



# Goals Based Investing

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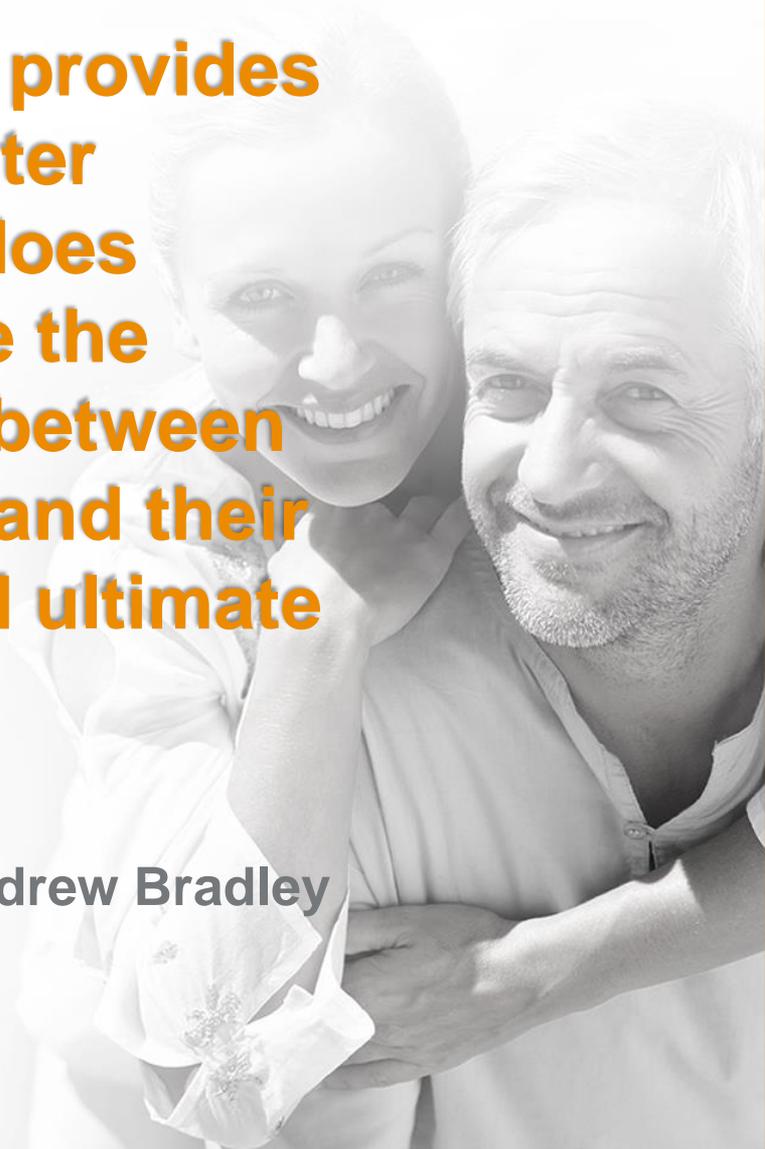
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**“A goals-based approach provides no guarantee of better performance, but it does significantly increase the probability of alignment between the investor’s objectives and their portfolio construction and ultimate performance.”**

**Collective Insight, Andrew Bradley**



# What is Goals Based Investing?

- Goals Based Investing differs from traditional investing in three critical ways:
  1. It defines risk as being the risk of an investor falling short of their goal, not as volatility in returns.
  2. It employs investment strategies and asset classes that increase the probability of meeting those very specific targets as opposed to simply beating an asset mix or peer group benchmark.
  3. Performance monitoring and measurement is done in reference to whether the fund or member is on target for meeting their funding requirement.

