2013**
- 3. Pensions Board review of Occupational Pension Schemes**
- 4. Alternative Investment Fund Manager Directive (AIFMD)**
- 5. Defined Benefit Scheme wind-ups a major business opportunity**
- 6. One member Defined Benefit Schemes**
- 7. Self Administered Structures – a growing market and opportunity for Advisors**
- 8. Recommending Newcourt**



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## **Newcourt Pensioneer Trustees Limited (Newcourt) Newcourt Retirement Fund Managers Limited (NRFM)**

- 20 years experience administering self directed pensions
- Provides Corporate Trustee and Registered Administrator services
- Approved under MiFID and acts as a Qualifying Fund Manager

### **Legal & Compliance Advisors**

Arthur Cox Solicitors are our legal advisors and Matheson Solicitors provide compliance advice to our companies.



## Finance (no. 2) Act 2013

- Standard Fund Threshold (SFT) €2 million
- Max. lump sum €500K
- Need to apply for Personal Fund Threshold (PFT) for funds in excess of €2m
- Existing PFT unaffected
- The multiple for DB benefits accumulating pre 1<sup>st</sup> January 2014 is 20 times, with all benefits accumulating after this date converted on an age related scale from 37(50 years) to 22 (70 years).





## Finance (no. 2) Act 2013

- Uplifted benefit entitlement – SFT ? - impacts many public servants.
- Revenue has confirmed that the online PFT applications system will apply from March and applications must be made before 31<sup>st</sup> December 2014.
- Immediate retirements require written application in advance of retirement.
- Levy on pension funds 0.75% for 2014 and 0.15% for 2015





## Pensions Board review of Occupational Pension Scheme



Currently too many occupational pension schemes

- *issues in regulating schemes*
- *possibility of umbrella schemes*

Appoint more independent professional trustees

Pensions Board changes

- *the Pensions Authority*
- *small panel of Board Members making decisions*





## Alternative Investment Fund Manager Directive (AIFMD)

- The Alternative Investment Fund Manager Directive (AIFMD) came into Irish law on the 22<sup>nd</sup> July 2013.
- All unregulated collective investment arrangements raising capital for investment e.g. exempt unit trusts.
- Alternative Investment Funds must appoint an AIFM – Central Bank registration required under €100m or authorisation over €100m.





## ***AIFMD business opportunities***



- **Requirement to appoint an AIFM to existing collective investment arrangements**  
*There is a market for a number of niche players in this area.*
- **First step in moving certain unregulated investments into the regulated space**  
*Financial Advisors can add value to their clients if they are informed in this area.*

***The Central Bank has advised us that once final guidelines are issued they will vigorously pursue any investment providers who are not compliant.***

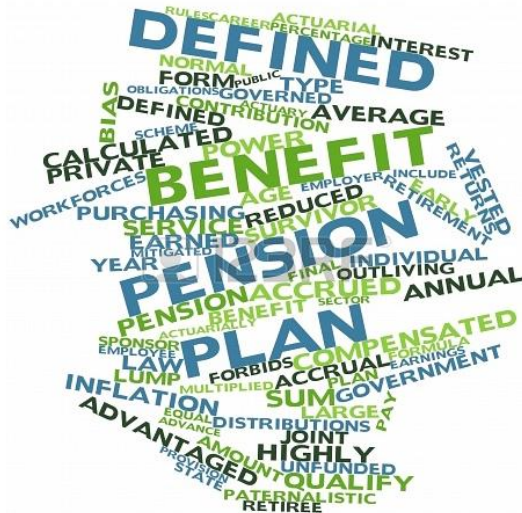




## ***Defined Benefit scheme - business opportunities***



- Potential for set up of a new DC scheme for existing members PRSAs or PRBs for deferred members
- Buy out of annuities for pensions in payment
- Conflicting parties – advice to employer/ trustees/ members
- Restructuring advice where scheme is not winding up



***A Financial Advisor can provide a fast cost effective solution for all parties***



## One member Defined Benefit Schemes

**How does your client fund for over €2m?**

- Possible for an individual to fund for circa €4M under a DB scheme

### **Solution**

- Assuming a Pension of €60,000 p.a. plus spouses and indexation at 60 years
- Allowing for 15% DB risk reserve and possible funding up to 120% of required funds







## **Rationale for One member Defined Benefit Schemes**

- **Eliminates tax liability where funds are in excess of SFT at retirement**
- **“Pay as you go” can be applied to benefits in payment, for both member and their spouse**
- **On beneficiaries death any unused capital will revert to the company - and if children are shareholders then a further planning opportunity is available**
- **Solid platform for the provision of indexed post retirement income within SFT parameters**
- **No deemed distributions requirement, unlike ARF or Vested PRSA**
- **It allows members access self invested options**



## One member Defined Benefit Schemes

- Cost effective vehicle available
- Investment advisory opportunities for Financial Advisors



***Complex area with a lot of moving parts  
e.g. moving age related multipliers and  
volatile liability costings. In every case  
technical advice and a feasibility study  
are essential.***

***Newcourt can assist you in this area!***



## **Self Administered Structures a growing market and opportunity for Advisors**

- Milliman survey in 2011 put SSAPS market at €3.1 billion
- APTI estimate total Market now in excess of €7 billion for one member arrangements and related contracts
- Allows clients access many alternative investments strategies
- Offers clear and competitive charging structures



