

# Guardian Group Fatum

Aruba Business Seminar 2016

Dynamic Pension Plan Management



## Guardian Group

Guardian Holdings Limited

# Importance of Retirement Planning

- Increased life expectancy
- Potential Shortfall in Employer Funded Pensions
- Desire to maintain Independence and to continue to be Active
- Limited Government/Social benefits

## Portfolio Construction:

- Establish Objectives and Assess Considerations
- Determine Strategic Asset Allocation



## Portfolio & Investment Monitoring:

- Monitor and Measure performance
- Evaluate progress and recommend any adjustments



## Investment Selection:

- Assess Macro/Micro Economic Trends and Outlook for Capital Markets
- Conduct due diligence individual investment opportunities
- Select highest conviction investment ideas

## Objectives

The basic goal of a pension plan is to accumulate sufficient funds so that an Acceptable Monthly Pension can be paid.

An Acceptable Monthly Pension is dependent on a person's current standard of living/current income and his/her expected expenditure during retirement.

## Considerations

Primary considerations for Individuals and Groups are:

- Current income and expenses
- Time horizon
- Liquidity needs
- Legal and regulatory factors

## Recommendation

Ideal pension value or Suggested pension contribution such as:

Age	Suggested Contributions (% of Gross Earnings)
Up to 30 years	15%
30 to 39	20%
40 to 49	25%
50 to 54	30%
55 to 59	35%
60 years or over	40%

## Asset Allocation and Risk Management Principles

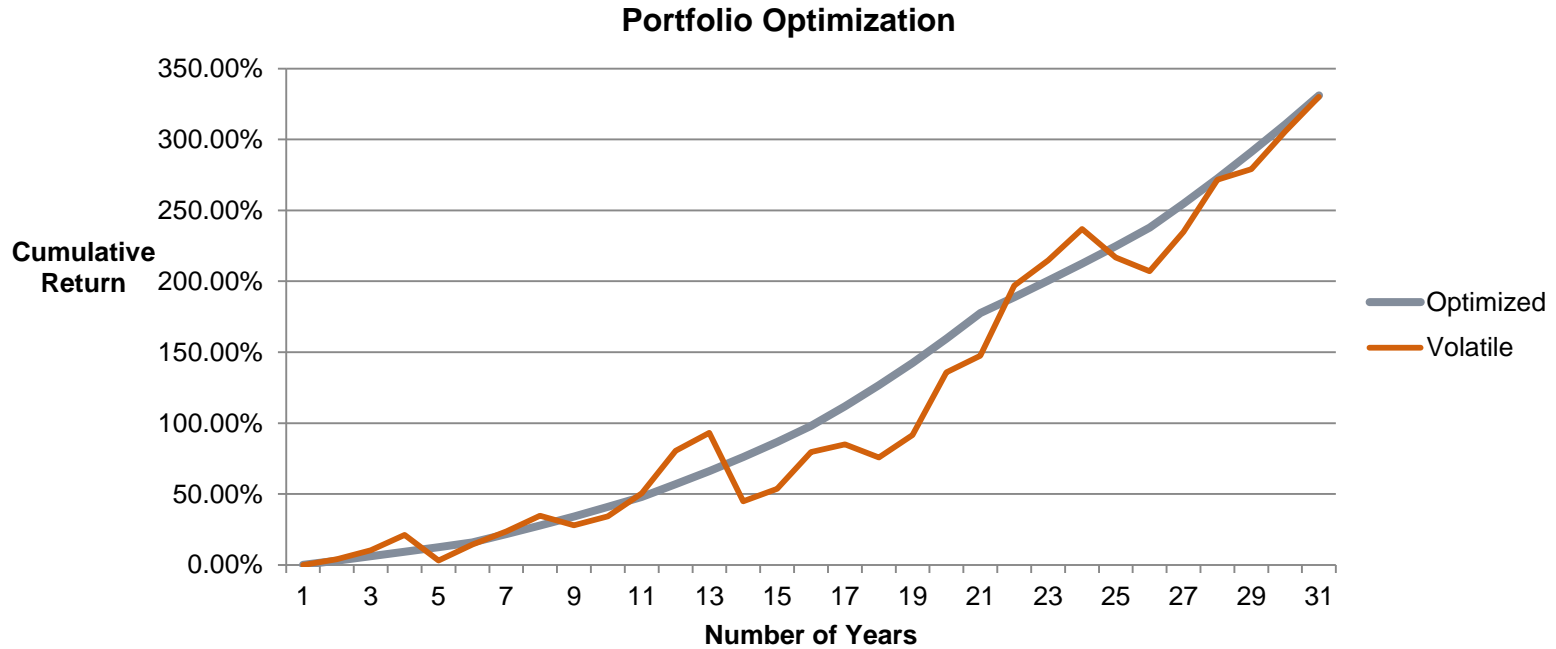
### Diversification

The process of allocating capital in a way that reduces the exposure to any one particular asset or risk. A common path towards diversification is to place limits on allocations to any one investment, sector and/or region.

