



THINK WORLD CLASS

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# LIVING ANNUITIES – SHIFTING THE PARADIGM

Paul Wilson

Chief Investment Officer | Glacier Invest

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# MAKING A CAKE



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## Expectations



Expectations



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# Expectations







Expectations

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Expectations



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**Expectations**

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# THE REALITIES OF POST RETIREMENT LIVING

**61%**

are unable to save for a 'rainy day' fund after retirement due to pressures of expenses

**1/3**

of retirees don't have enough funds to cover their medical expenses (their second biggest expense).

**51%**

Of South Africa's retirees can't make ends meet

**33%**

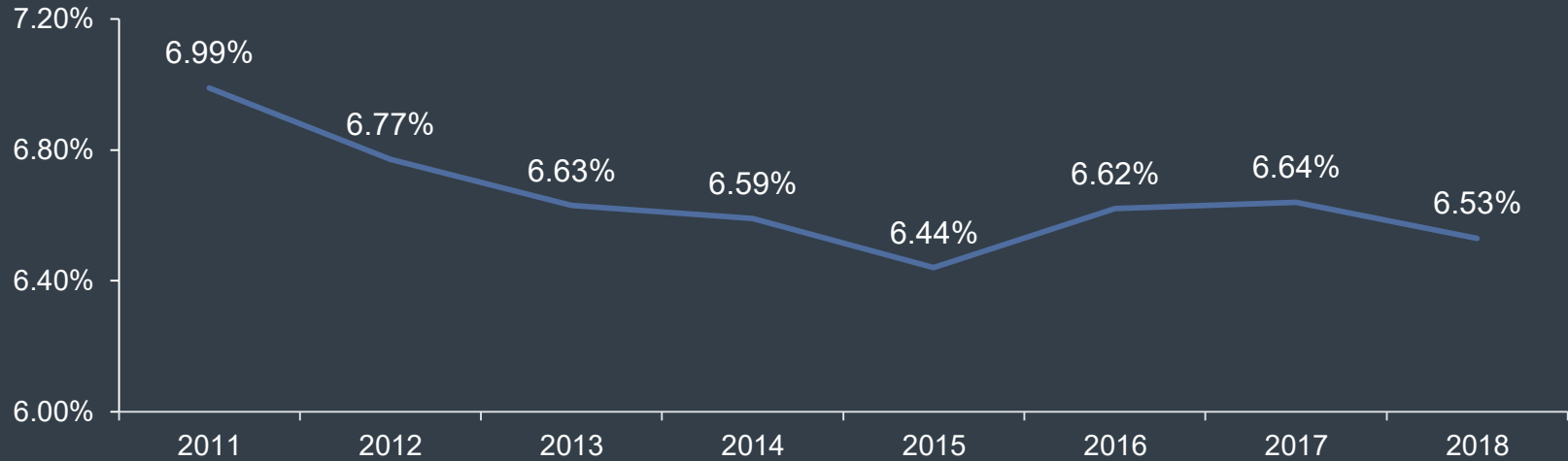
are still in debt after they stop working

**53%**

Still have adult dependants to support


## WITHDRAWAL RATES IN SOUTH AFRICA

# THE REALITY



Source: ASISA (2020)

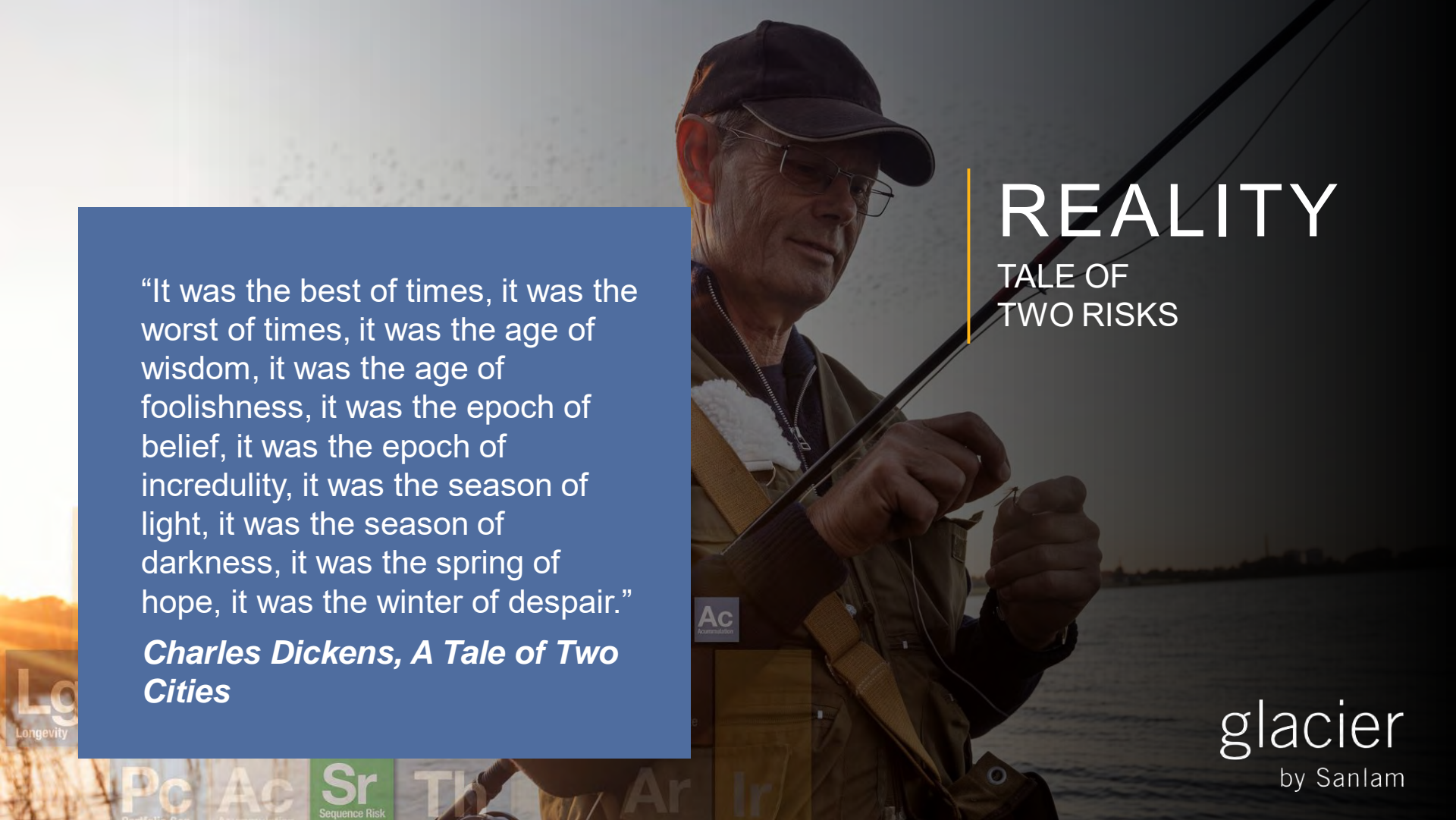
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A  
TICKING  
TIME  
BOMB

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“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair.”

