

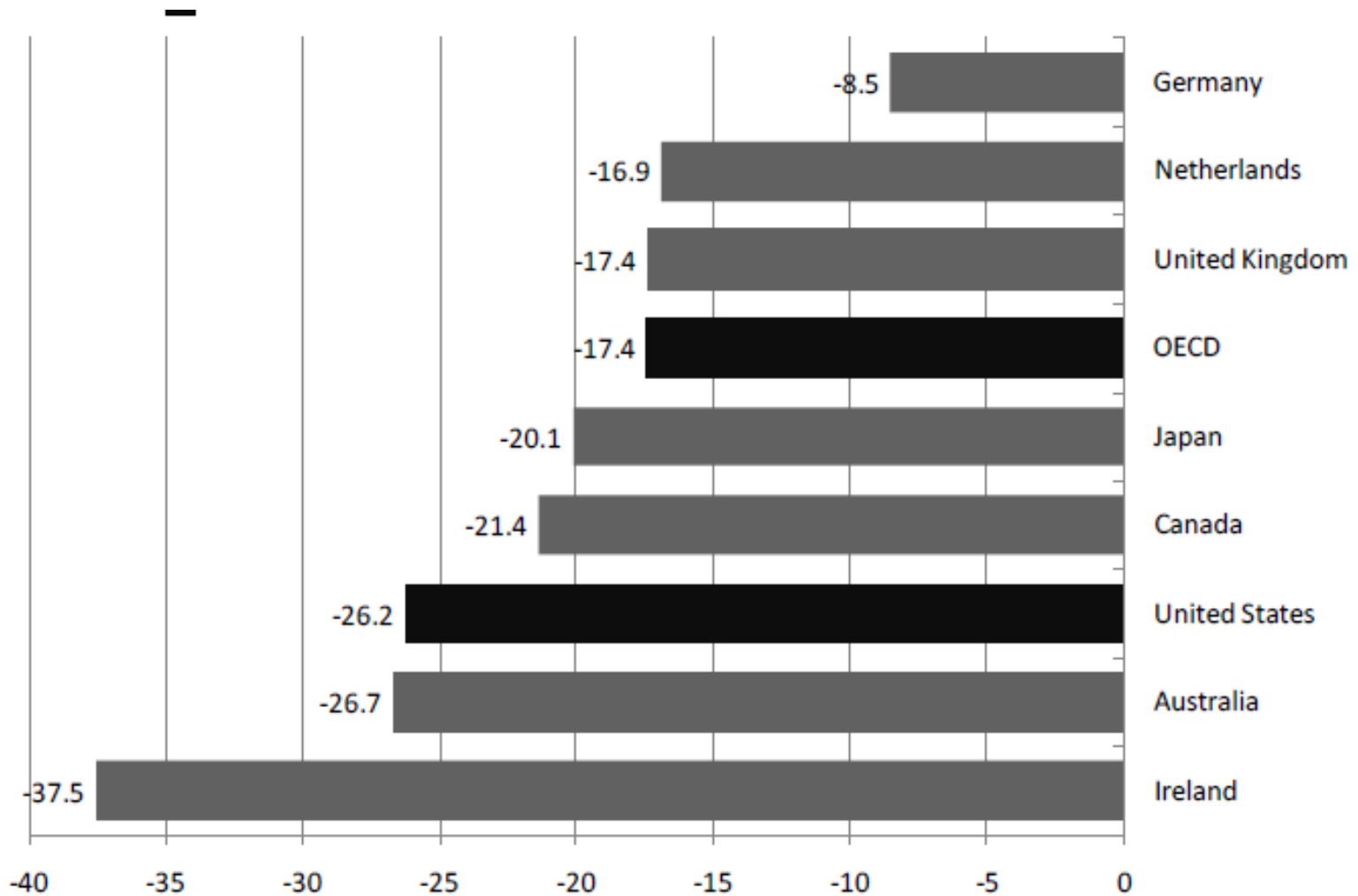
# **Colloque IGOPP pour gestionnaires de caisses de retraite**

**Yvan Allaire, Ph.D. (MIT), MSRC**

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et publiques  
(IGOPP)**

**10 septembre 2009**

# Pension funds' real investment returns in 2008



Source : OCDE, « Highlights from OECD Pensions at a glance », juin 2009.

