

# Why should long lease property be on the agenda?

Oliver Kelly – LCP Ireland  
October 2017

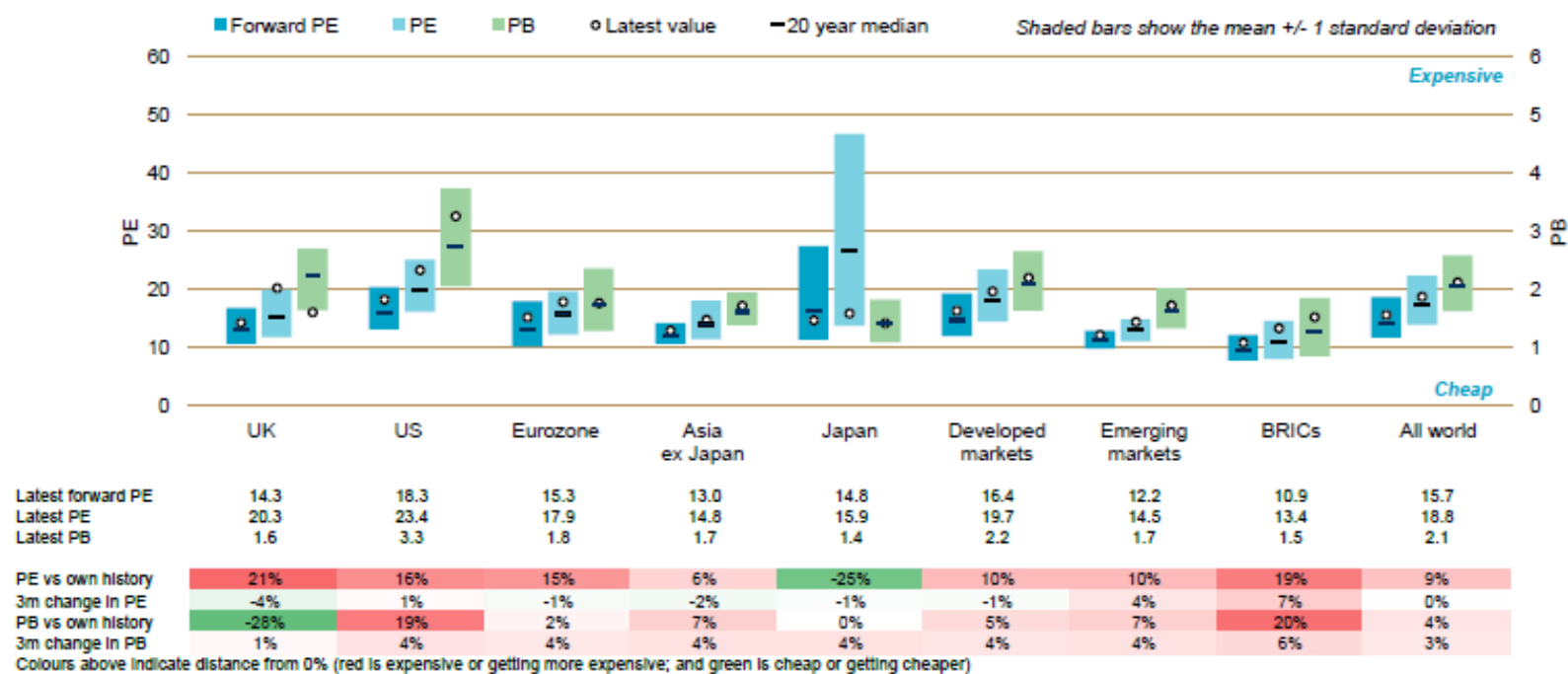
**iapf**   
representing pension savers

# Why long lease property?

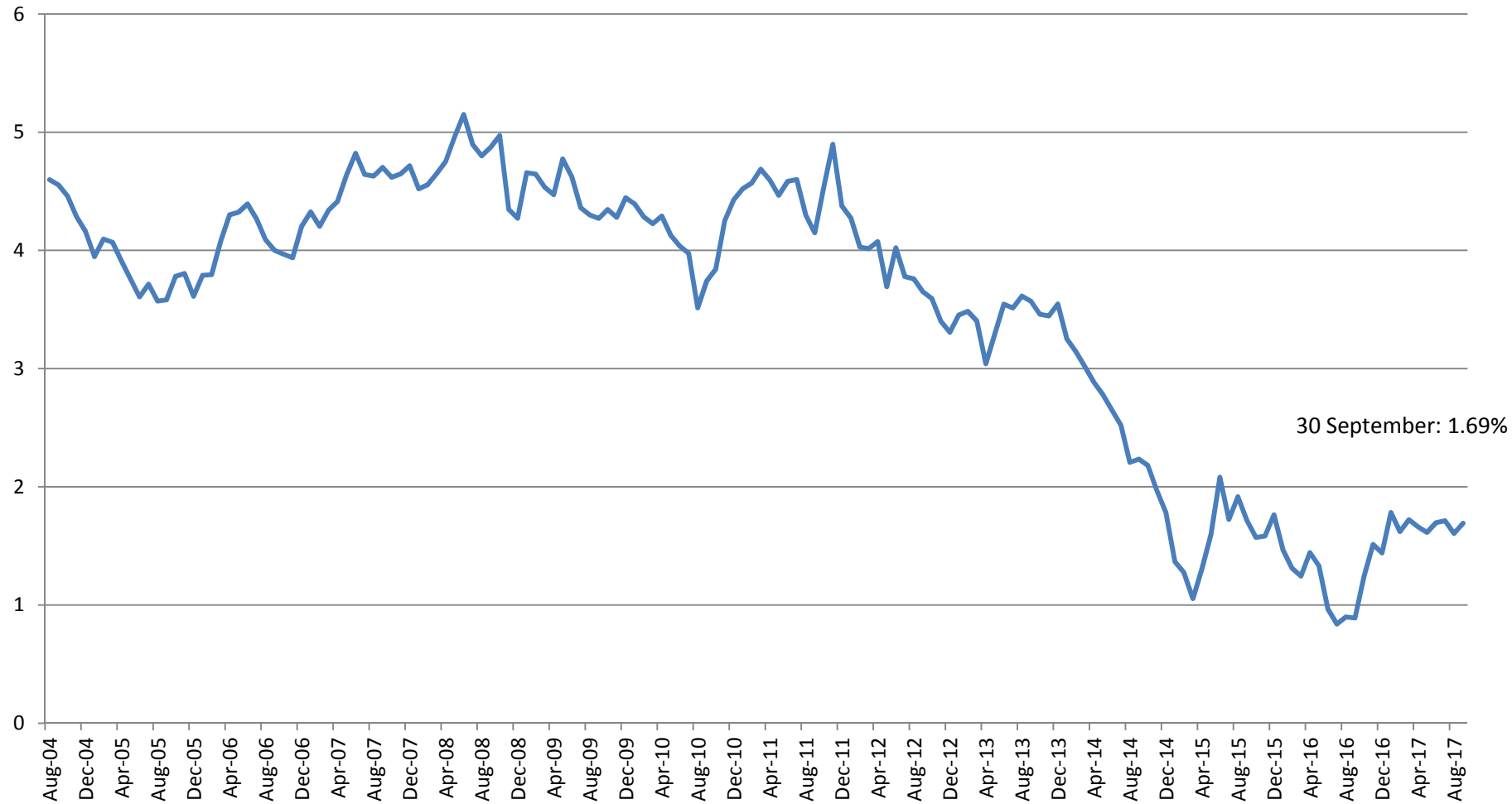
- Concerns about asset valuations
- Hunt for yield
- DB survivors = potential illiquidity appetite
- Long-term required return falling
- Current trustee agenda
- Long lease property and DC?

# Asset valuations

- Equity valuations looking expensive versus long term
- Volatility low and markets priced for continued growth