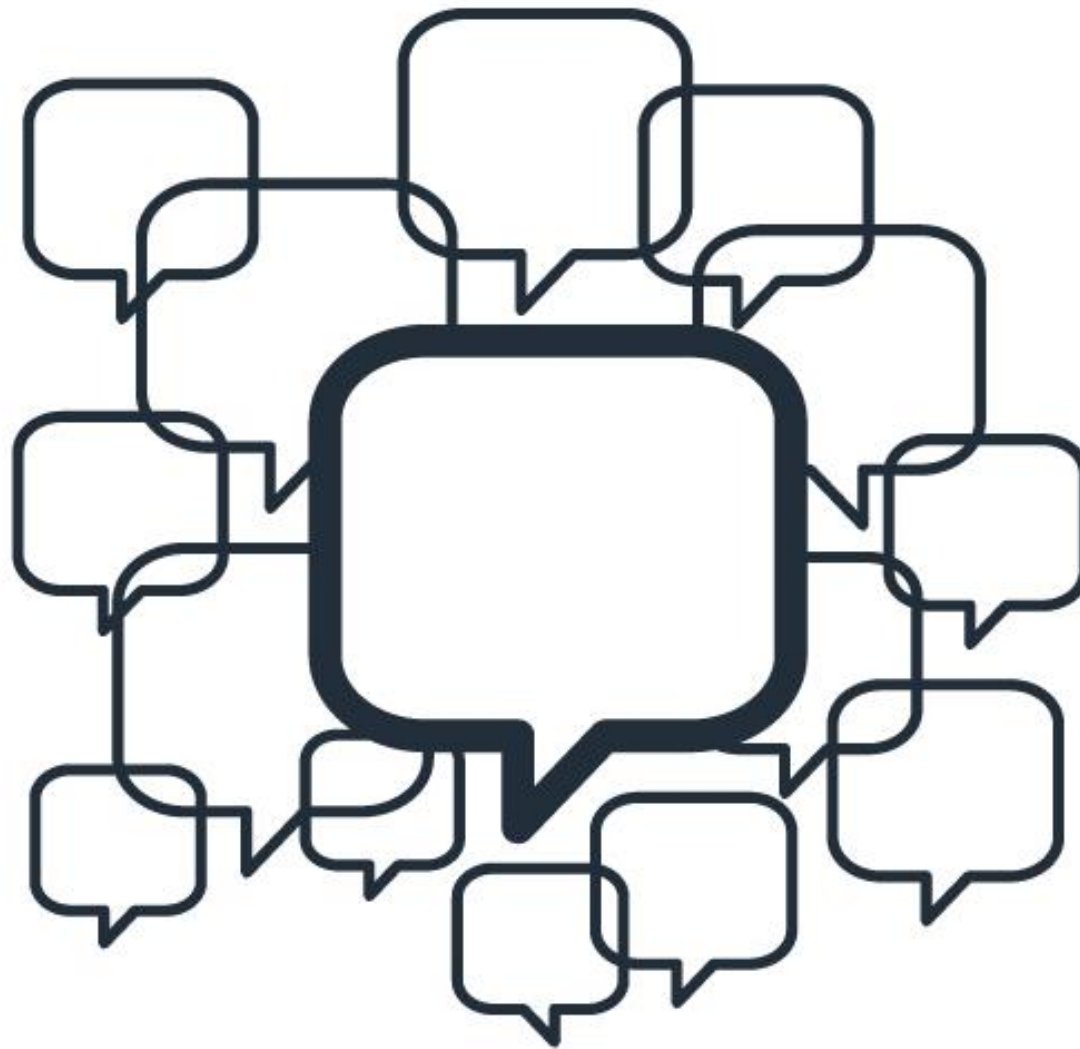




## Recommending Newcourt!

- Complete range of pension services
- Open investment architecture, with no conflict of interest
- Segregated accounts
- No investment manager mandate
- Over 20 years acting as independent corporate trustee
- Technical expertise readily available
- Investment in IT systems
- Strong corporate governance and no legacy issues





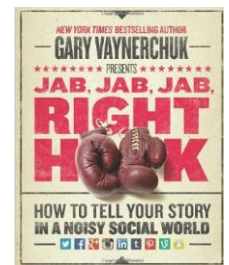
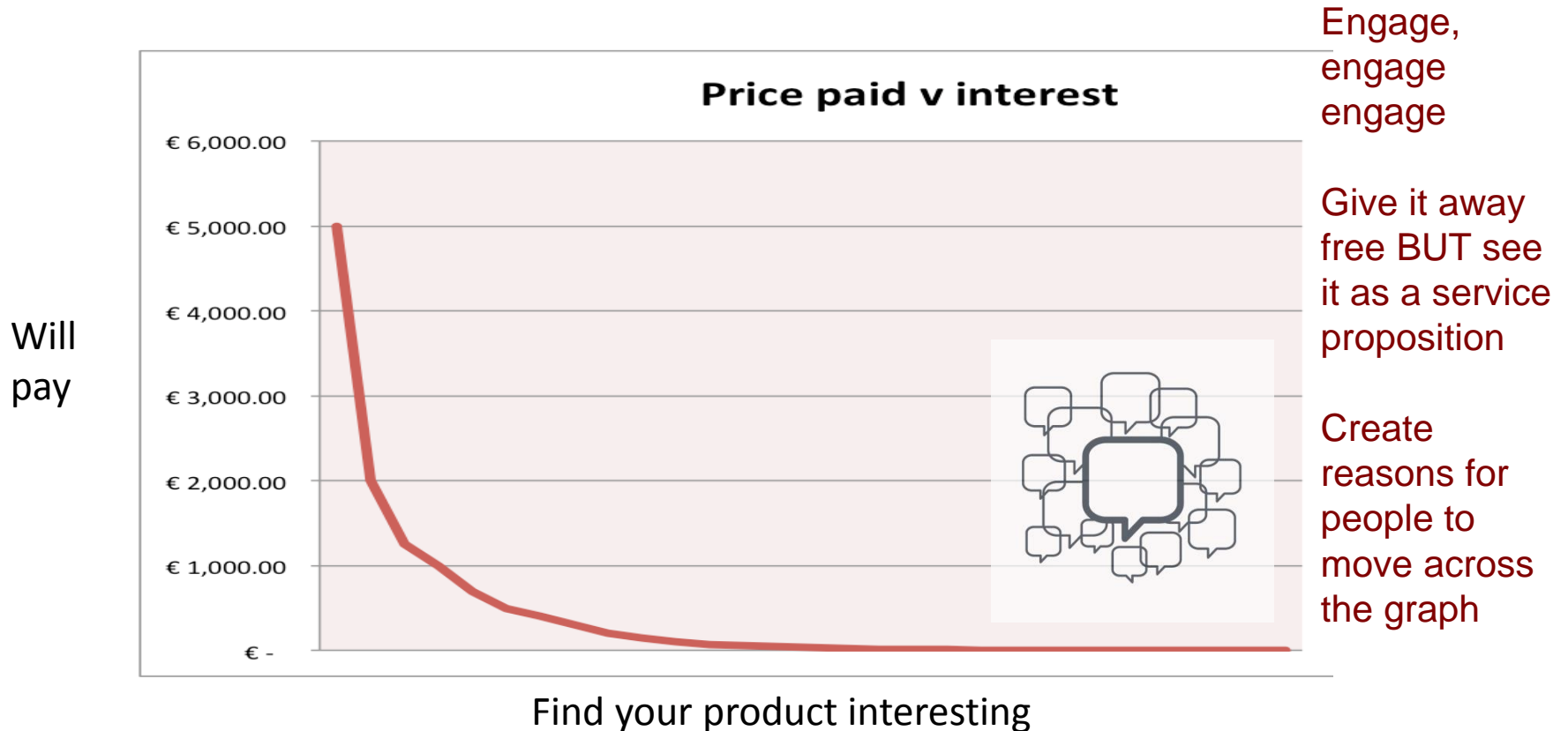
# Conversations to enrich your practice