# Pension Asset Allocation

## December 31<sup>st</sup> 2007

(Source : Watson Wyatt, 2009)

Marché	Allocation d'actifs – « obligations »	Allocation d'actifs – <i>Autres</i>
Allemagne	65 %	6 %
France	52 %	18 %
Japon	47 %	7 %
Pays-Bas	43 %	16 %
Suisse	38 %	29 %
Canada	33 %	15 %
Royaume-Uni	24 %	11 %
États-Unis	23 %	17 %
Australie	16 %	24%
<b><u>Total</u></b>	<b><u>41 %</u></b>	<b><u>16 %</u></b>

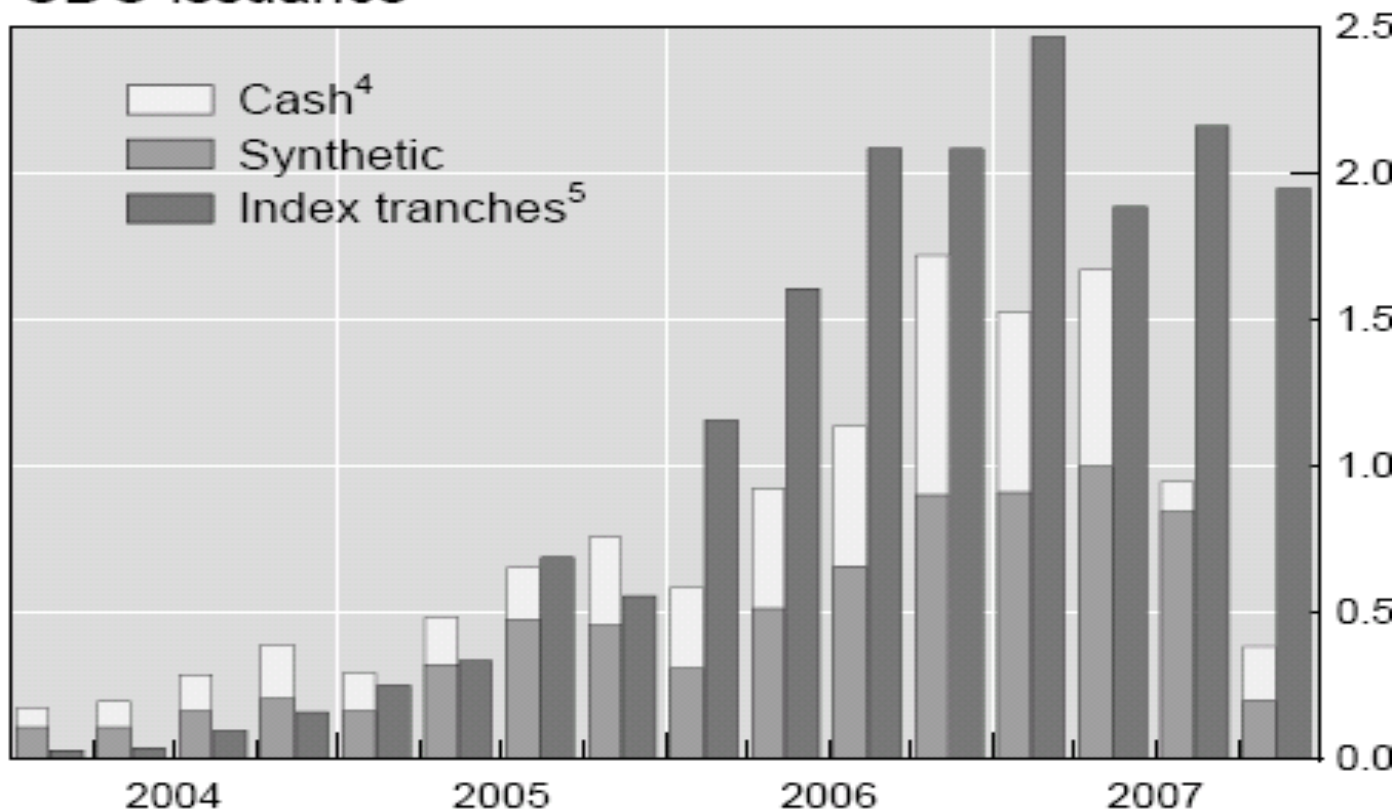
# Global Pension Assets: 10-year growth rates

