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What role could alternative assets play in DC investment strategies in the future?

WORLD GOLD COUNCIL

PPI Launch Event
Thursday 09 March 2023

A Pensions Policy Institute Report

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Welcome from the Chair

John Chilman,

Chief Executive (Railpen)
And PPI Trustee

Twitter: #PPIlaunch

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Today's event is the official launch of the research report,

What role could alternative assets play in DC investment strategies in the future?

This report explores the topic of Defined Contribution (DC) scheme investment in alternative assets, particularly in light of new opportunities and the potential benefits that could be gained from the use of these types of assets during times of economic uncertainty.

Key Findings

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Lauren Wilkinson,

Senior Policy Researcher
Pensions Policy Institute
(PPI)

Twitter: #PPIlaunch

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The role of alternative assets in DC investment strategies

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- What does the alternative investment landscape look like today?
- How might alternative assets help to mitigate risk in times of economic uncertainty?
- What are the barriers to alternative investment?
- How might alternative investment evolve in the future?

What does the alternative investment landscape look like today?

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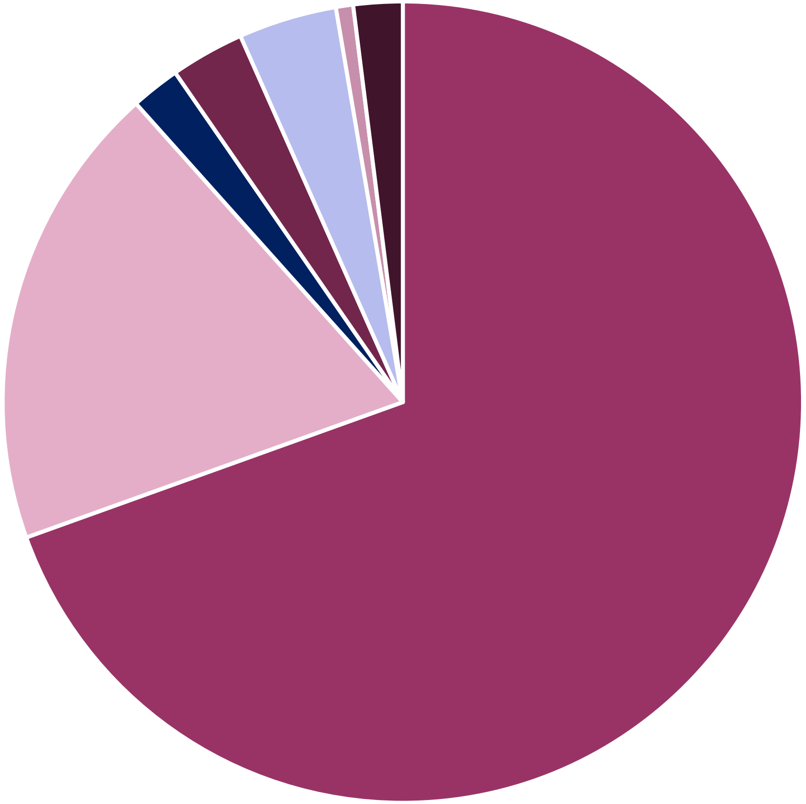

20 years from retirement

- Equities – 70%
- Cash and bonds – 19%
- Indirectly through a trust – 2%
- Infrastructure – 3%
- Commodities – 4%
- Property – 0.7%
- Private debt – 2%

How might alternative assets help to mitigate risk in times of economic uncertainty?

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Inflation

Volatility

Diversification

Liquidity

Low correlation

What are the barriers to alternative investment?

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Scale

Growing but still a barrier, exacerbating other operational challenges

Knowledge and expertise

May need greater support from external sources + regulatory guidance

Platform offerings

Accessibility to alternatives dependent on platforms, esp. for smaller schemes

Cost and competition

Shifting to a broader focus for VfM – greater focus on quality and value added

How might alternative investment evolve in the future?