***Charles Dickens, A Tale of Two Cities***

# REALITY

TALE OF  
TWO RISKS

Ac  
Accumulation

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Lg  
Longevity

Pc  
Pension

Ac  
Accumulation

Sr  
Sequence Risk

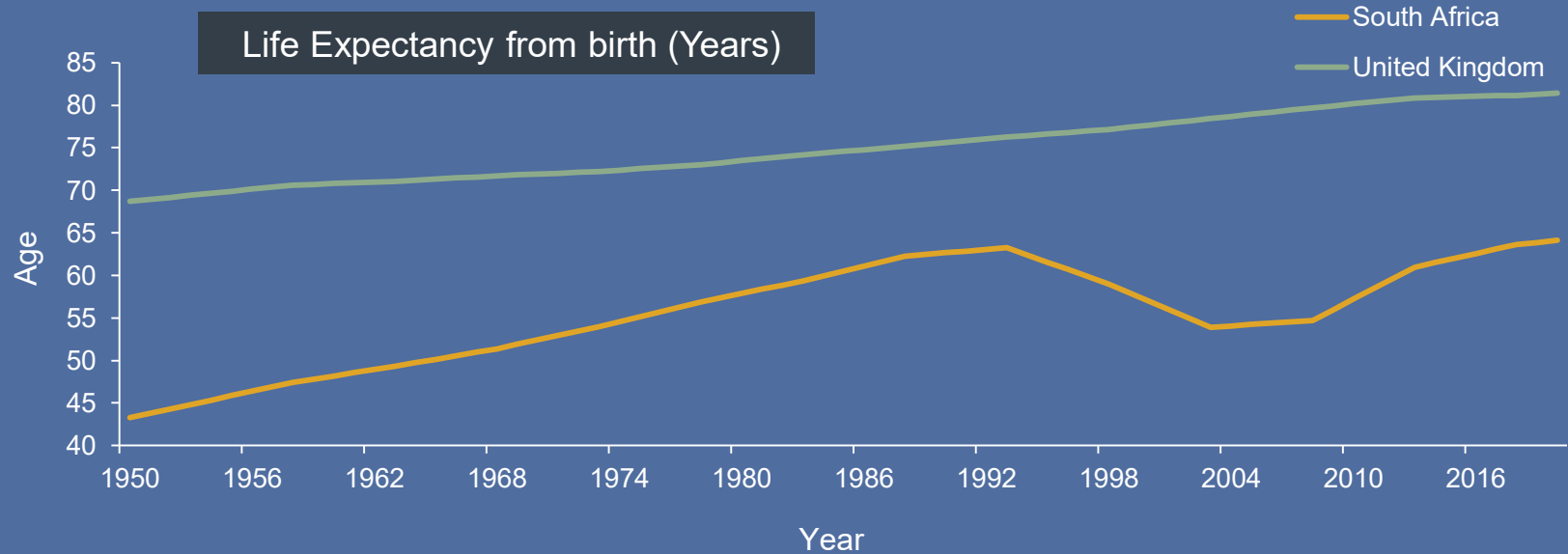
Tl  
Total Return

Ar  
Asset Return

Ir  
Inflation Risk

TALE OF  
TWO RISKS

# LONGEVITY RISK



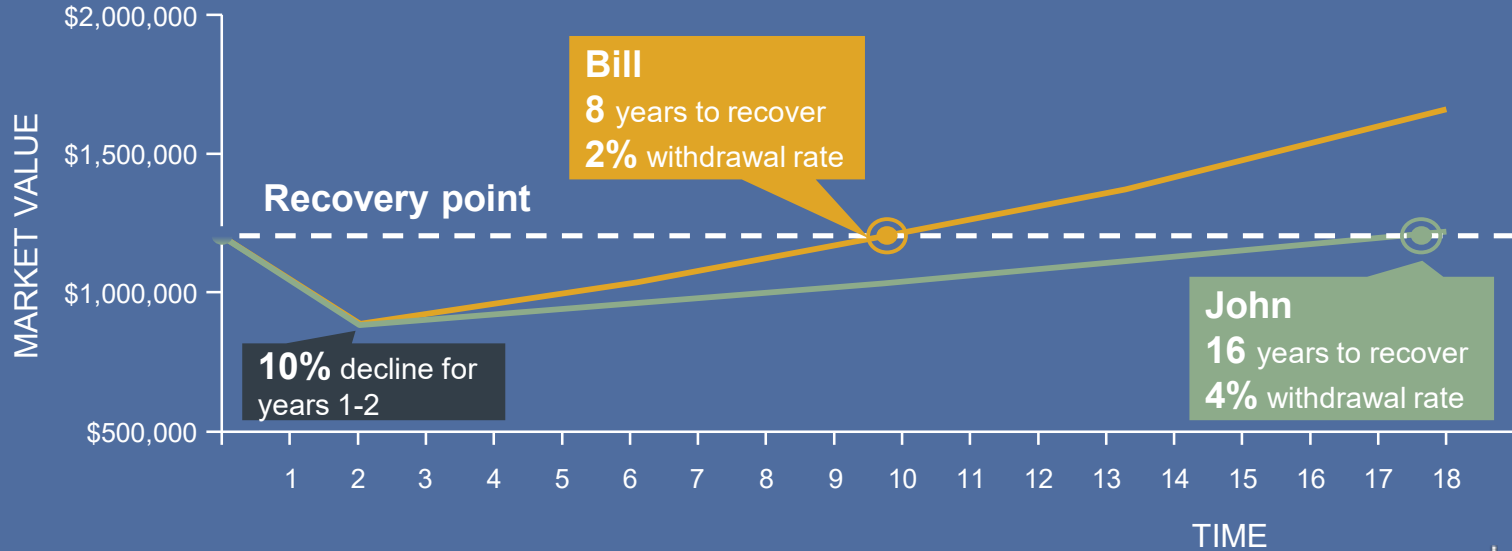
Source: Macrotrends, February 2020

# RISK SEQUENCE

## TALE OF TWO RISKS

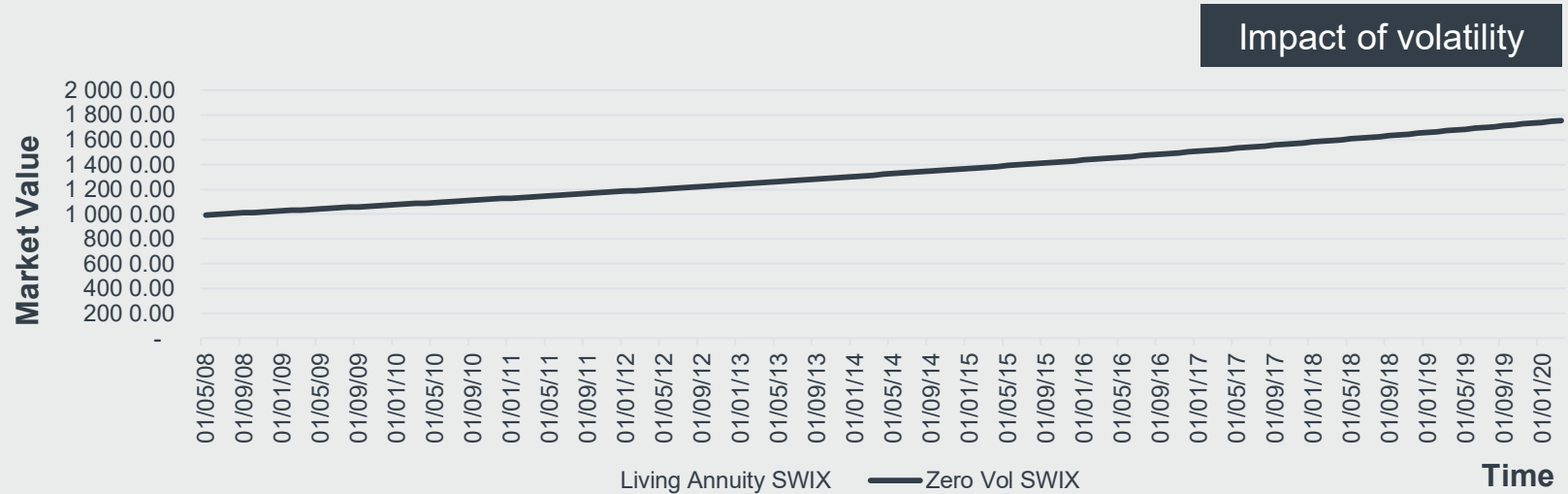
### A worst-case scenario for your retirement income

Reducing your withdrawal rate after a steep market decline can help your portfolio recover faster.



Examples are hypothetical and for illustrative purposes only. They assume two years of 10% declines in the portfolio by 6% increases combined with periodic withdrawals as noted above. Source: Schwab Center for Financial Research, Date: February 2020

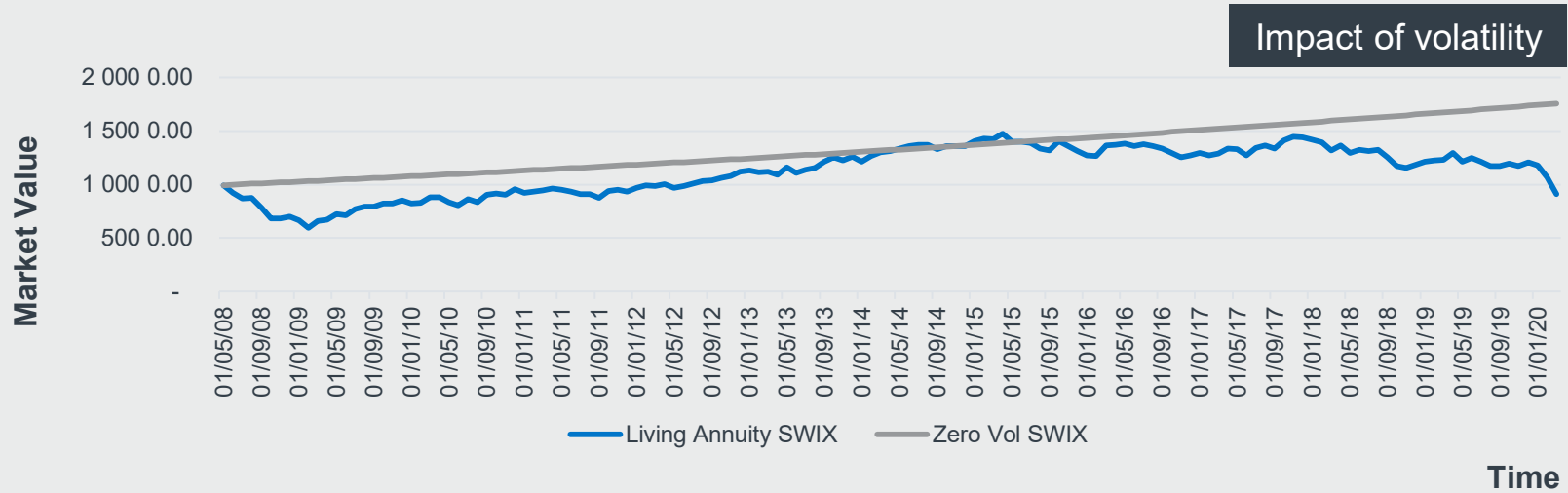
# ILLUSTRATION OF SEQUENCE RISK AND DRAWDOWN RATES-EXPECTATIONS



Source: Sanlam Investments (2020)



# ILLUSTRATION OF SEQUENCE RISK AND DRAWDOWN RATES- EXPECTATIONS



Source: Sanlam Investments (2020)

The background features a dark blue grid with a candlestick chart in the center. The candlesticks are colored in red, green, and blue. Several thick, semi-transparent moving average lines in green, orange, and red are overlaid on the chart. A thin vertical orange line is positioned to the left of the main title.

# THE INGREDIENTS

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# SKETCH A FAMILIAR PICTURE

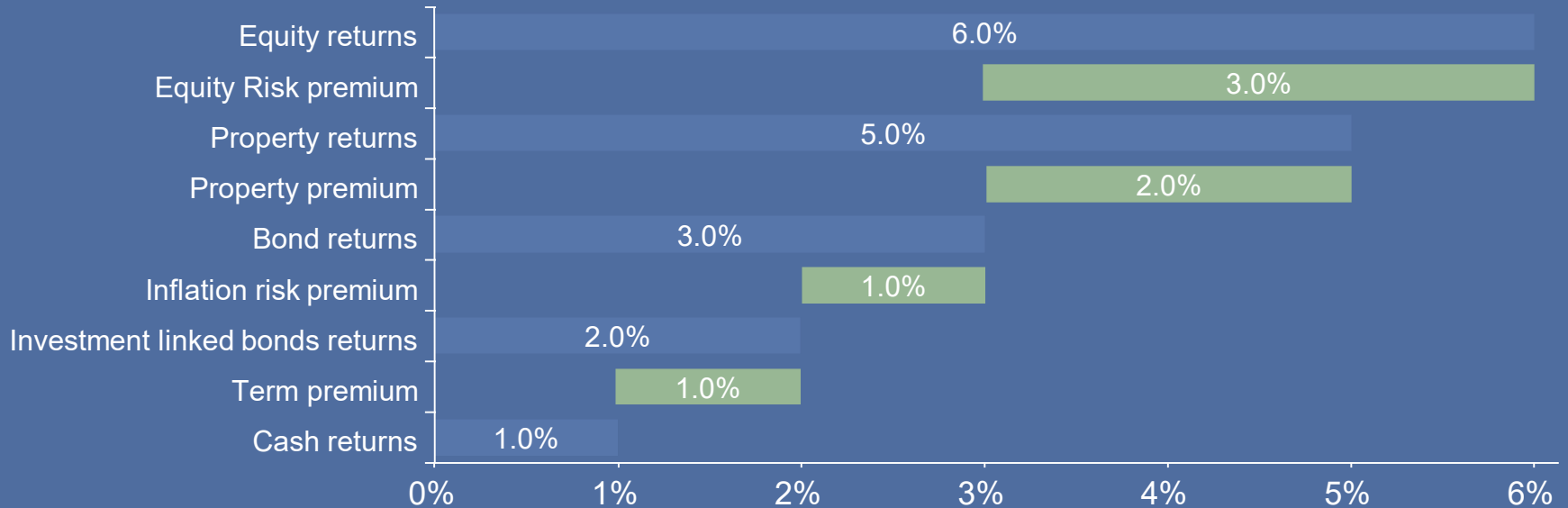
Total return required of 14% (or CPI + 9%)

Average client A drawing 7% p.a. but needs this to increase with inflation in order to live with dignity

Inflation assumed to be 5%

Total fees assumed to be 2%

# ASSUMPTIONS FOR LT RETURNS (SA – REAL)



Source: Sanlam Investments (2020)



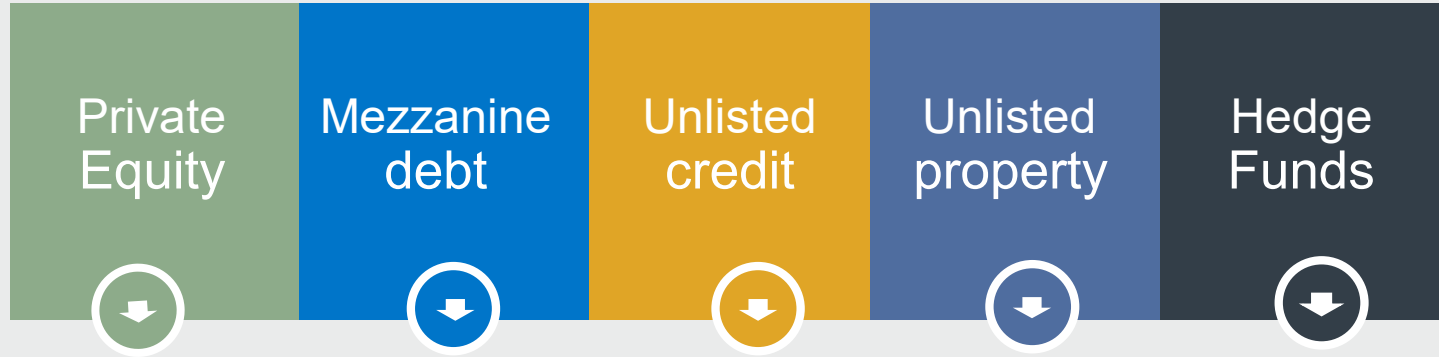


TANK CATAPULT

WHAT  
WEAPONS  
DO WE  
HAVE  
AVAILABLE  
TO US?

