

A Presentation for Botswana Pensions Society 2021 Annual
Conference

Adhering to the Long-Term Pension Fund Objective Regardless of the Environment

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Adhering to the Long-Term Pension Fund Objective Regardless of the Environment

Agenda

- 1. What are the objectives of a Pension Fund?**
- 2. How do markets perform with time horizon?**
- 3. Lessons for Trustees in knowing long-term market performance**

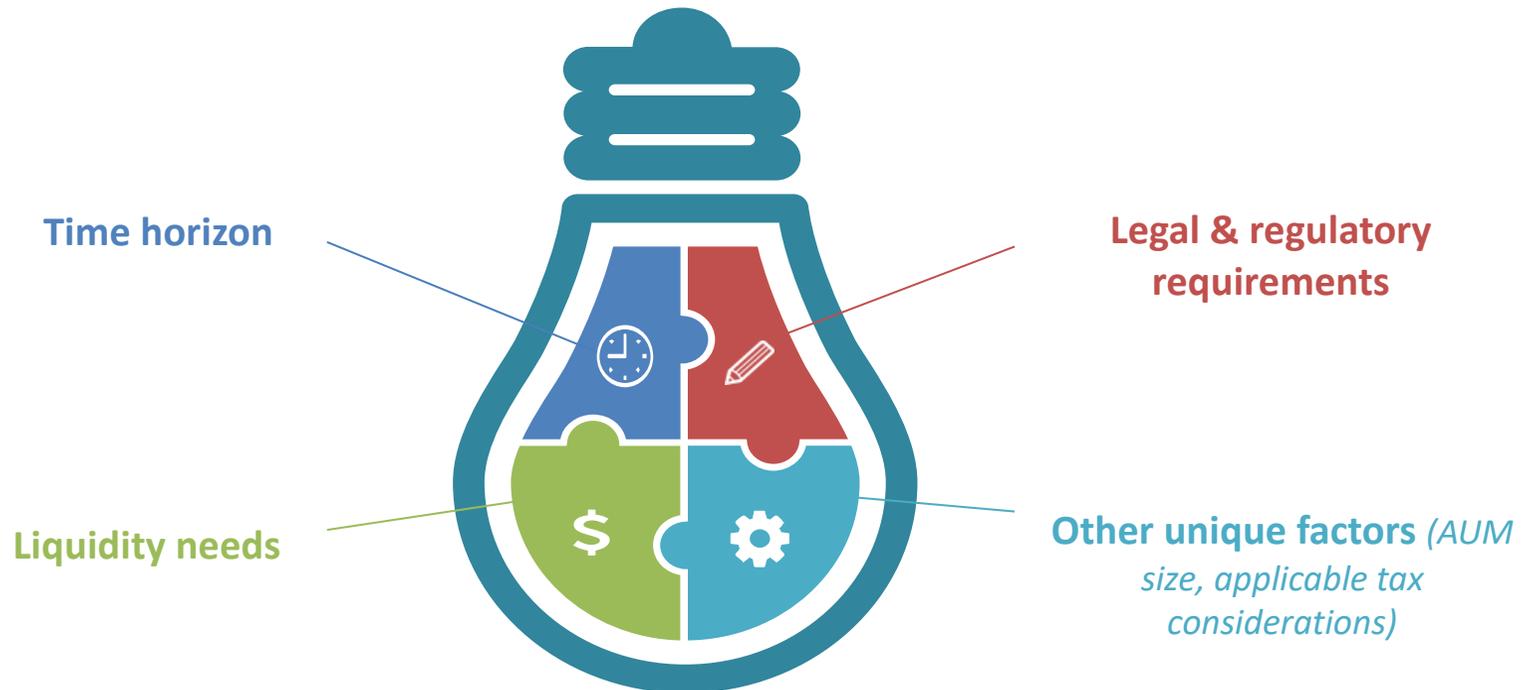


**What are the objectives
of a Pension Fund?**

What are the objectives of the Pension Fund?

The general function of a pension plan is to manage employee savings and retirement plan to provide pensioners who have reached retirement age with income in the form of a lifetime pension or capital.

- Executed within a well-defined set of risk and return objectives as stipulated in the Policy Statement.
- Considerations and constraints Trustees should factor:



What are the objectives of a Pension Fund?

