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# Challenges ahead for retirement investment

SAS Virtual Health & Retirement Conference

Thibaut Ferret, Senior Solutions Director, APAC  
Aberdeen Standard Investments



# A challenging environment for retirement investment strategy

Current crisis expected to be catalyst of some existing trends



## Ultra low interest rate environment

- Long-term interest rates falling below 1% and anticipated inflation
- Credit spreads back to historical lows
- Low interest rate expected to last



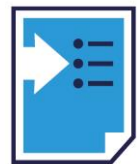
## Market risks

- Covid-19 reminder of credit and equity risk
- Increased appetite for protection/guarantee but for a higher price



## Demographics

- Ageing population > increased reliance on Pension Pillar III
- Longer longevity requiring more capital/returns for longer decumulation period



## Regulation for insurers (IFRS/RBC)

- Higher capital requirement / cost of guarantee
- Transfer of risk from general account to ILP

Source :Aberdeen Standard Investments



**4.0%**

SGD 10Y  
Nominal Rate  
Dec 2001

**1.0%**

SGD 10Y  
Nominal Rate  
Aug 2020



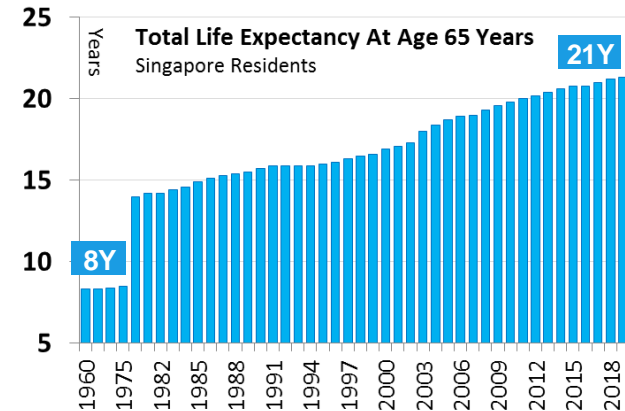
**1.8%**

US 10Y  
Breakeven Inflation  
Aug 2020

**0.7%**

US 10Y  
Nominal Rate  
Aug 2020

Source :Bloomberg as of Aug 2020



Probability for a Singapore resident aged 65 to live beyond age 95:



**21%**

**12%**

Source :Singapore Department of Statistics, 2019/2020

# Impact on retirement savings strategies

## Rethinking investment approach



### No choice but to take risk for acceptable returns

- Risk-free rate not sufficient enough for decent returns
- Capital protection comes at a price
- Trade-off between return expectations and risk aversion.



### Development of more sophisticated strategies

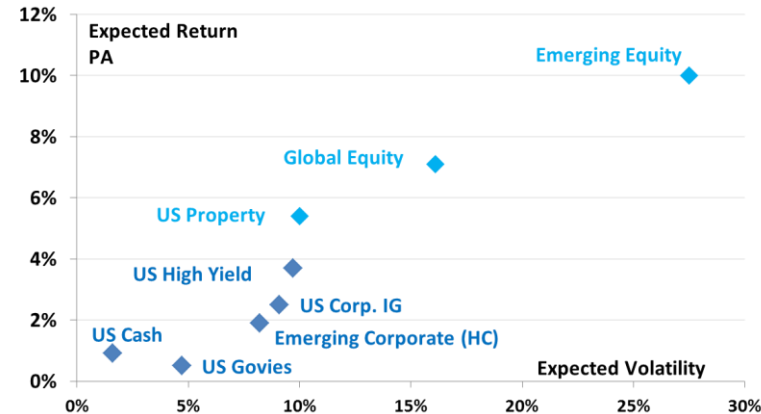
- Various risk/return profiles and strategies to cater for different needs and constraints from investors
- Adjusting the investment strategy according to stage of life
- Democratizing institutional investment strategies to individuals (e.g. private assets, customized liability-aware strategies, use of derivatives)



### Technology/digital support

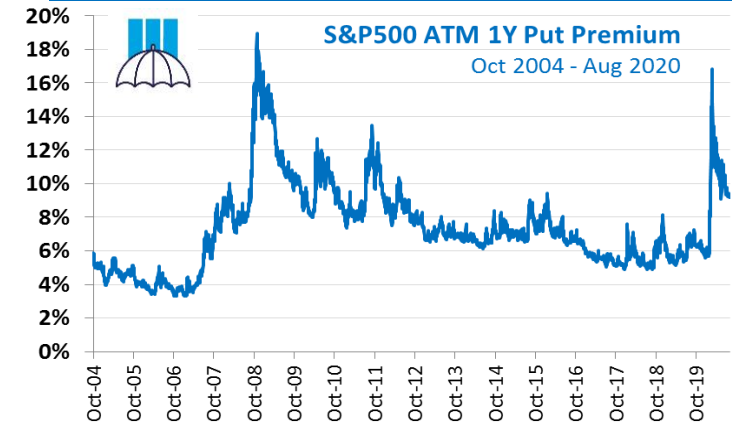
- Customised advice / services
- Personalised investment strategy
- Pressure on fees