# What makes goals-based different?

	<b>Traditional</b>	<b>Goals-based</b>
<b>Investment target</b>	Highest risk-adjusted return	Highest probability of meeting specific funding requirements
<b>Risk definition</b>	Volatility or variability of returns	Risk of falling short of target objective
<b>Investment strategies</b>	Asset mix – provides highest risk-adjusted returns against peers	Asset class & strategy mix – important for increasing probability of meeting target
<b>Performance measurement &amp; monitoring</b>	Measurement of success against benchmark or peers over 1, 3, 5 years	Success measured as function of meeting goal over targeted time frame

# Optimal strategy for objective

## Gold on 100m



Olympic.org

Official website of the Olympic Movement

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Home > Videos > Bolt takes 100m gold with a stunning performance

### VIDEO



**Bolt takes 100m gold with a stunning performance** 3:38

## Pain on the marathon



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### VIDEO



**Kiprotich pulls off stunning Marathon win**

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# Know what your members need

- Right objective: Replace the income needs of members on retirement
  - This is not about highest return at a specific level of risk
  - Solution needs to target the cost of converting one's savings into an income stream (annuitisation) – solution agnostic
  - primarily driven through changes in long term bond yields
- Some members may choose not to annuitise and “cash-out”
  - fund credits too low for a meaningful replacement income (tax??)
  - need to settle debt; other financial obligation
  - uninformed view that this is a better option



# Going back to first principles

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## The journey of an individual to a suitable retirement

### Saving for retirement

- Understanding retirement
- Need to accumulate assets
- Contribution rates
- Risk Capacity & Tolerance
- Preservation
- Etc.

### Preparing for retirement

- Focussed Objectives
- Changing Risk Tolerance
- Changing risk capacity
- Replacing Income
- Protecting assets
- Growth