Contextualizing Pension Fund Time Horizon

Is the insistence to focus on the long-term a distraction to short term performance problems by investment managers?



Time horizon is a critical constraint and consideration in specifying appropriate pension fund risk and return objectives



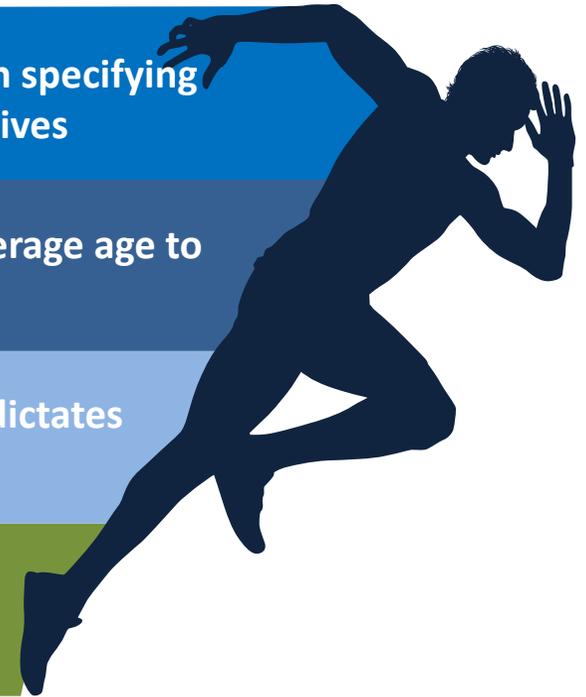
The relevant time horizon is typically defined by the average age to retirement, and or lifecycle



Generally, the horizon is typically long, which then dictates the type of risk and return objectives to have



Best interest of Trustees to focus on achieving the objectives within this LONG-TERM horizon





**How do markets
perform with time horizon?**

How do markets perform with time horizon?

➤ Is there any value in having a long-term perspective to investing by pension funds?

➤ What is observed about markets:

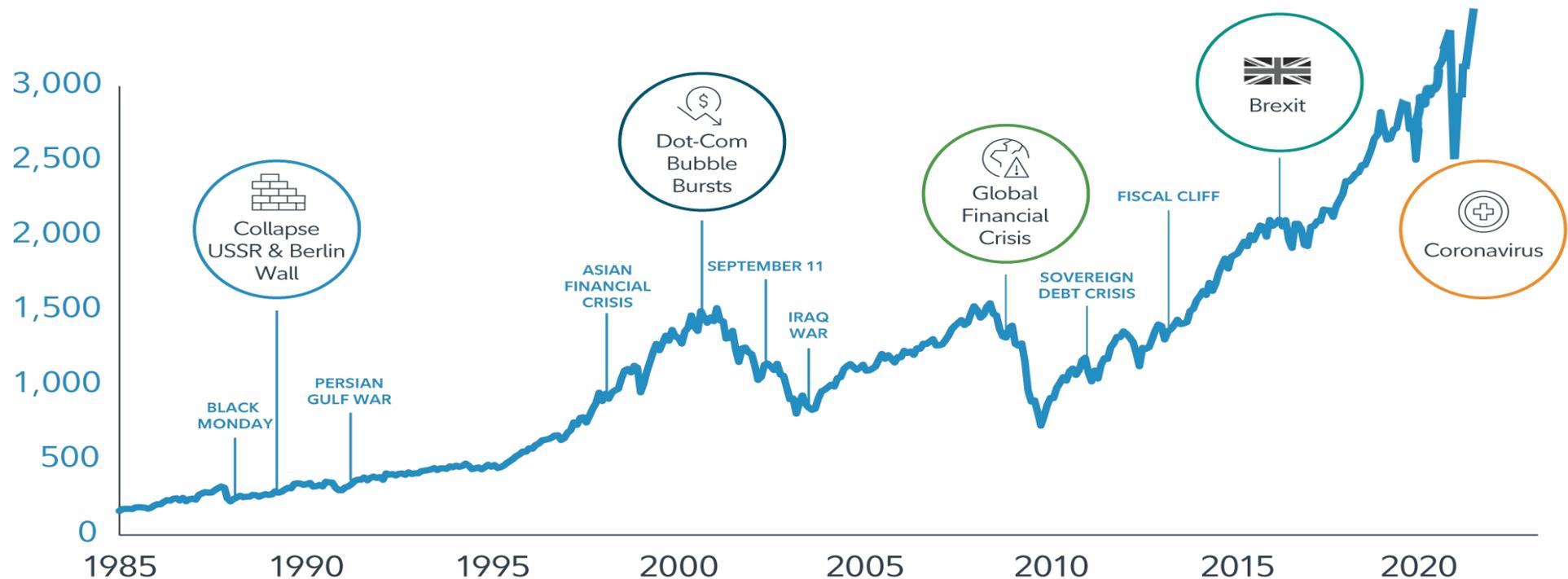
- The overall trend in global equities markets has been to accrue value in the long-term;
- This trend is punctuated by the occasional dip in value; however, that is the nature of the markets, the long-term trend is consistent; and
- The regularity of market crashes, similar to the one experienced in 2020, should remind pension savers that the key to achieving their objective is in having a long-term perspective and being patient.

