



# HOW TO INVEST LONG TERM IN VOLATILE TIMES

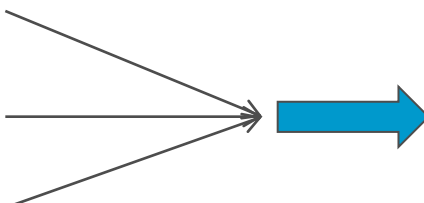
European Pension Funds Congress  
Frankfurt, November 15, 2011

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Pensioenfond KBC  
Belgium



- KBC = banking and insurance group active in Belgium and CEE
- Pensioenfondsv KBC = pension fund for 16 Belgian companies of KBC Group
  - defined benefit plan for 16 000 employees in Belgium
  - financed by employer contributions only
  - total assets end 2010 : 1 bn euro
  - average annual return since 1981 : +8,62 %

- Main concerns of sponsor :

- reduce volatility
  - control costs
  - control risk
- 
- A diagram consisting of three thin black arrows pointing from the text 'reduce volatility', 'control costs', and 'control risk' towards a single, larger, thick blue arrow that points to the text 'stable funding ratio'.
- stable funding ratio

- Measures taken at the level of

- Pension plan (DB → DC)
- Financing (more realistic assumptions)
- Investment strategy (de-risking)

# Investment strategy (1)

• Funding ratio :  $\frac{\text{Assets}}{\text{Liabilities}}$

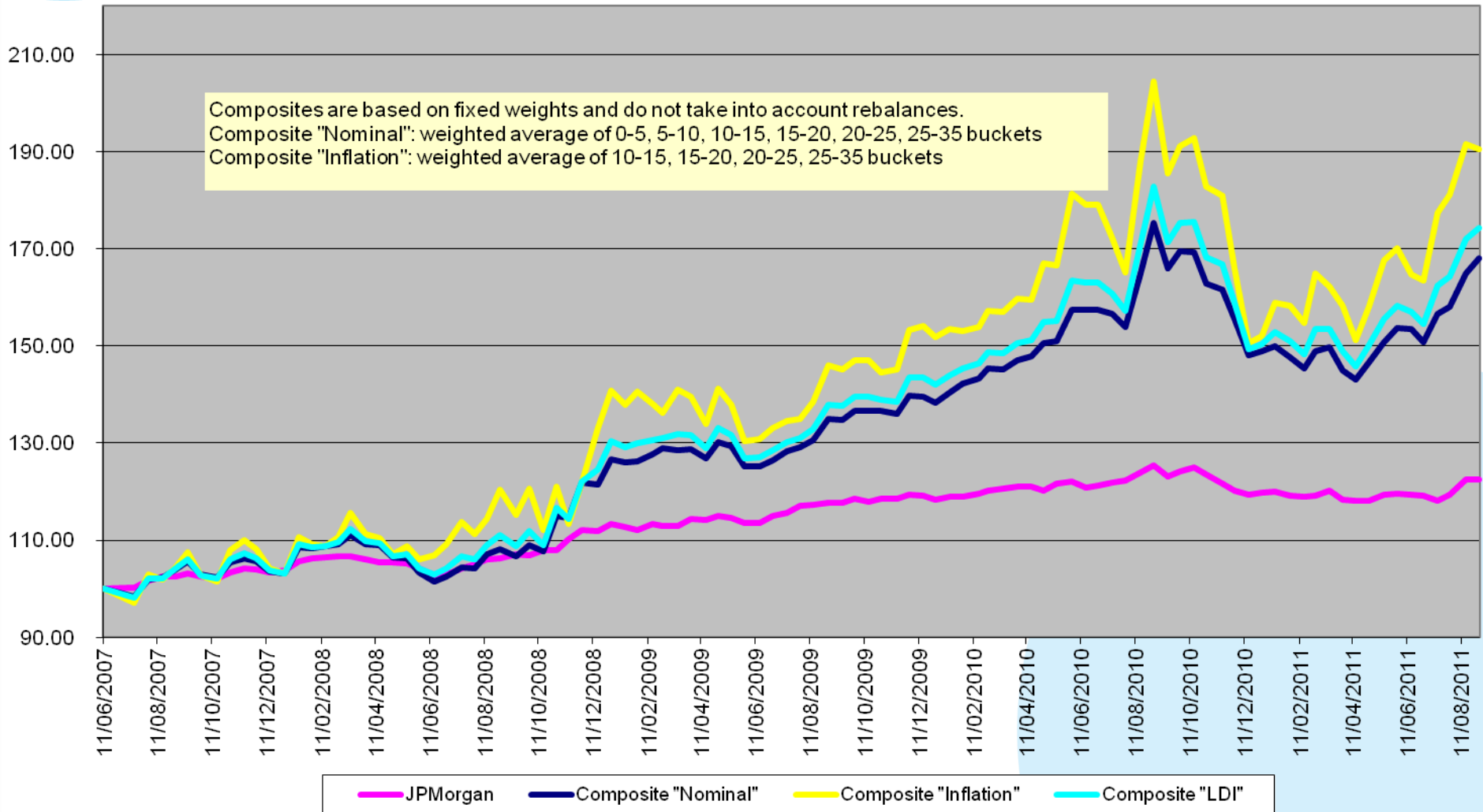
- . interest rate
- . inflation
- . equity markets