### Retirement

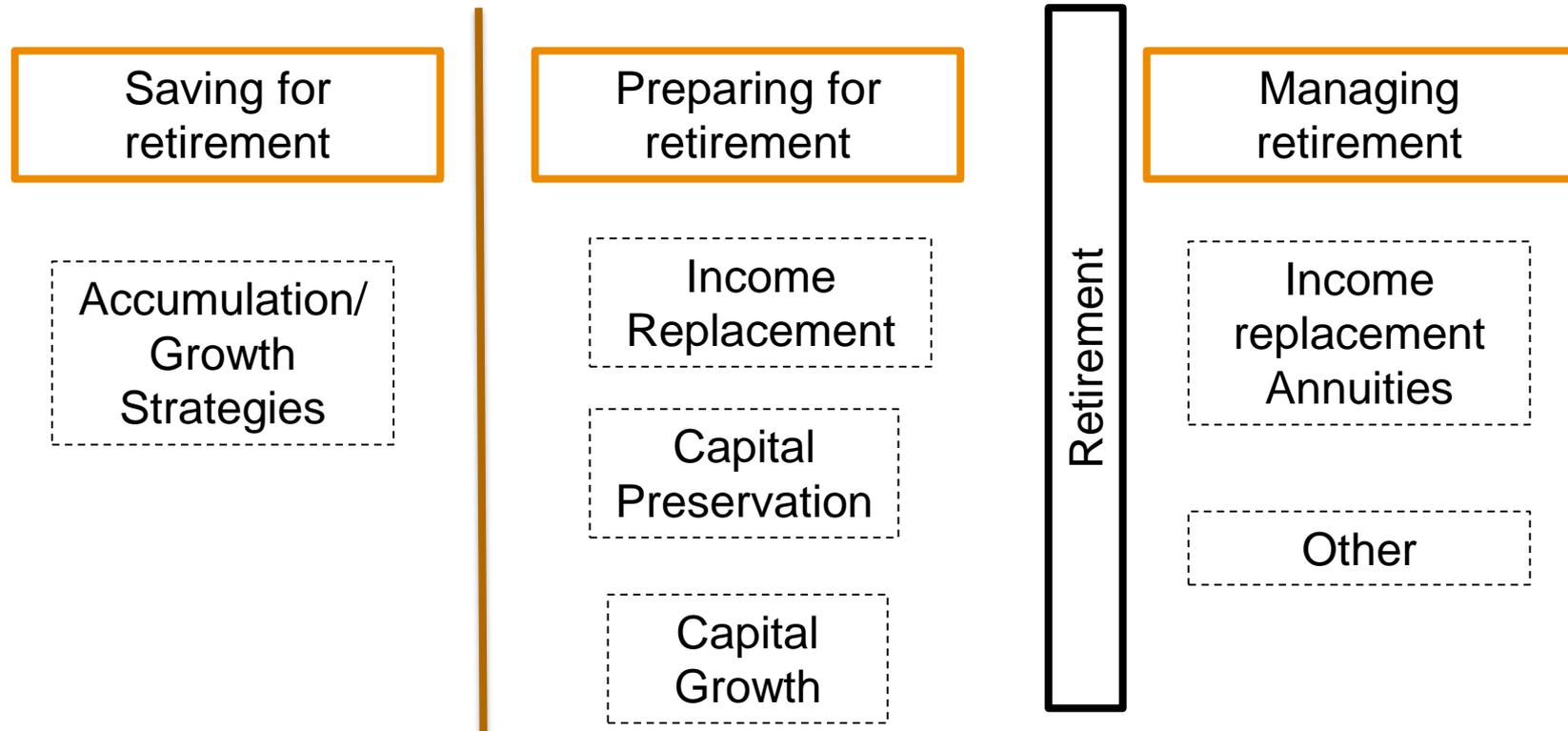
### Managing retirement

- Establishing needs
- Consumption
- Managing Income, drawdown
- Longevity risks
- Unexpected Events

