Navigating an Uncertain Environment

ALM and Strategic Asset Allocation

Shafeeq Abrahams
Chief Executive and Principal Officer
Eskom Pension and Provident Fund

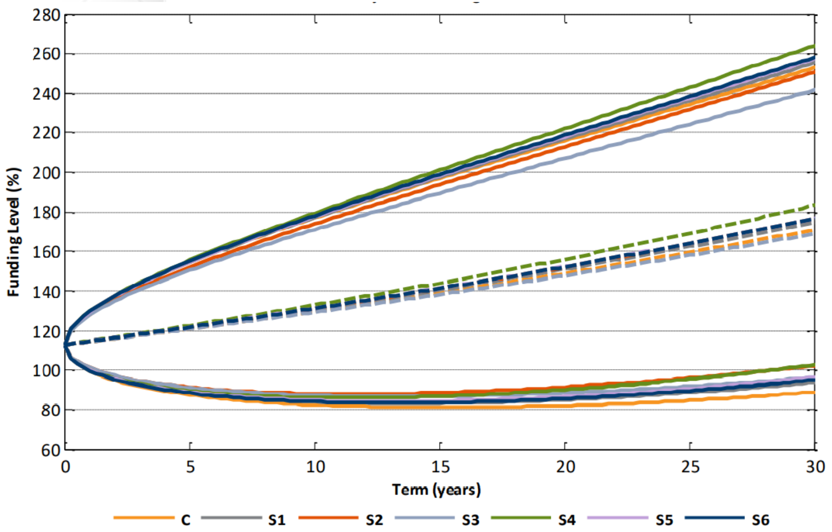
Some key challenges

- ✓ Recent uncertain times certainly have brought the old mean variance and optimization frameworks into question as the context has changed and the times, we are facing are unique.

- ✓ Many practitioners have not been around to refer to a period like this (in the 80's possibly) – a need to explore different approaches to formulating asset allocation strategies.

ALM and scenario analysis

Impact on Funding level under different scenarios and portfolios



Source: EPPF

- In ALM, contextualizing uncertainty and downside needs to be thought of relative to the liability.
- Scenario analysis as a result has become an even more important tool in setting asset allocations in uncertain times.

Tactical allocation

Asset Class	Approved SAA	TAA range
SA Cash	2.0%	0 – 7%
SA ILB ST	0.0%	0 - 5%
SA ILB LT	15.5%	10.5 – 20.5%
SA Bonds	5.0%	0 – 10%
SA Property	6.5%	1.5 – 11.5%
SA Equity	37.0%	32 – 42%
Africa	4.0%	2 – 6%
Foreign Cash	0.0%	0 - 2%
Foreign Bonds	0.0%	0 - 2%
Foreign Property	2.0%	0 – 5%
Foreign Equity	19.0%	14% – 24%
EM Equity	6.0%	1 – 11%
China	3.0%	0 – 5%
Total	**100.0%**	Source: EPPF

- ✓ In uncertain periods tactical asset allocation as an additional, more pronounced risk and return leaver also becomes increasingly important to use.
- ✓ In a return maximizing or CPI-related liability world, tactical management can be used more opportunistically to add value but with clear rules and triggers behind it.

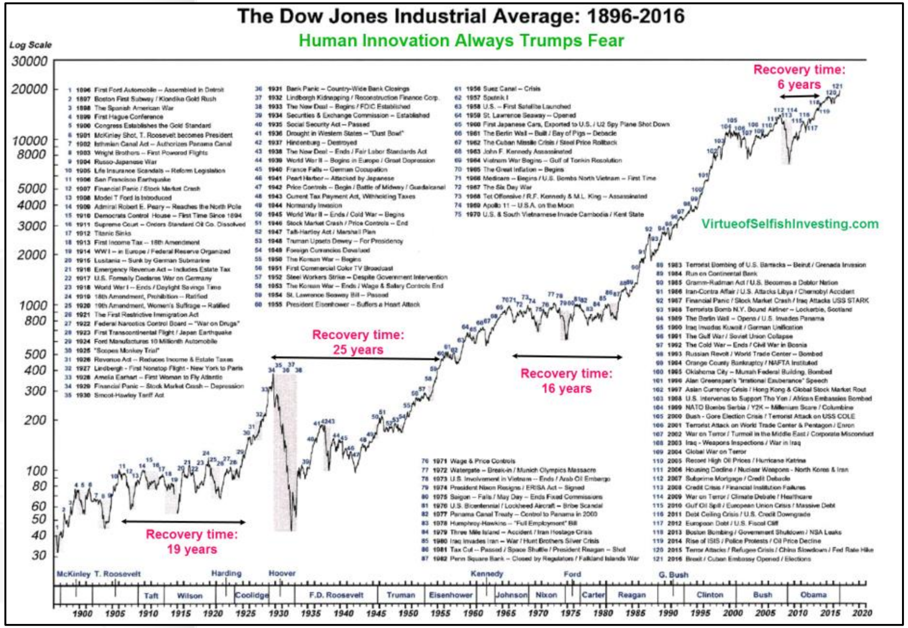
Diversification

Local asset allocation	66%
Global asset allocation	34%
Traditional Equities	62,5%
Traditional Bonds	22,5%
Alternative assets	15%

Source: EPPF

- ✓ Diversification remains one of the best go-to strategies, but we need to look for predictable alternative sources of growth.
- ✓ Infrastructure and private equity opportunities are examples, although it brings about its own set of risks that also need to be considered in setting asset allocation strategies
- ✓ Uncertainty, more than ever, requires us to understand risk premia within asset classes more clearly – if they stable, predictable they can be used in future asset allocation frameworks as the traditional counterparts.