(Source : Watson Wyatt, 2009)

Marché	Local Currency	(US\$)
Australie	12,0%	13,4 %
<b>Allemagne</b>	<b>6,2%</b>	<b>8,2 %</b>
France	5,1%	7,1 %
Pays-Bas	4,3%	6,3 %
Canada	<b>3,2%</b>	<b>5,5 %</b>
Royaume-Uni	5,6%	4,2 %
Suisse	1,2%	3,9 %
États-Unis	3,3%	3,3 %
Japon	-0,7%	1,8 %
<b>Total (\$US)</b>	<b>5,0%</b>	<b>3,7 %</b>

# Les signes avant-coureurs : la croissance spectaculaire des titres de dettes titrisés (CDO)

CDO issuance<sup>1, 3</sup>



<sup>1</sup> In trillions of US dollar.

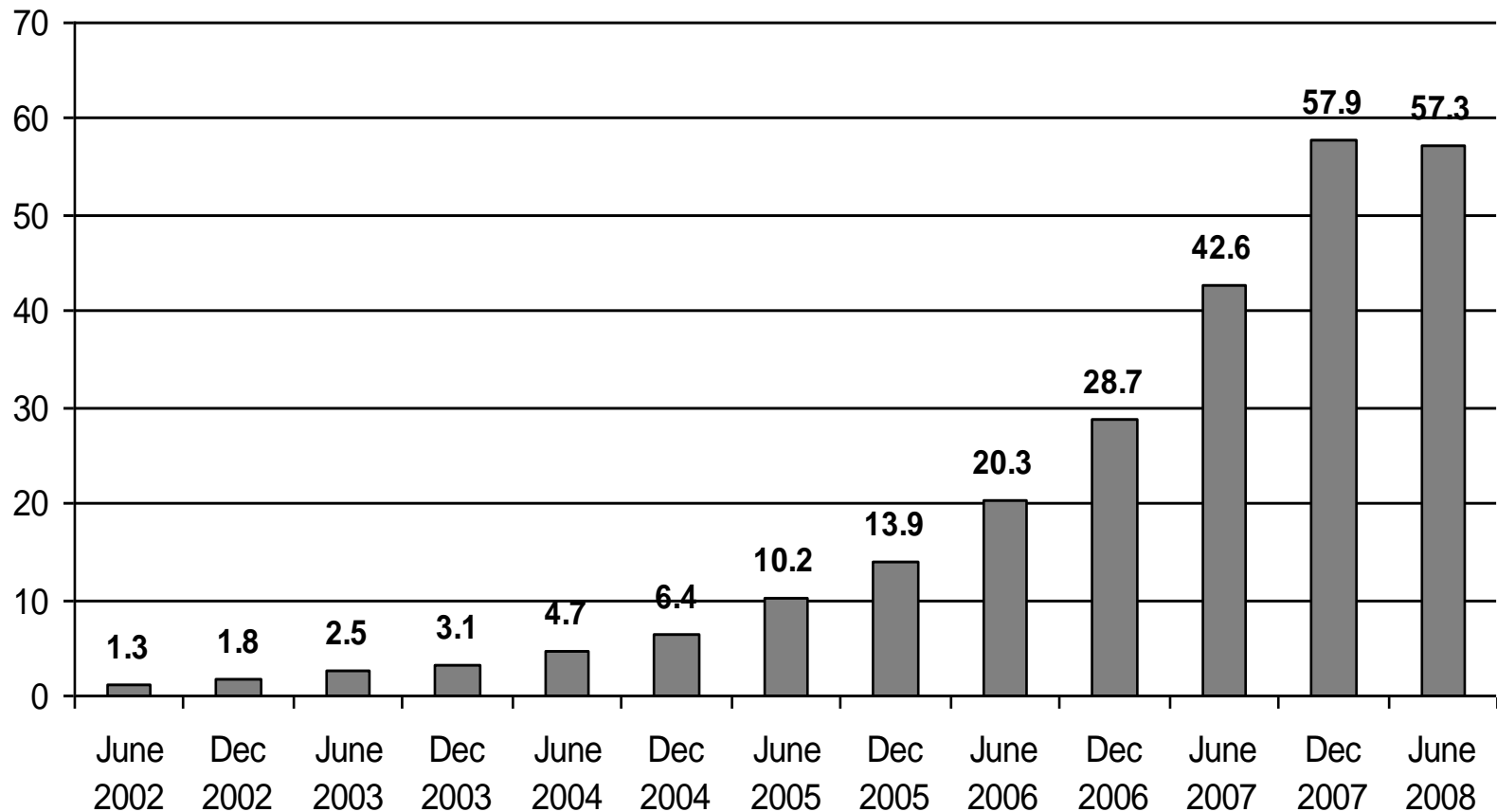
<sup>3</sup> Annualised.