# Going back to first principles

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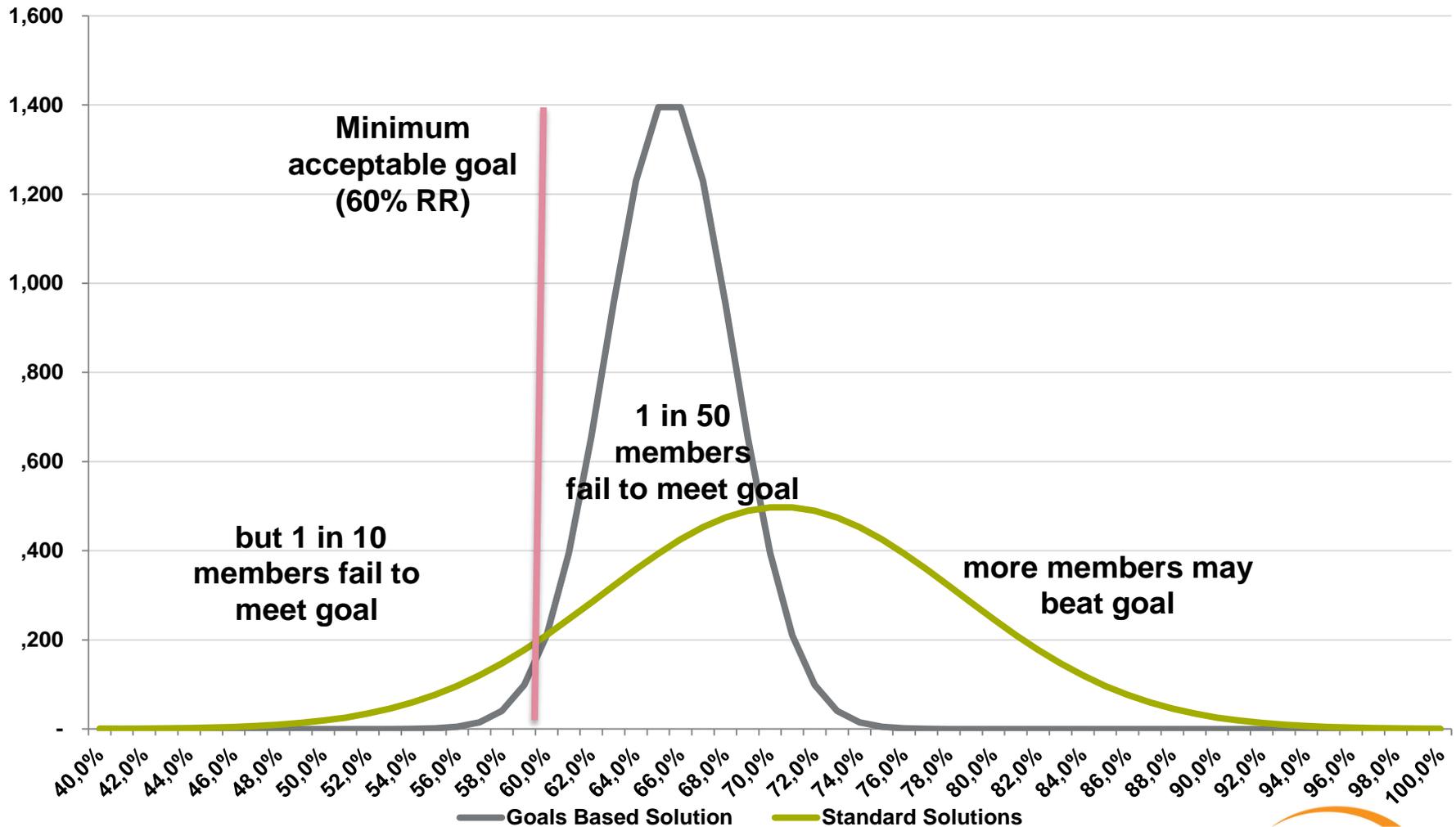
Setting appropriate objectives for each phase