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# WHAT ABOUT?



Harvest the  
**illiquidity premium**

Given **longevity risk**,  
long-term investment

---

ALSO SMOOTH BONUS FUNDS

---

# ILLIQUIDITY PREMIUM

1

An alternative definition ... “that additional return that an investor should receive for giving the product provider greater certainty over their assets under management”

2

Factors that affect illiquidity premia (and must be compensated)

3

Factors that affect illiquidity premia (and must be compensated)

- 1.Lock-in period
- 2.Time to execute an order
- 3.Volatility of asset

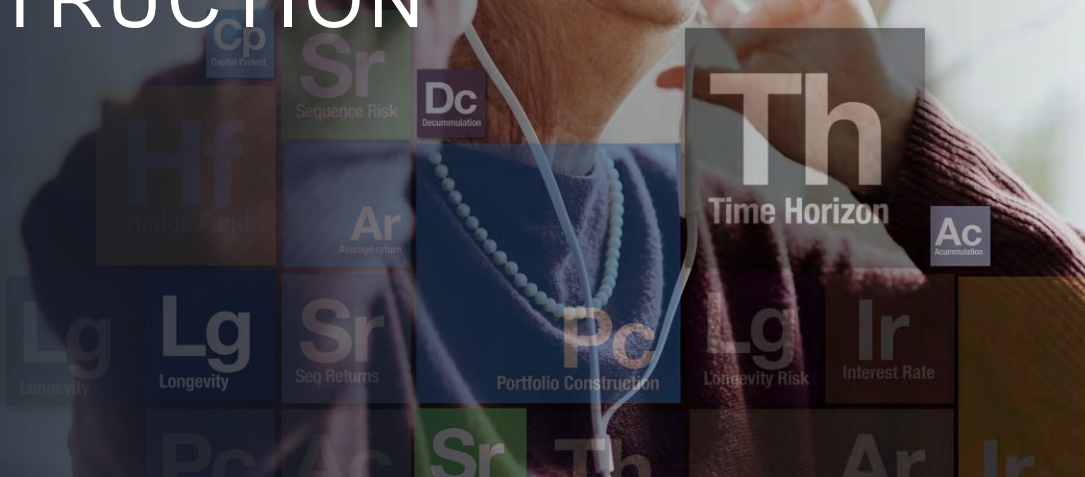
4

Asset appraisal

Expected return (illiquid asset) = Market exposure + alpha + illiquidity premium

Private Equity = approx. 2.5%

# METHOD – PORTFOLIO CONSTRUCTION



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# RISKS

IF YOU NEVER TRY  
ANYTHING NEW, YOU'LL  
MISS OUT ON MANY OF  
LIFE'S GREAT  
DISAPPOINTMENTS



# MANAGING RISK

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Risk is like fire: If controlled it will help you; if uncontrolled it will rise up and destroy you.

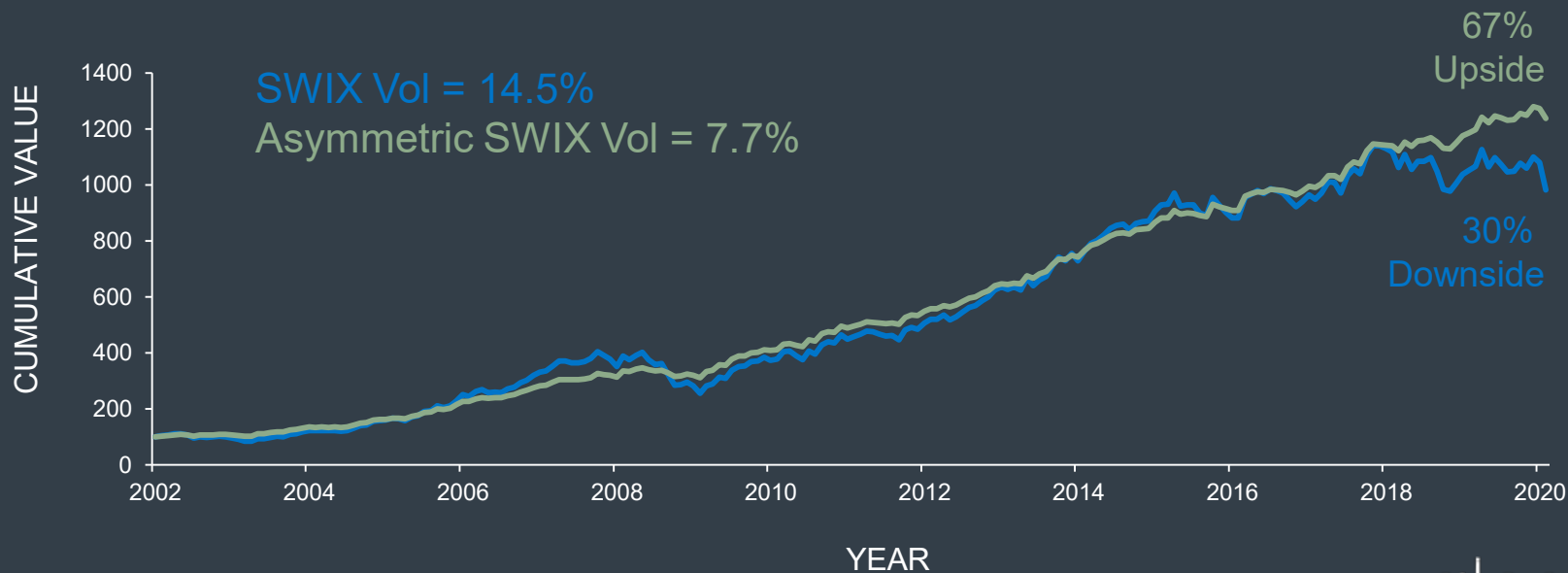
*Theodore Roosevelt*

# ASYMMETRIC LIVING ANNUITY PHILOSOPHY

- Risk is defined as **not having enough money** to live on
- Implied investment risks are **capital loss** and **volatility**
- **“Asymmetric returns”** is how to maximise probability of success


# WHAT DOES THIS LOOK LIKE IN PRACTICE?

Downside is managed so that you don't need as much upside - smoother return profile



Source: Sanlam Investments (2020)

# WHAT DOES THIS LOOK LIKE IN PRACTICE? AT STRATEGY SELECTION LEVEL

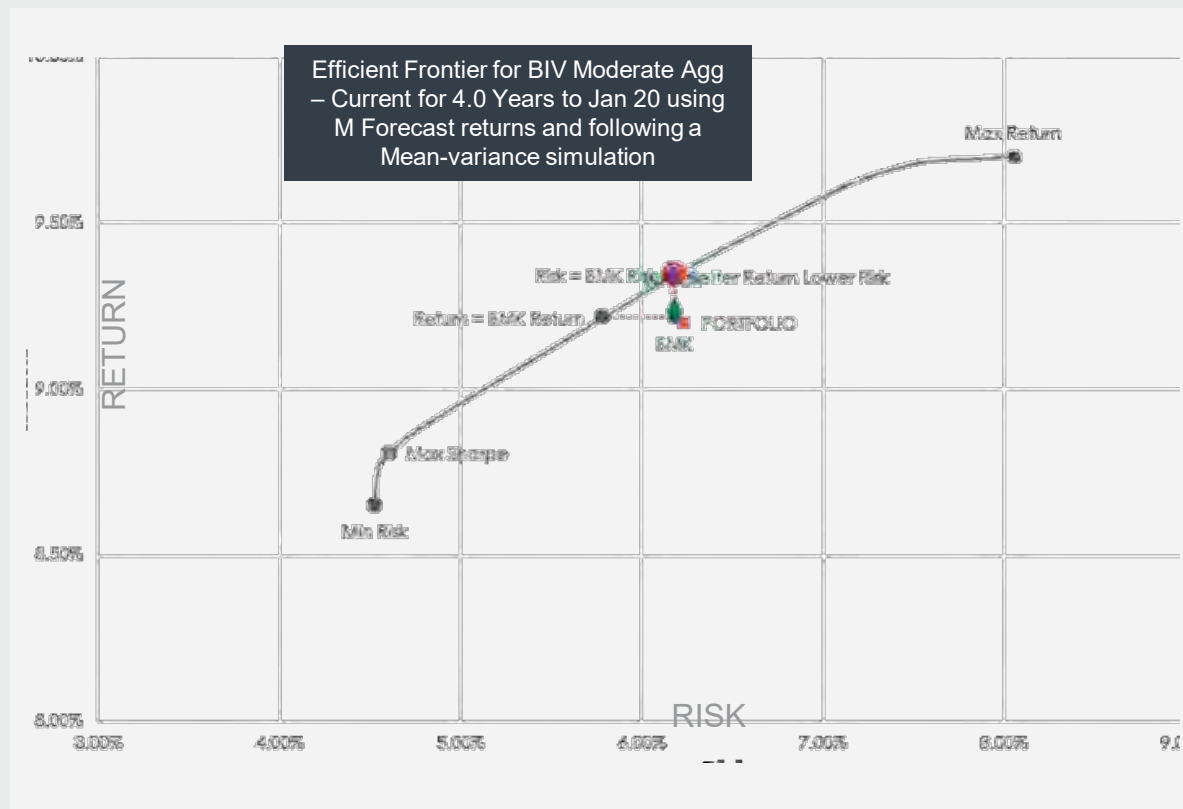


	Asymmetric or Pure Beta	Asymmetry Target	Desired outcome
Flexible Equity Strategies	Asymmetric	30% downside capture and 67% upside capture	Equity returns at half the volatility
Flexible Property	Asymmetric	30% downside capture and 67% upside capture	Property returns at half the volatility
Flexible Income	Asymmetric	25% downside capture and 75% upside capture	Bond returns at half the volatility
Foreign Equity, Bonds or Cash	Beta or Asymmetric	Downside focused managers	Rand provides a natural asymmetry
Inflation-linked Bonds	Beta	-	Assist in matching liability, particularly in low CPI target portfolios
Cash	Beta	-	Used as protection and to wait for opportunities
Pure equity, Bonds or Property	Beta	-	Used only for special opportunities

Source: Sanlam Investments (2020)