<sup>4</sup> Sum of cash tranche sizes by pricing date; includes only cash and hybrid structures. Hybrid portfolios consisting mainly of structured finance products different from cash CDOs are excluded.

<sup>5</sup> Covers about 80% of index trade volume, according to CreditFlux Data+.

Sources: IMF; CreditFlux Data+; ISDA; national data; BIS calculations.

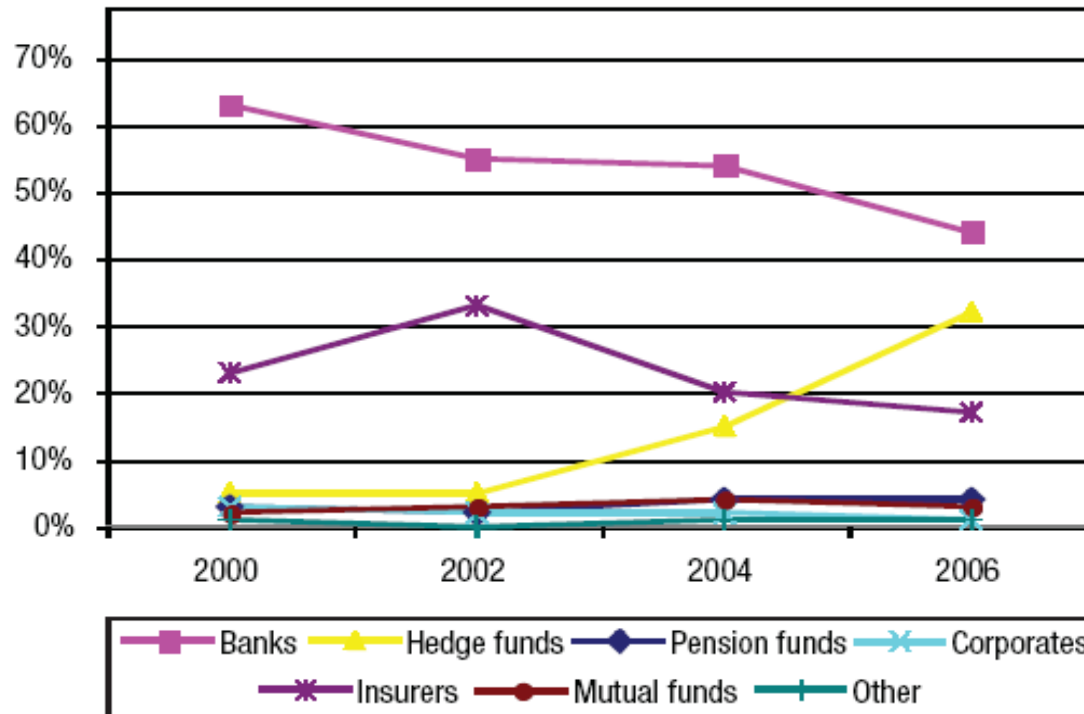
# Les signes avant-coureurs : la croissance géométrique des dérivés de crédit (notional amounts outstanding in trillion of US \$)



