Strategic Asset Allocation within the New Pension Guideline

Presentation overview

- **Multi-asset investing**
- **Strategic asset allocation**
- **Alternative investing opportunities**
- **Ethics**

What is multi-asset investing

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A multi-asset strategy combines different types of assets, such as stocks, bonds, real estate or cash to create a more nimble and broadly diversified portfolio. Fund managers make big-picture decisions and balance asset classes to achieve particular investment outcomes, such as growth, income or risk minimization.

Multi-asset investing Outcomes

Multi-asset investment strategies can help you to achieve particular investment outcomes, such as:

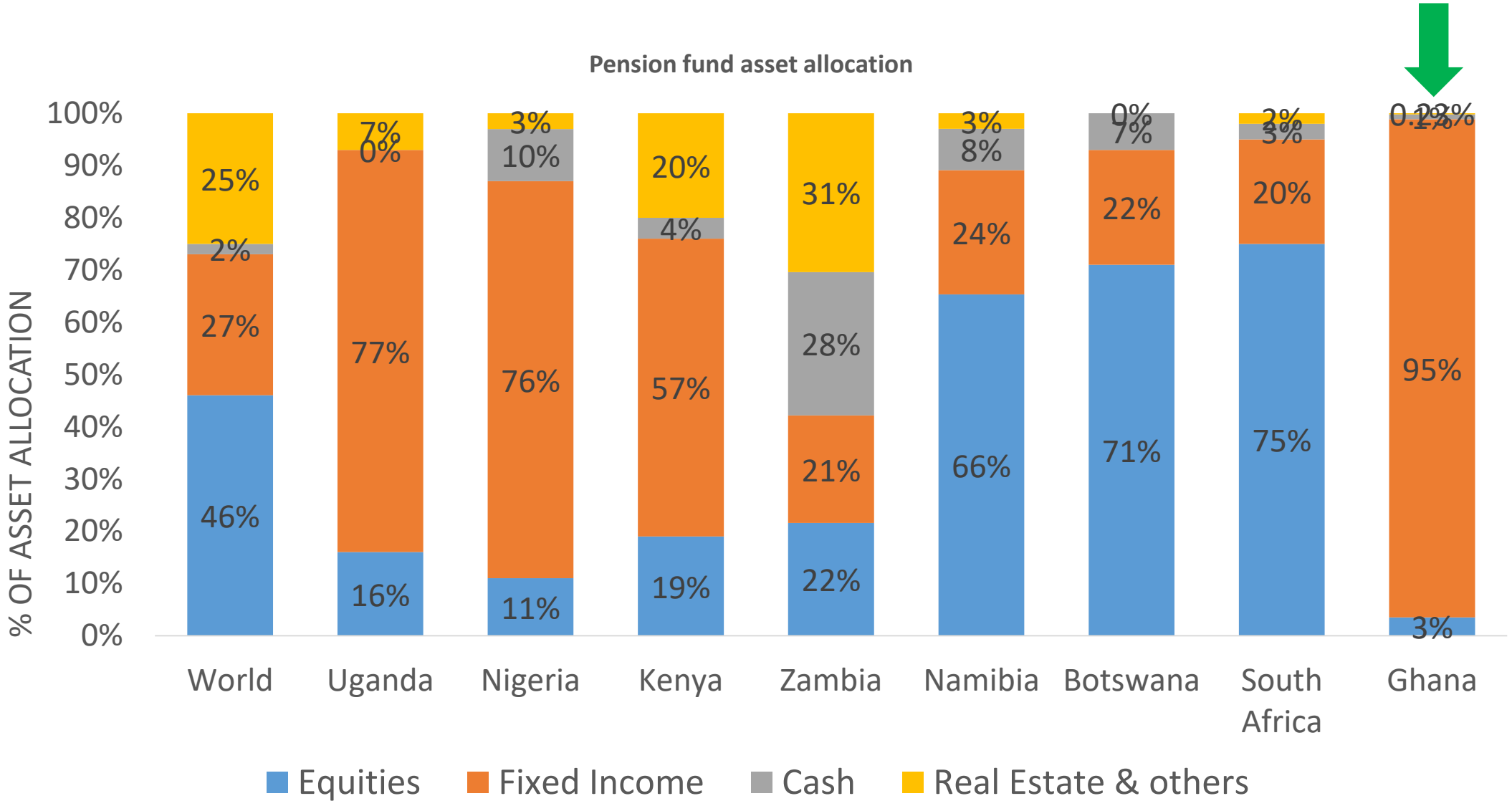
1. **Growth**: Seek long-term capital appreciation

