

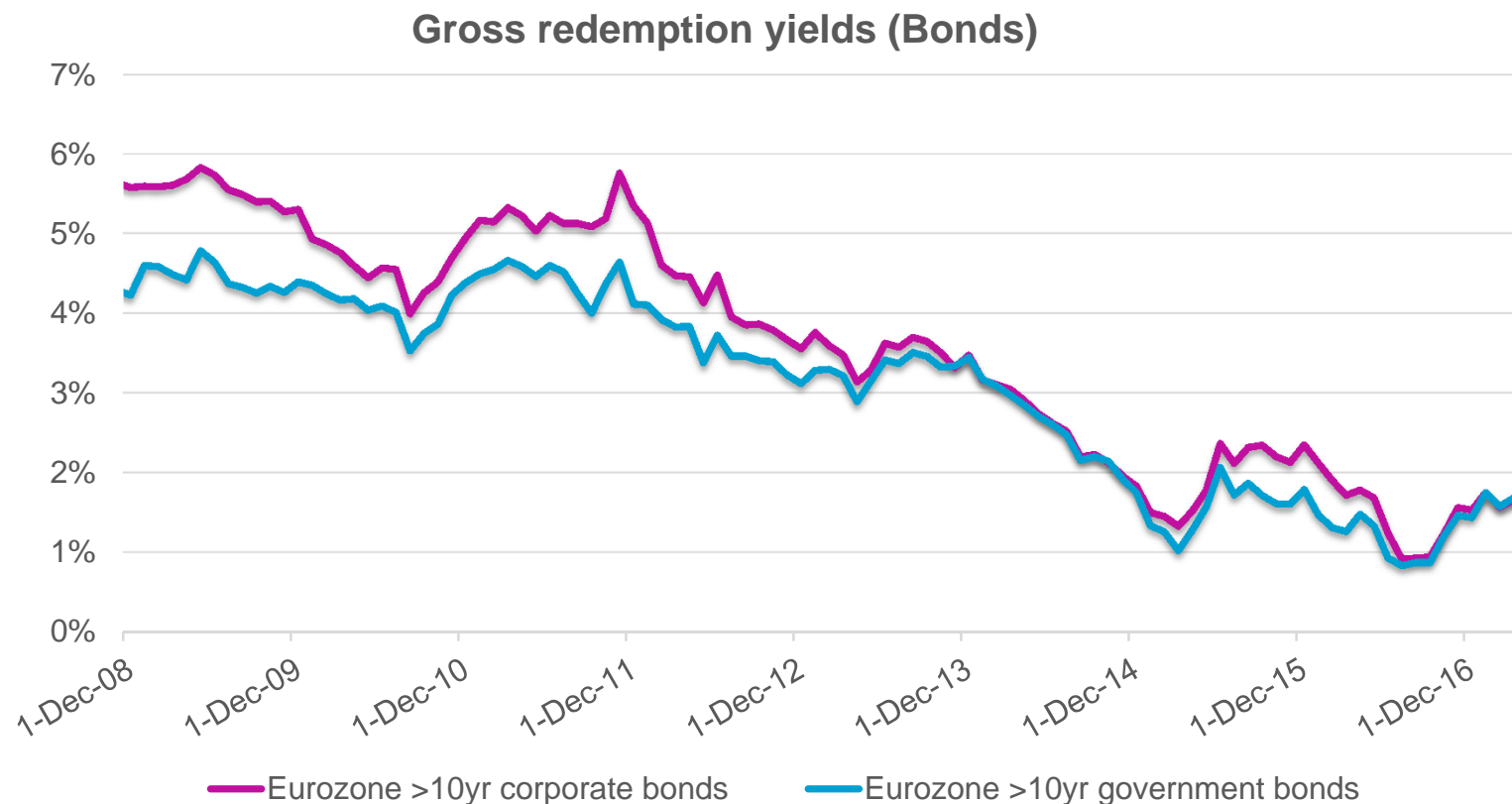
# Euro Secure Income Assets

Paul Jayasingha

23 January 2017



## Returns provided by traditional assets is inadequate



***Alternative sources of income are needed***

Past performance is not a reliable indicator of future returns

**Sources:** Willis Towers Watson and FTSE, data as at September 2017

Eurozone >10yr corporates bonds is the FTSE Eurozone Corporate Bond >10yr index average gross redemption yield, Eurozone >10yr government bonds is the FTSE Eurozone Government Bond >10yr index average gross redemption yield