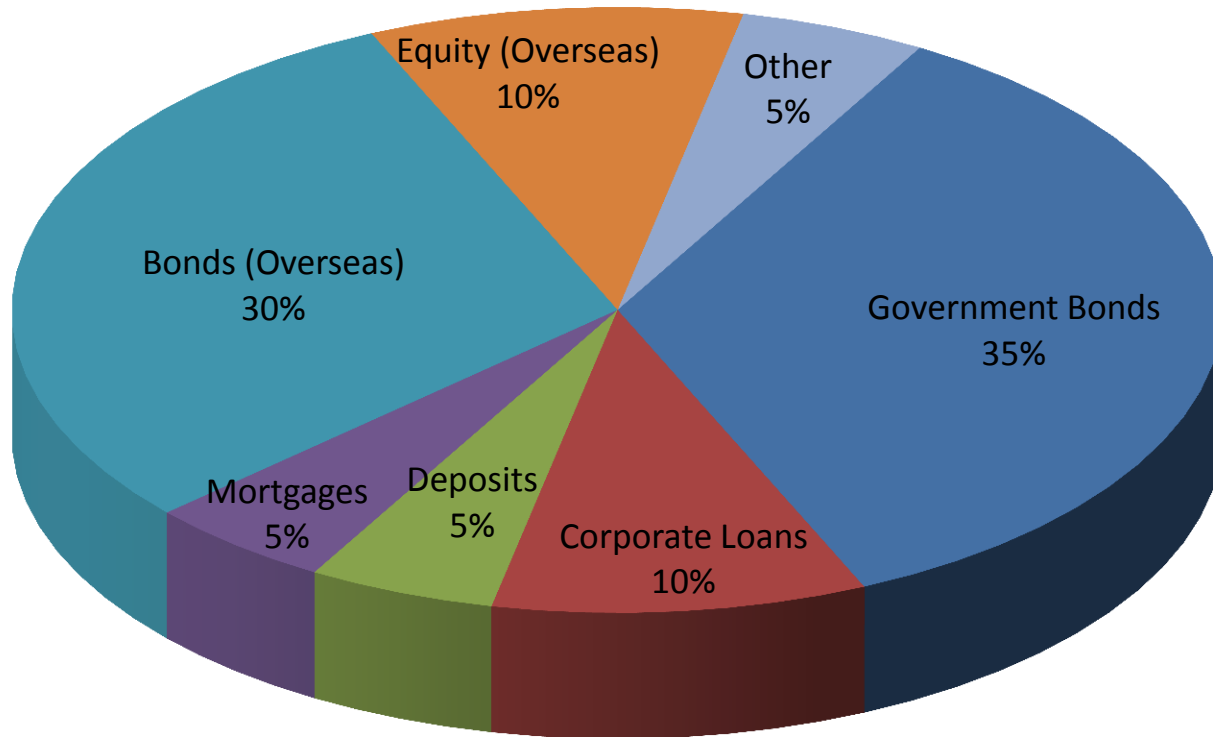
### Optimization

The process of choosing the proportions of various assets classes to be held in a portfolio, in such a way as to make the portfolio as efficient as possible relative to its risk return profile.