# 1 Conversations with the market place



1

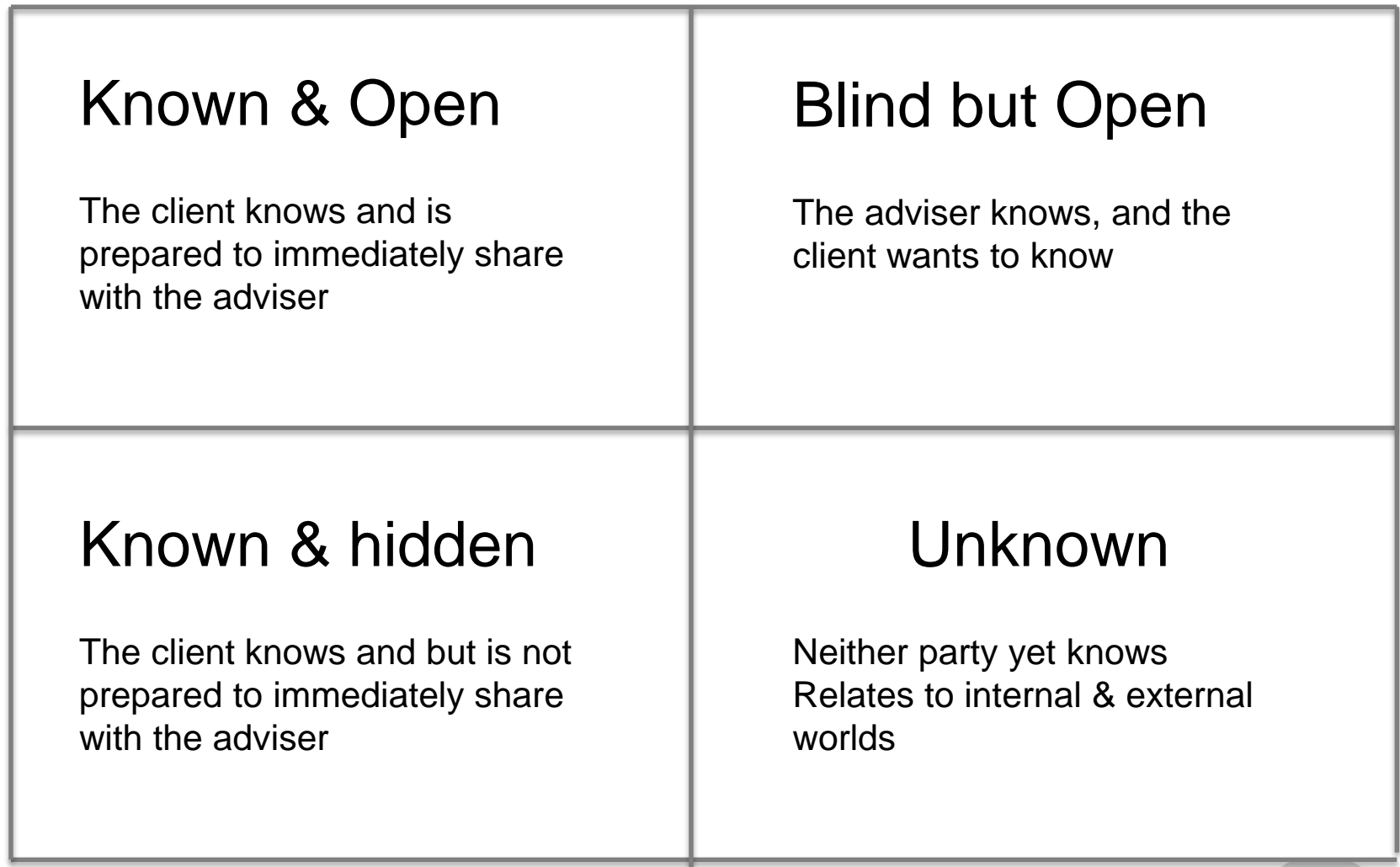
# Conversations with the market place



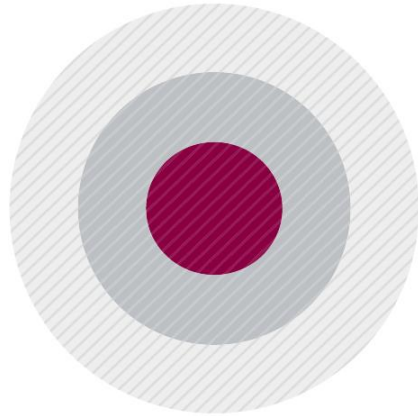
## 2 Conversations in the ZOUD



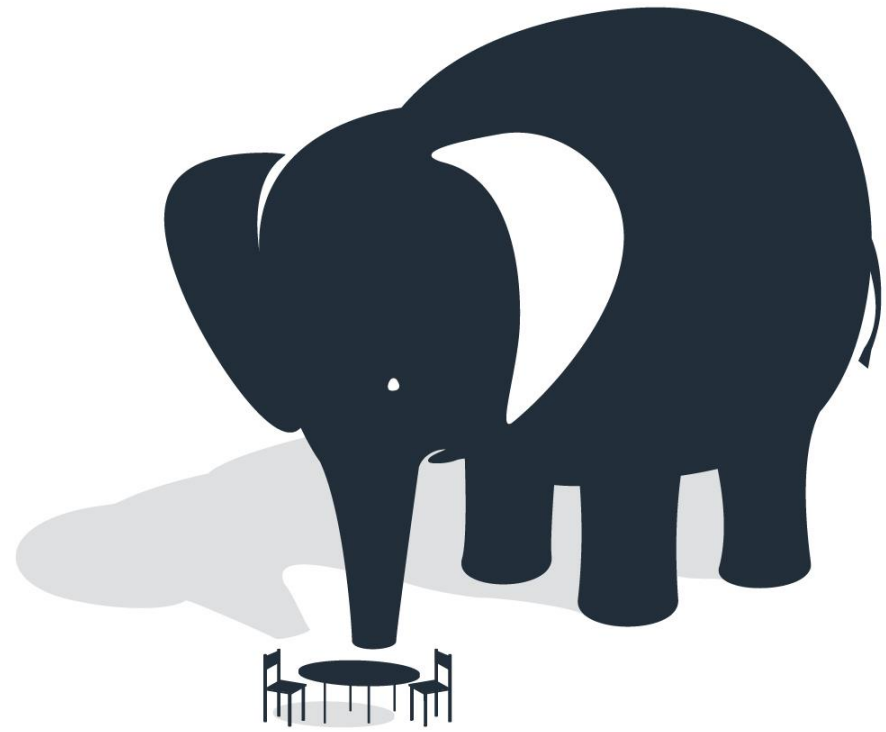
## 2 Exploring the JoHari Window



Johari Window© Joseph Luft & Harrington Ingram



# An elephant walks into a ZOULD



Conversations to transform  
your financial advisory  
practice

### 3 Conversations about retirement

#### Known & Open

The client has aspirations to retire from employment in five years on a specified income; has some pension provision and the capacity to make more

#### Blind but Open

The adviser can assess the purchasing power of the client's provision, the appropriate-ness of the investment mix, the economic variables, the best charging deals, etc.