## Secure Income Assets provide a higher yielding alternative

Secure Income Assets (SIAs) are:

Real Estate

Infrastructure

Real Asset Debt  
(inc infra debt)

- Contractual, inflation-linked, long-term cash flows
- Robust counterparties or tangible collateral backing
- Most economic value from cash flows
- Limited economic exposure

*Assets that help DB funds meet their mission: providing an income to members*

# What SIAs deliver

What DB schemes want	What SIAs deliver	
Higher Income	Higher expected returns than credit and index linked bonds	✓
Lower risk	Better asset backing than credit	✓
Inflation linkage	Contractual inflation linkages (and there is a scarcity of Irish inflation exposure)	✓
Long-term cashflows	Assets are 20 year +	✓
Liquidity	Secondary market offers steady but not instant liquidity	✗

## SIAs offer attractive return differential vs credit

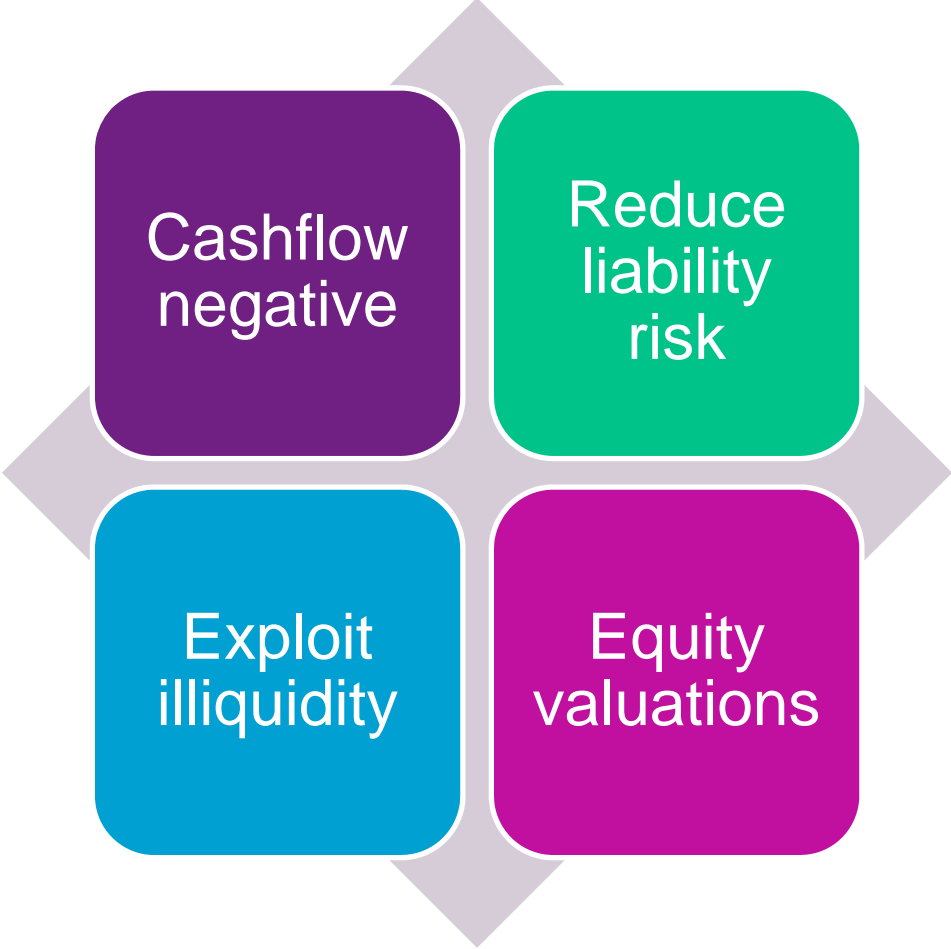
Property			Equivalent traded bond			Excess return
Tenant	Expected return	Lease length	Credit rating of counterparty	Bond maturity	Expected return	
German corporate	4.00%	50+	A+	c. 25 yrs	1.90%	2.10%
International Corporate	4.00%	25	A	c. 25 yrs	1.90%	2.10%
European Bank	4.50%	25	A-	c. 25 yrs	2.50%	2.00%
International Corporate	4.75%	15	BBB	c. 15 yrs	2.25%	2.50%
Hotel Group	4.25%	20	BBB	c. 20 yrs	2.50%	1.75%