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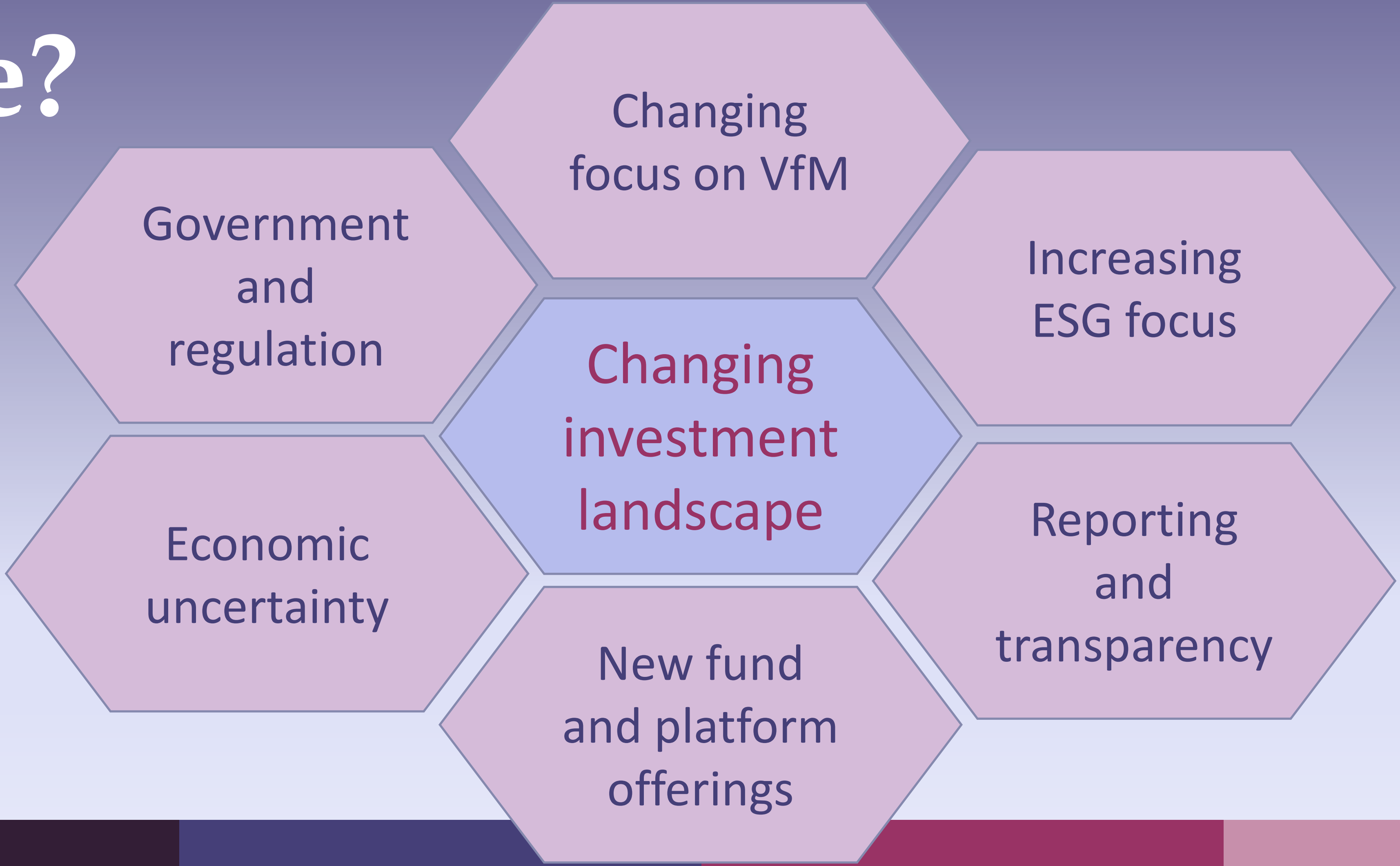

Conclusions

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- DC allocation to alternatives currently remains relatively low
- But there are signs that significant change might happen in coming years as the investment landscape evolves
- The scale and effectiveness of these changes will depend on the extent to which barriers can be removed or mitigated

Response from our sponsors

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Jeremy De Pessemier,

Asset Allocation Strategist
World Gold Council.