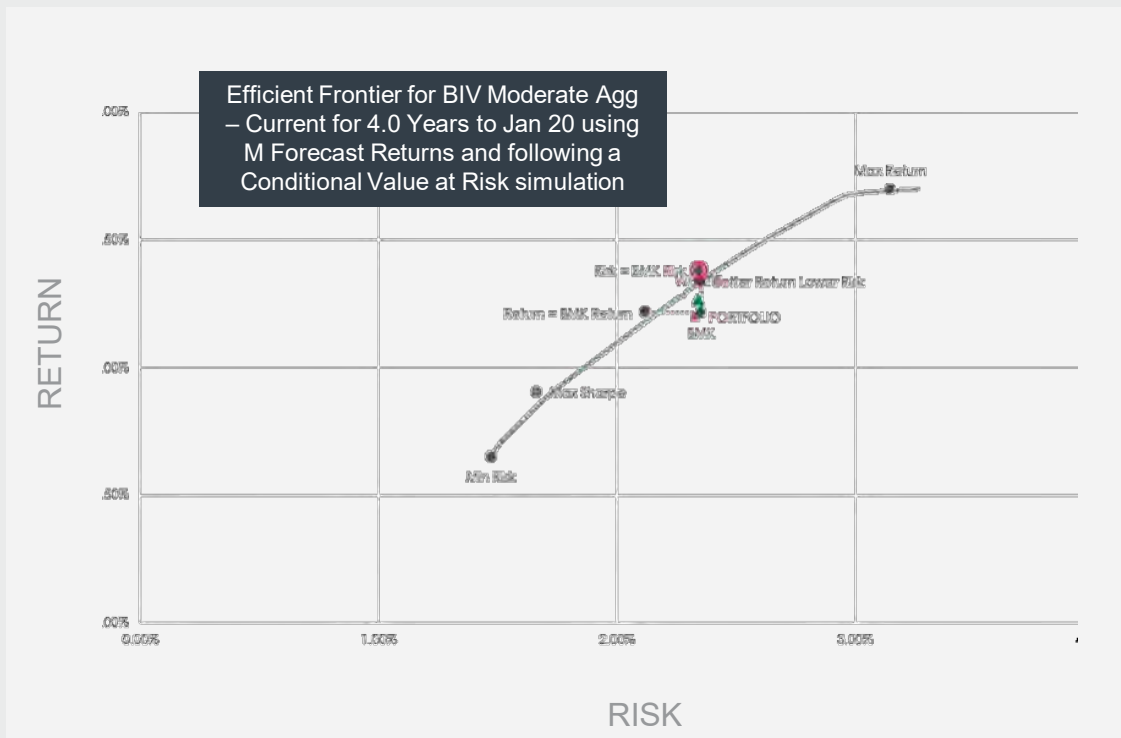
## AT PORTFOLIO CONSTRUCTION LEVEL

# WHAT DOES THIS LOOK LIKE IN PRACTICE?



AT PORTFOLIO  
CONSTRUCTION  
LEVEL

WHAT DOES  
THIS LOOK  
LIKE IN  
PRACTICE?



Source: Sanlam Investments (2020)

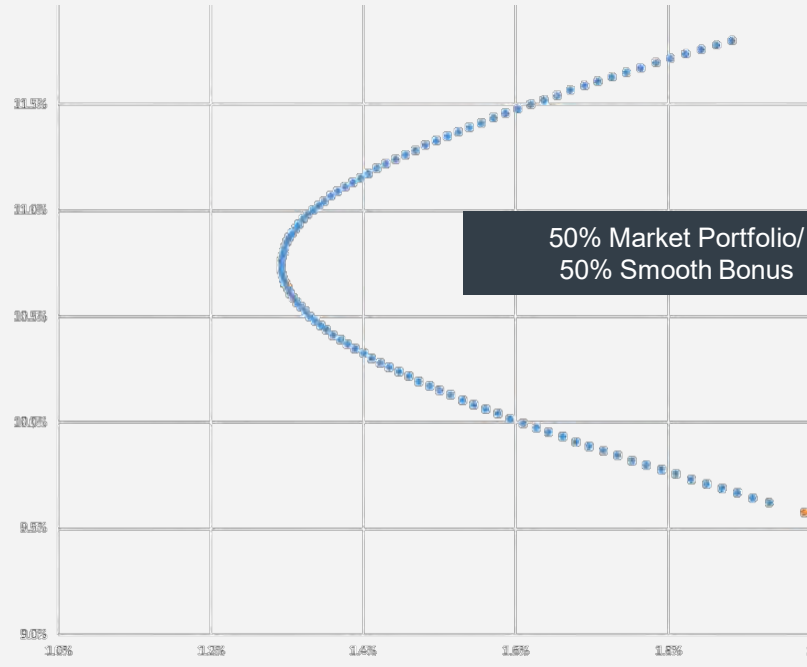


# WHAT DOES THIS LOOK LIKE IN PRACTICE? AT PORTFOLIO CONSTRUCTION LEVEL

	CURRENT ALLOCATION	MEAN VARIANCE	CONDITIONAL VALUE AT RISK
Prescient Income Provider	5.0%	5.0%	10.0%
Amplify Strategic Income	5.0%	10.0%	15.0%
Coronation Balanced	10.0%	15.0%	5.0%
Satrix Balanced Index	15.0%	15.0%	15.0%
ABAX Balanced	10.0%	15.0%	15.0%
SIM Balanced	15.0%	3.0%	2.5%
SMMI Balanced FoF	10.0%	3.0%	2.5%
Truffle Flexible	10.0%	4.0%	10.0%
Bateleur Flexible	10.0%	15.0%	15.0%
PSG Flexible	10.0%	15.0%	10.0%

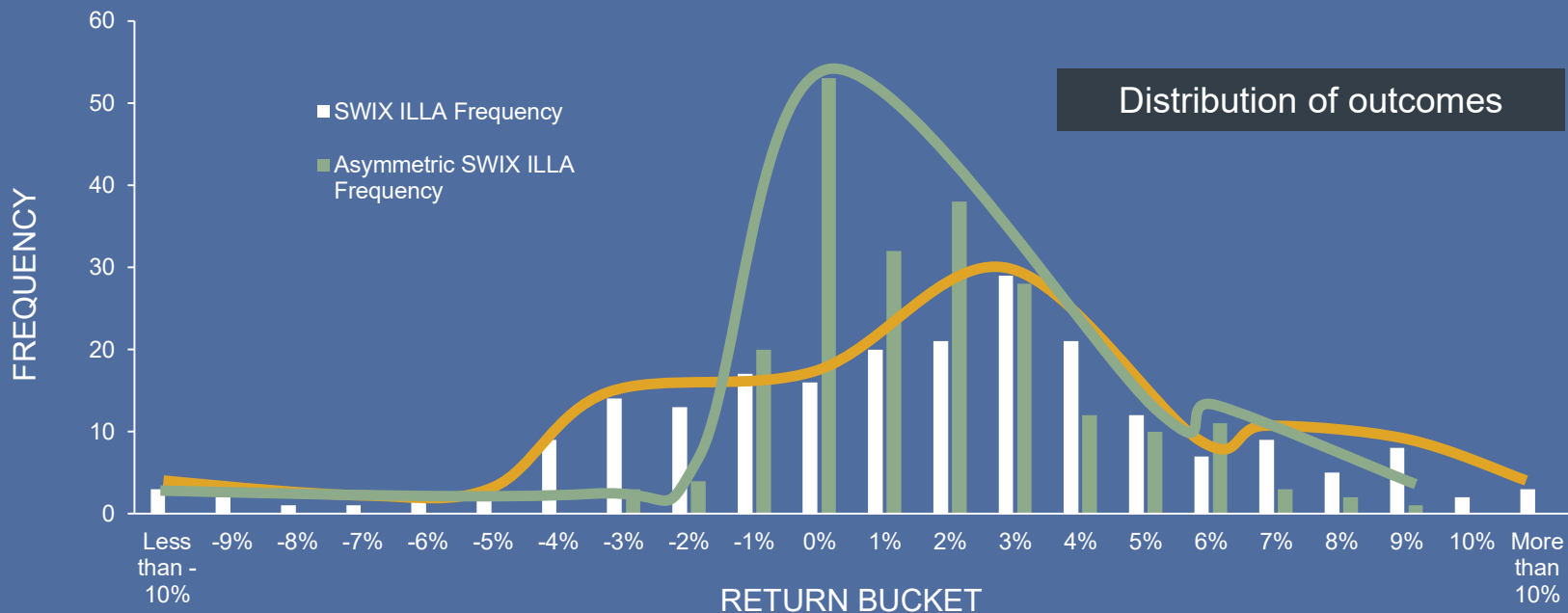
Source: Sanlam Investments (2020)

WHAT IF YOU  
COULD  
ARTIFICIALLY  
REMOVE  
VOLATILITY  
THROUGH  
UNCORRELATED  
ASSETS?  
(TOTAL 15 YEAR PERIOD)



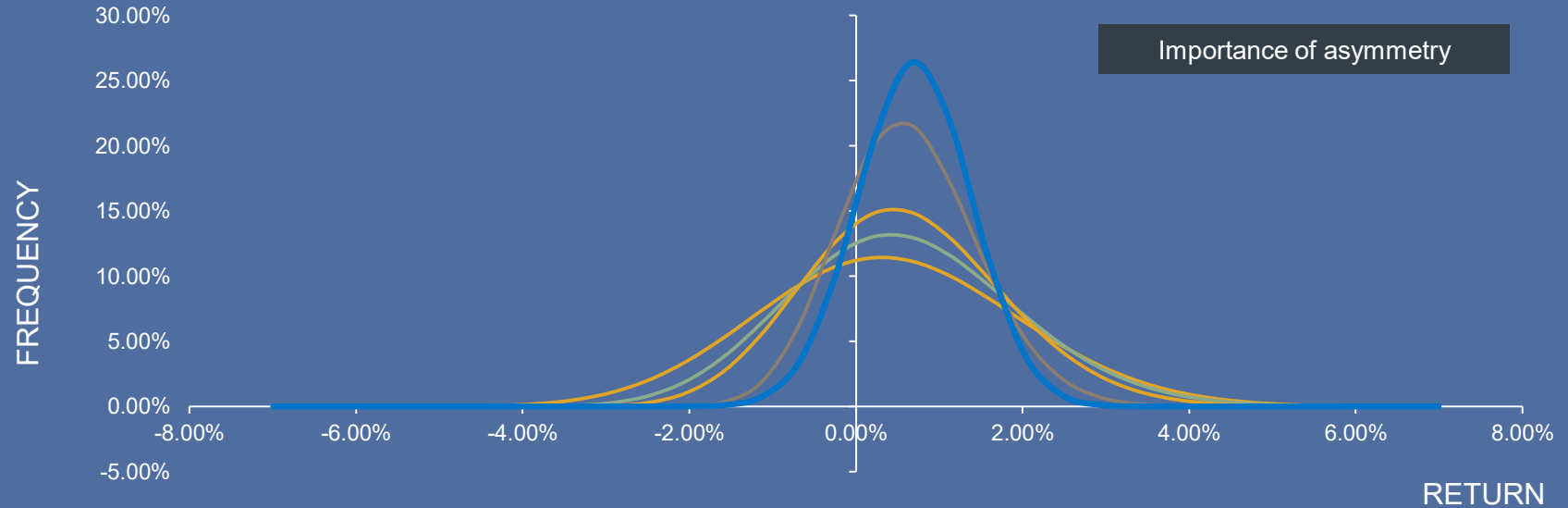
Source: Sanlam Investments (2020)