How do markets perform with time horizon?

The long term has been paying off

Despite market pullbacks, stocks have risen over the long term

■ S&P 500 Index



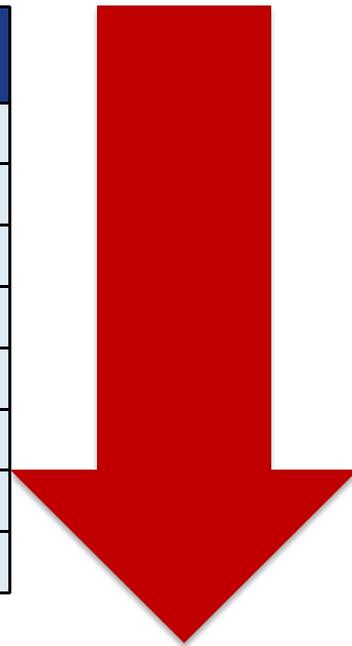
Source: Fidelity

How do markets perform with time horizon?

2020 Crash in Context

Swift Decline

Year of Crash	Days to fall 20%	Days to fall 30%	Ultimate decline
2020	36	40	-34%
1987	38	-	-21%
1998	55	-	-21%
1990	165	-	-26%
2009	184	230	-58%
1974	190	361	-44%
2002	192	258	-49%
1982	337	-	-20%



Source: Schroders

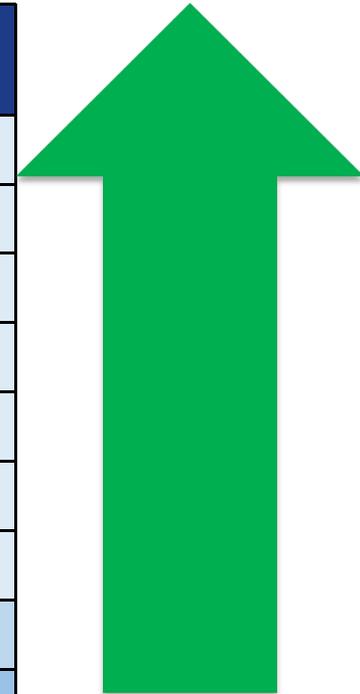
- ✎ The COVID-19 pandemic induced market crash was spectacular in its swiftness and recovery.
- ✎ Global equities lost 34% in a period of 40 days, with the VIX hitting its highest ever level.

How do markets perform with time horizon?

2020 Crash in Context

Fast Rebound

Year of Crash	Ultimate decline	Months to recover
2009	-58%	49
2002	-49%	35
1974	-44%	33
1990	-26%	30
1987	-21%	13
1998	-21%	3
1982	-20%	3
Average	-34%	24
2020	-34%	5



