



TALENT • HEALTH • RETIREMENT • INVESTMENTS

# AIMSE 38<sup>th</sup> Annual Marketing & Sales Conference

## Mercer Investments

April 27, 2015



# Today's Discussion

- Mercer Investments Update
- Trends & Areas of Future Growth

# Mercer Investments Update

The background of the slide features a dark blue top section. Below this, there are three overlapping, wavy, horizontal bands of color: a bright cyan band, a light cyan band, and a medium blue band. The overall design is modern and professional.

## Our Story



- **Then** – Founded in Chicago, just weeks after the Great Chicago Fire in 1871
- **Now** – Annual revenue of \$13 billion and 57,000 colleagues worldwide



- **Then** – Economist launched pension consulting business in 1945 with \$25 of his own money and \$100 loan
- **Now** – Annual revenue of \$4.2 billion and 20,500 colleagues worldwide

# Overview of Mercer Investments

**40+ years advisory services  
to institutional investors**

**Advise on \$9.2 trillion in assets  
globally / \$115 billion in AUM**

**Advise 260+ US DB plans / 250+  
US DC plans / 250 NFPs**

**450+ Investment  
Professionals in the US**

**120+ dedicated research  
analysts worldwide**

**Governance, regulatory and  
plan design expertise**

## Relevant Experience

- Expertise in DC, DB, endowments and foundations
- 15 years of global experience as discretionary manager
- Thought leadership: pension risk management, DC behavioral finance, alternatives, financial wellness

## Organizational Stability

- Scale provides depth of talent and eliminates succession issues
- Consultants average 10+ years investment experience
- Client-to-consultant ratios among lowest in industry
- One of Mercer's fastest growing business segments



The information above is as of December 31, 2014 and includes worldwide personnel, assets under management, and assets under advisement across Mercer's Investment Consulting business and Fiduciary Management business.

# Investment Continuum of Services Provided by Mercer



Are you looking for self-service research and analytical tools?



Proactive consulting enabling the client to make informed choices



'Desired outcomes' agreed with client and Mercer implements

## Desired Plan Sponsor Governance Model



# Global Investment Manager Research

Managers covered	Strategies covered	Strategies rated	Strategies rated A
5,400+	26,200+	8,800+	2,500+



## North America

**490+** | INVESTMENTS PROFESSIONALS  
**53** | MANAGER RESEARCH SPECIALISTS

## Europe (Excludes Turkey)

**560+** | INVESTMENTS PROFESSIONALS  
**35** | MANAGER RESEARCH SPECIALISTS

## Growth Markets (Asia & Middle East & Latin America)

**60+** | INVESTMENTS PROFESSIONALS  
**8** | MANAGER RESEARCH SPECIALISTS

## Pacific

**1,040+** | INVESTMENTS PROFESSIONALS  
**15** | MANAGER RESEARCH SPECIALISTS

- Mercer offices with full-time manager research staff
- Mercer offices with investment consultants

Our team member numbers include manager research employees and a select few Investments staff that carry out extensive research on behalf of manager research. Pacific Investment Professionals includes Financial Services. Data is as of 31 December 2014.