# WHAT DOES THIS LOOK LIKE IN PRACTICE?



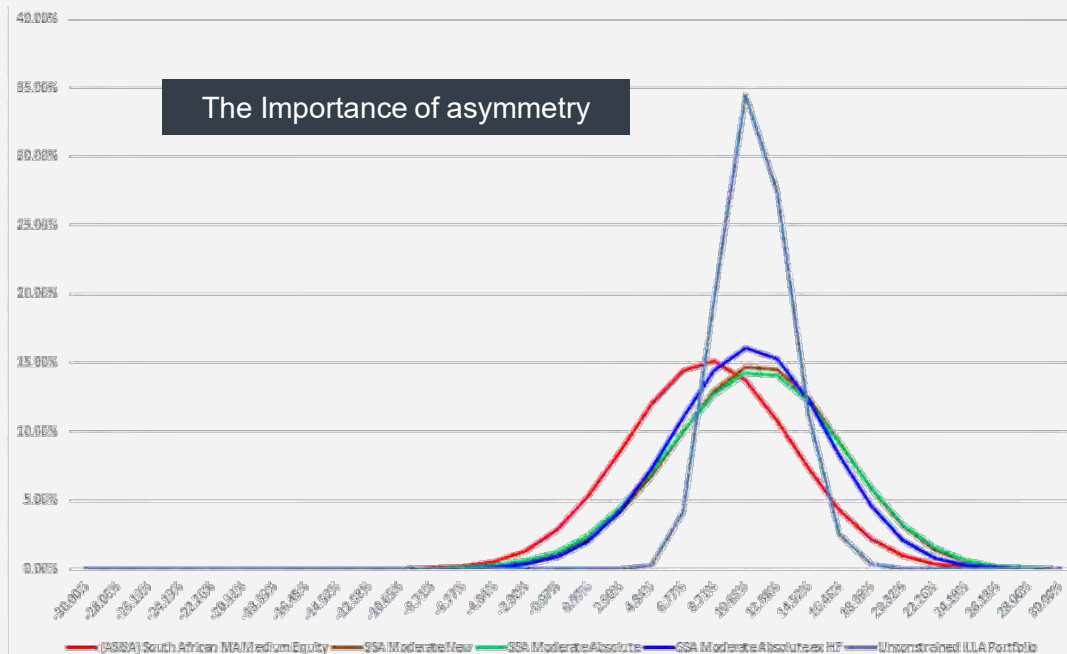
Source: Sanlam Investments (2020)

# WHAT WE NEED TO AIM FOR IN PORTFOLIO CONSTRUCTION



Source: Sanlam Investments (2020)

# WHAT IS THE ESSENCE OF IT



Source: Sanlam Investments (2020)



# SOLUTIONS

Cp

Sr

Sequence Risk

Dc

Decumulation

Ar

Average Return

Th

Time Horizon

Ac

Accumulation

Lg

Longevity

Sr

Seq Returns

Pc

Portfolio Construction

Lg

Longevity Risk

Ir

Interest Rate

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# CONSERVATIVE REAL INCOME SOLUTION

## Glacier Invest 2.5% Real Income Solution

- 1 Benchmark: CPI + 2% rolling 2 years
- 2 Capital preservation: No capital loss over a rolling 3-month period
- 3 Investment horizon: 2 years +
- 4 2.5% income drawdown appropriate
- 5 *Max. 20% total equity*
- 6 Non-Regulation 28 compliant

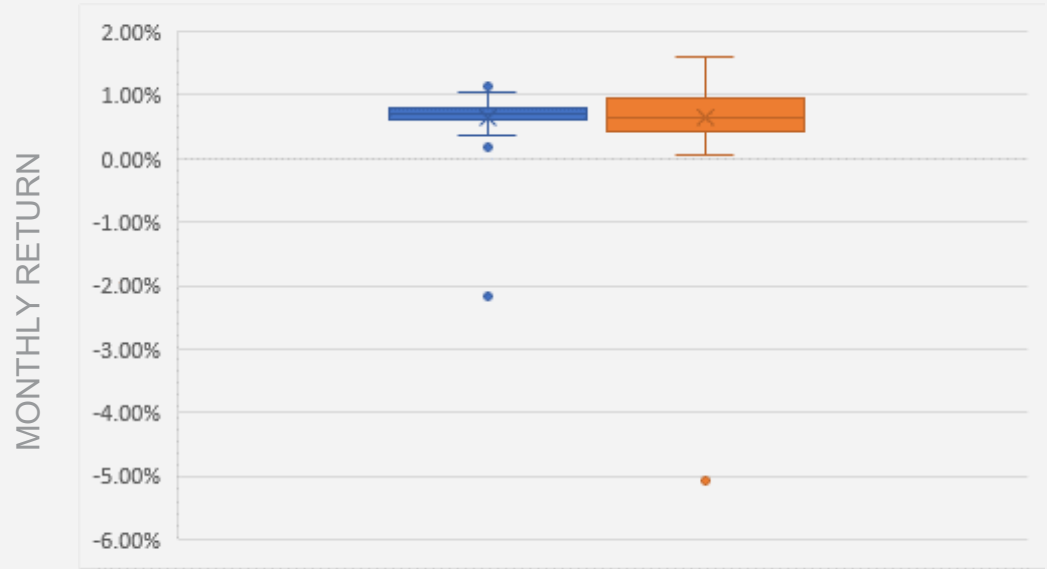
# CONSERVATIVE REAL INCOME SOLUTION

	Style	Real Income Solution
Coronation Strategic Income	Core	7.5%
Prescient Income Provider	Short Duration/Conservative	11.3%
SIM Active Income	Short Duration/ Conservative	11.3%
Amplify Strategic Income	Macro Specialist/Risk Manager	11.3%
Nedgroup Core Income	Money Market	11.2%
BCI Income Plus	Credit	11.2%
SIM Inflation Plus	Defensive Absolute	5.6%
Amplify Defensive Balanced	Defensive Absolute	5.6%
Smooth Bonus Fund	Low Volatility Strategy	25.0%

Source: Sanlam Investments (2020)

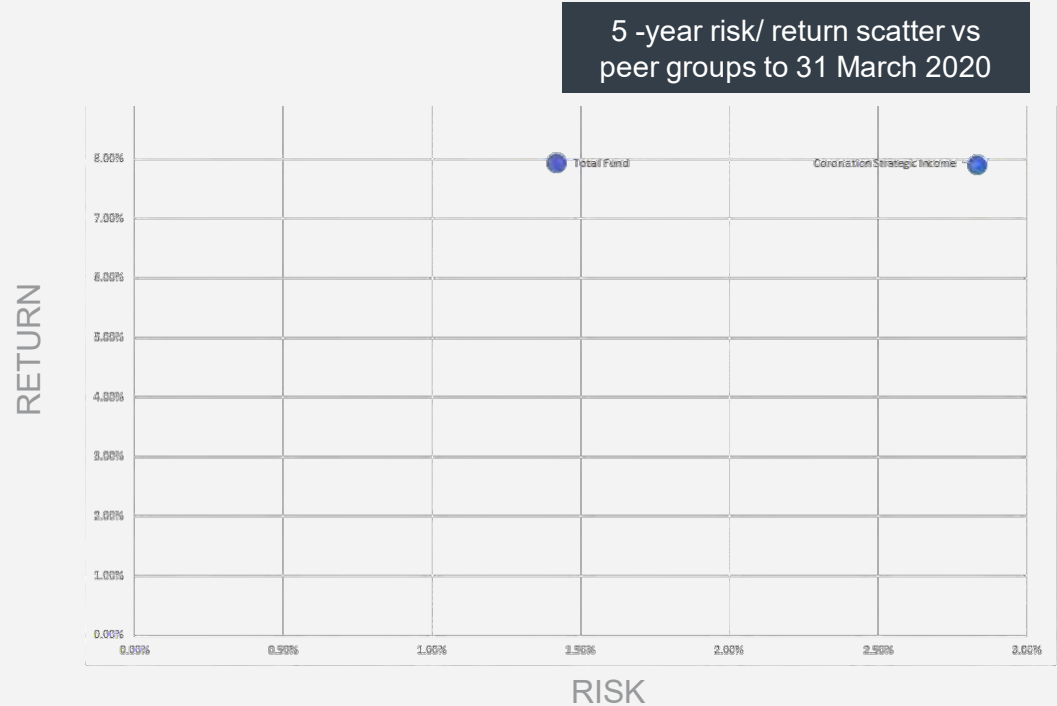
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# CONSERVATIVE REAL INCOME SOLUTION



Source: Sanlam Investments (2020)

# CONSERVATIVE REAL INCOME SOLUTION



Source: Sanlam Investments (2020)



# CAUTIOUS REAL INCOME SOLUTION

## Glacier Invest 3% Real Income Solution

- 1 Benchmark: CPI + 3% rolling 3 years
- 2 Capital preservation: No capital loss over a rolling 6-month period
- 3 Investment horizon: 3 years +
- 4 3% income drawdown appropriate
- 5 Max. 40% total equity
- 6 Non-Regulation 28 Compliant

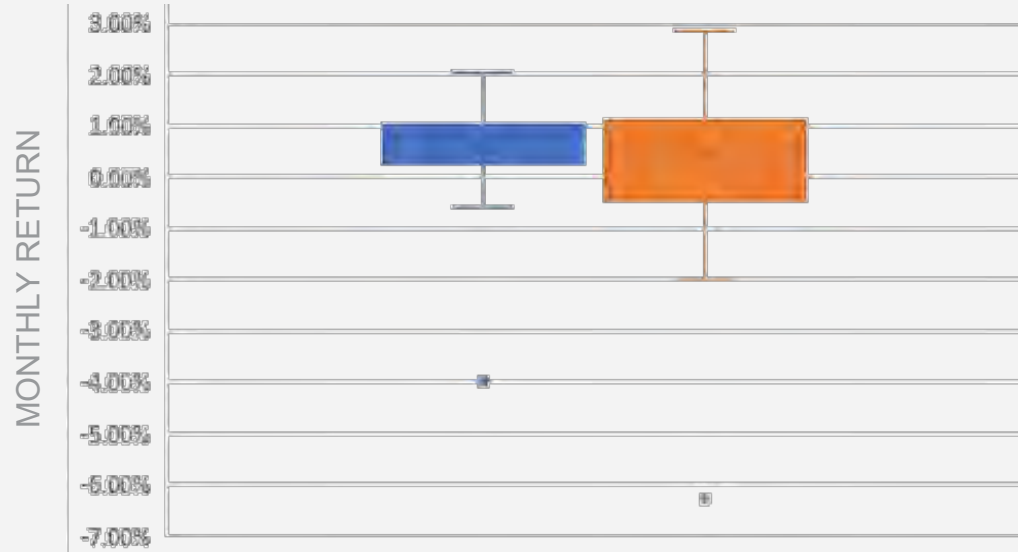
# CAUTIOUS REAL INCOME SOLUTION

	Style	Real Income Solution
Coronation Strategic Income	Core	8.2%
SIM Active Income	Short Duration/Conservative	8.2%
SIM Inflation Plus	Defensive Pragmatic Value	7.3%
Amplify Defensive Balanced	Momentum/Growth	2.7%
Amplify Wealth Protector	Defensive Quality	7.3%
Satrix Low Equity	Core	2.7%
NinetyOne Opportunity	Quality	8.2%
Amplify Flexible Equity	GARP Opportunistic	2.7%
PSG Flexible	Value/Quality	2.7%
Smooth Bonus Fund	Low Volatility Strategy	25.0%
Hedge Funds	Uncorrelated Return Enhancer	10.0%
Alternatives	Uncorrelated Return Enhancer	15.0%

Source: Sanlam Investments (2020)