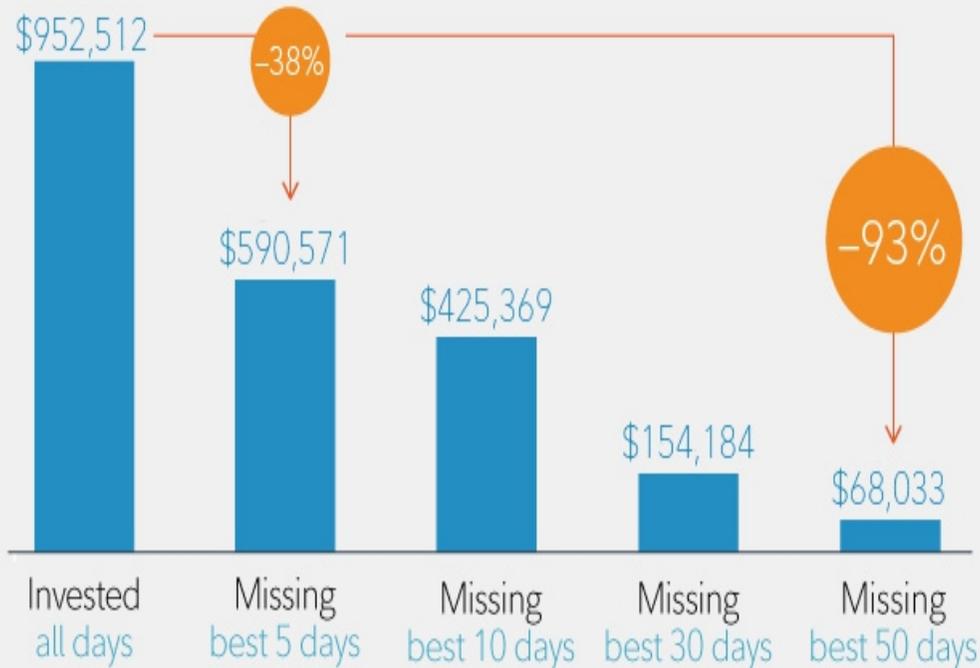
- ✎ Losses were recovered by August 2020, making it one of the fastest market recoveries in history. Global equities actually continued to push higher, and gained 14% in 2020, despite the crash.
- ✎ Generally, history has shown us that markets take anywhere between one or two years to recover lost value.

How do markets perform with time horizon?

Can we time the market?

Missing out on best days can be costly

Hypothetical growth of \$10,000 invested in S&P 500 Index
January 1, 1980 – August 31, 2020



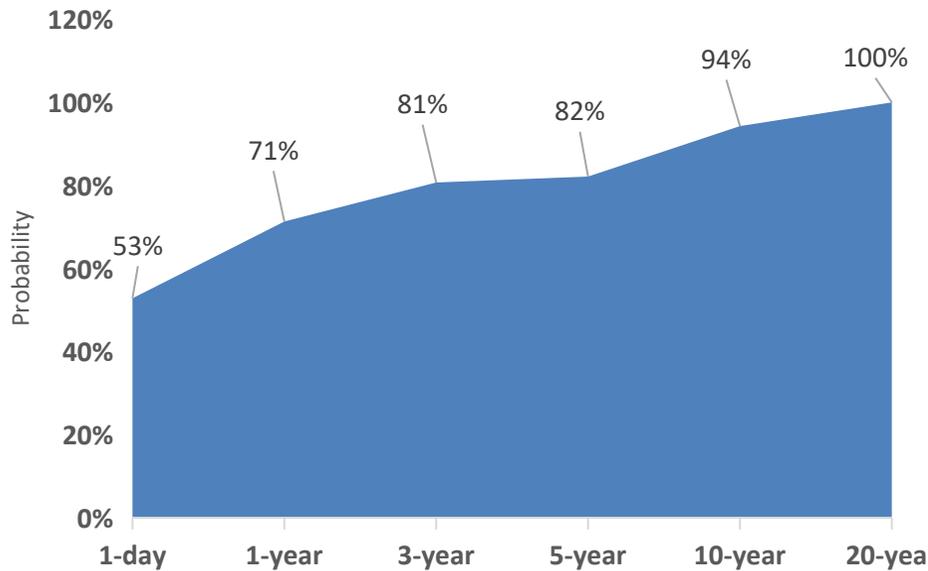
Source: Fidelity

- ✎ Timing the market is not the ideal strategy for the long-term investor such as pension funds.
- ✎ Markets are unpredictable, and the exact time of recovery can not be accurately forecasted
- ✎ Staying longer in the market, with a well diversified portfolio, is a better way to generate consistent higher returns.