### Prospective risk/return 10Y– USD Hedged



Source: Aberdeen Standard Investments. Forecasts as of June 2020. Return projections are estimates and provide no guarantee of future results

### Historical cost of equity protection

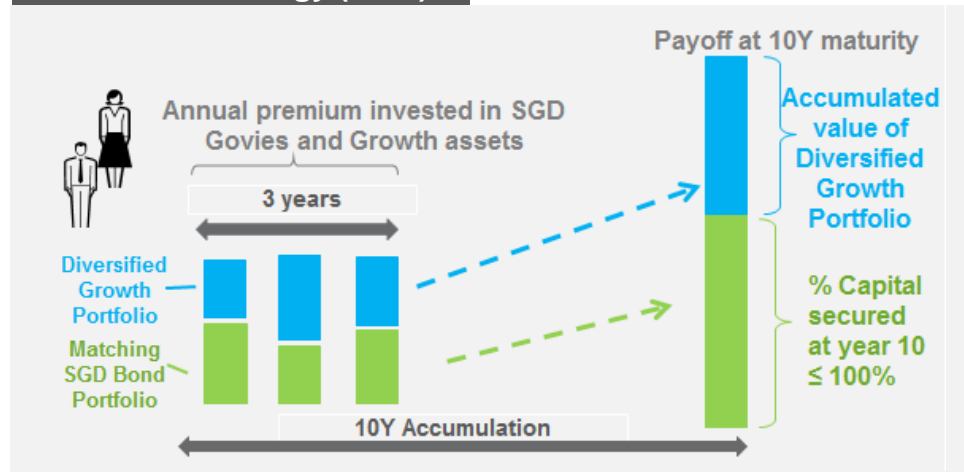


Source: Aberdeen Standard Investments / Bloomberg, August 2020. Option premium calculated theoretically with Black Scholes formula

# Balancing risk and return

## Illustration with a simple 3pay10 accumulation strategy

### Investment Strategy (SGD)



### Comments

#### Dec 2001

3Y annual premiums invested 100% in SGD govies would have lead to actual IRR = 3.5% with 100% Capital Protection over 10Y

#### Aug 2020

- 3.5% expected IRR but 54% Capital protection
- 100% capital protection but 1.5% expected IRR

### Projected Outcome at 10Y horizon for total investment of 100kSGD over 3 years – Annual premium 33.3kSGD

**3.5% expected IRR with 54% capital protection**  
Initial Exposure to Growth Portfolio: 51%

Percentile	Capital at maturity (SGD)	IRR
95%	170,198	6.1%
75%	148,309	4.5%
Base Case 50%	136,141	3.5%
5%	112,694	1.3%

**1.5% projected IRR with 100% capital protection**  
Initial Exposure to Growth Portfolio: 10%

Percentile	Capital at maturity (SGD)	IRR
95%	128,107	2.8%
75%	118,909	2.0%
Base Case 50%	113,890	1.5%
5%	105,047	0.6%

5% probability to have IRR above 2.79% over 10Y

5% probability to have IRR below 0.55% over 10Y

Source: Aberdeen Standard Investments, August 2020. For illustrative purposes only. Strategy details are subject to change. Prospective return distribution derived from the simulation of 5,000 economic scenario over 10Y as of Aug 2020 using Moody's Analytics ESG tool.

# An increasing choice of retirement investment solutions from asset managers

Existing range of suitable strategies prioritizing different objectives and features

	Multi-Asset			CPPI - TIPP	Target date / risk funds	Fund + GA Hybrid ILP, allocation to annuity and fund
	Bench- marked, Income	Absolute return	Risk- profiling			
Prioritise Return		✓		✗	~	~
Capital protection		✗		✓	✗	~
Transparence (return, risk, allocation)	✓	~	✓	✗	✓	~
Adjust to life stage		✗		✗	✓	~
Address Longevity		✗		✗	✗	✓
Open Ended Strategy		✓		✗	✓	~

Source: Aberdeen Standard Investments, August 2020

 Yes
  No
  Partial

# The rise of outcome-oriented solutions ?

## Increasing sophistication in client requirements

### EXPECTATIONS

- **Customisation of outcome** according to targeted investors : individual liabilities , income, capital protection
- **Higher visibility** on return distribution at retirement (base case/worst cases) to help select the most appropriate strategy
- **Evolving strategy** adjusting to stage of life (e.g. accumulation / decumulation)

### CHALLENGES

#### Implementation:

- Limited choice of financial instruments
- Annual premium for capital protected strategy in a fund format