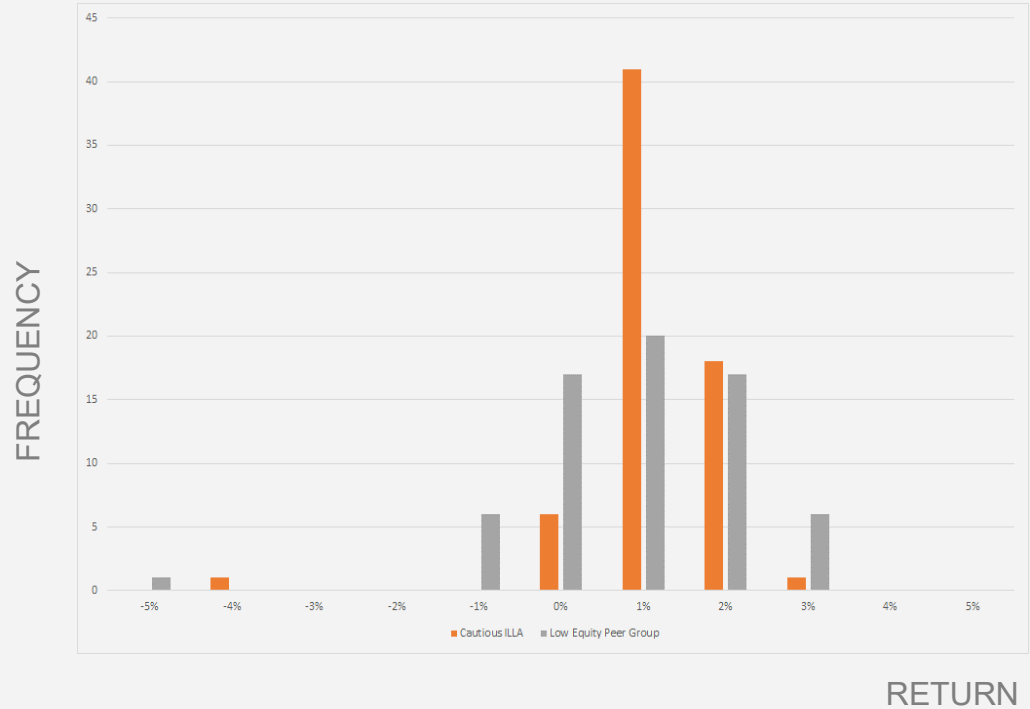
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# CAUTIOUS REAL INCOME SOLUTION



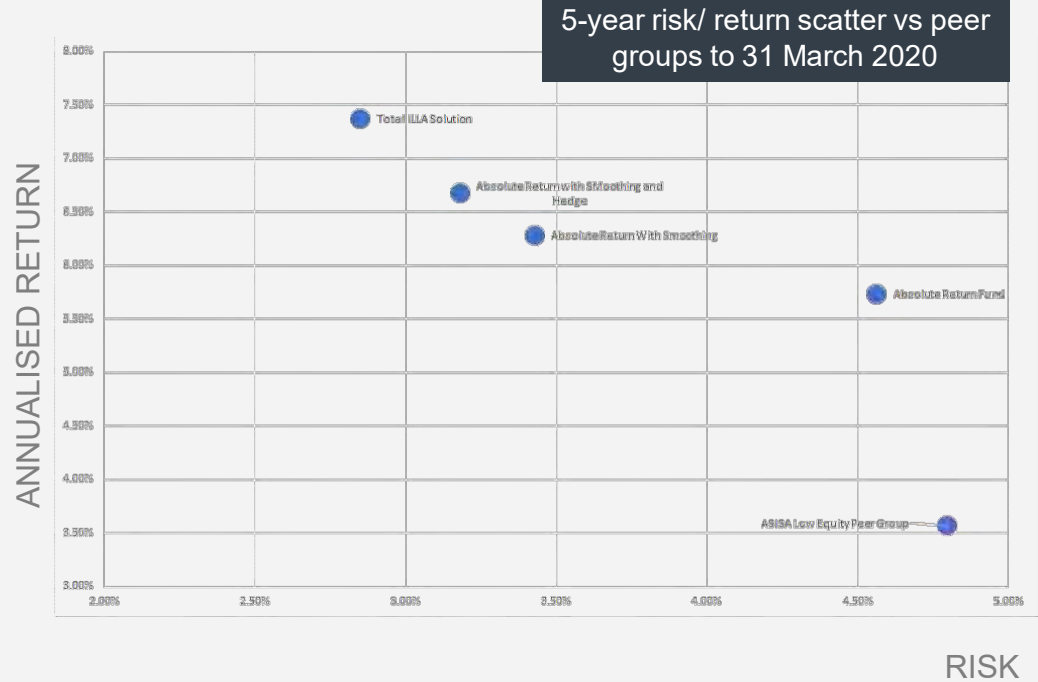
Source: Sanlam Investments (2020)

# CAUTIOUS REAL INCOME SOLUTION



Source: Sanlam Investments (2020)

# CAUTIOUS REAL INCOME SOLUTION



Source: Sanlam Investments (2020)

# CAUTIOUS REAL INCOME SOLUTION

<b>Fund strategy</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020 YTD</b>
Cautious ILLA	10.1%	9.9%	8.8%	6.0%	9.6%	-3.5%
Low equity peer group	7.6%	3.6%	8.4%	1.2%	8.6%	-7.2%

Source: Sanlam Investments (2020)

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# MODERATE REAL INCOME SOLUTION

## Glacier Invest 4% Real Income Solution

- 1 Benchmark: CPI + 4% rolling 5 years
- 2 Capital Preservation: No capital loss over rolling one year
- 3 Investment horizon: 5 years +
- 4 4% Income drawdown appropriate
- 5 Max. 60% total equity
- 6 Non-Reg. 28 Compliant

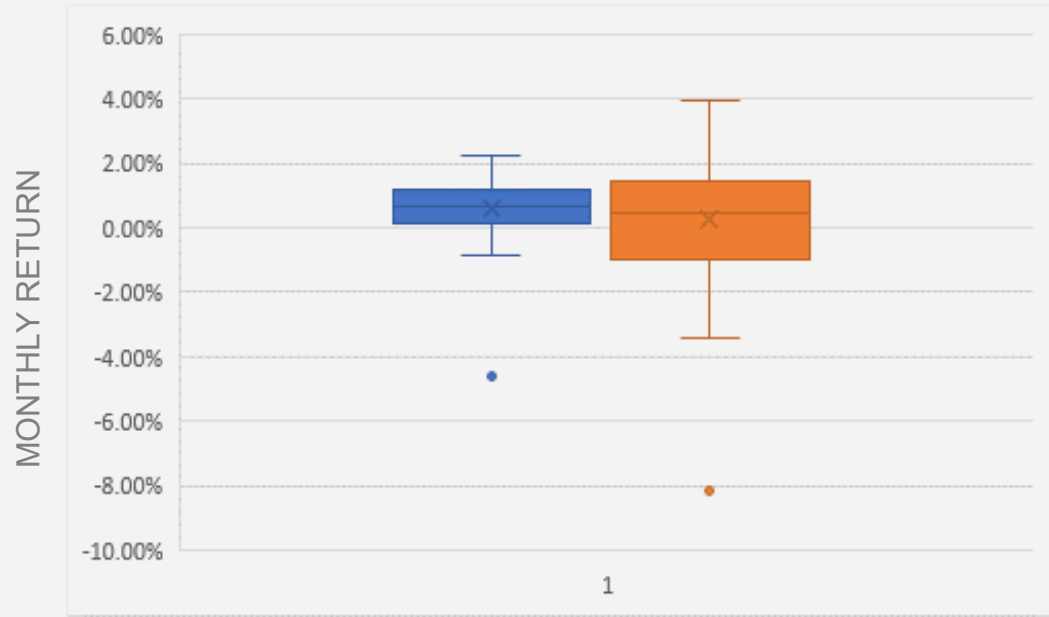
# MODERATE REAL INCOME SOLUTION

	Style	Real Income Solution
Coronation Strategic Income	Core	8.2%
Amplify Strategic Income	Macro Specialist/Risk Manager	8.2%
SIM Inflation Plus	Defensive Pragmatic Value	5.4%
Amplify Absolute	Momentum/Growth	2.7%
Satrix Balanced Index	Core	3.8%
NinetyOne Opportunity	Quality	8.2%
Truffle Flexible	Defensive Quality	8.2%
Amplify Flexible Equity	GARP Opportunistic	2.7%
PSG Flexible	Value/Quality	2.7%
Smooth Bonus Fund	Low Volatility Strategy	25.0%
Hedge Funds	Uncorrelated Return Enhancer	10.0%
Alternatives	Uncorrelated Return Enhancer	15.0%

Source: Sanlam Investments (2020)

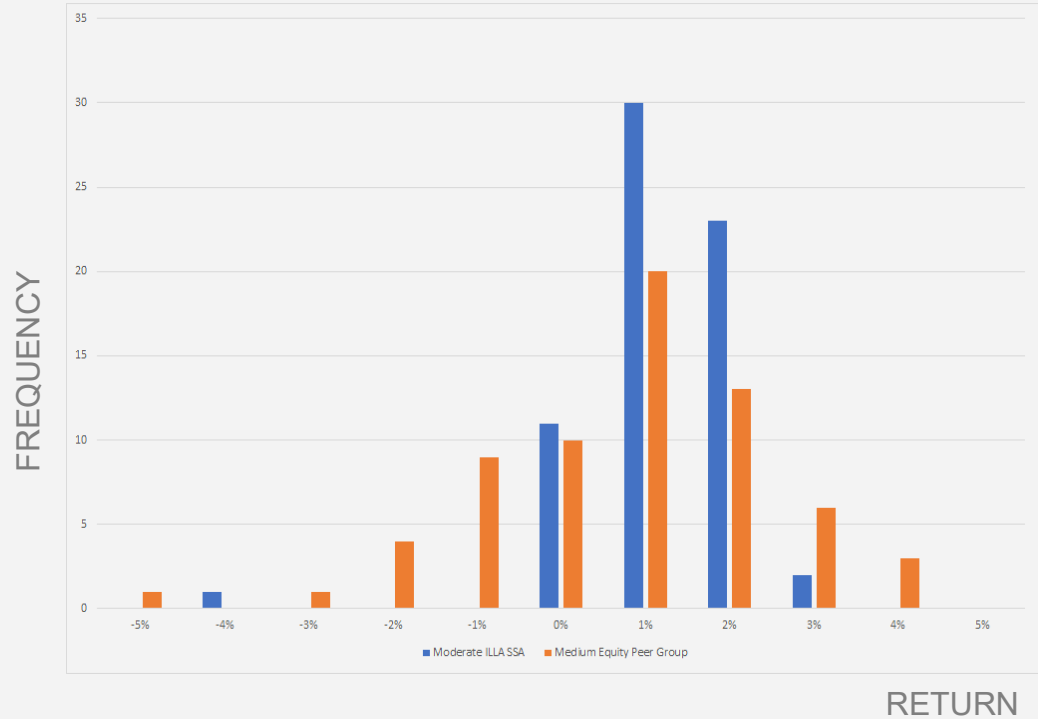
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# MODERATE REAL INCOME SOLUTION