## Asset Allocation and Risk Management Principles

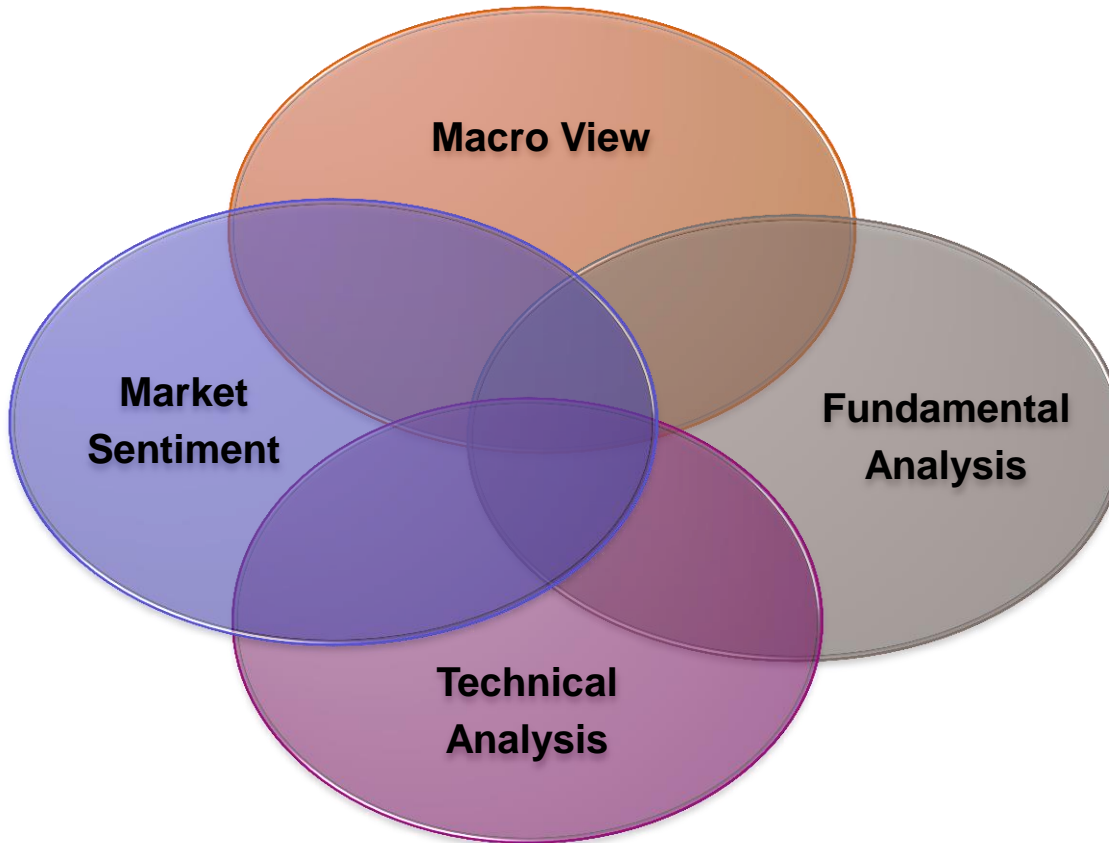


## Strategic Asset Allocation



- Government Bonds
- Corporate Loans
- Deposits
- Mortgages
- Bonds (Overseas)
- Equity (Overseas)
- Other





## Government Bonds in the Dutch Caribbean

### Macro-Economic Overview

Real GDP Growth (% yoy)	2014	2015e	2016f	2017f	2018f	Data Source
Aruba	0.80%	0.10%	1.10%	2.00%	2.00%	CBA/S&P
Curacao	-1.10%	0.60%	0.80%	1.20%	1.00%	BMI

#### Aruba

- Weak private consumption versus recovering tourism
- In its last report, S&P stated that it expects the central government's fiscal position to improve in the next three years because of both continued GDP growth and fiscal policy measures
- In June 2015, S&P affirmed its BBB+ Rating with a Stable Outlook.

#### Curacao

- S&P projects that Curaçao's real per capita GDP growth will be slightly negative during 2016-2018
- In March 2016, S&P affirmed its A- Rating with a Stable Outlook