# Asset valuations



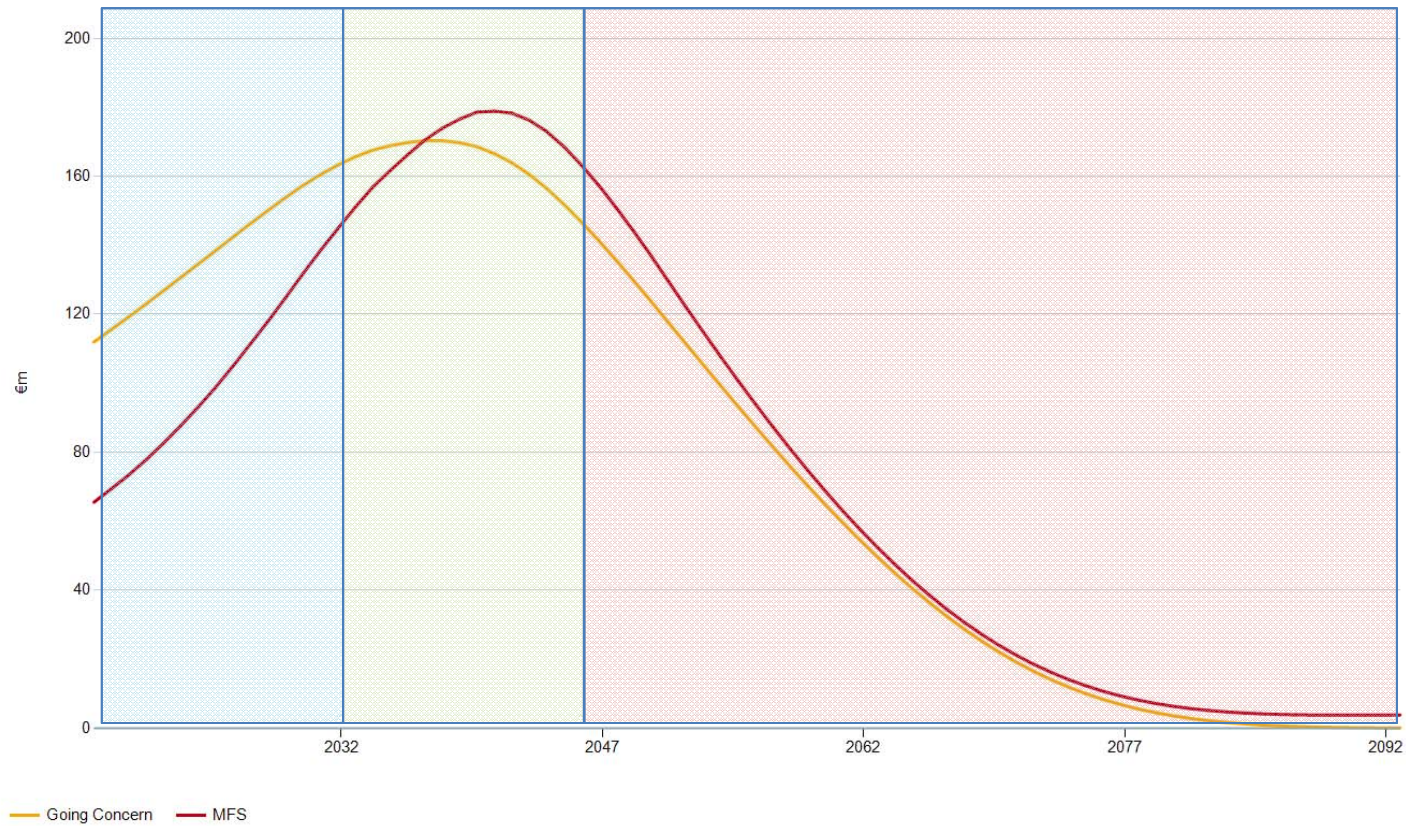
# Think like an insurance company

- Insurance companies buying “secure” income streams for years
- Alternative to bonds.
- Long lease property funds were initially offered in the UK market by insurers

# DB Survivors

- 1600 → ~600
- Covenant has been “stress tested”
- Many fully funded or funding proposal on track
- Improved trustee/sponsor dialogue
- Contingent asset perhaps

# What DB trustee boards might be interested?



Relative immature	Peak Liabilities	Mature
----------------------	---------------------	--------