#### Known & hidden

The client's inner world: hopes, dreams, limiting habits, ego needs, relationship issues, and so much more

#### Unknown

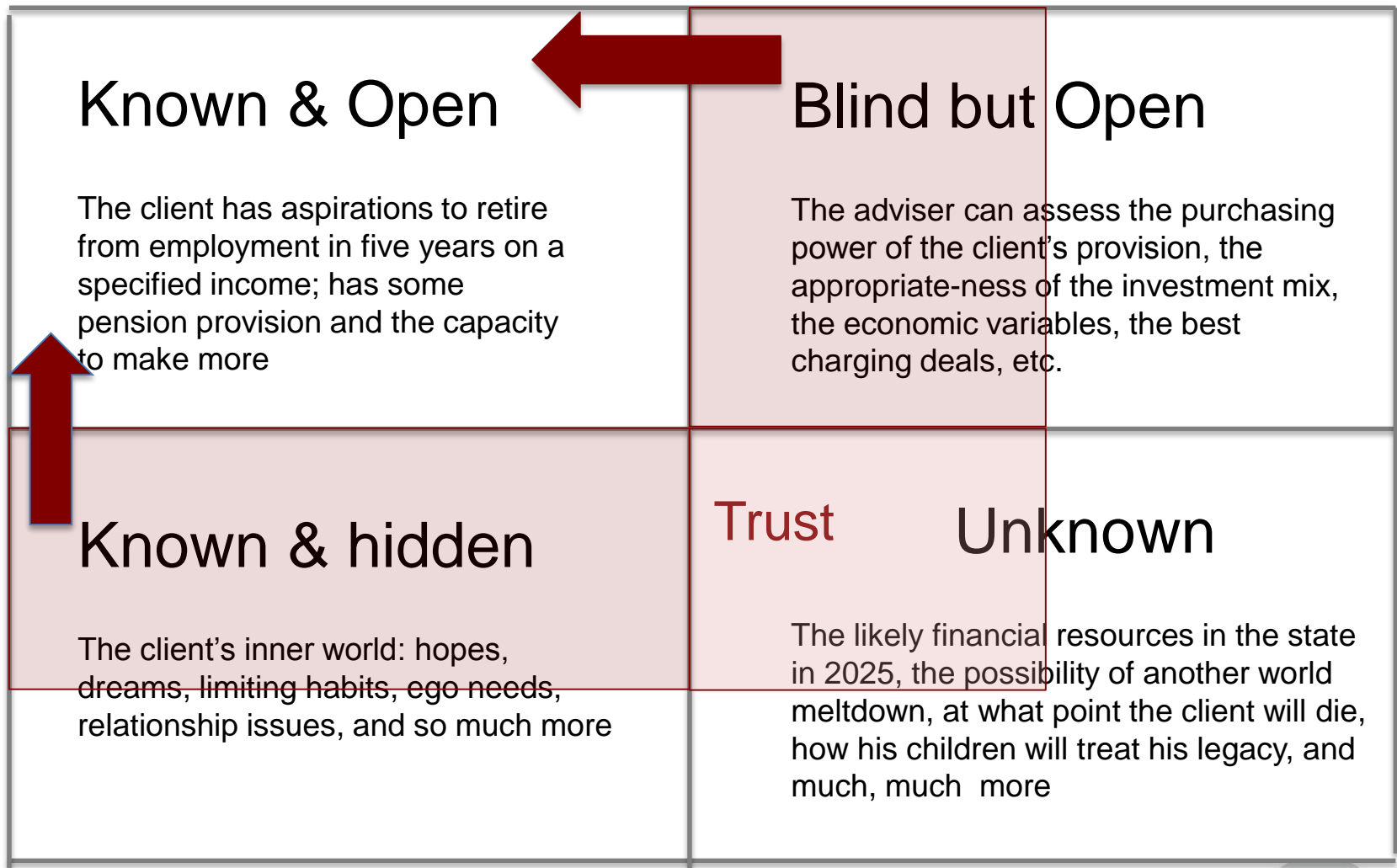
The likely financial resources in the state in 2025, the possibility of another world meltdown, at what point the client will die, how his children will treat his legacy, and much, much more

Johari Window© Joseph Luft & Harrington Ingram

EIGHTY20 FOCUS



### 3 Conversations about retirement



Johari Window© Joseph Luft & Harrington Ingram



3

## Known and open: the space where we often do most of our work

So I'm 57, want to retire when I'm 62, though I don't like the idea of doing nothing! I'm in a DB scheme, and will retire on about €60,000 a year and I have some savings and am in an LTIP share scheme that may net me about €500,000



3

# Blind, but open: where Advisers bring IP and technical data

The spending power of €60,000 in 20 years' time

Age 62

Spending power

€60,000



Age 82

Spending power

€33,500

So we have to explore other options.

- Can you live on less?
- Have you thought of other pension structures to allow more funding?
- Might you consider delaying your retirement to reduce SFT multiple?
- What is your thinking about setting up your own consulting company to facilitate more flexible pension funding?
- Should you do it now rather than wait?
- If you are self employed, is there any you can incorporate so as to fund more pension benefit?
- Your returns are not consistent with broader sector results, let's examine that
- You can negotiate lower provider charges and stop leakage that way