Conclusion



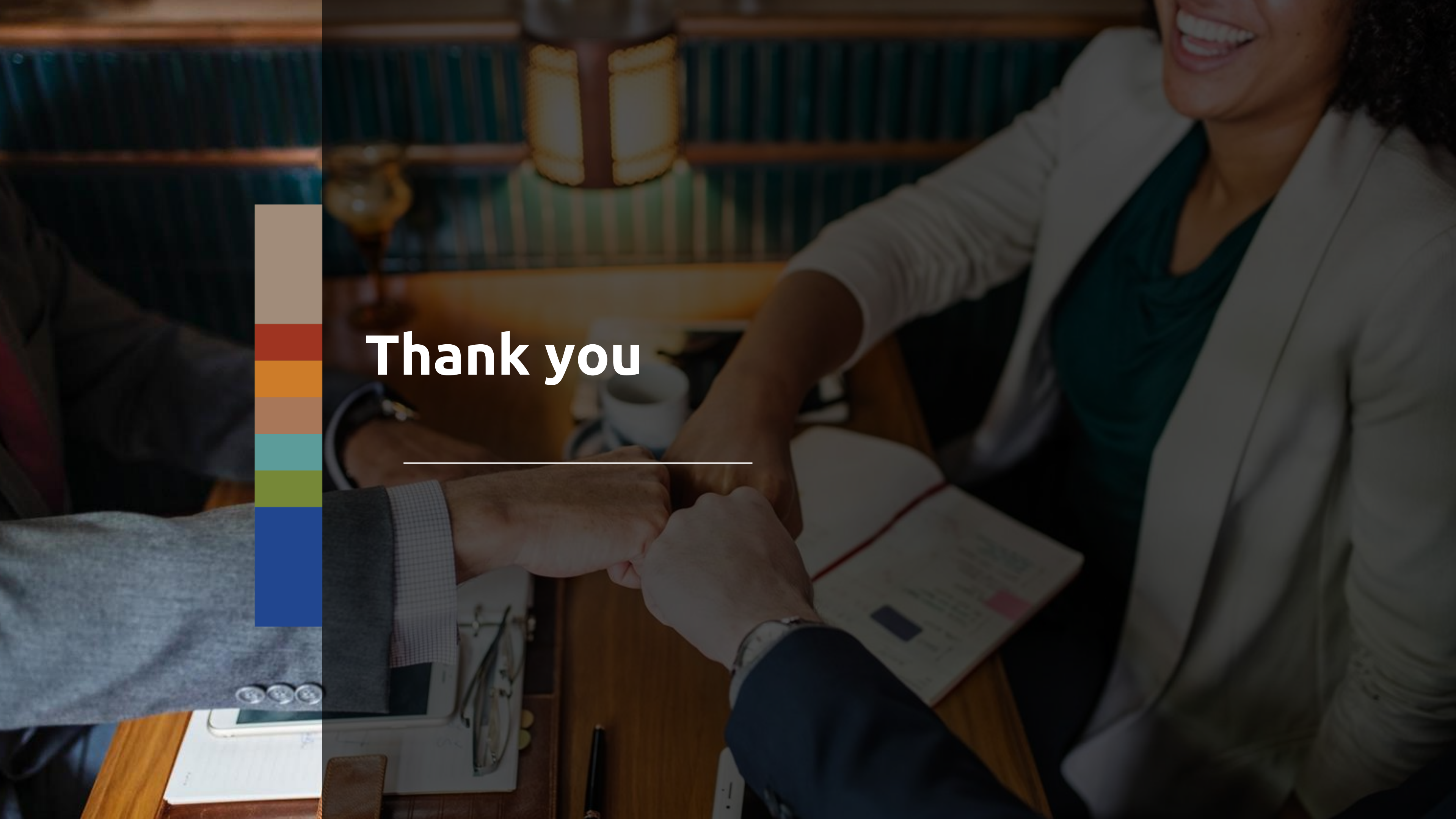
Source: Marketwatch.com

- It is however much more difficult now to know how to manage assets given the more unstable and dynamic environment.

- This requires an even more disciplined approach than before, and one informed by newer methodologies.

- Data science applications have dramatically improved to assist in understanding more intricately what is driving market evolution.

- So, as we navigate this uncertainty, we can be assured that human innovation will once again trump fear.


Thank you