*Attractive illiquidity premium being offered*

Past performance is not a reliable indicator of future returns

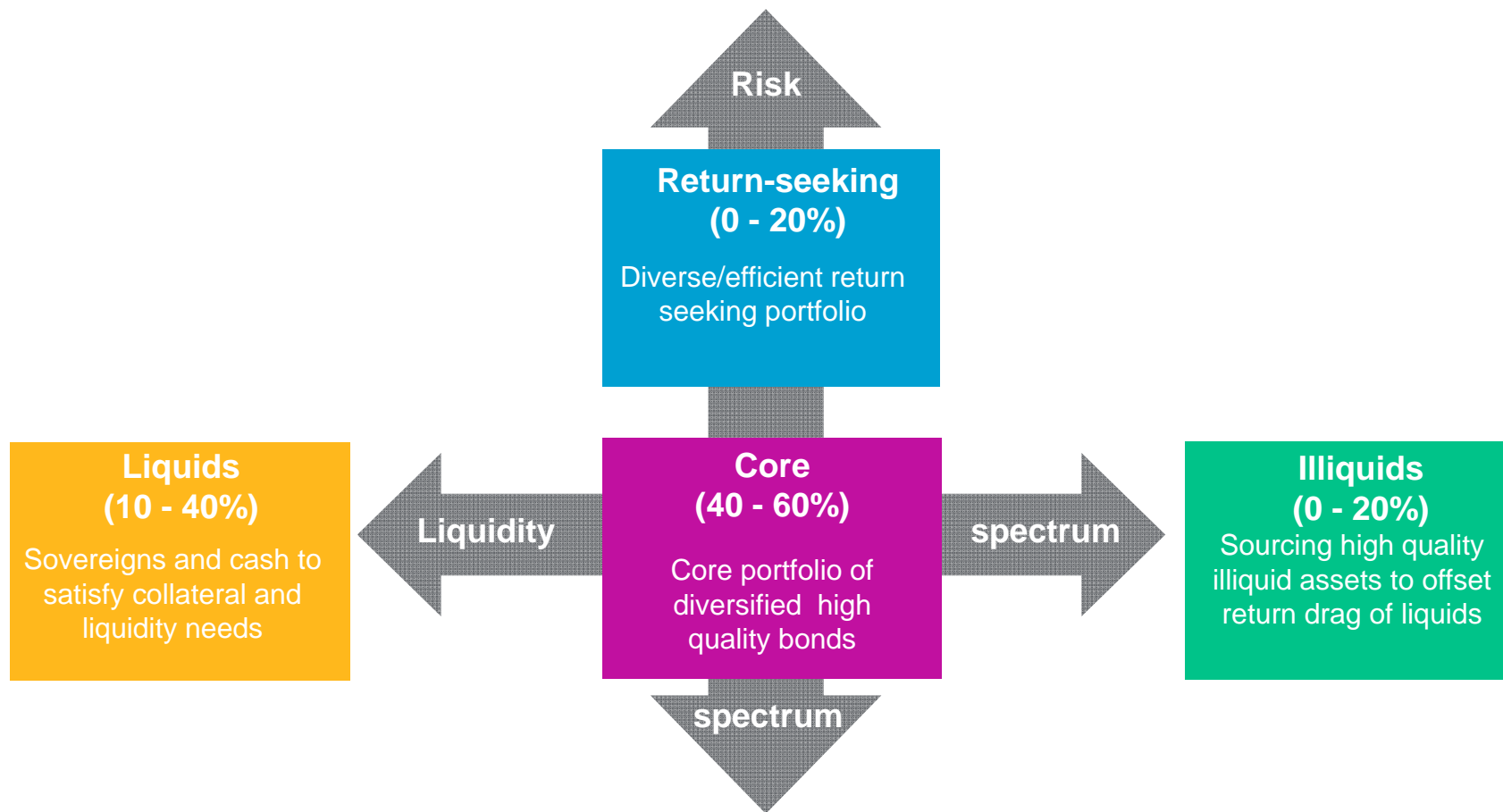
Notes: Data from M&G as at August 2017. **Gross of fees.** "Equivalent bonds" are the subjective opinion of M&G's European credit fund managers and are representative of the duration and rating rather than specific bond examples. Credit trading at the long duration end in European bonds is thin and comparable evidence is limited so it is felt that this approach is more useful for this exercise.