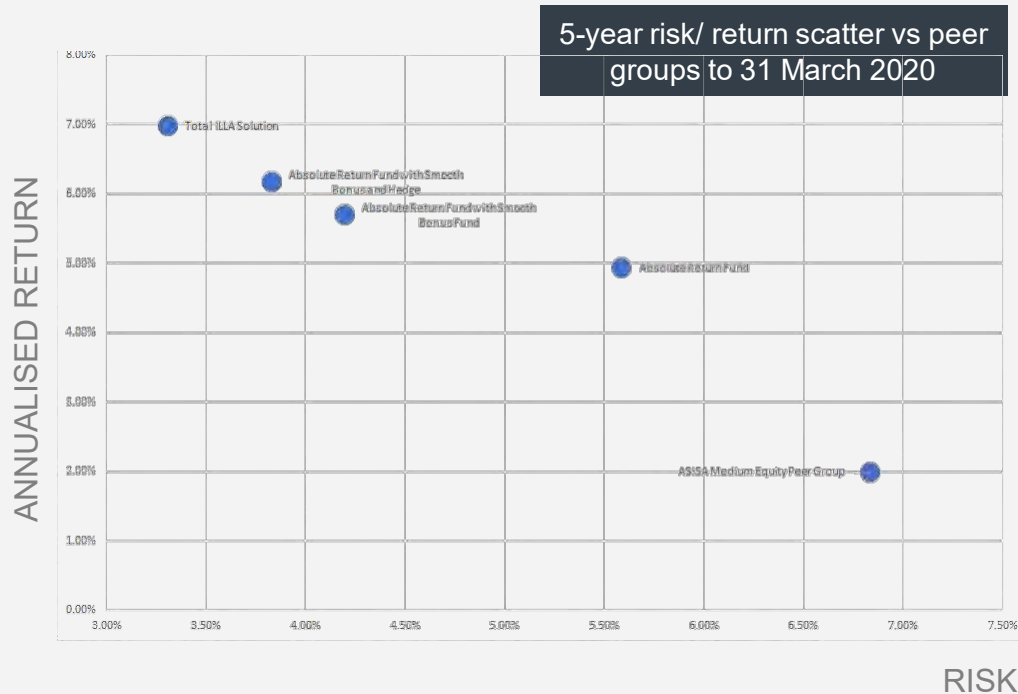
Source: Sanlam Investments (2020)

# MODERATE REAL INCOME SOLUTION



Source: Sanlam Investments (2020)

# MODERATE REAL INCOME SOLUTION



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# MODERATE REAL INCOME SOLUTION

<b>Fund strategy</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020 YTD</b>
Moderate ILLA	10.6%	8.7%	9.4%	5.2%	10.0%	-4.5%
Medium equity peer group	7.4%	1.5%	9.3%	-1.8%	9.5%	-10.5%

Source: Sanlam Investments (2020)



# MODERATE/ AGGRESSIVE REAL INCOME SOLUTION

## Glacier Invest 5% Real Income Solution

- 1 Benchmark: CPI + 5% rolling 5 years
- 2 Capital preservation: No capital loss over a rolling 1-year period
- 3 Investment horizon: 5 years +
- 4 5% income drawdown appropriate
- 5 Max. 75% total equity
- 6 Non-Regulation 28 Compliant

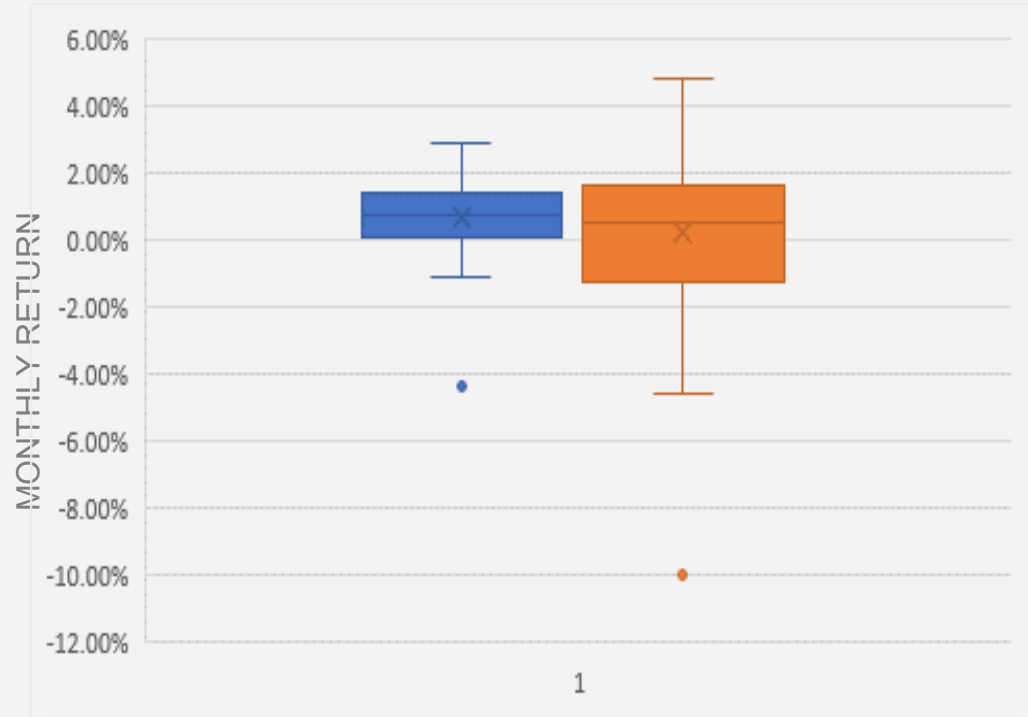
# MODERATE/ AGGRESSIVE REAL INCOME SOLUTION

	Style	Real Income Solution
Prescient Income Provider	Short Duration/Conservative	7.1%
Amplify Strategic Income	Macro Specialist/Risk Manager	7.1%
SIM Balanced	Pragmatic Value/Protectionist	2.7%
ABAX Balanced	GARP Opportunistic	2.7%
Satrix Balanced Index	Core	2.7%
Amplify Balanced	Growth/Opportunistic	6.0%
Bateleur Flexible	Quality/Momentum	2.7%
Truffle Flexible	Defensive Quality	8.2%
PSG Flexible	Value/Quality	2.7%
Coronation Optimum Growth	Valuation Biased/Core	8.2%
Smooth Bonus Fund	Low Volatility Strategy	25.0%
Hedge Funds	Uncorrelated Return Enhancer	10.0%
Alternatives	Uncorrelated Return Enhancer	15.0%

Source: Sanlam Investments (2020)

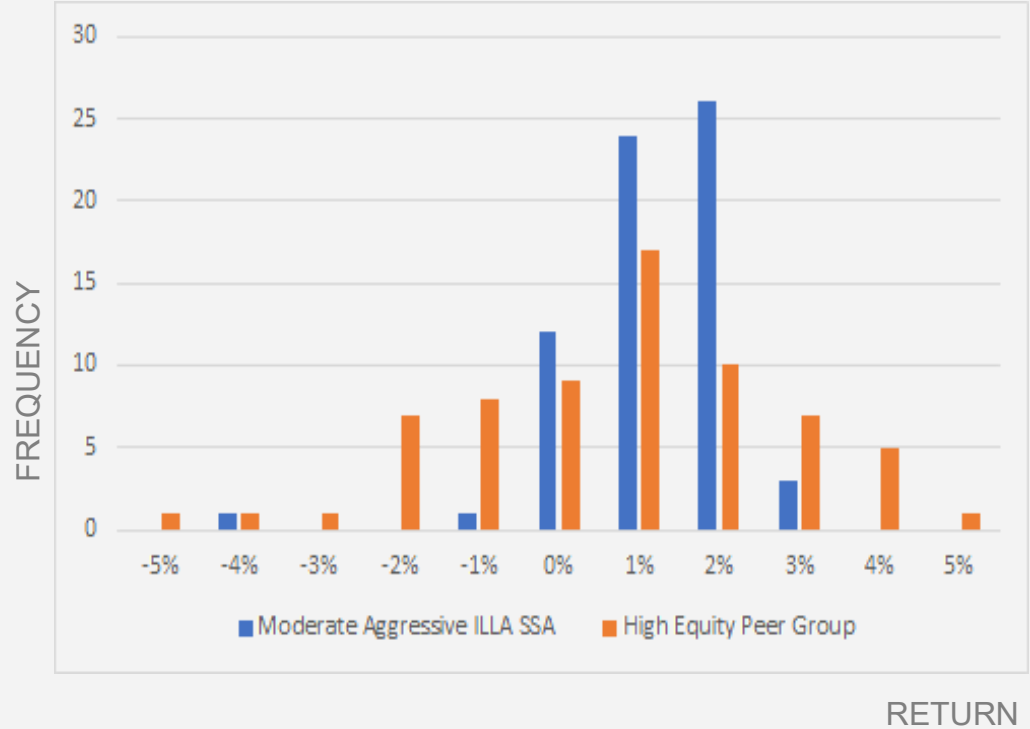
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# MODERATE/ AGGRESSIVE REAL INCOME SOLUTION



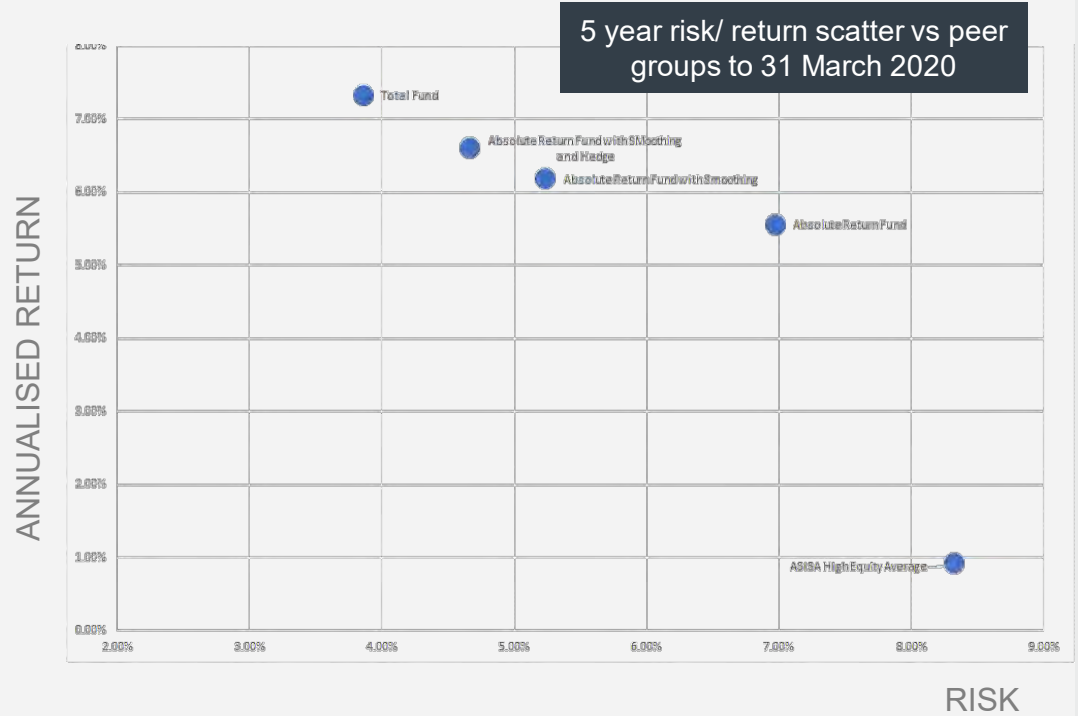
Source: Sanlam Investments (2020)

# MODERATE/ AGGRESSIVE REAL INCOME SOLUTION



Source: Sanlam Investments (2020)