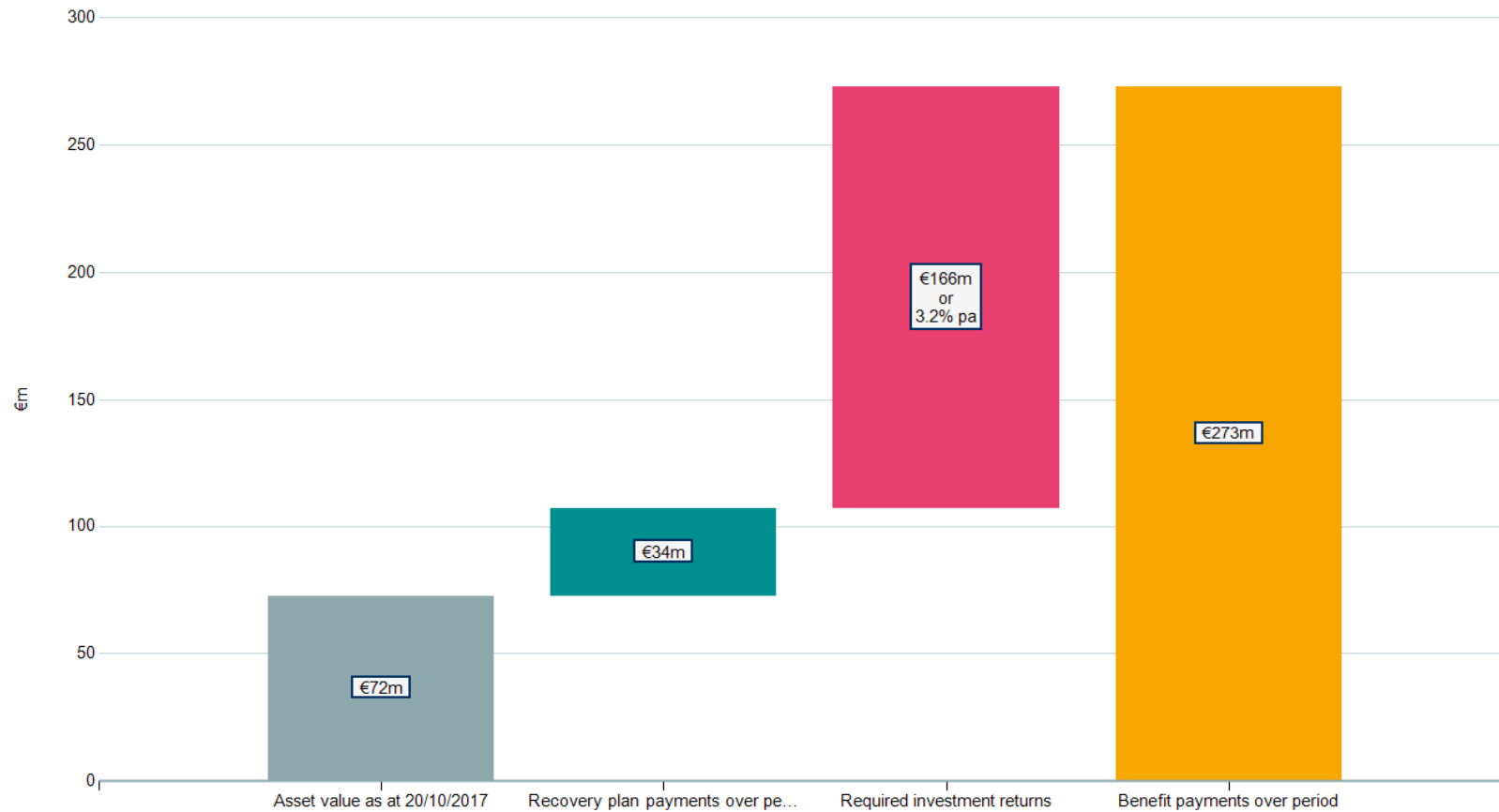
# What DB trustee boards might be interested?

Assets	Relatively immature	Peak liabilities	Mature (cashflow neg)
>MFS, GC	?	✓	✓
~MFS, GC	✓	✓	?
Funding Proposal	✓	?	✗





# Typical required return



Long-term return of 3.2% pa required to meet Going Concern

# Current trustee agenda

- Equity and bond valuations, and DGF performance
- Diversification options
- Liability Driven Investment approach rising up the agenda
- Cashflow matching with long-end LDI under consideration
- MFS & Going Concern funding level have different levels of expected volatility with LDI (dependent on maturity profile)
- Long lease property and other less liquid asset classes have a role to play

**Benefit structure set, contribution rates agreed, limit downside surprises!!**

# Matching vs Growth portfolio

- Long lease could be considered in either
- Is the MFS or GC liability driving the investment strategy?
- Not considered a matching asset by the P.A.
- However, can reduce VAR and explicit risk metrics are required going forward
- Regulation could be side stepped with a strong covenant and a contingent asset

# DB scheme risks

- Liquidity risks
  - Scheme wind-up
  - Cashflow negative
  - Rebalancing challenges
  - Annuity purchase or buyout end-game

# Long lease property and DC?

- Not seeing much interest in Ireland yet
- Post retirement market is individual only
- UK seeing growth in interest in less liquid asset classes for DC. Pre and Post retirement.
- Mastertrusts available for governance of drawdown funds
- Behavioral concerns with less liquid assets

# Summary

1. Relative attractiveness
2. Cashflow characteristics
3. Irish DB environment

# Scope

- This document is a visual aid to complement an oral presentation and does not constitute our written professional advice.
- Written advice about any matters discussed should always be sought in order to clarify the data relied upon, assumptions, conclusions and recommendations.

© Lane Clark & Peacock Ireland Ltd (2017)

# Q&A

**iapf**   
representing pension savers



iapf   
representing pension savers