# Why pension schemes should embrace Euro SIAs



# How are SIAs used?

## Building a Cashflow Matching Portfolio



For illustrative purposes only

## Case study: Dutch residential ground rents

Assists consumers to buy homes more cheaply

3x collateral backing on ground lease

Ground lease ranks senior to mortgage

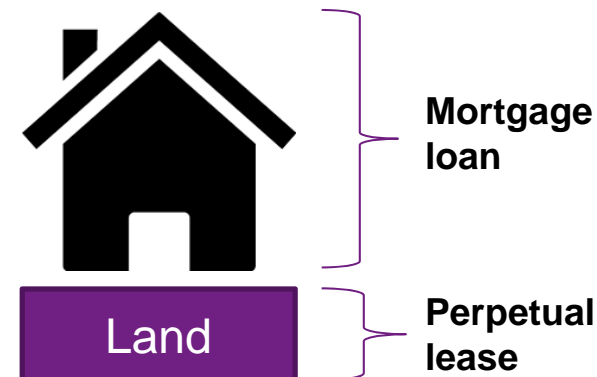
Inflation-linked income with additional optionality to house prices

Expected net return (c 4% pa)  
Dutch mortgages (c 2.5% pa)

### Traditional mortgage

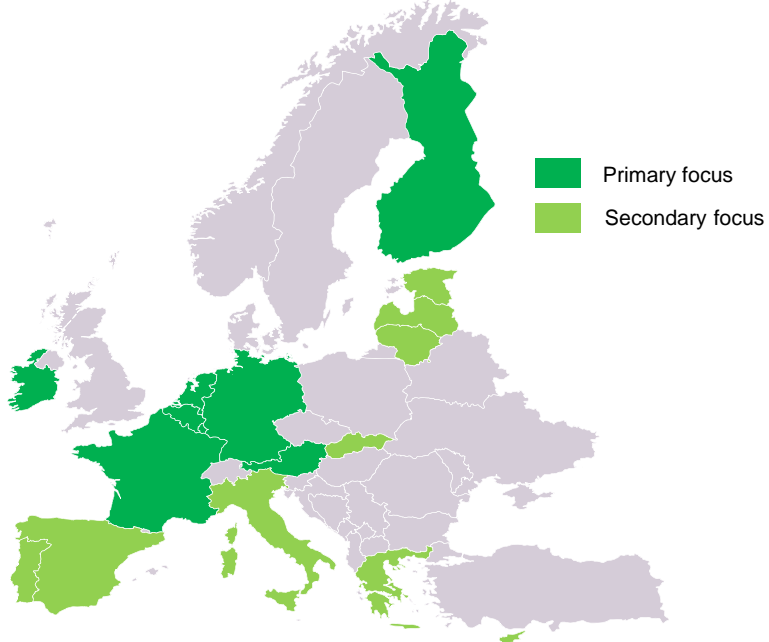
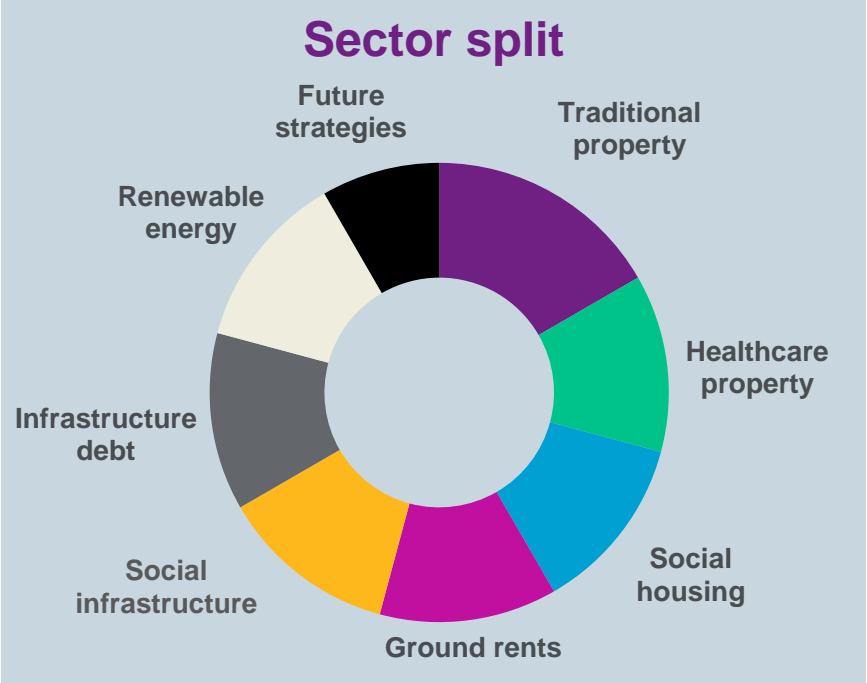