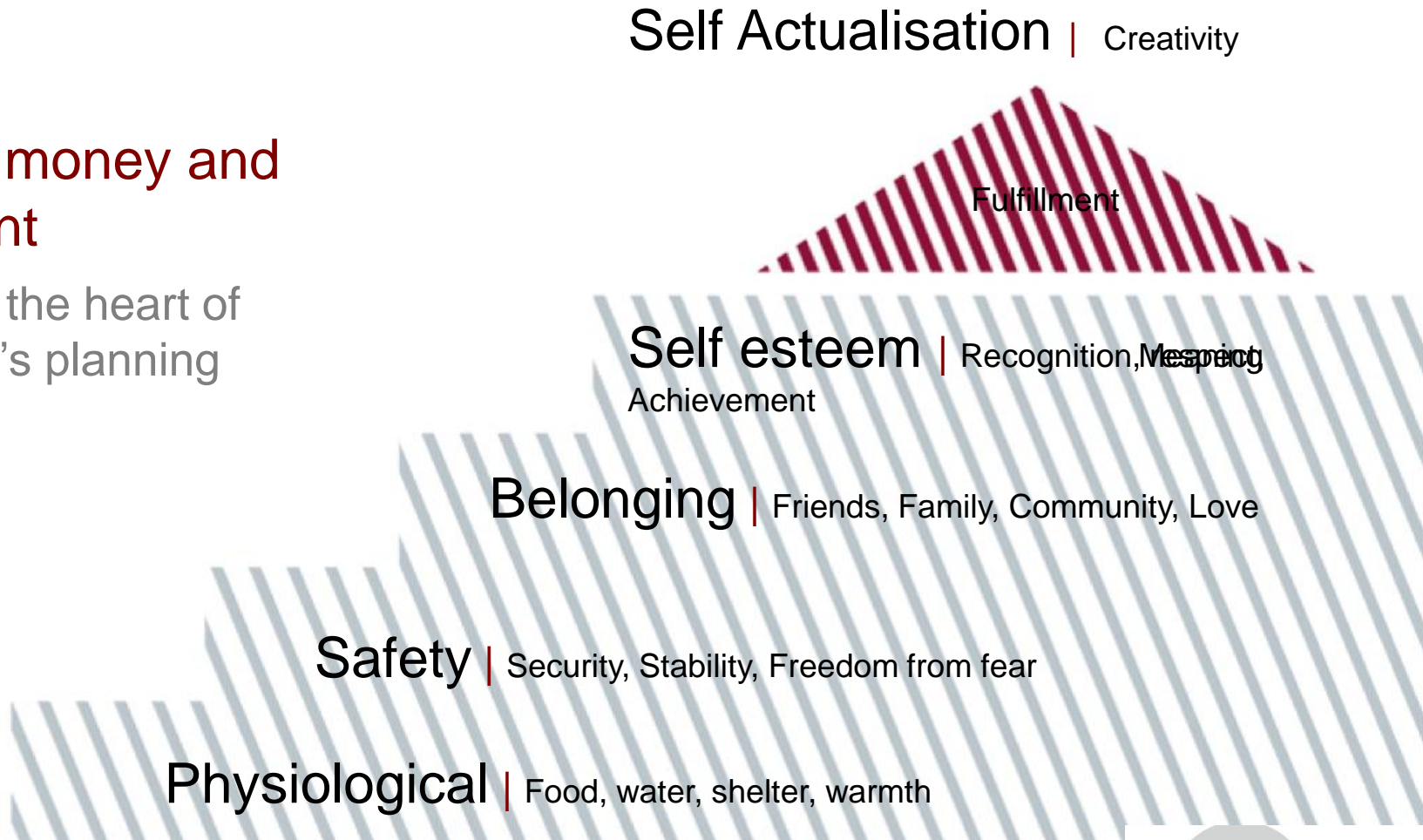


3

# Known, often hidden: and maybe where the elephant is

## Maslow, money and retirement

What is at the heart of your client's planning need?



3

# Known, often hidden: and maybe where the elephant is

‘Genetic’ relationships with money that may influence your client’s financial behaviour.



power broking

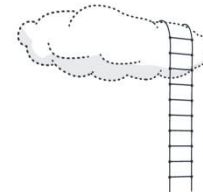
victimhood



naivety



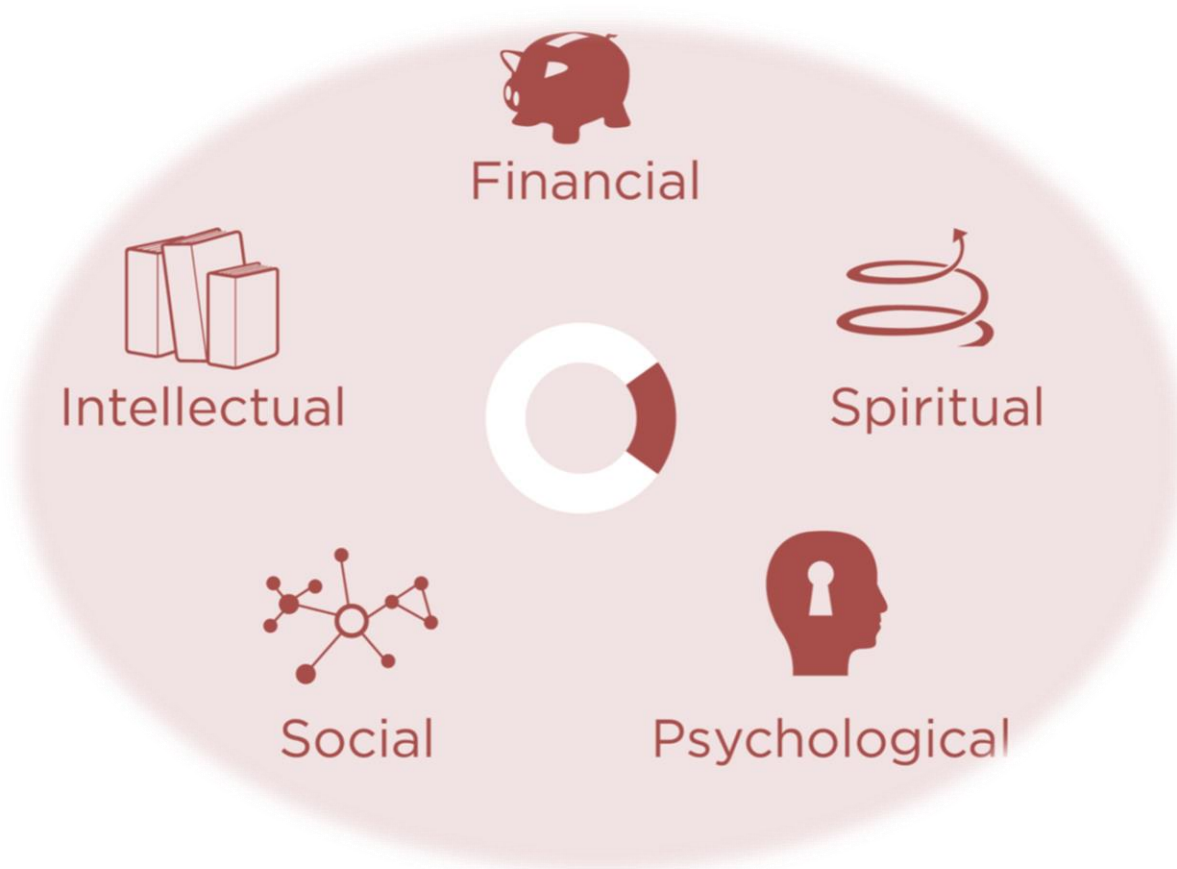
profligacy



self  
consciousness

3

## An area of the unknown to explore together as trust builds



### Developing a Family Office service line

What factors will influence how my children handle the inheritance I leave them?

What capital have they built?