- . interest rate
- . inflation
- . (longevity)

## Investment strategy (2)

- Interest rate risk :
  - LDI-strategy since 2007 : hedging portfolio (42,5 %)
  - Interest Rate Swaps with 200 % leverage
- Inflation risk :
  - liabilities > 5 years hedged for 50 % with inflation linked swaps +12,5 % real assets
- Equity risk :
  - equity allocation reduced from 50 % to 35 %
  - ¼ minimum variance portfolio

## Evolution LDI buckets since launch



## LDI-strategy (2)

	2008 - 2010
Liabilities	+ 80 mio euro
LDI-funds	+ 150 mio euro

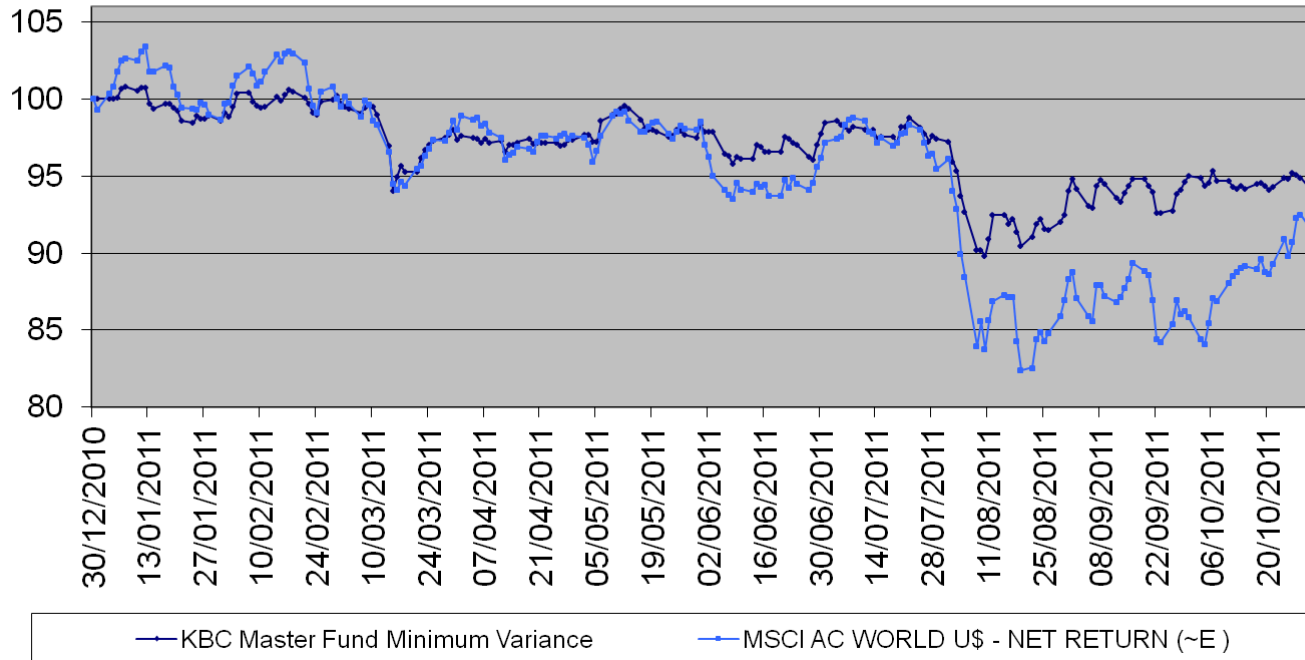
	Hedging portfolio	Return portfolio	Total portfolio
2008	+ 24,66 %	- 39,73 %	- 15,62 %
2009	+ 8,33 %	+ 24,81 %	+ 14,46 %
2010	+ 6,11 %	+ 12,81 %	+ 9,09 %
2011 (30/09)	+ 21,15 %	-12,88 %	+ 2,43 %



30/12/2010 – 31/10/2011

# Minimum variance

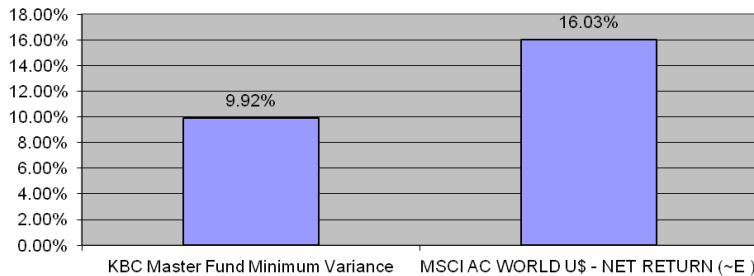
**Master Fund Minimum Variance vs MSCI World AC**  
(30/12/2010-31/10/2011)



— KBC Master Fund Minimum Variance

— MSCI AC WORLD US - NET RETURN (~E)

**Ex-post volatility YTD**  
(YTD 30/12/2010-31/10/2011)



**Before fixed costs:**  
-4.60%

**Performance YTD**  
(30/12/2010-31/10/2011)