2. **Income**: Seek cash flow in a risk-aware and diversified manner

3**. Absolute Return**: Seek consistent returns across market cycles with low correlation to traditional stocks and bonds

4. **Lifecycle**: Seek consistent lifetime consumption across multiple time horizons. *New guideline addresses this objectives*

Multi-asset pension allocation- African Countries



Strategic asset allocation and portfolio resilience

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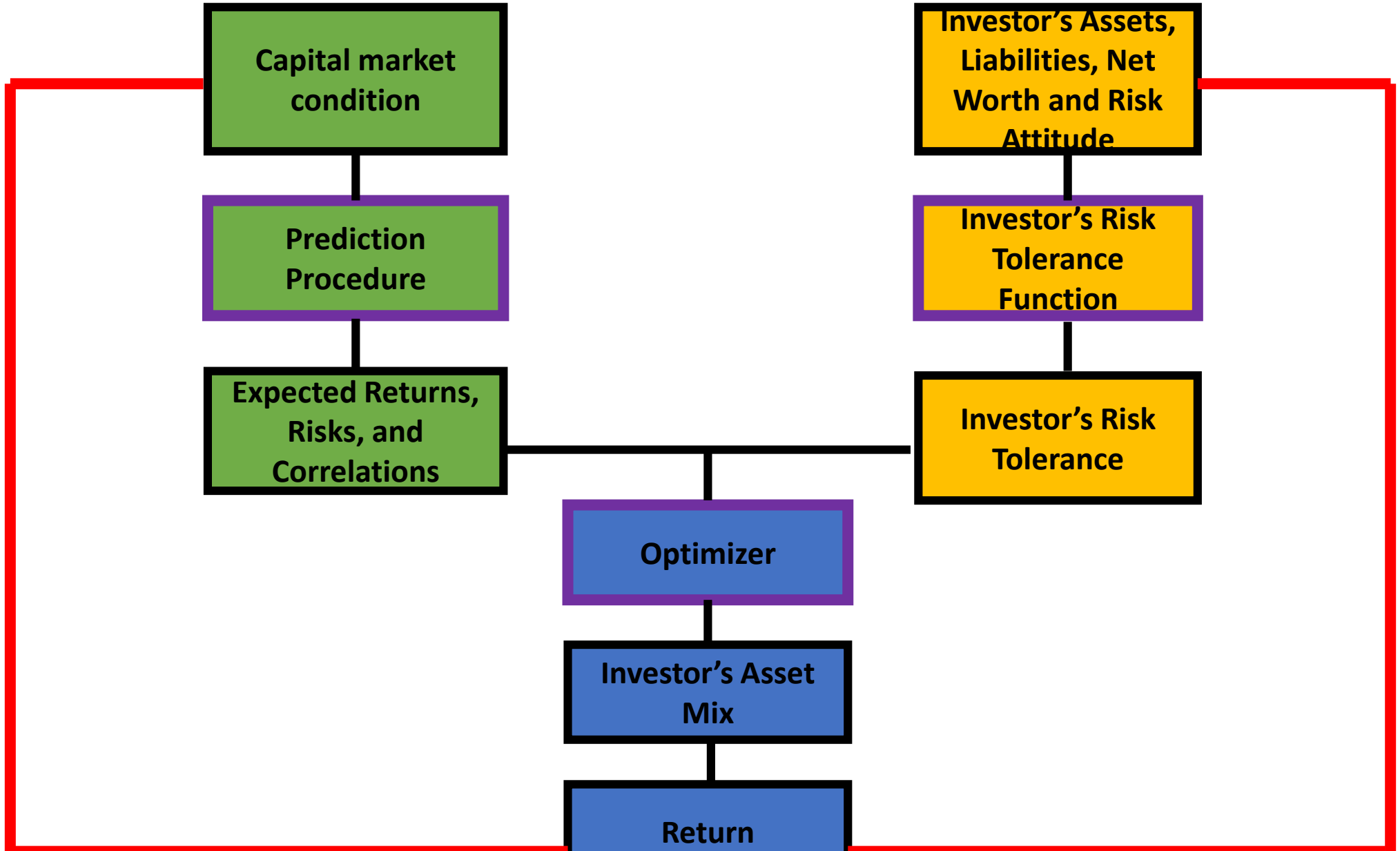
1. Strategic asset allocation specifies the investor's desired exposures to systematic risk.