### 3 An area of the unknown where the client may need to trust you

Facing the disintegration of identity and cognitive process

Involvement with family and the financial celebration of what was important

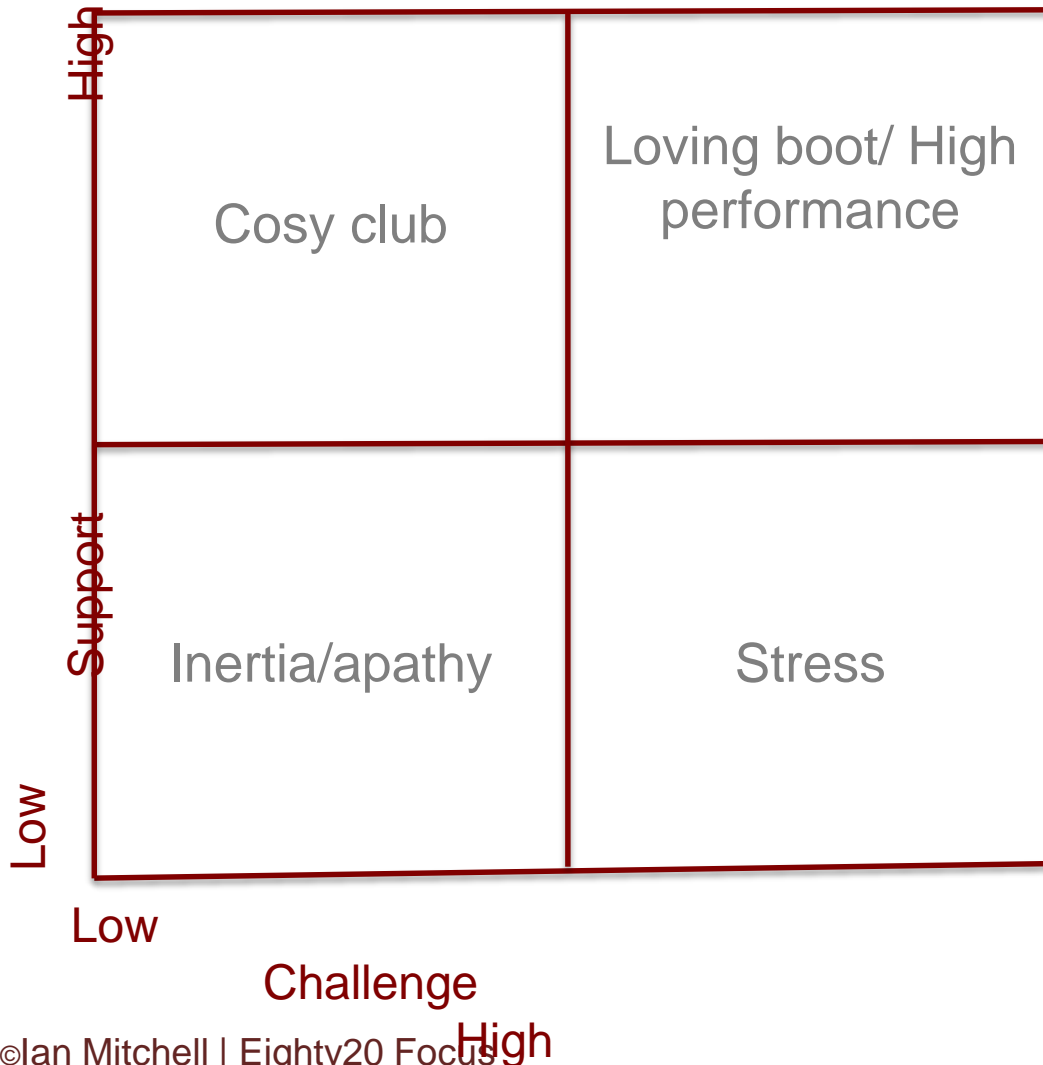


## 4 Conversations with your coach





# 4 Conversations with your coach



Where do your strategic business conversations sit?

# Enrichment comes in many ways



Personal and corporate vision and values



Team morale people retention



Client loyalty and championing in the marketplace



Financial Profitability





The Eighty20 Focus vision is to enable our clients to identify the **20%** of their resources and activity that provides **80%** of their desired outcomes and to prioritise these within their business and personal agendas.



# *Risk Profiling and Fund Suitability*

Paul McCarville

January 2014

# Outline

- Risk profiling
- Relating risk profiling outcomes to advice
- Multi-Asset funds
- Absolute return
- Exchange-Traded Funds
- Review and Rebalancing

# Clarus' Credentials?

- Principals 45 years as asset management professionals
- Authorised Advisors since 2008
- Design of Model Portfolios a core activity
- Diligence on products, providers and counterparties
- Research of risk profiling tools – developed our own
- Financial Planning for own clients
- Expert Witness work

**A specialist provider of independent investment advice/consulting**

# Who Are We?

## Paul McCarville

- Chartered Accountant, QFA
- 21 years at senior level in asset management
- Director / Head of Client Services & Marketing, Setanta, 1998 – 2007



## Joe Mottley

- B.E, M.Sc. (Public Sector Analysis), Associate Member of IIMR, QFA
- 22 years at senior level in asset management
- Director / Chief Investment Officer, Setanta, 1998 – 2007



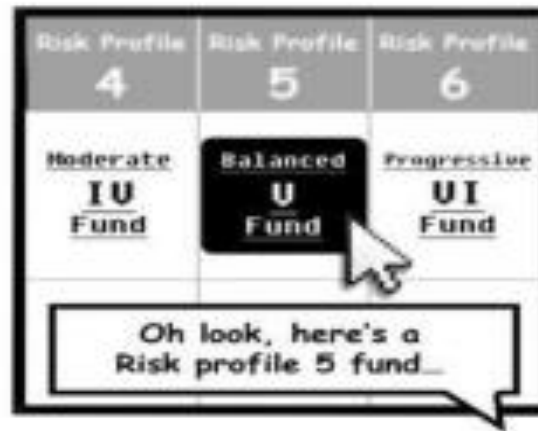
“Where they are used within a suitability assessment process, tools and questionnaires can help to provide structure and promote consistency and so can usefully support the discussion a customer has with their adviser or investment manager.”

**From FSA Guidance Notes “Assessing Suitability”, March 2011**



## But The FSA Also Says

- Unhappy with 9 of 11 risk profiling tools in common use
- Concerned about advisors' lack of understanding of tools, recognition of their limitations
- Mechanical mapping of risk tolerance to model portfolios also a worry



# Risk Profiling Tools Can Differ Greatly

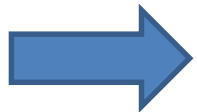
- Number and nature of questions
  - research suggests that 10+ Qs needed for reliability\*
- Scoring system
- Over-ride(s)
- Outcomes relative to people at large? Normally Distributed?
- Relative to some absolute measure of risk?
- Outputs

\* *Callan & Johnson, (2007)*

# Outputs – Prefer Validating Statements

## Balanced

- Understand that pursuit of better returns over long term involves taking more risk
- Significant fluctuations in value can be tolerated
- Modest tolerance for prolonged or permanent impairment of capital
- Willing to embrace some complexity
- Prepared to have an element in non-income-producing assets



Surely more useful to the Client than a number?

# Risk Profiling Is Complex !

- No accepted unit of risk
- Does attitude to risk change?
- Impact of:
  - Gender
  - Age
  - Income/Wealth
  - Education
- What about couples?
- Outcomes often at odds with capacity to bear loss
  - ➔ **CPC obliges advisors to consider and document “..if the consumer is financially able to bear any risks attaching to the product or service.” (5.16)**

# Recent Irish Research On Investment Risk

- Commissioned by **Friends First**
- Sample size > 1000
- Self-selected from five representations of risk, **90%** were spread fairly evenly across the three lowest ones
- Of those who considered themselves as 'Balanced':
  - **57%** would be worried by a fall of **5%** in a year
  - **21%** would consider they had been put into the wrong product if it lost **5%** in a year.....**43%** if a **10%** loss !