Source : Bank for International Settlements

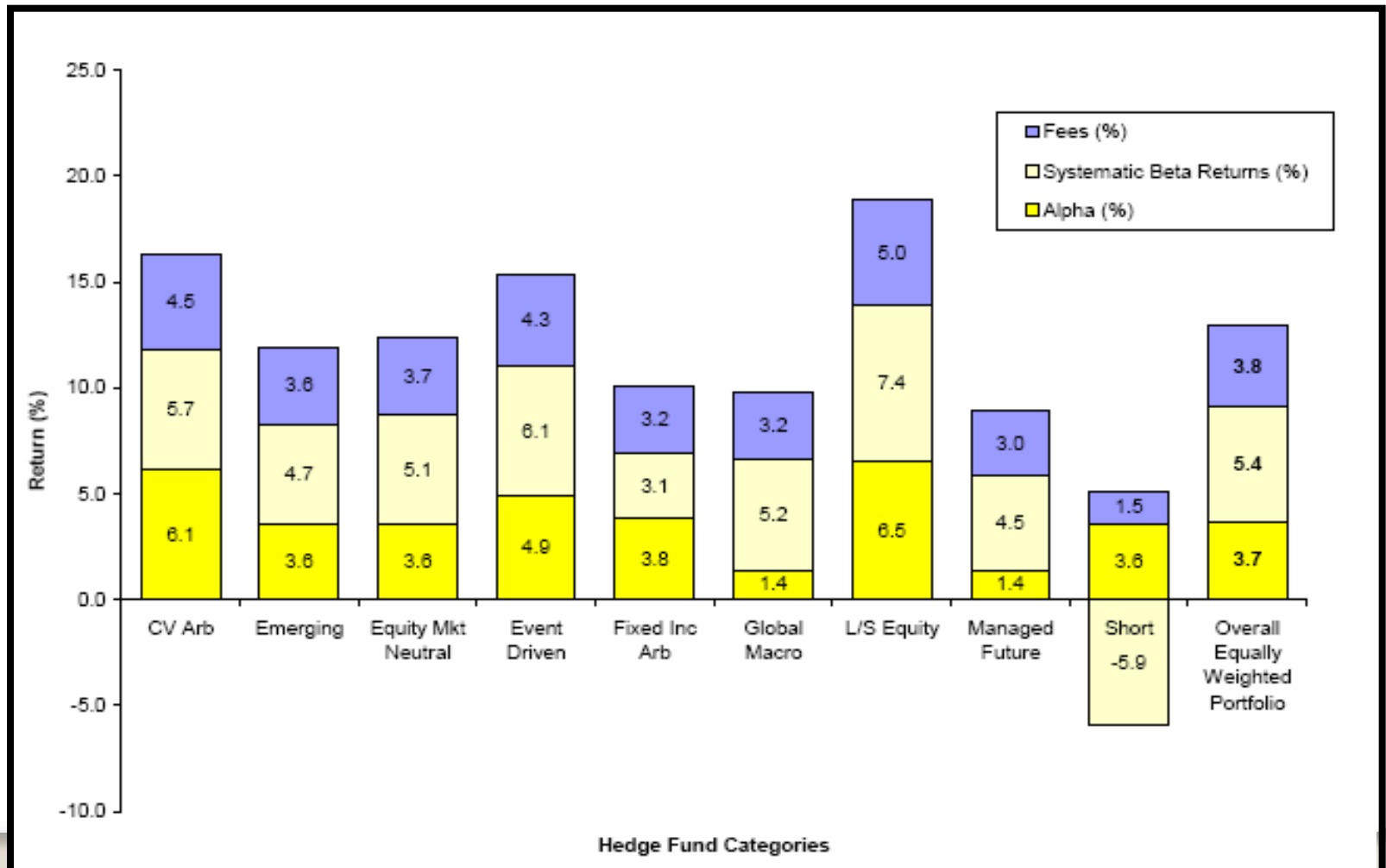
# Les signes avant-coureur : les fonds de couverture deviennent des joueurs majeurs sur le marché des dérivés de crédit