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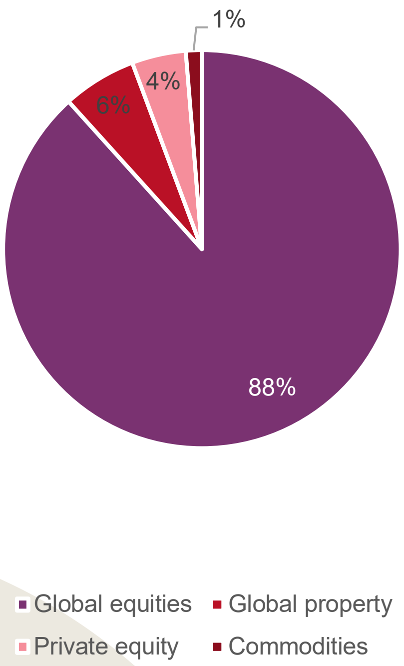
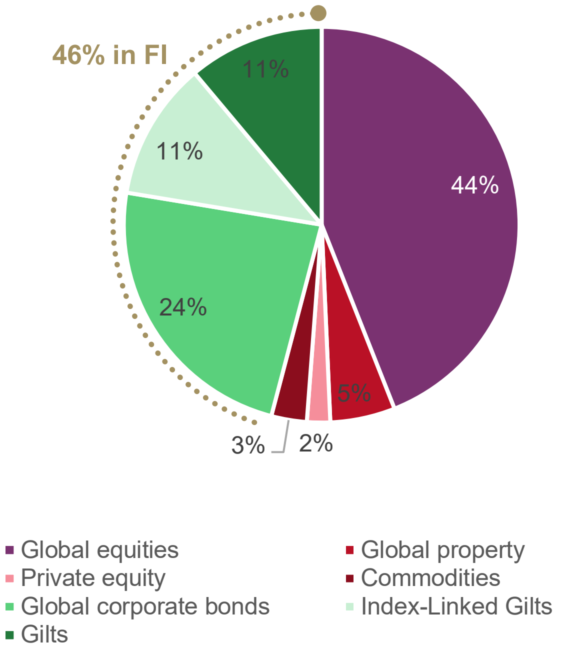
Pension Policy Institute: The role of gold within UK DC pension schemes