# ESMA Fund Risk Classification Methodology

- Computations based on volatility of weekly returns over the previous 5 years – mainstream funds
- Funds with shorter histories can aggregate numbers from a relevant benchmark
- Methodologies set out for Absolute/Total Return funds & Structured Products

Example of a fund that would fall into category 2:	Graphic or visual explanations	⇐ Typically lower rewards ⇐ Lower risk						Typically higher rewards ⇒ Higher risk ⇒
	Risk and reward scale chart	1	2	3	4	5	6	7

## ESMA Risk 'Buckets'

Risk Class	Volatility Intervals	
	equal or above	less than
1	0%	0.5%
2	0.5%	2%
3	2%	5%
4	5%	10%
5	10%	15%
6	15%	25%
7	25%	

# Mapping Risk Profiling Outcomes To ESMA

- “Science” of RP dovetails with mathematical precision of ESMA?
- Seven point scales meant to be married?

ABSOLUTELY NOT !



No relationship unless accidental



# Care Required In Using Risk Statistics

- Volatility is backward-looking : changes from one period to another and will be different in the future
- It is most useful for indicating **RELATIVE** risk – as in how much more risky equities are than bonds
- Essential when comparing **Absolute Return** and **Multi Asset** funds
- **Maximum Drawdown** a particularly useful statistic

# Maximum Drawdown

## **Concept**

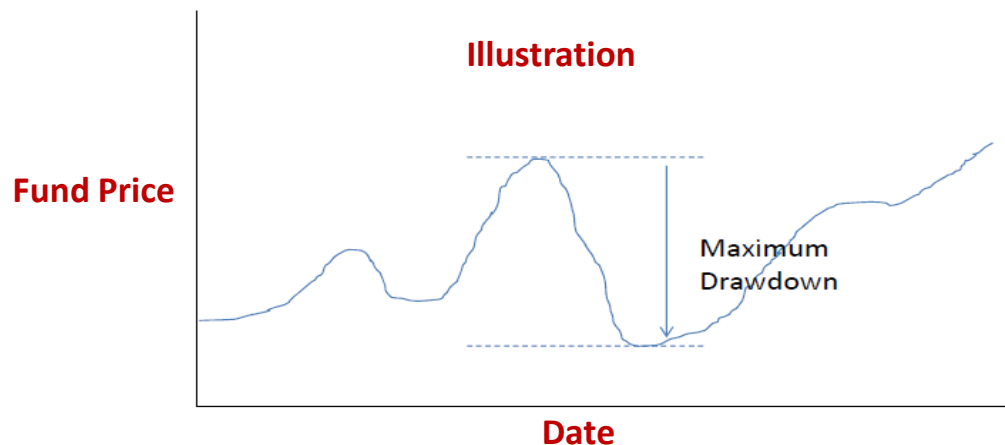
What's the worst that could have happened over the period in question?

## **Definition**

Largest peak-to-trough movement in value over the period in question

## **Comment**

More readily understandable to the layman, more focused on downside risk. Especially important in the context of Absolute Return funds



# Multi Asset ("MA") Funds – The New Panacea?

- Only time will tell how well they deliver
- Not so easy to establish if value being added...new league tables??
- The 'after-care' of MA funds not a high value-added activity
- If lifeco approach (Risk X → Fund Y) is valid, surely consumers will do it themselves ?
- Expect to see MA used:
  - for clients who want (or will only pay for) a basic service
  - by advisors who cannot or will not embrace investment

# Approaches Compared

Multi-Asset Fund	Single Building Blocks
<b>PROs</b>	
Less time	Control over asset allocation
Exploit manager skill in TAA*?	Access 'Best in Class' components
May reduce costs	More potential to use passive
<b>CONs</b>	
Control ceded	Time
Loss of transparency	Temptation to make market calls
Dependent on one provider	More oversight

\* *Tactical asset allocation*

# Absolute Return (AR)?

## Characteristics of AR Funds

Emphasis on capital preservation

Target in relation to volatility and/or return

Ability to take 'short' positions

Use of leverage within defined parameters

## PROs and CONs

PRO	CON
Wider investment parameters	Charges higher
Potential for manager skill to win	Potential for lack of manager skill to lose
Low correlation aids diversification	Complex
Alignment with investor objective	Lack of transparency
Low volatility/drawdown (usually)	Less liquidity (only some funds)

# AR – Risk Characteristics Key

## Risk and Return profiles

	Annualised return (% p.a.)	Annualised volatility (% p.a.)	Maximum drawdown (%)
<b>Standard Life GARS</b>	<b>7.4</b>	<b>5.3</b>	<b>6.4</b>
Zurich JP Morgan Income Opportunity	<b>5.1</b>	<b>3.5</b>	<b>3.9</b>
<b>Friends First Market Neutral</b>	<b>2.8</b>	<b>1.4</b>	<b>0.9</b>
Zurich BlackRock DDG	<b>2.3</b>	<b>3.2</b>	<b>5.1</b>

Data 31/8/08-31/12/13

# A Refresher On Correlation

- The degree to which asset returns are independent of each other
- Correlation:
  - +1: always move in the same direction
  - -1 : always move in the opposite direction
  - 0 : move independently
- The combination of assets which are lowly-correlated can produce portfolios which are more efficient
- Sometimes the numbers disguise the truth
  - bank shares and property

# AR – Risk Characteristics Key

## Correlation

	MSCI Developed World	Euro Sovereign Bonds
<b>Standard Life GARS</b>	<b>0.45</b>	<b>0.30</b>
<b>Zurich JP Morgan Income Opportunity</b>	<b>0.64</b>	<b>-0.05</b>
<b>Friends First Market Neutral</b>	<b>0.07</b>	<b>-0.12</b>
<b>Zurich BlackRock DDG</b>	<b>0.39</b>	<b>0.10</b>

Data 5 years to 31/12/13



# Correlation Between AR Funds

	Standard Life GARS	Zurich JP Morgan Income Opportunity	Friends First Market Neutral	Zurich BlackRock DDG
Standard Life GARS	1.0	0.48	0.09	0.38
Zurich JP Morgan Income Opportunity	0.48	1.0	0.21	0.44
Friends First Market Neutral	0.09	0.21	1.0	0.11
Zurich BlackRock DDG	0.38	0.44	0.11	1.0

Data : 5 years to 31/12/13

# Exchange-Traded Funds ("ETFs")

## What Are ETFs?

- Those domiciled in Europe nearly all UCITS
- Listed – trade just like shares
- Trade at or close to NAV

## Attractions?

- Passive
- Massive choice
- Cheap
  - Vanguard All World High Yield ETF – **TER 0.29%**



**But no commission**

# A Word On Platforms

- Taking UK advisor market by storm
- Here now but modest impact so far
- Greatly facilitate portfolio building – wide choice, lot of ETFs
- Tax wrappers usually an option
- Enable advisors to break with lifeco model
- Capacity to rebalance

# Review And Rebalancing Are Crucial

## Rebalancing

- A potential source of return:
  - selling assets which have run and buying laggards
  - avoids build-up of the most highly-valued assets
- Ensure continuing suitability

## Review

- A basic client expectation
- Change composition if needed, hopefully rarely
- Client circumstances change
- Revisit assumptions

# Summary

- Limitations of Risk Profiling need to be understood
- Capacity **MUST** come next
- No basis whatever for mapping onto ESMA
- Multi-asset funds yet to be proven
- **Risk** and **Correlation** key to Absolute Return
- ETFs a major option for fee-based advisors
- Review and Rebalancing crucial

## General Disclosures

- Clarus Investment Solutions is authorised by the Central Bank of Ireland under the Investment Intermediaries Act, 1995
- The value of your investment may go down as well as up

# Measures Of Investment Risk: Volatility

## Concept

How much does the investment return fluctuate from one period to the next?