✓ Adopting and implementing strategic asset allocation is an effective way of exercising control over systematic risk.

2. Strategic asset allocation indicates the appropriate asset mix to be held under long-term or normal conditions.

Steps in strategic asset allocation



Analyzing capital market conditions

	Inflation Effects on Asset Classes			
	Cash	Bonds	Equity	Real Estate/Other Real Assets
Inflation at or below expectation	Short-term yields steady or declining	Yield levels maintained; market in equilibrium	Bullish while market in equilibrium state	Cash flow steady to rising slightly. Returnns equate to long-term average. Market in general equilibrium
Performance	[Neutral]	[Neutral]	[Positive]	[Neutral]
Inflation above expectation	Bias toward rising rates	Bias toward higher yields due to higher inflation premium	High inflation a negative for financial assets. Less negative for companies industries able to pass on inflated costs	Aset values increasing; increased cash flows and expected returns
Performance	[Positive]	[Negative]	[Negative]	[Positive]

Permissible Asset Class

ASSET CLASS	OLD GUIDELINE MAX ALLOCATION (PER ISSUER LIMIT)	NEW GUIDELINE MAX ALLOCATION (PER ISSUER LIMIT)
Government of Ghana	60%	75%
Local Government and Statutory Agency Securities	15%	25%
Corporate Debt Securities	35% (Max 5%)	35% (Max 5%)
Listed ordinary shares/Non-redeemable preference shares*	20% (Max 5%)	20% (Max 5%)
Bank Securities	35% (Max 5%)	35% (Max 5%)
Collective Investment Schemes	15% (Max 5%)	15% (Max 5%)
Alternative Investment*	15% (Max 10% external investment)	25% (Max 5% external investment)

* The new guideline imposes a **floor** on variable income securities which are mainly listed equities and alternative securities, through the constituent fund structure

Determining optimal asset allocation- Mean variance optimization

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Asset Class	Benchmark	10Y Historical Returns	Standard deviation
GH Bond	S&P Ghana Sovereign Bond	18.19%	6.75%
Equities	GSE Composite index	17.16%	16.82%
External Investment	MSCI World index	43.03%	23.44%
Commodities	ABSA New Gold ETF	21.23%	14.91%

	GH Bond	GSE Equities	MSCI Index	GLD
GH Bond	1.00	(0.03)	0.14	0.10
GSE Equities	(0.03)	1.00	0.11	0.04
MSCI Index	0.14	0.11	1.00	0.14
GLD	0.10	0.04	0.14	1.00

Optimal asset allocation- Judgement and optimization

	Mean efficient portfolio	Equally weighted Portfolio	NPRA Compliant portfolio
GH Bond	56%	25%	75%
Equities	0%	25%	10%
External Investment	30%	25%	5%
Commodities	14%	25%	10%
Performance indicators			
Expected returns	**26.06%**	**24.9%**	**19.64%**
Stdev	**8.96%**	**10.1%**	**6.19%**
Risk free rate	**12.7%**	**12.7%**	**12.7%**
Sharpe ratio	**1.50%**	**1.21**	**1.13%**

Optimal asset allocation- Judgement and optimization

	NPRA Compliant portfolio		Actual since inception return for Axis Administered Schemes
Performance indicators			
Expected returns	19.64%	Average	19.06%
Stdev	6.19%	Median	19.25%
Risk free rate	12.7%	Max	20.37%
Sharpe ratio	1.13%	Min	16.24%