### Alternative model






# Indicative portfolio of Euro SIAs



Indicative allocations					
Netherlands	Germany	Ireland	France	Belgian	Other countries
30%	25%	15%	15%	5%	10%


# Euro SIAs – in conclusion



**Access to mission critical assets**



**Embracing illiquidity  
- get well rewarded for it**



**Simple, understandable,  
assets**

# Disclaimer

Towers Watson Limited (trading as Willis Towers Watson) has prepared this material for general information purposes only and it should not be considered a substitute for specific professional advice. In particular, its contents are not intended by Towers Watson Limited to be construed as the provision of investment, legal, accounting, tax or other professional advice or recommendations of any kind, or to form the basis of any decision to do or to refrain from doing anything. As such, this material should not be relied upon for investment or other financial decisions and no such decisions should be taken on the basis of its contents without seeking specific advice.

This material is based on information available to Towers Watson Limited at the date of this material and takes no account of subsequent developments after that date. Additionally, material developments may occur subsequent to this presentation rendering it incomplete and inaccurate. Towers Watson Limited assumes no obligation to advise you of any such developments or to update the presentation to reflect such developments. In preparing this material we may have relied upon data supplied to us by third parties. In such cases, whilst reasonable care has been taken to gauge the reliability of this data, we provide no guarantee as to the accuracy or completeness of this data and Towers Watson Limited and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any errors or misrepresentations in the data made by any third party.

This material may not be reproduced or distributed to any other party, whether in whole or in part, without Towers Watson Limited's prior written permission, except as may be required by law. In the absence of our express written agreement to the contrary, Towers Watson Limited and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any consequences howsoever arising from any use of or reliance on this material or the opinions we have expressed.

FTSE International Limited ("FTSE") © FTSE 2017. FTSE® is a trademark of London Stock Exchange Group companies and is used by FTSE under licence. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent. For the avoidance of doubt, please also note that Towers Watson Limited its affiliates and their respective directors, officers and employees accepts no responsibility and will not be liable for any errors or misrepresentations in any FTSE information made available hereunder.

The MSCI information is the exclusive property of MSCI Inc. ("MSCI") and may not be reproduced or disseminated in any form or used to create any financial products or indices without MSCI's express prior written permission. This information is provided "as is" without any express or implied warranties. In no event shall MSCI or any of its affiliates or information providers have any liability of any kind to any person or entity arising from or related to this information. For the avoidance of doubt, please also note that Towers Watson Limited and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any errors or misrepresentations in any MSCI information made available hereunder.

This report incorporates information and data made available by certain third parties, including (but not limited) to: Hedge Fund Research Inc., Barclays Capital Inc., ICE Benchmark Administration (LIBOR), Standard & Poor's Financial Services LLC and Market Group Limited (collectively, "Third Parties"). Willis Towers Watson/Towers Watson Limited and its affiliates and their respective directors, officers and employees makes no representations or warranties, express or implied, as to the accuracy, completeness or reliability of any Third Party information made available hereunder and shall accept no responsibility or liability whatsoever for any errors or misrepresentations in respect of the same.

Towers Watson Limited of Watson House, London Road, Reigate, Surrey, RH2 9PQ is authorised and regulated by the Financial Conduct Authority. Our FCA register number is 432886. You can check this on the FCA's register by visiting the FCA's website [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register) or by contacting the FCA on 0845 606 1234 or at 25 The North Colonnade, Canary Wharf, London, E14 5HA.