## Government Bonds in the Dutch Caribbean

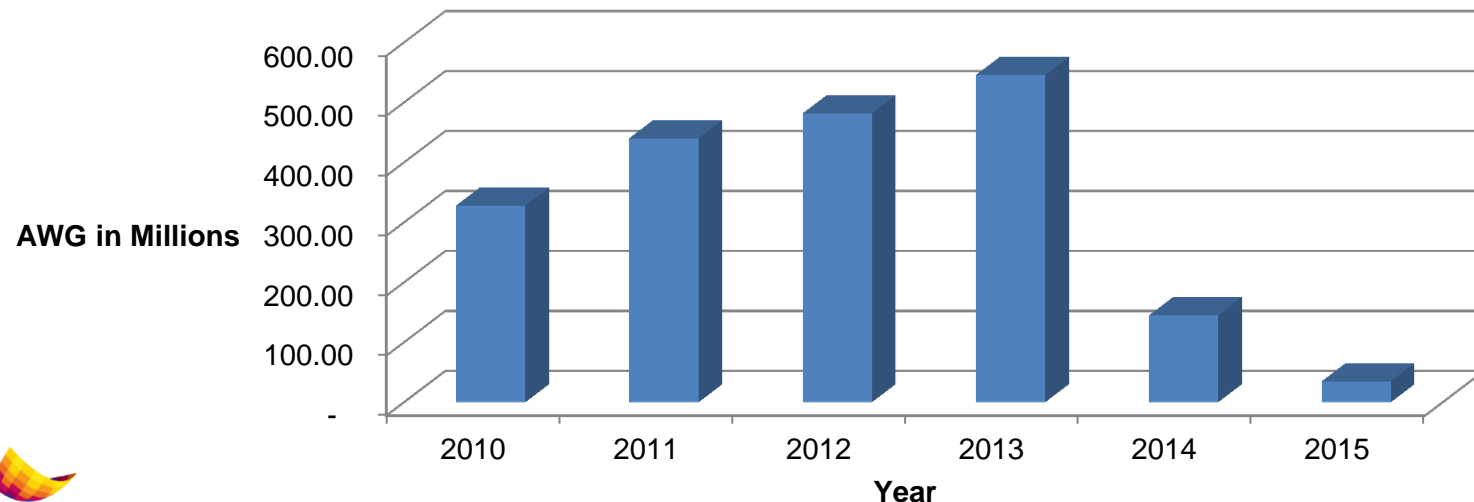
### Investment Environment and Strategy

Very limited availability and unattractive rates over the last several years

Government of Aruba AWG Bonds:

- Interest rates have remained relatively steady at approximately 5% for 10 years to 15 years
- However availability has declined substantially

**Aruba Government Bond Offerings**



## Government Bonds in the Dutch Caribbean

Government of Curacao ANG Bonds:

- Offerings do come to the market
- However Dutch participation means that interest rates are extremely low

Year	Average Interest Rate	Average Term	Offered Amounts (ANG)
2010	2.90%	20	1,685,523,000
2011	N/A	N/A	N/A
2012	N/A	N/A	N/A
2013	3.00%	30	62,604,000
2014	2.40%	30	247,036,000
<b>2015</b>	<b>1.30%</b>	<b>30</b>	<b>287,750,000</b>

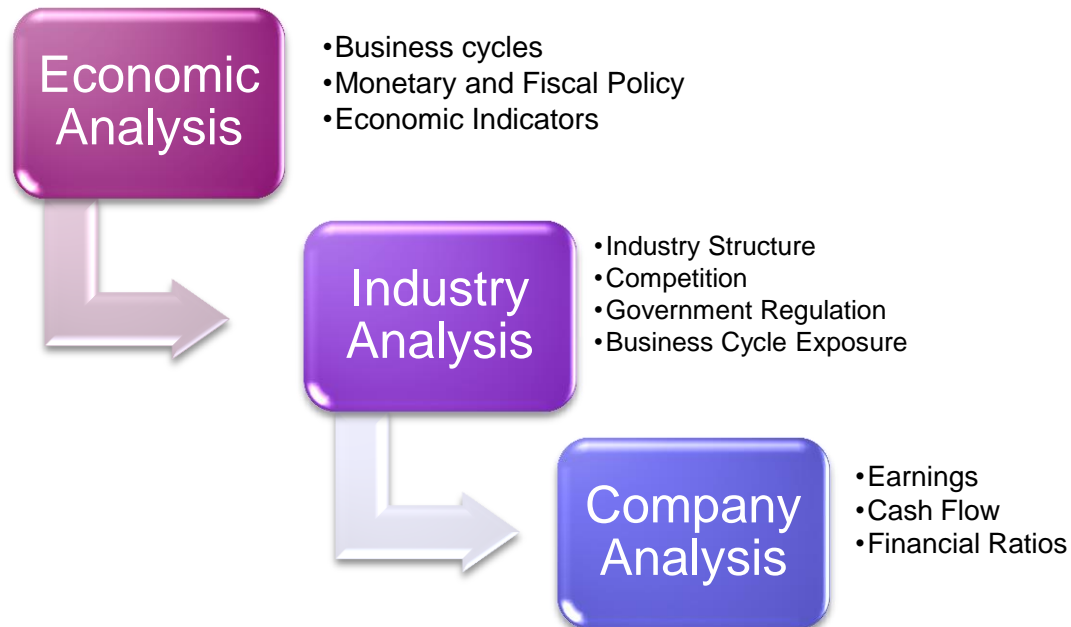
- ✓ Actively maintain close relationships with the Central Bank, other investors and financial institutions to capitalise on any opportunities that do arise

## Corporate Bonds, Loans and Deposits

Includes Government Controlled Corporations and Private Companies

Few opportunities and rates on offer are also relatively low. Generally in the region of 4% to 6%.