**By combining investment strategies / building blocks, bespoke individual solutions can be created.**

# Illustration: Goals based approach

Illustration: RR outcomes for 10 000 retirees



## How could Goals-Based Investing practically work with retirement funds?

- Have you got defined goals for your fund or its members?
- Have you structured your solutions right to meet those goals?
- Have you identified risk in a meaningful way?
- Have you identified the investment / employee benefit strategy that has the highest probability of meeting your member's needs?
- Have you identified the appropriate building blocks to tackle a goals-based approach?
- Are we monitoring success correctly?

# Goals-based in retirement funds

## Define goal

Is saying you target 75% RR good enough?

Have you controlled the other parameters that might inhibit the outcome?

## Define risk

How much of a shortfall can be tolerated?

Establish a risk budget to control which investment decisions should drive performance outcomes.

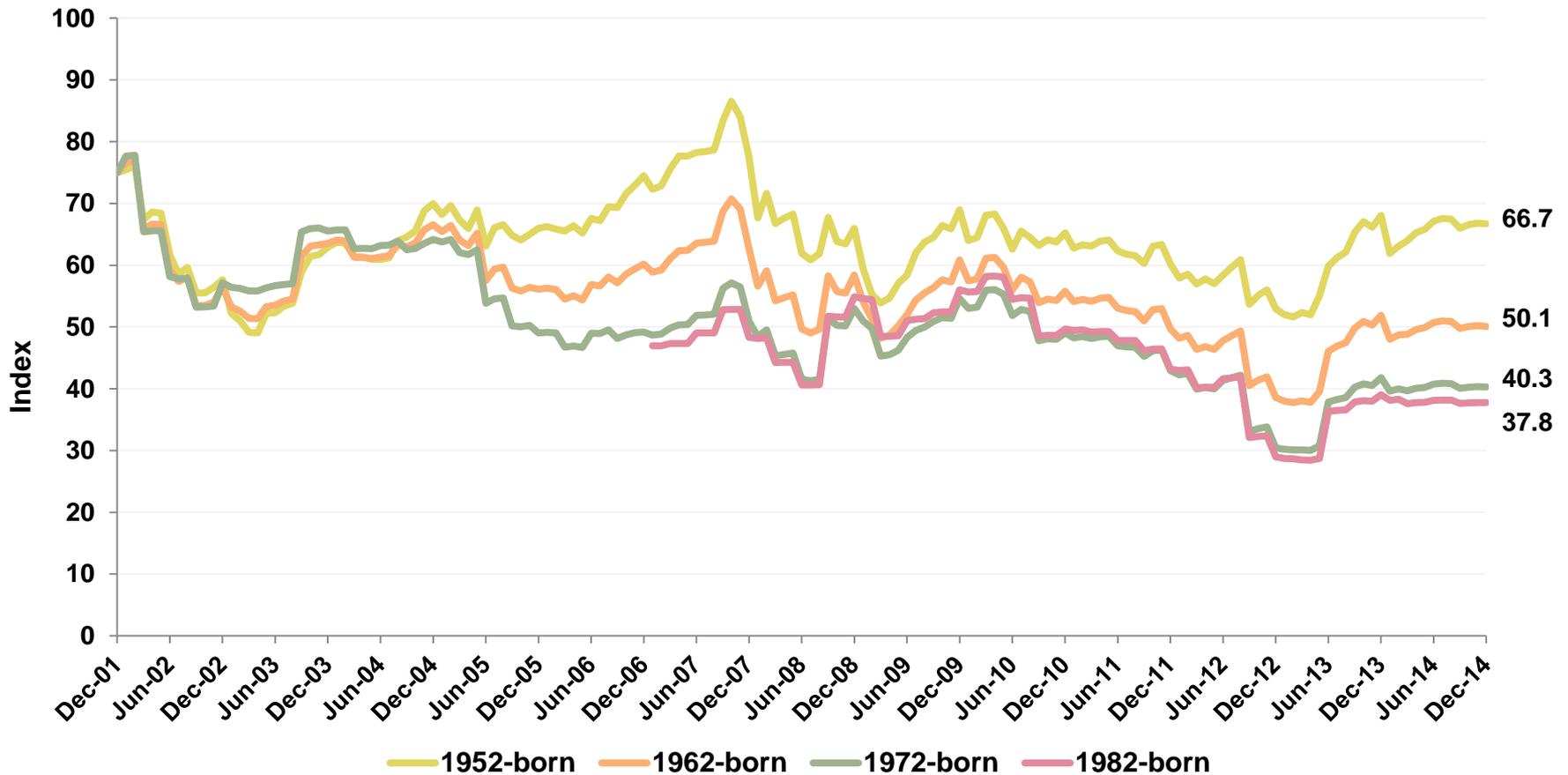
## Define measure of success

Understand how your decisions will impact each member's trajectory.