# MODERATE/ AGGRESSIVE REAL INCOME SOLUTION



Source: Sanlam Investments (2020)

# MODERATE/ AGGRESSIVE REAL INCOME SOLUTION

Fund strategy	2015	2016	2017	2018	2019	2020 YTD
Moderate Aggressive ILLA	11.0%	8.5%	10.2%	5.1%	11.1%	-4.4%
High equity peer group	7.7%	1.3%	10.0%	-3.6%	9.5%	-13.5%

Source: Sanlam Investments (2020)

# AGGRESSIVE REAL INCOME SOLUTION

## Glacier Invest 6% Real Income Solution

- 1 Benchmark: CPI + 6% rolling 7 years
- 2 Capital preservation: Minimize capital loss over a rolling 1-year period
- 3 Investment horizon: 7 years +
- 4 6% & above income drawdown appropriate
- 5 Max. 100% total equity
- 6 Non-Regulation 28 Compliant



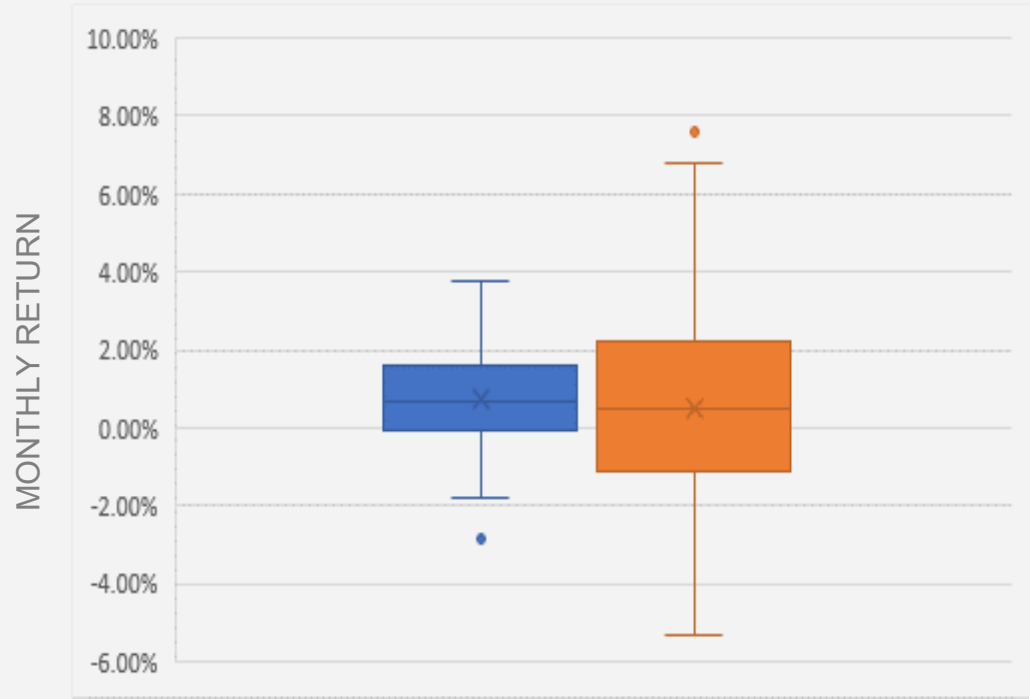
# AGGRESSIVE REAL INCOME SOLUTION

	Style	Real Income Solution
BCI Income Plus	Credit	10.9%
Centaur Flexible	GARP/FINDI	6.5%
Amplify Flexible Equity	GARP Opportunistic	2.7%
Truffle Flexible	Defensive Quality	2.7%
PSG Flexible	Value/Quality	2.7%
Coronation Optimum Growth	Valuation Biased/Core	10.9%
Satrix MSCI World	Core	5.4%
NinetyOne Global Franchise	Quality	5.4%
NinetyOne Global Multi-Asset Income	Defensive Core	2.7%
Smooth Bonus Fund	Low Volatility Strategy	25.0%
Hedge Funds	Uncorrelated Return Enhancer	10.0%
Alternatives	Uncorrelated Return Enhancer	15.0%

Source: Sanlam Investments (2020)

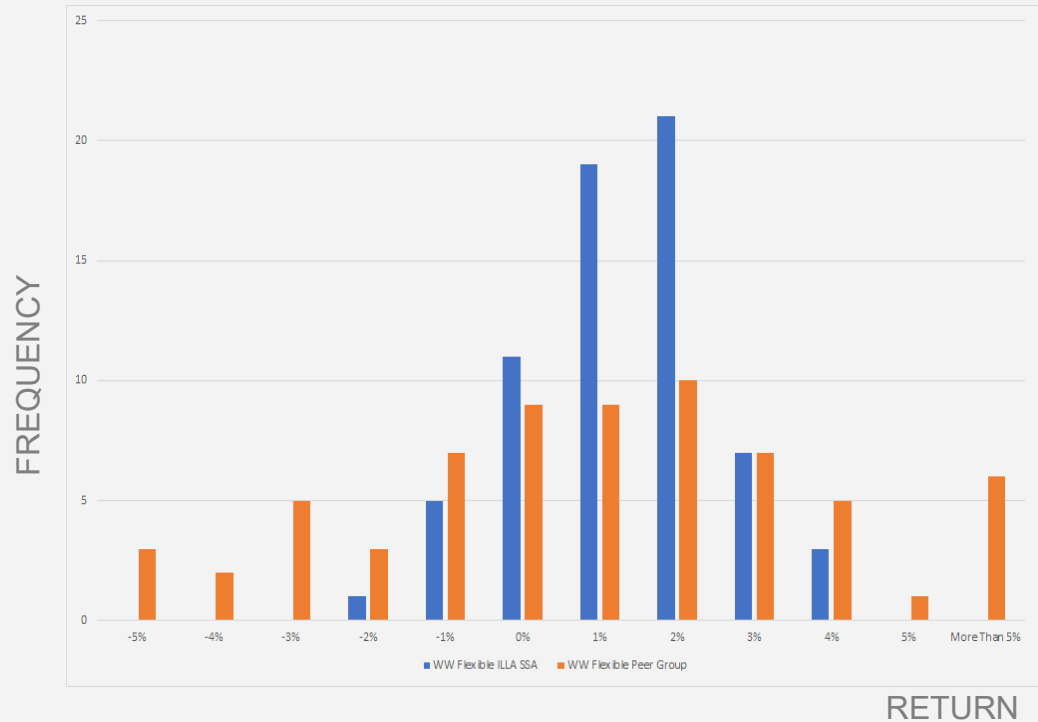
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# AGGRESSIVE REAL INCOME SOLUTION



Source: Sanlam Investments (2020)

# AGGRESSIVE REAL INCOME SOLUTION



Source: Sanlam Investments (2020)

# AGGRESSIVE REAL INCOME SOLUTION



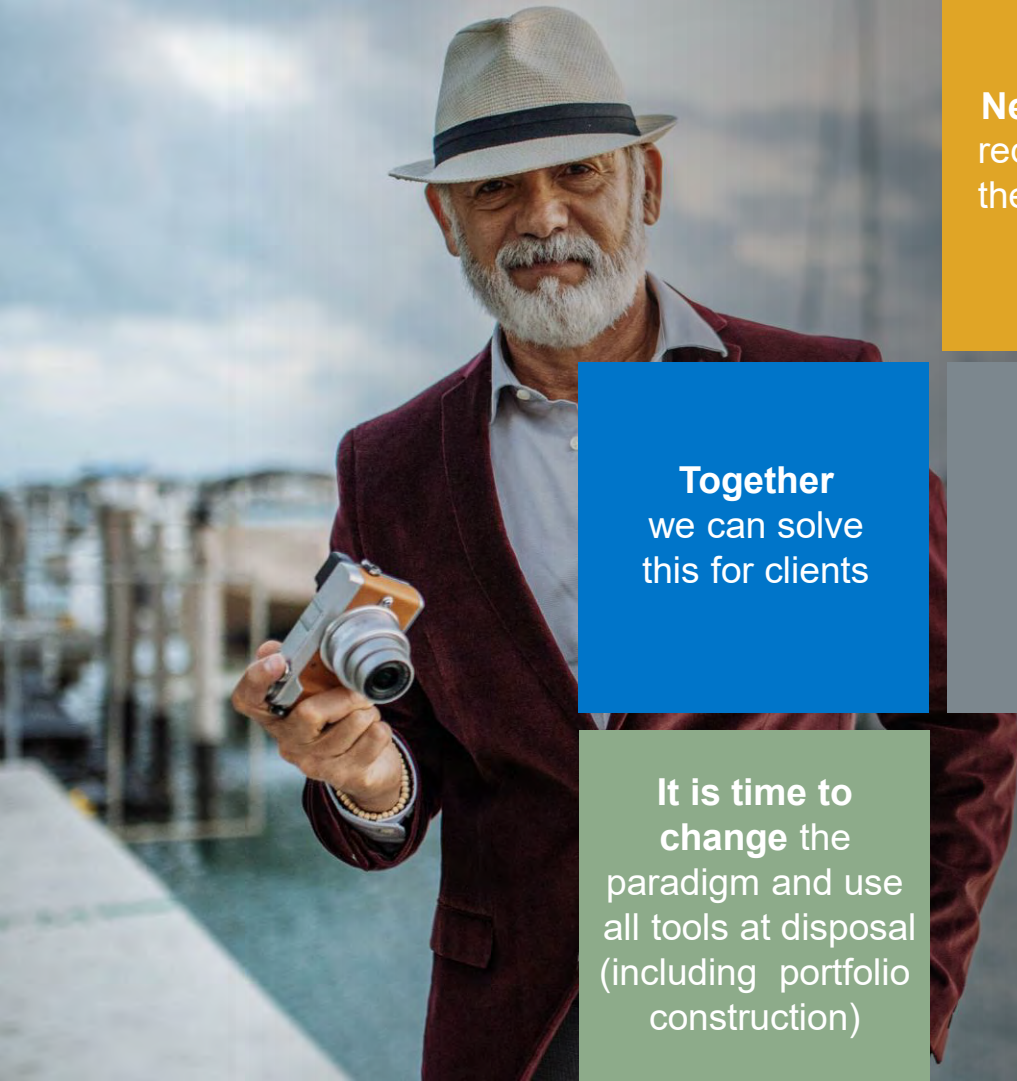
Source: Sanlam Investments (2020)

# AGGRESSIVE REAL INCOME SOLUTION

<b>Fund strategy</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020 YTD</b>
WW Flexible ILLA	15.0%	6.8%	9.9%	5.8%	12.9%	-1.8%
WW Flexible Peer Group	18.5%	-4.2%	7.8%	-1.3%	13.6%	-5.8%

Source: Sanlam Investments (2020)

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**New thinking** is required to solve the living annuity problem

# TO CONCLUDE

**Together**  
we can solve this for clients

**Practicalities**  
need to be considered

**Solving sequencing risk** can improve the odds of making money last longer

**It is time to change** the paradigm and use all tools at disposal (including portfolio construction)





Cp  
Capital Protect

Sr  
Sequence Risk

Dc  
Decumulation

Hf  
Hedge Fund

Ar  
Average return

Lg  
Longevity

Lg  
Longevity

Sr  
Seq Returns

Pc  
Portfolio Construction

Pc  
Portfolio Con

Ac  
Accumulation

Sr  
Seq Risk

Th  
Time Horizon

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