Sellers of Credit Protection



Source: BBA – Credit Derivatives Report 2006

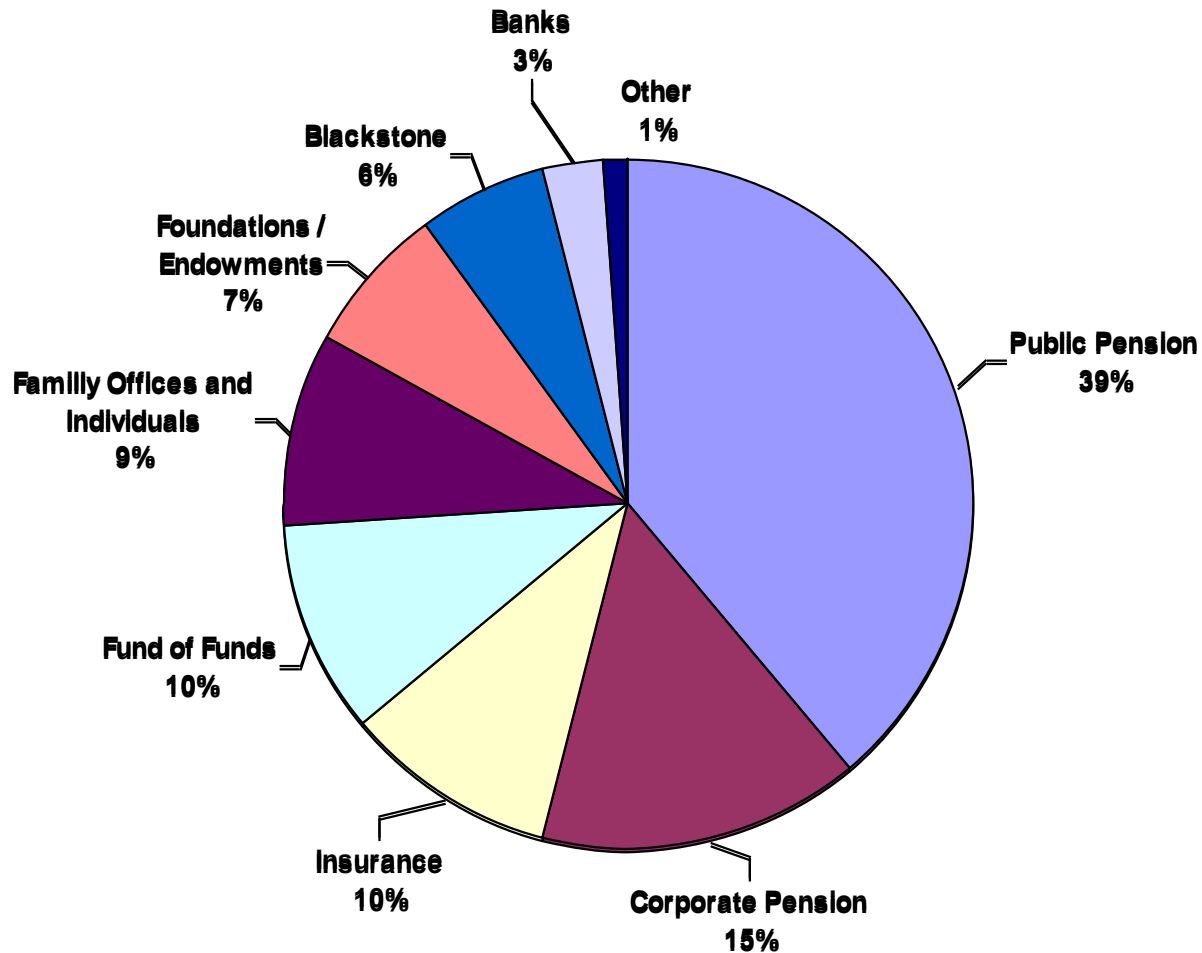
# Source of Hedge Fund Returns: Alphas, Betas, Costs (1995 - March 2004)



Ibbotson,  
Chen  
(August  
2005)