# Understand your objective

Replacement ratio index of members born in different years



# Objectives in a retirement fund

## Saving for retirement

### Objectives:

- Accumulating assets
- Contribution levels
- Risk tolerance
- Preservation

## Preparing for retirement

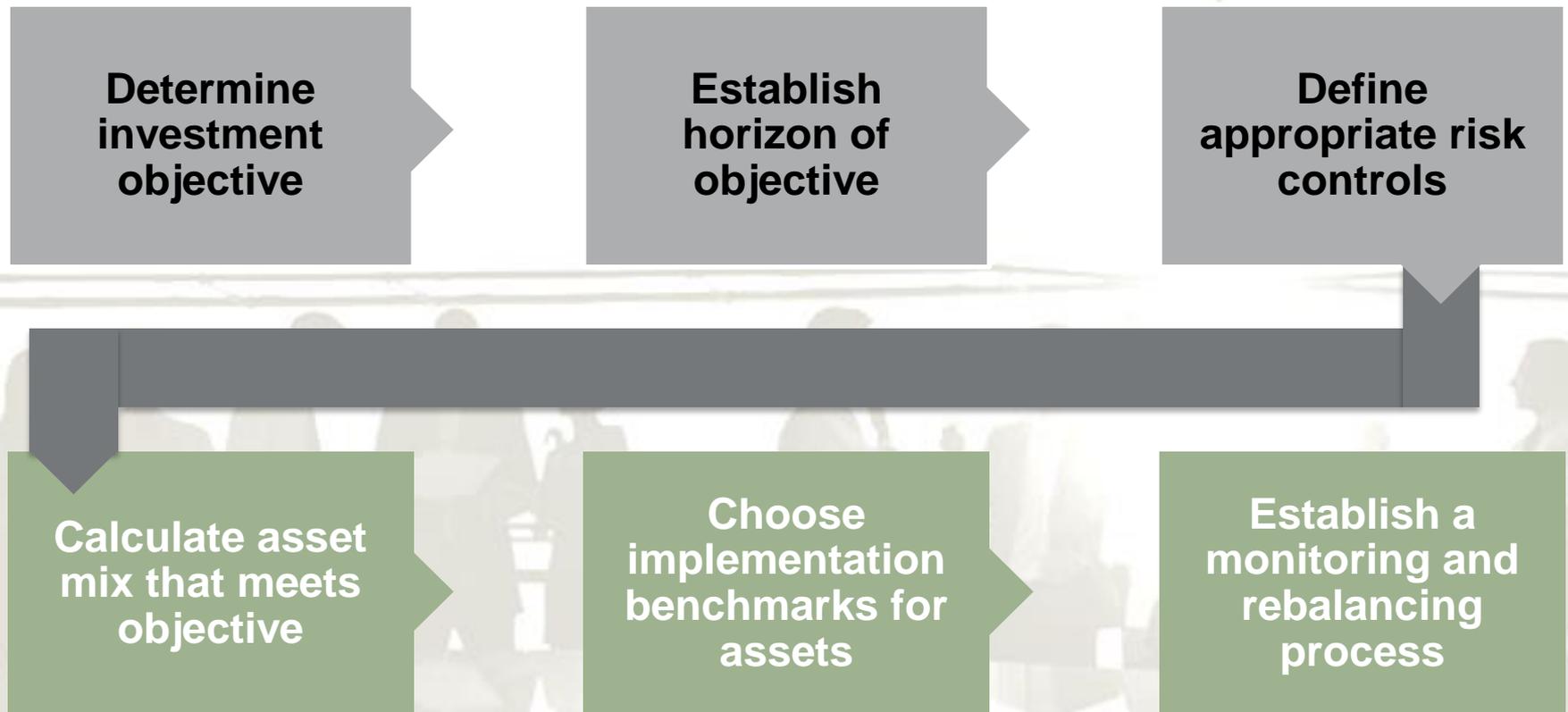
### Focussed objectives:

- Changing risk tolerance
- Changing risk capacity
- Replacing income
- Protecting assets
- Growth



# Understand the process

## Building your strategy



# Common investment objectives

Targeted replacement ratio

Capital growth

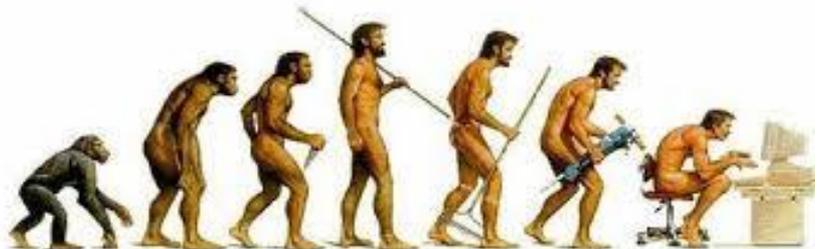
Capital protection

Income targeting



# Like history, we are constantly evolving

- Better insights into creating targeted solutions
  - Better techniques/ models
  - Better information
  - Better strategies and products are available
- Better insights into what investors/ members need
  - Best of need and not just best of breed
- We learn:
  - from our mistakes (or others)
  - new discoveries



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