Opportunities with the Alternative investment space

Greater Manchester Pension Fund's

Direct Infrastructure

In April 2015, Greater Manchester Pension Fund (GMPF) and the London Pensions Fund Authority formed a joint venture to invest directly in infrastructure assets, with a focus on the UK. The joint venture is structured as a limited liability partnership and has been named GLIL Infrastructure LLP (GLIL). As part of the Local Government Pension Scheme (LGPS) pooling discussions, West Yorkshire, Merseyside and Lancashire County Council pension funds joined GLIL in December 2016. In March 2018 GLIL was re-structured as an open ended fund to facilitate potential new members. Additional commitments made by existing members in October 2018 mean GLIL now has committed capital in excess of £1.8 billion. GMPF remains the largest participant in the venture.

GLIL began investing in October 2015 and has completed nine transactions with a total value in excess of £1.1 billion.

One of GLIL's earliest transactions was the purchase from SSE of a 21.7% stake in Clyde wind farm for £150 million. At the time of investment, Clyde had 152 operational turbines capable of generating 350 megawatts (MW) and a further 54, more powerful turbines, under construction. The new turbines became fully commissioned in September 2017. At this point GLIL invested an additional £30 million with a further £88 million invested in the summer of 2018. Clyde now has a total generation capacity of 522MW, making it one of the largest onshore windfarms in Europe.

Our most recent transaction, which was completed in January, is the £93 million acquisition of a 49% stake in Cubico's portfolio of 250MW of solar and wind assets across the UK. Combined with Clyde and other assets,

GLIL now has exposure to over 800MW of renewable energy.

GLIL's remit includes investment in new build (so-called 'greenfield') infrastructure projects. Alongside our partnership with Iona to construct £130 million of bioenergy plants around the UK, we have also financed two joint ventures for the build and commissioning of more than a thousand new rail vehicles across two rail franchises in the south of England. The first of these fleets is already entering service on the Greater Anglian network.

The Owls Hatch solar farm, located in Kent, is part of the Cubico portfolio and is one of the largest privately owned solar farms in the UK. It can generate up to 50MW of electricity and covers 213 acres.

Infrastructure and direct real estate investing

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Core infrastructure

- Stable form of infrastructure equity investing.
- Assets tend to be the most essential to society
- Mostly brownfields
- Returns are generally derived from income with limited upside through capital gains.
- Longer (>7yr) investment horizon.
- Revenues and cash flow are generally governed by either rate regulation or long term contracts driven

Gas, electric, water/waste, multi-utilities, renewable power generations, top-tier airports, seaports, toll roads.

Core –plus infrastructure

- Some similarities with core infrastructure.
- Variability with cash flow
- Mostly brownfields but less monopolistic
- Income still a component of overall return, but with greater scope for capital appreciation.
- Longer (>6yr) investment horizon.

Contracted thermal power generation, renewable power generations with development risk, oil and gas mid stream airports, seaports, toll roads with sensitivity to GDP

Value-add infrastructure

- Less monopolistic assets
- Growth, expansion or repositioning orientation.
- Certain green fields
- Returns are usually from capital appreciation rather than ongoing income.
- Shorter (<7 yr) investment horizon.

Greenfield asset under construction, early stage oil and gas midstream, data center and fiber optic networks, assets undergoing meaningful expansion

Opportunistic infrastructure

- High degree of risk but high return potential.
- Opportunities found mostly in emerging and frontier markets
- Mostly developmental and green fields
- Returns are mostly from capital appreciation.
- Medium term investment horizon.

Greenfield asset under construction, early stage oil and gas midstream, data center and fiber optic networks, assets undergoing meaningful expansion

Opportunities with the Alternative investment space

Private equity and private debt

The ethics of the game

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1. Act in good faith and in the best interest of the plan participants and beneficiaries.

2. Act with prudence and reasonable care.

3. Act with skill, competence, and diligence.

4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect their loyalty.

5. Abide by all applicable laws, rules, and regulations, including the terms of the plan documents.

6. Deal fairly, objectively, and impartially with all participants and beneficiaries.

7. Take actions that are consistent with the established mission of the plan and the policies that support that mission.

8. Review on a regular basis the efficiency and effectiveness of the plan's success in meeting its goals, including assessing the performance and actions of plan service providers, such as investment managers, consultants, and actuaries.