Typical DC Strategic Asset Allocation

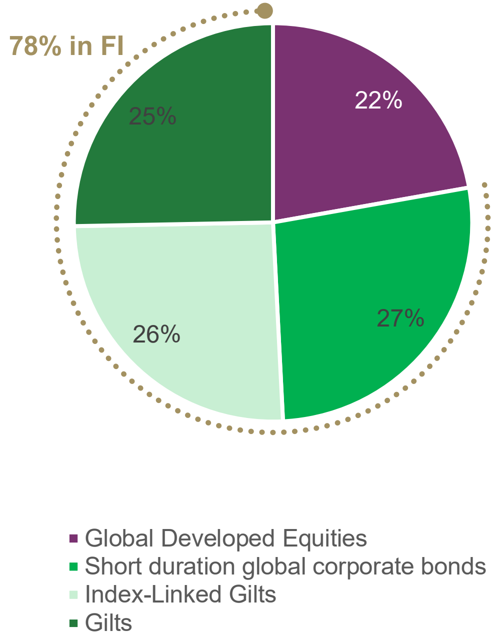
Accumulation Portfolio



Consolidation Portfolio



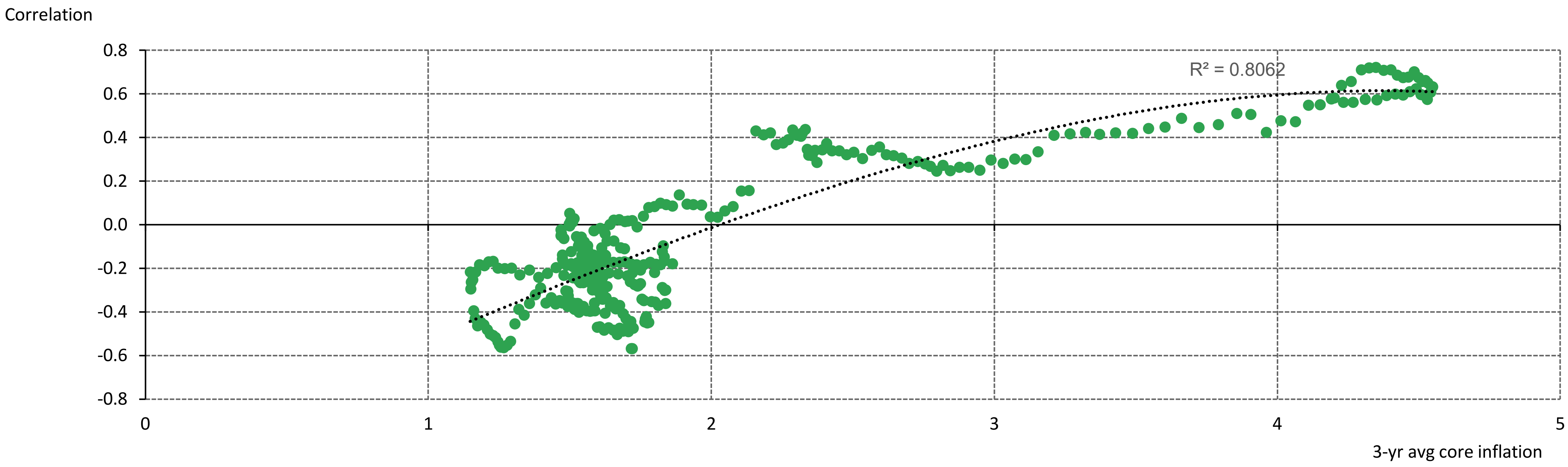
Decumulation Portfolio



Source: World Gold Council
as of March 2023

Higher Inflation Weakens the Appeal of Bonds as a Diversifier

Rolling 3y correlation of Global Equity and Global Treasury Bond returns vs 3yr average G7 core inflation 1987-2022



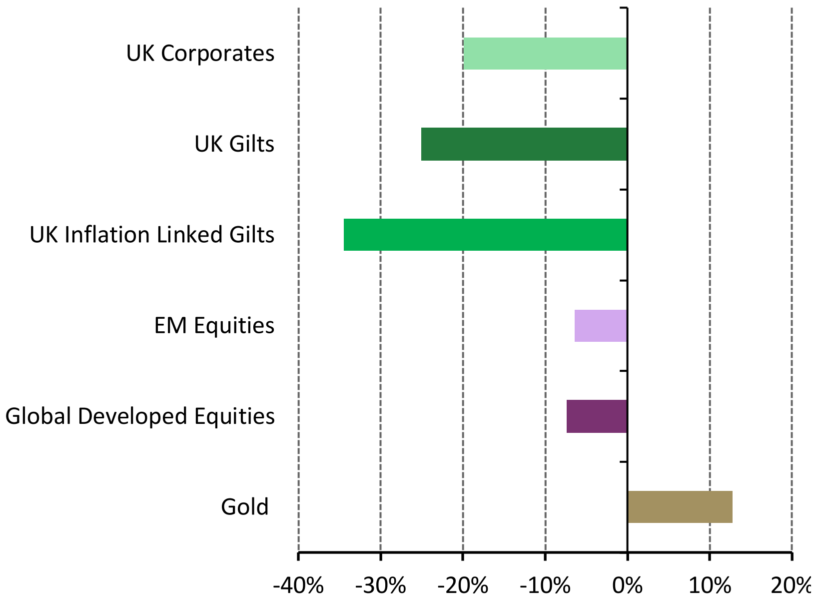
Source: Bloomberg, World Gold Council, ICE Benchmark Administration

*As of 31 December 2022.

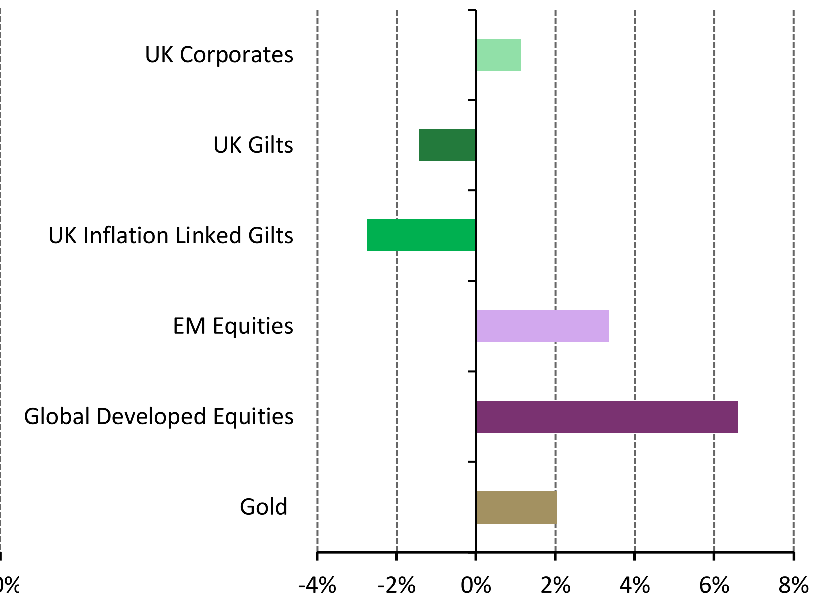
Fixed Income Drawbacks – A New Policy Reality