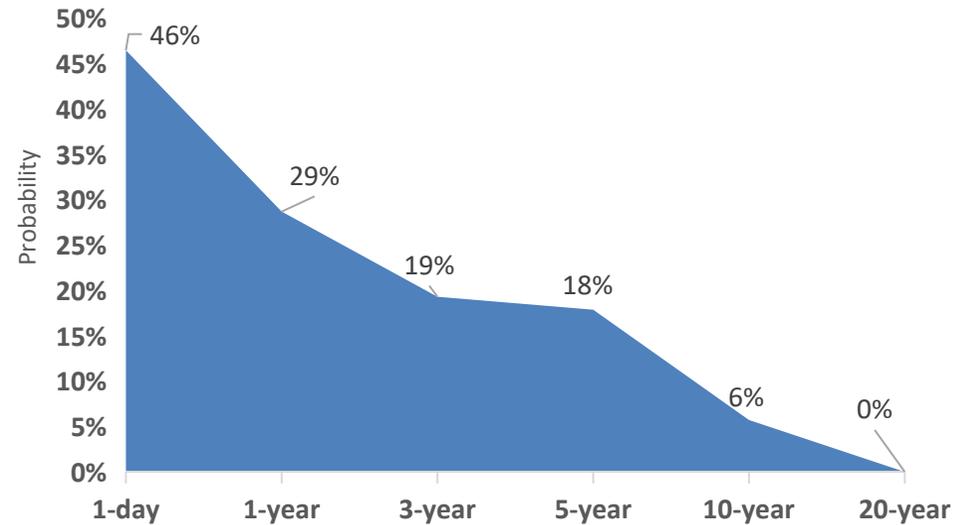
How do markets perform with time horizon?

Probability of gains increase with time horizon

Global Equities - Increasing chance of a positive return



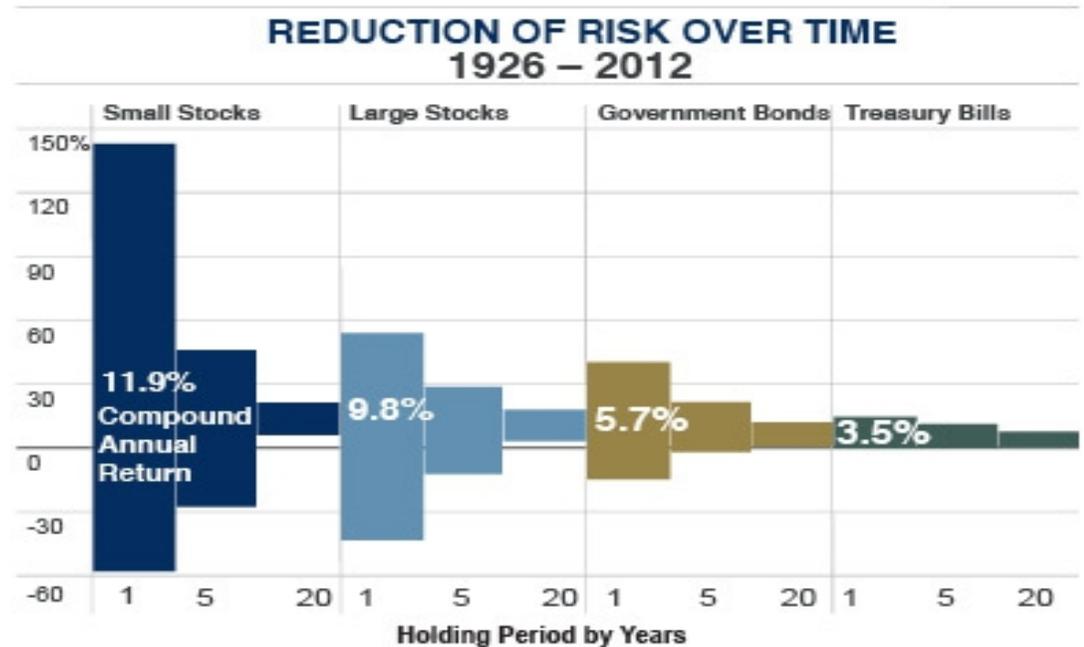
Global Equities - Declining chance of a negative return