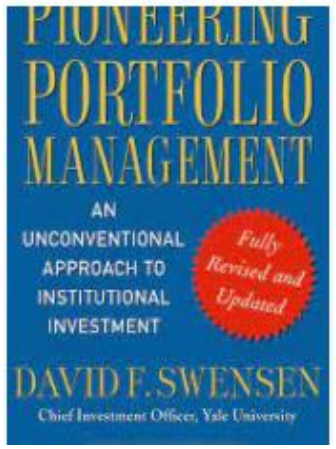
9. Maintain confidentiality of plan, participant, and beneficiary information.

10. Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner.

Final thoughts

- Strategic asset allocation is everything and contribute largely to performance of any investment program
- Investing about 10% of your portfolio into equities will not hurt you return over the long time. All schemes should embrace this guideline and start allocation money to the GSE equities through the constituent funds.
- Regulators must legislate marking to market of fixed income with more than 1 year maturity.
- The GSE should also do some house cleaning especially around floats of desirable companies to give maximum effect to the new guideline.
- Private equity has arrived in Ghana and schemes should actively engage fund managers on these opportunities.
- Strong ethics is the bedrock of our industry and we should never ever compromise ethics

Gift


PIONEERING
PORTFOLIO
MANAGEMENT
AN
UNCONVENTIONAL
APPROACH TO
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Fully
Revised and
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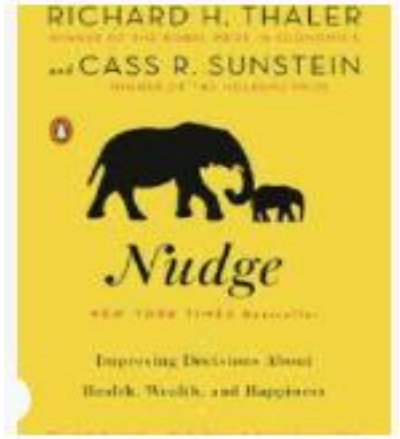
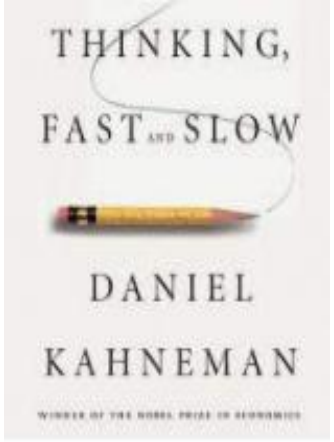
DAVID F. SWENSEN
Chief Investment Officer, Yale University


RICHARD H. THALER
and CASS R. SUNSTEIN
Nudge


THINKING,
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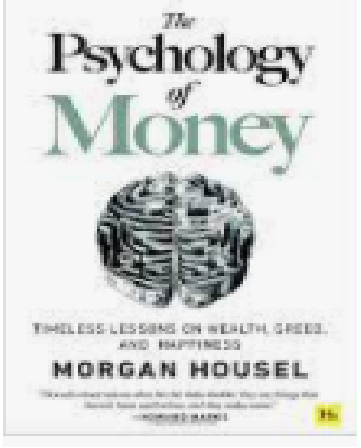
DANIEL
KAHNEMAN


The
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TIMELESS LESSONS ON WEALTH, GREED,
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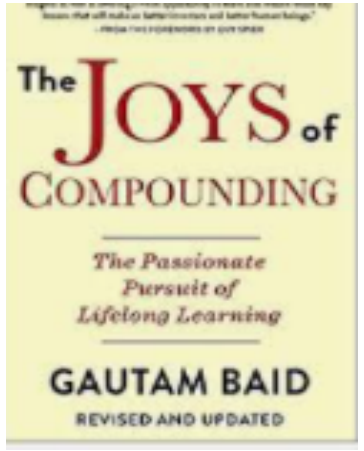
MORGAN HOUSEL


The JOYS of
COMPOUNDING
The Passionate
Pursuit of
Lifelong Learning
GAUTAM BAID
REVISED AND UPDATED

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Thank you!