## Definition

Annualised Standard Deviation of periodic returns (daily/weekly/monthly)

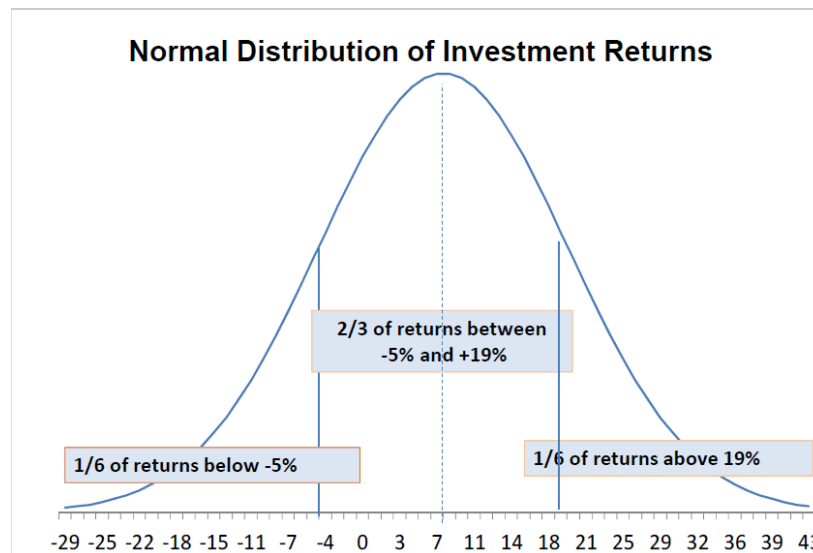
## Comment

Based on assuming Normal Distribution applies → indicates 67% of returns will be within 1 SD from average, 95% within 2 SD from average

### Example

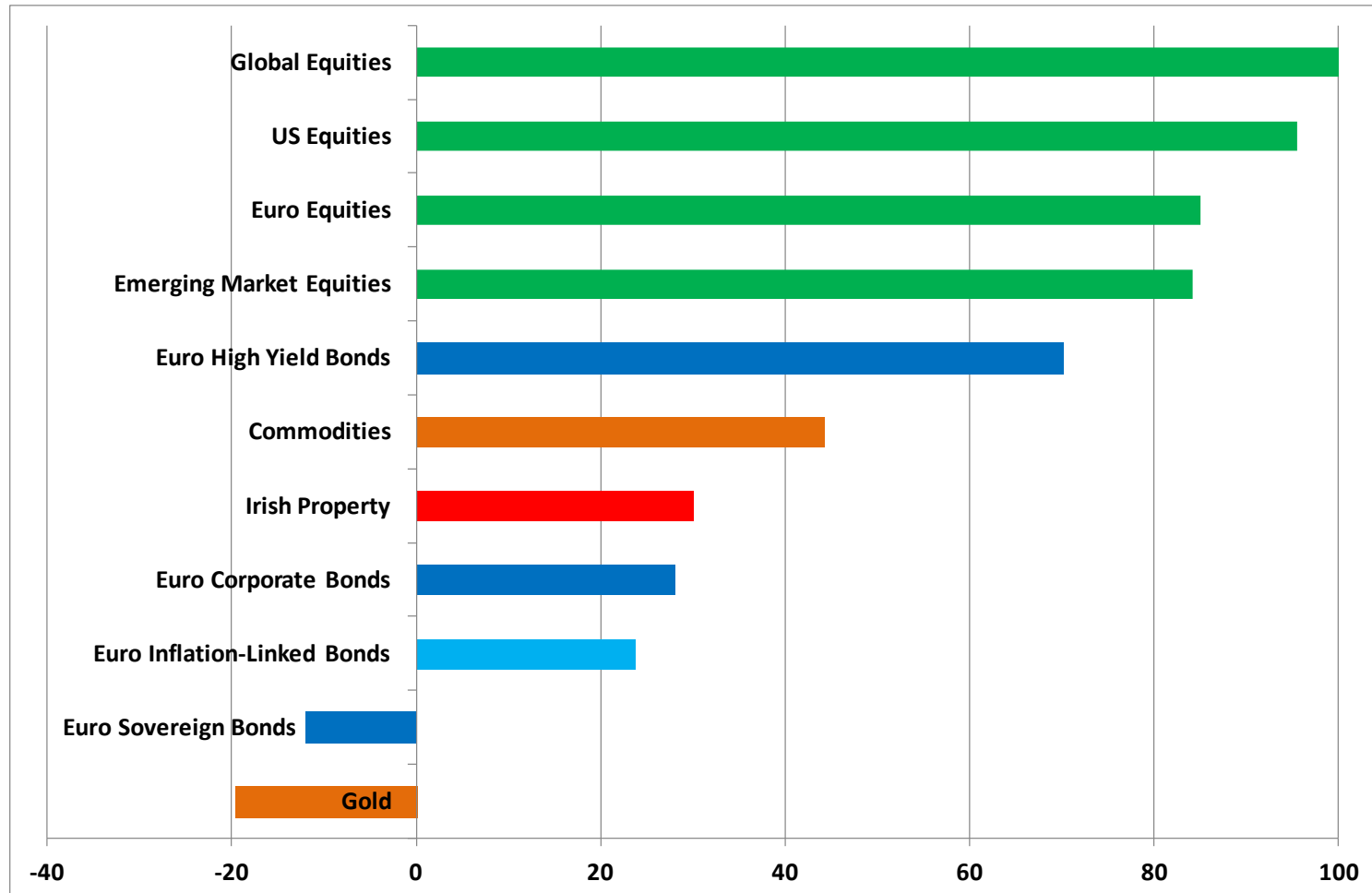
Average Return 7%

Volatility 12%



# Sample Asset Class Correlations

## Correlation with Global Equities





## More Thoughts On Risk Profiling

“The science lies in the tools the advisor uses. The art lies in the advisor's ability to use the tools effectively, to work collaboratively with clients to obtain an in-depth understanding of their needs, to assist clients in resolving mismatches by identifying and explaining alternatives, and to guide the decision-making process”.

Paul Resnik and Geoff Davey (co-founders of **Finametrica**)



We would like to thank everyone for taking the time to attend today.

We believe by teaming up with like minded professionals and utilising their expertise you can grow your business in 2014 and beyond!