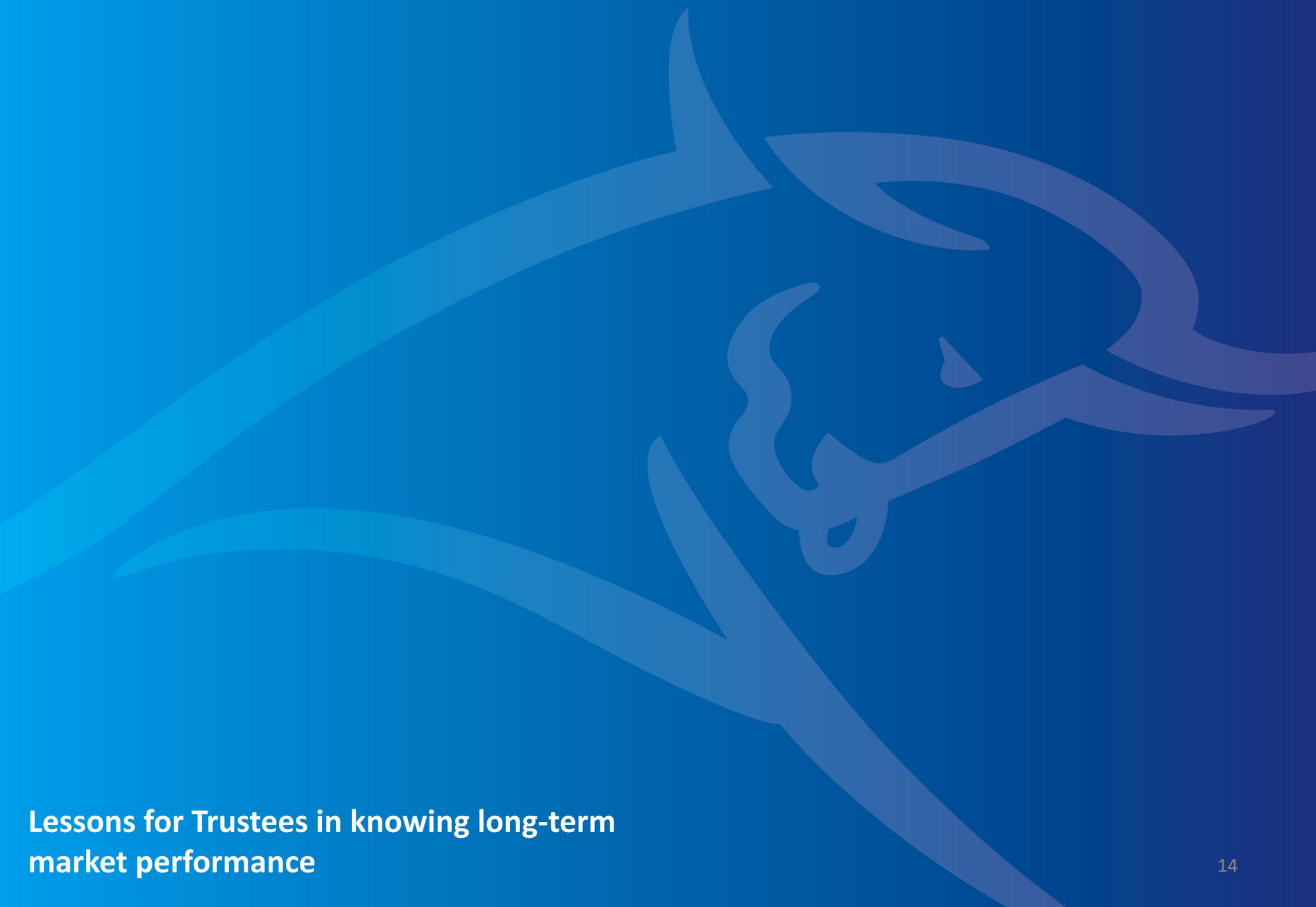
How do markets perform with time horizon?