Often unrated hence more in-depth due diligence (fundamental analysis) is required:



- ✓ Maximise Economies of Scale to negotiate attractive Time Deposits with Commercial banks while seeking longer-term opportunities.

## Mortgages

Focus is on residential mortgages

Involves in-depth due diligence on each applicant's income and critical assessment of collateral

Very competitive asset class with various levels of interest rates, loan to value ratios and other key terms including fixed or floating rates and penalties for prepayment

### Average Interest Rates

	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Housing Mortgages	6.80%	6.50%	6.50%	6.10%
Commercial Mortgages	7.50%	7.20%	7.50%	6.30%

Source: CBA

✓ Volunteer attractive packages to high-quality employers for the benefit of their Staff

## Other Investments (such as Private Equity and Real Estate)

Limited portfolio allocation

Long-term view but Potentially higher returns

## Overseas Investments – Fixed Income and Equities

### Global Economic Themes

#### The US Federal Reserve Interest Rate Policy

- The Fed increased its benchmark interest rate for the first time in almost a decade in December 2015. From 0% to 0.25%
- The Fed is expected to do additional increases in coming months as it seeks to limit potential inflation risks

#### Economic Growth in China

- After years of robust growth, the Chinese economy is slowing
- Negative impact on commodities

#### European Central Bank Stimulus efforts

- The ECB has been using negative interest rates and bond purchasing programmes in an effort to increase liquidity and stimulate economic activity

## Overseas Investments – Fixed Income and Equities

- ✓ Provide much needed investment opportunities and diversification benefits (regions, sectors, currencies)
- ✓ Offer attractive returns but with some volatility

	2010	2011	2012	2013	2014	2015
US Gov't 10 year Bond Yields (End of Year)	3.37%	1.80%	1.99%	2.64%	1.64%	1.92%
US Gov't 10 year Bonds (Annual Total Return)	8.46%	16.04%	2.97%	-9.10%	10.75%	1.28%
S&P 500 (US Equities) (Annual Total Return)	14.82%	2.10%	15.89%	32.15%	13.52%	1.36%



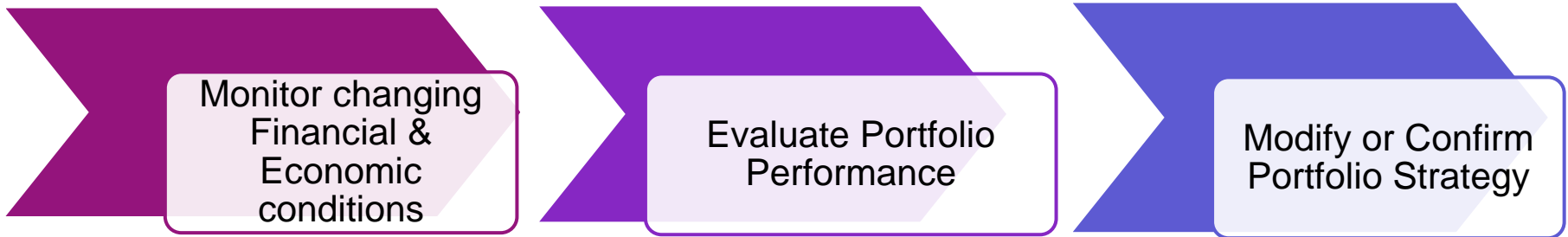
## Overseas Investments – Fixed Income and Equities

- ✓ Provide Liquidity and enable Tactical Portfolio Adjustments via Technical/Trend Analysis and Market Sentiment Analysis to further improve returns



- ✓ Maximise allowance under the 60-40 Rule

# Portfolio Performance Evaluation



## Evaluation Activities

Compare actual return and volatility against expected or budgeted return and risk thresholds such as Value at Risk which looks at the probabilities of certain returns

Benchmark and Peer comparisons – consider performance of the portfolio benchmark and its peers to determine relative performance given the investment environment

Performance Attribution – determine which decisions contributed the most to the portfolio's absolute and relative performance. Allocation decisions versus selection decisions

Modify or Confirm Portfolio Objective and Strategy - after the above, determine if any changes are needed to the strategy.

## Oversight and Governance

Many levels including Supervisory Board of Directors; Executive Investment Committee; Audit and Compliance Committee; Central Bank Regulators

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# THANK YOU