UK Gilt 10yr move

2022 returns



YTD returns (as of 3rd March 2023)

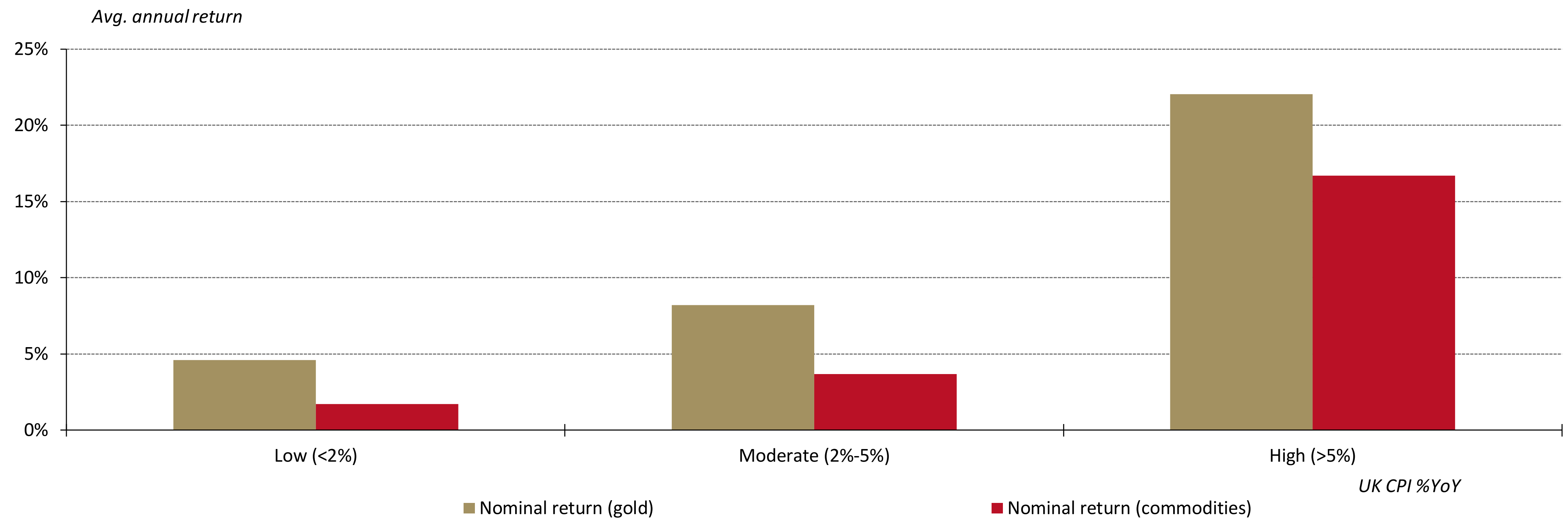


Source: Bloomberg, World Gold Council, ICE Benchmark Administration

*As of 31 December 2022.