The long-term horizon and risk

- It is important for pension trustees to not lose perspective during the usually volatile short-term period.
- Volatility can be uncomfortable for pension trustees but remembering that indeed volatility is normal in the short term, they will better be equipped to weather the 'noise' of the market and focus on the long term.
- The dispersion of returns in the short term is very wide. However, in the long term, it becomes narrow



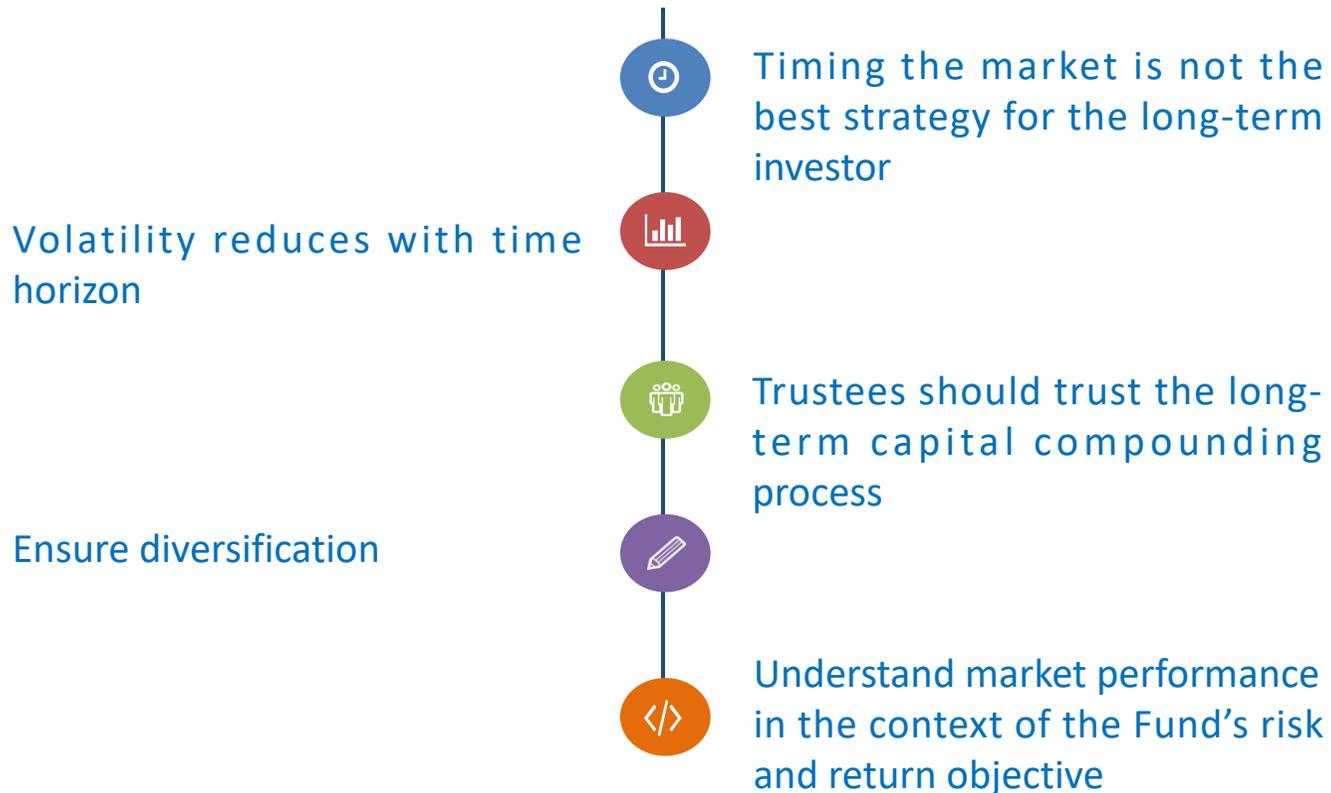
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**Lessons for Trustees in knowing long-term
market performance**

Lessons for Trustees in knowing long term Market Performance

Stay invested - the long-term return for global equities has been positive, rewarding those who stay longer in the market.



The background is a gradient of blue, transitioning from a lighter shade on the left to a darker shade on the right. Overlaid on this is a stylized, semi-transparent blue profile of a person's face, looking downwards and to the right. The features are simplified, with a prominent nose and a slight smile. The text "THANK YOU" is centered in the middle of the image in a white, bold, sans-serif font.

THANK YOU