# Example of Blackstone Investors by Category



# ABC GROUP: Fund of Funds

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fax: +441 292-5413  
[www.fggus.com](http://www.fggus.com)

# Investment Philosophy – Capital Preservation

ABC's investment philosophy requires that sub-advisers on our single manager platform maintain **capital preservation** as a core tenet and adhere to the following principles:

- Full Transparency
  - For ABC portfolio analysis and risk monitoring
- Liquid Portfolios
  - Managers hold relatively liquid securities
- Low Correlation
  - To broader markets and other ABC Managers
- Low Relative Leverage
  - At a manager level and portfolio level
- Low Volatility
  - Relative to other funds in the asset class
- Fundamental Analysis
  - Strong research capabilities to support investment decisions

# ABC GROUP-Fund XYZ

- ABC Group-Fund XYZ has employed a split-strike conversion strategy since inception in 1990.
- ABC's objective is to seek investment returns that:
  - Provide long-term capital appreciation by delivering short-term gains
  - Are uncorrelated to market movements and trends
  - Are disproportionately high relative to market risk exposure
- Current Fund Size: Approximately \$6 billion
- Investor base is very well diversified both in terms of client type and domicile
- Largest single investor represents less than 4% of assets.

# Alpha Drivers

*The Split Strike Conversion Strategy offers  
two key sources of alpha ...*



# Historical Performance of ABC- Fund XYZ

## Relative to the S&P 100:

- Similar returns to the S&P 100 Index, with less than one-fifth the volatility
- Low Correlation to the S&P 100 Index of 0.32
- Sharpe Ratio of 2.81 vs. Sharpe Ratio of the S&P 100 Index of 0.52
- Max peak to trough draw-down of -0.64% vs. -49.37% for the S&P 100 Index over the same time frame

	<b>Fund XYZ</b>	<b>S&amp;P 100 Index</b>
<b>Compounded Annual Return:</b>	<b>11.02%</b>	<b>11.32%</b>
<b>Standard Deviation:</b>	<b>2.51</b>	<b>14.28</b>
<b>Sharpe Ratio:</b>	<b>2.81</b>	<b>0.52</b>
<b>Worst Drawdown:</b>	<b>-0.64</b>	<b>-49.37</b>