Gold historically performs well in periods of high inflation

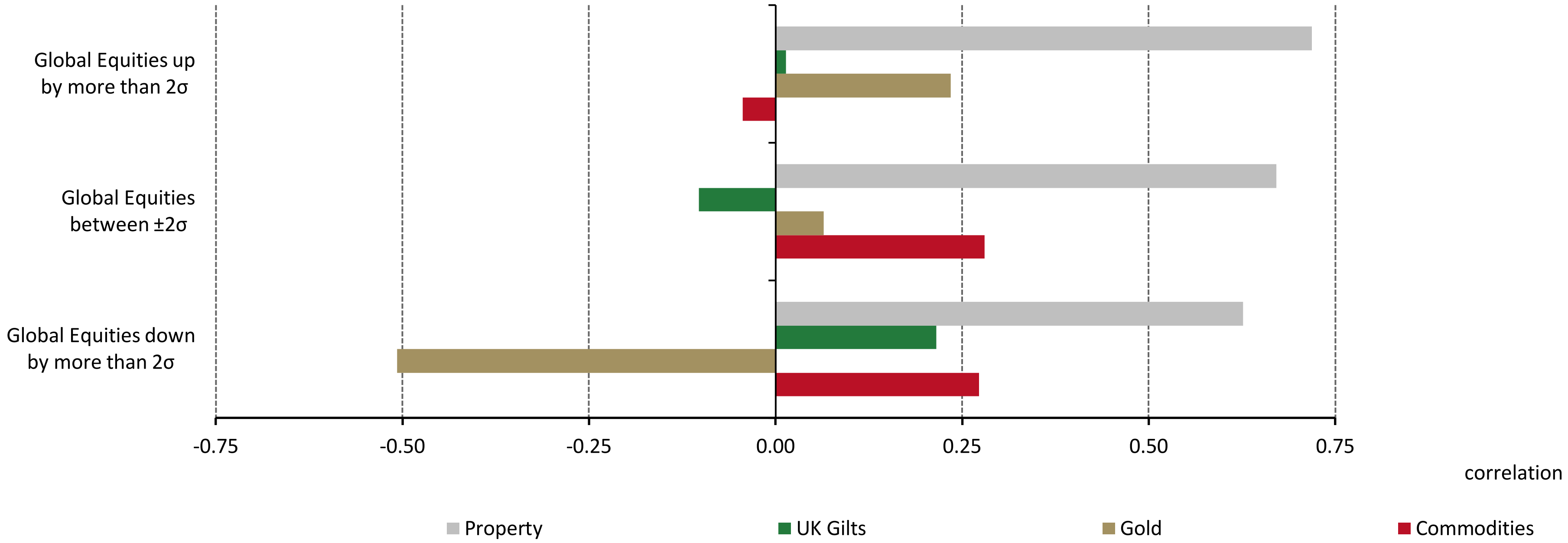
Gold and commodity returns as a function of annual inflation*



* Inflation computed using annual UK CPI year-on-year changes between 1971 and 2022.
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

Strategic case for gold: diversification

Correlation between alternatives and global equity returns in various environments of equities' performance (since 1994)

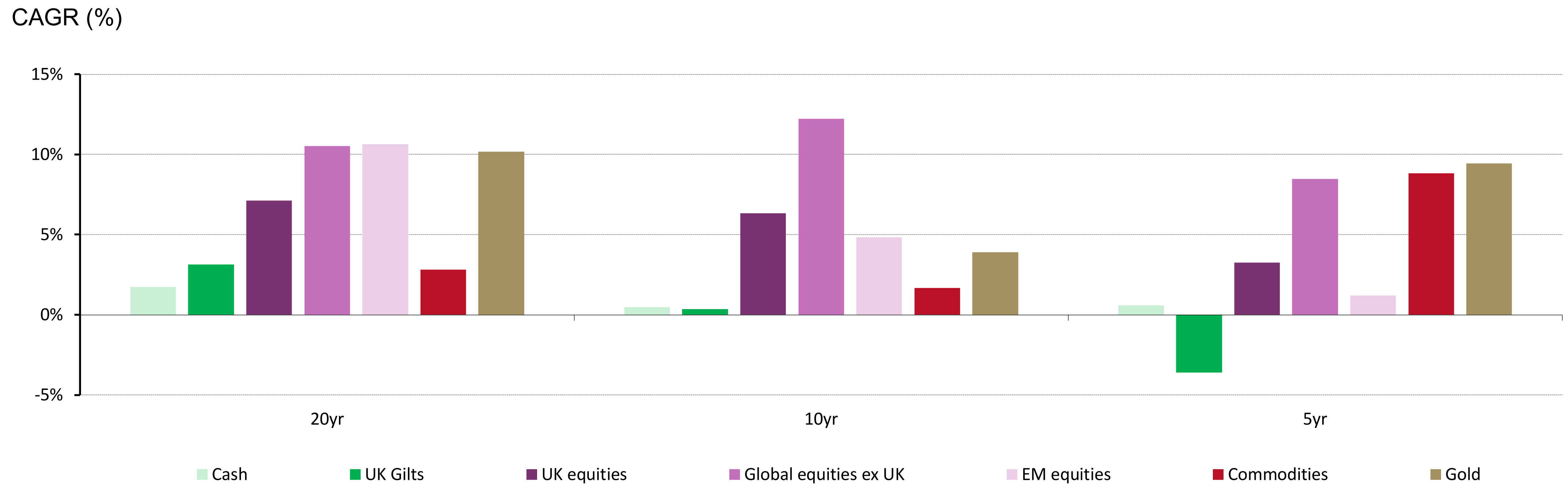


Source: Bloomberg, World Gold Council;