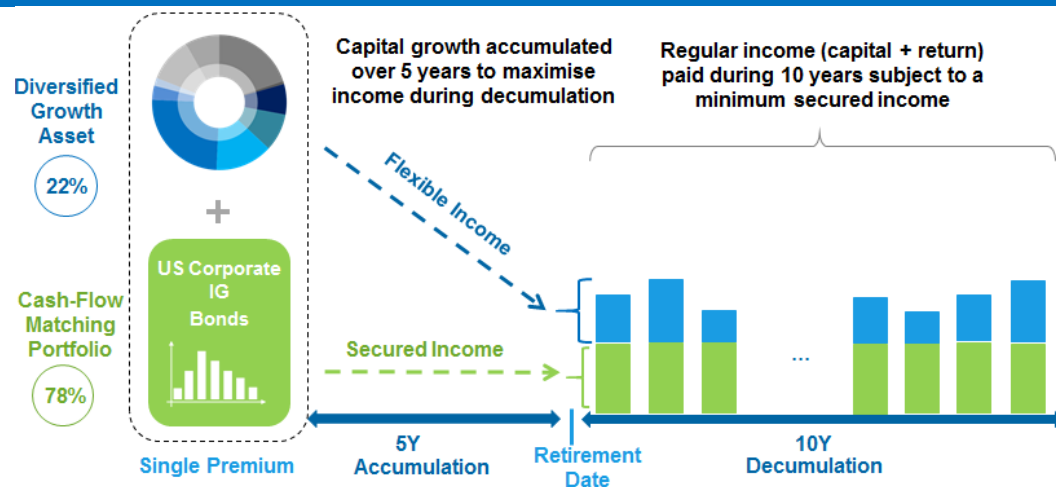
#### Economics :

- Closed-ended fund with limited-time window for subscription and decreasing AUM during decumulation
- Size of the targeted market

#### Communication

- Complexity to be made simple for retail investor
- Wording for protection/guarantee

### Example of accumulation-decumulation strategy with 100kUSD single premium and 100% secured capital



Percentile	Average Annual Income (USD)	IRR
95%	16,217	4.0%
75%	14,736	3.3%
Base Case 50%	13,875	2.9%
5%	11,733	1.6%
1%	10,408	0.8%

Source: Aberdeen Standard Investments, August 2020. For illustrative purposes only. Strategy details are subject to change. Prospective return distribution derived from the simulation of 5,000 economic scenarios over 10Y as of Aug 2020 using Moody's Analytics ESG tool.

# Digital support

## Improving the customer investment journey



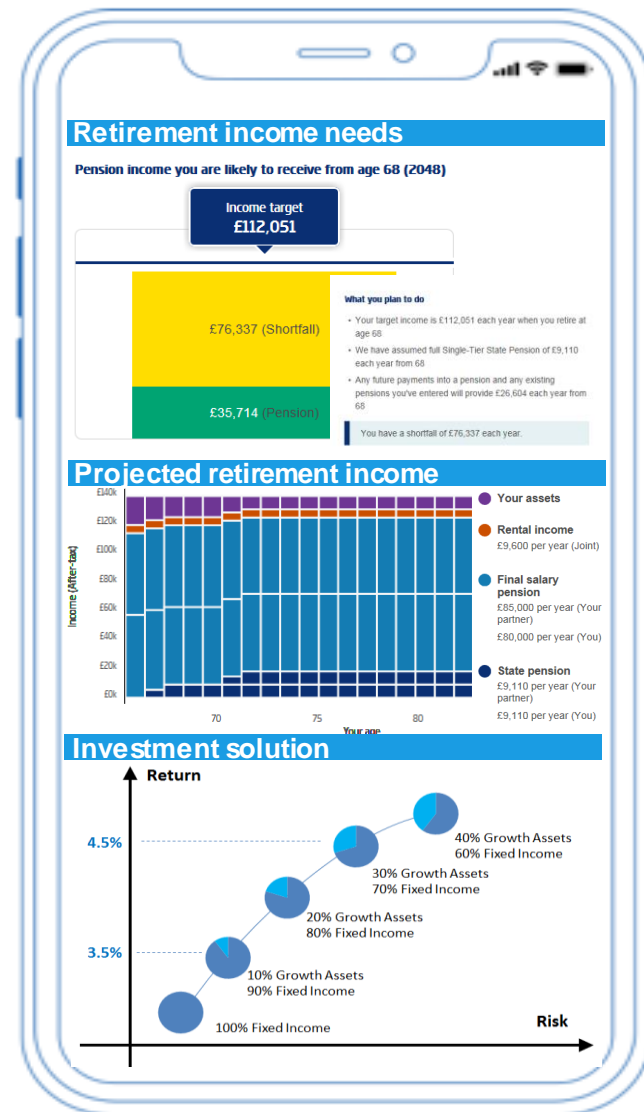
### Digital Engagement & Client Analysis

- ▶ Personalized assessment of retirement income
- ▶ Robo-advisor / guided journey for appropriate investment
- ▶ Efficient treatment of client information
- ▶ Reduced fee



### Digital Wealth Technologies

- ▶ Individualized investment solutions
- ▶ Managed accounts
- ▶ Customised aggregated investment reporting



Source: Standard Life Aberdeen. For illustrative purposes.

Questions or comments ?



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