# Value Added by ABC Group

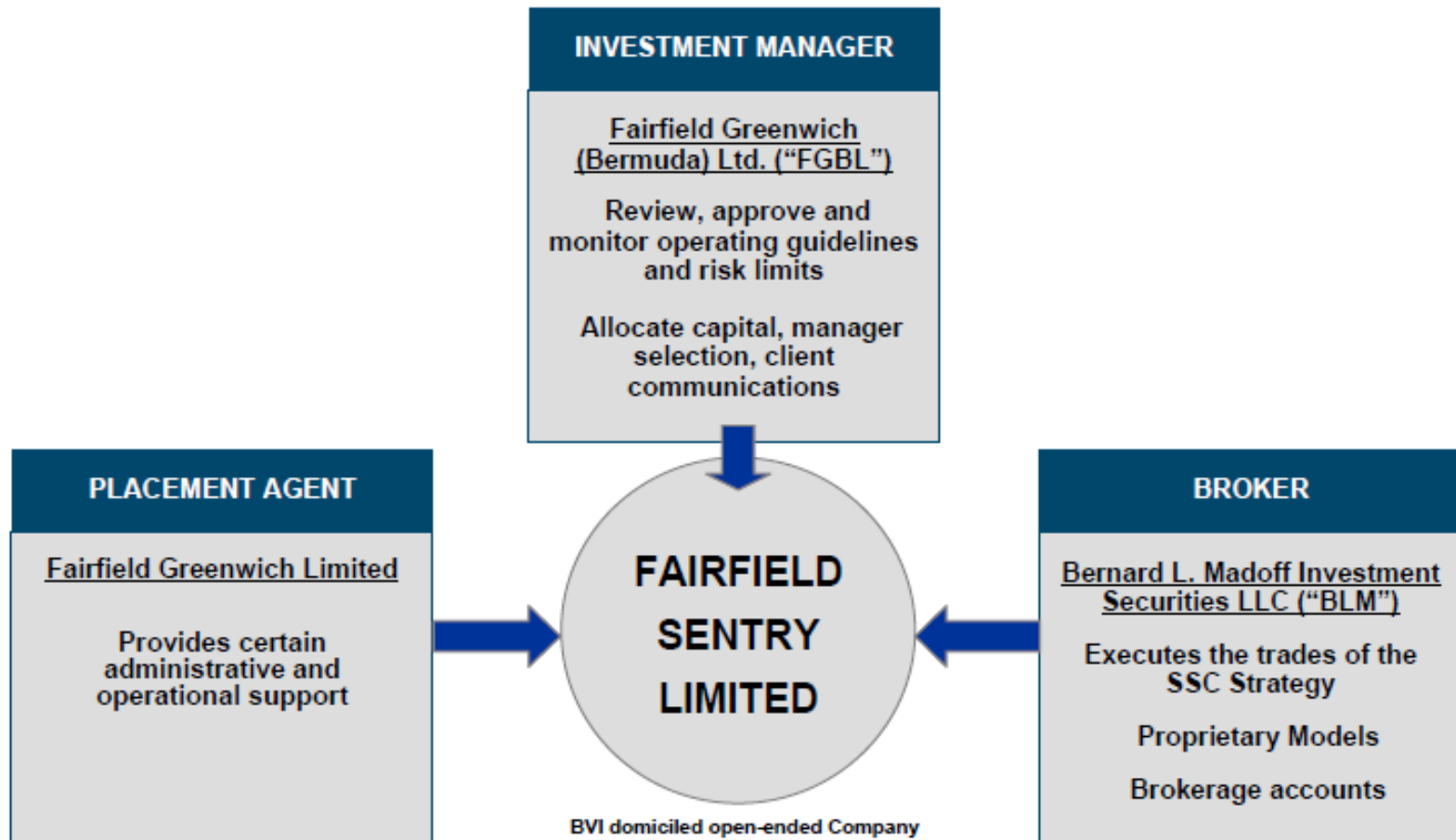
- Maintain full transparency
- Independent verification of prices and account values
- P&L attribution analysis
- Examination of option greeks to make sure the hedge is expected
- Risk oversight using Risk Metrics (reports are made available to clients who have signed non-disclosure agreements)
- Systematic investment compliance monitoring of Operating Guidelines
- Regular written report to clients
  - Monthly reviews
  - Semi-Annual letter
  - Periodic Analyses

## Value Added by ABC Group: Extreme Due Diligence

- ABC is introduced to **several hundred potential managers in the course of each year**. A relevant subset of these leads are pursued and background information on promising potential relationships is collected and shared among ABC's professionals for initial assessment.
- The nature of ABC's manager transparency model employs a **significantly higher level of due diligence work than that typically performed by most fund of funds and consulting firms. This model requires a thorough understanding of a manager's business, staff, operational practices, and infrastructure.**
- **At this stage, ABC begins qualitative and quantitative reviews of a manager's past performance obtained from independent sources, as well as a series of manager interviews and reference calls.**
- During this period, **ABC personnel also have an opportunity to** evaluate a manager's attitudes and receptiveness (as opposed to his proclaimed intention) towards providing **ABC** with full transparency of its security level trading activity **and access to its investment thought process.**
- **ABC's due diligence process is deeper and broader than a typical Fund of Funds, resembling that of an asset management company acquiring another asset manager, rather than a passive investor entering a disposable investment.**



# Fund Structure & Key Investment Relationship



# The Governance of Financial Institutions and Pension Funds

- « *No company, business or investment fund should become more complex than what its board can govern effectively »*
- « *No board is more competent than the median expertise and experience of its members »*
- « *All boards should assess soberly and frankly the qualifications of their members to deal with increased complexity »*
- « *All boards should beware of creeping complexity »*

from *Black Markets... and Business Blues* book published in June 2009 by [Yvan Allaire](#) and [Mihaela Firsirotu](#). All rights reserved

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# Old-age income poverty rates, mid 2000's