*Based on weekly returns of the ICE BofA UK Gilts Index, Bloomberg Commodity Index and LBMA Gold Price using data between 31 December 1993 and 31 December 2022. The middle bar corresponds to the correlation conditional on FTSE Global Equities Index weekly returns being between +/- two standard deviations (or 'σ') over the full period. The bottom bar corresponds to the correlation conditional on FTSE Global equities Index weekly return falling by more than two standard deviations (or 'σ'), while the top bar corresponds to the FTSE Global equities Index weekly return increasing by more than two standard deviations. The standard deviation is based on the same weekly returns over the full period. All calculations in GBP.

Strategic case for gold: returns

Annualised returns of key global assets in GBP*

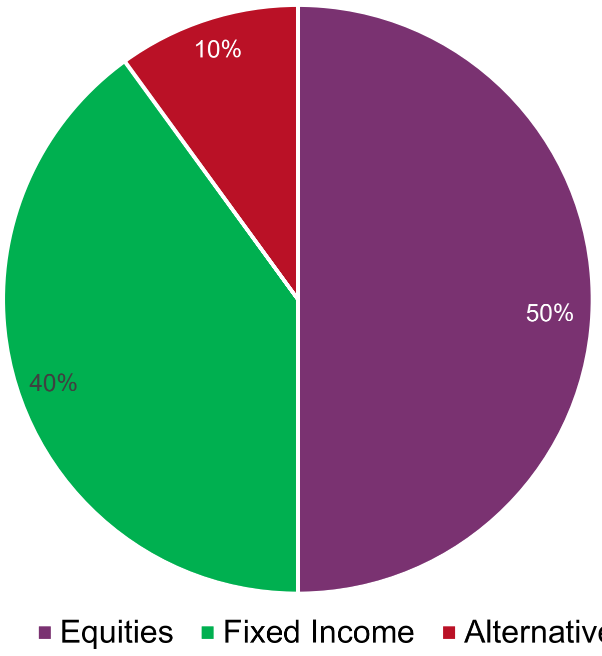


Source: Bloomberg, ICE Benchmark Administration, World Gold Council

*As of 31 December 2022. Computations in GBP of total return indices for £ Cash: Barclays Benchmark Overnight GBP Cash Index, UK Gilts: Bloomberg Sterling Gilts Total Return Index, FTSE All-World ex UK, FTSE 100 Total Return Index, MSCI EM Index, Bloomberg Commodity Index and Gold: spot for LBMA Gold Price PM. Compounded annual growth rate (CAGR) computed as the geometric average from the start to the end of the period.

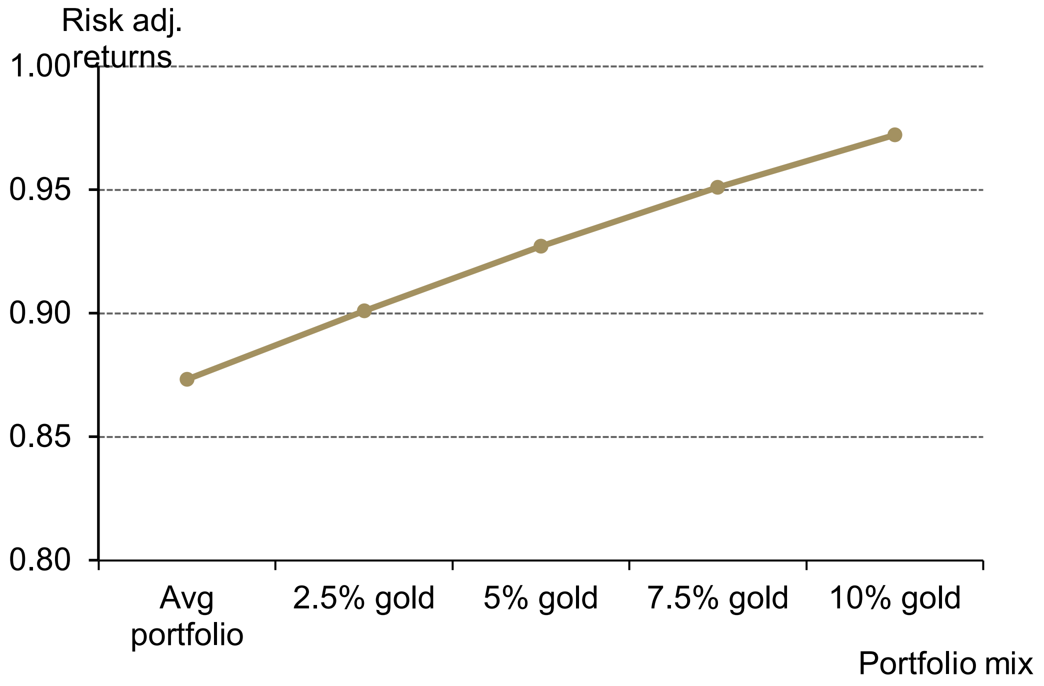
Strategic case for gold: portfolio impact

Hypothetical diversified portfolio: asset allocation



Adding gold over the past 20 years has increased risk-adjusted returns of a hypothetical GBP portfolio

Risk-adjusted returns of a hypothetical GBP portfolio with and without gold*



The hypothetical average portfolio: 50% allocation to equities (40% MSCI World Net Total Return Index, 5% MSCI EM Net Total Return Index, 5% MSCI World Small Cap Net Total Return Index), 40% allocation to fixed income (20% Bloomberg UK Gilt Index, 15% Bloomberg UK Corporate Bond Index, 5% Bloomberg Global Corporate High Yield Total Return Index) and 10% allocation to alternative assets (3.3% FTSE REITs Index, 3.3% HFRI Hedge Fund Index and 3.3% Bloomberg Commodity Index).
* Source: World Gold Council

*Based on GBP performance between 31 December 2002 and 31 December 2022. The hypothetical average portfolio: 50% allocation to equities (40% MSCI World Net Total Return Index, 5% MSCI EM Net Total Return Index, 5% MSCI World Small Cap Net Total Return Index), 40% allocation to fixed income (20% Bloomberg UK Gilt Index, 15% Bloomberg UK Corporate Bond Index, 5% Bloomberg Global Corporate High Yield Total Return Index) and 10% allocation to alternative assets (3.3% FTSE REITs Index, 3.3% HFRI Hedge Fund Index and 3.3% Bloomberg Commodity Index). The allocation to gold comes from proportionally reducing all assets. Risk-adjusted returns are calculated as the annualised return/annualised volatility.
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

Conclusion

Why gold?

DC challenges

- Investment risk
- Inflation risk
- Longevity risk

Gold's characteristics

- Returns
- Diversification
- Liquidity

Portfolio Impact

Appendix – Important information and disclosures

Important information and disclosures

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Information regarding Qaurum^{SM} and the Gold Valuation Framework

Note that the resulting performance of various investment outcomes that can generated through use of Qaurum, the Gold Valuation Framework and other information are hypothetical in nature, may not reflect actual investment results and are not guarantees of future results. WGC provides no warranty or guarantee regarding the functionality of the tool, including without limitation any projections, estimates or calculations.

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Thank you

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The remainder of the event will be held under The Chatham House Rule

Participants are free to use the information received, but

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Panel Opening Remarks

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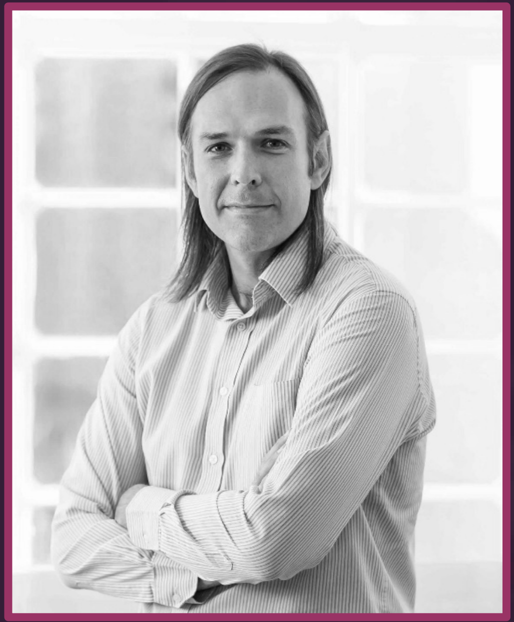

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Jeremy De Pessemier
World Gold Council

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Questions for Attendees

Who in the room will be advocating for a higher allocation to alternative assets in the decade ahead?

Who in the room believes gold could be a suitable alternative investment for DC schemes?