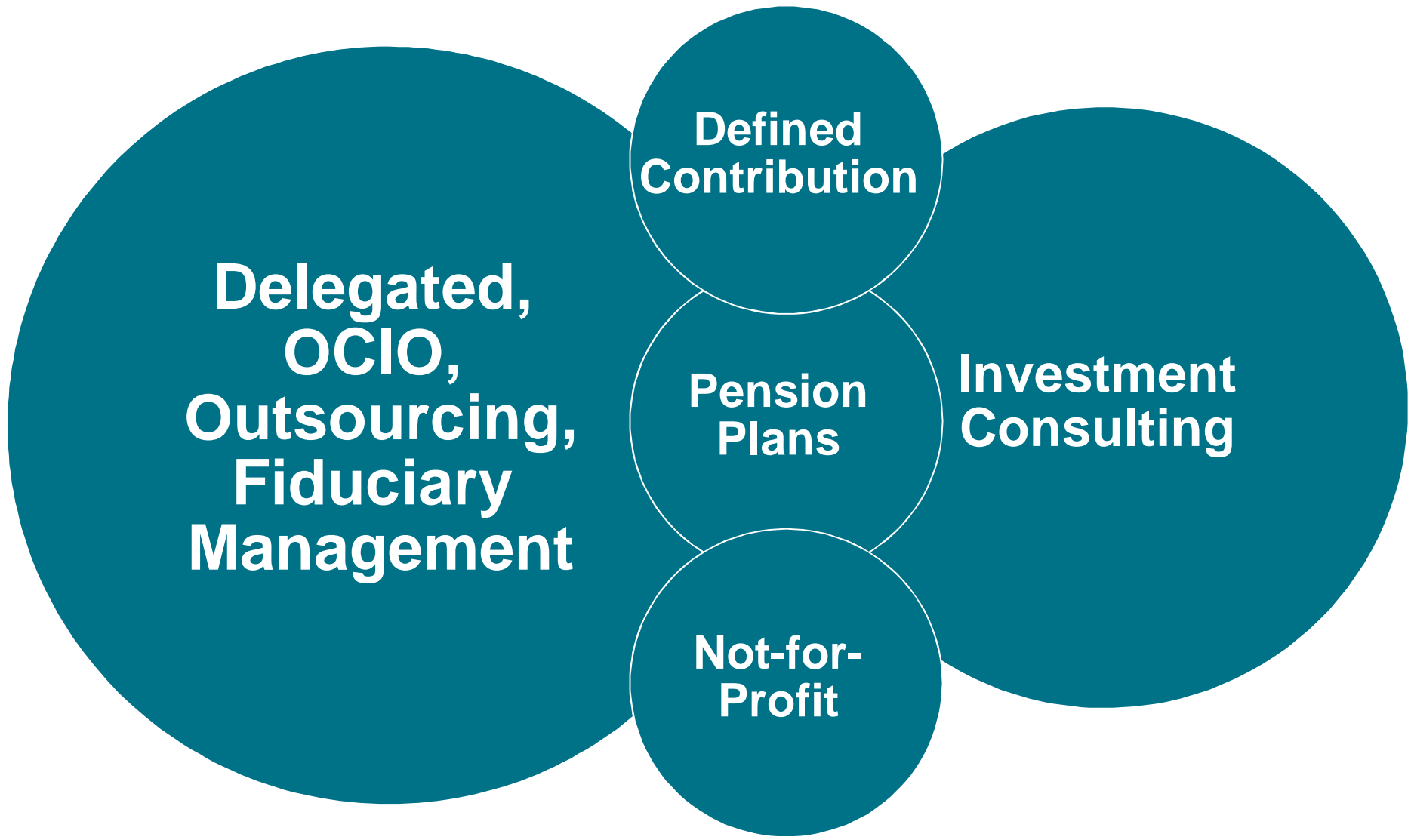
# Trends & Areas of Future Growth

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# Trends & Areas for Future Growth

## Topics for Discussion



# Delegated Investment Solutions A Brief US History

## Pre-1990

Prevalence of single provider solutions

Delegation initially geared toward small to mid sized DB plans

Delegated DB solutions increase in flexibility

## 2006

Mercer gains first delegated DC mandate in US

## 2015

Delegated market expected to grow by 67% by 2015 in US\*

## 1990s

Multi-manager delegated solutions appear in the industry

Market volatility and complexity increases

Delegation among large DB plans gains traction

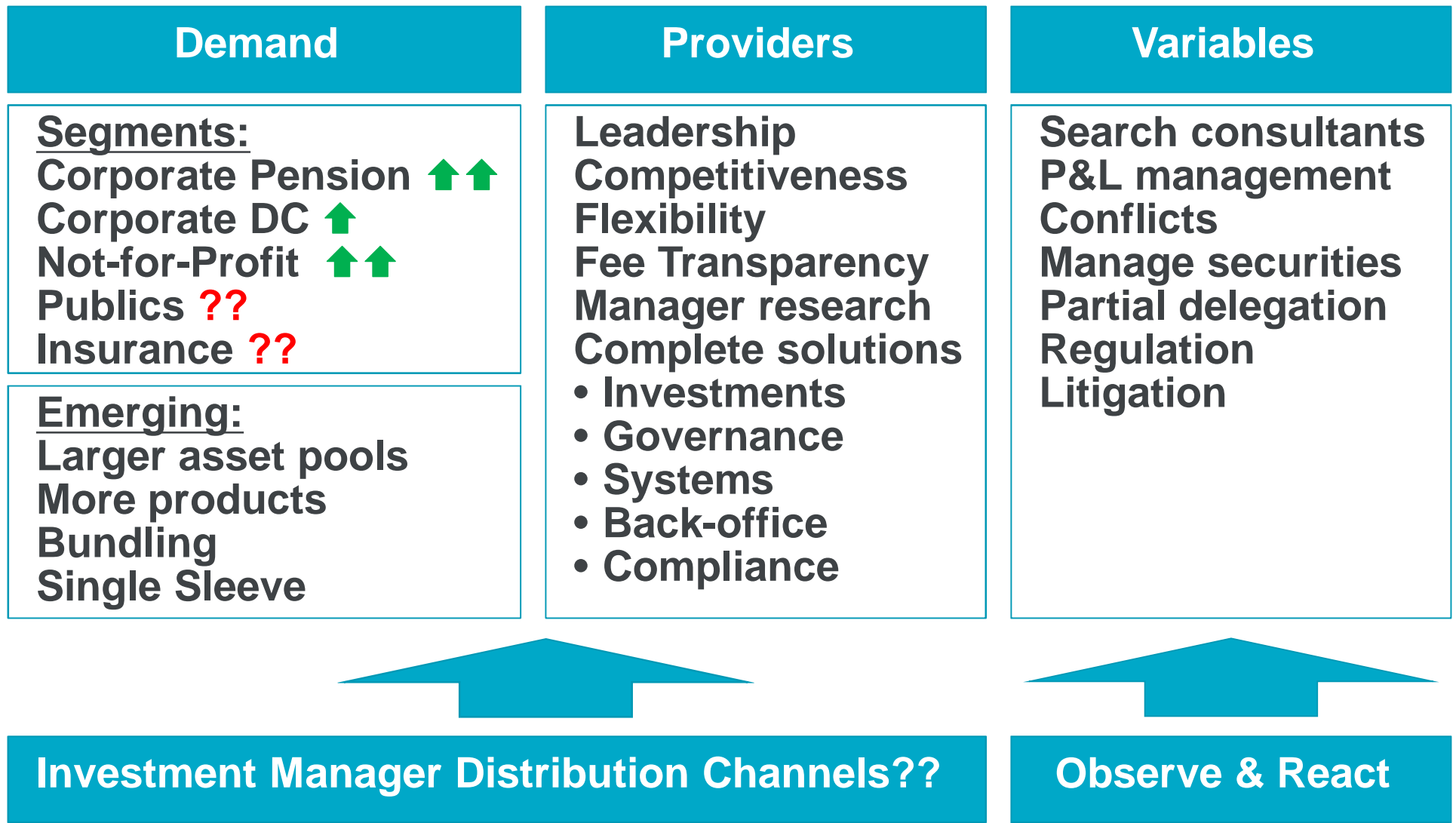
Delegation trend moves to DC marketplace

## 2014

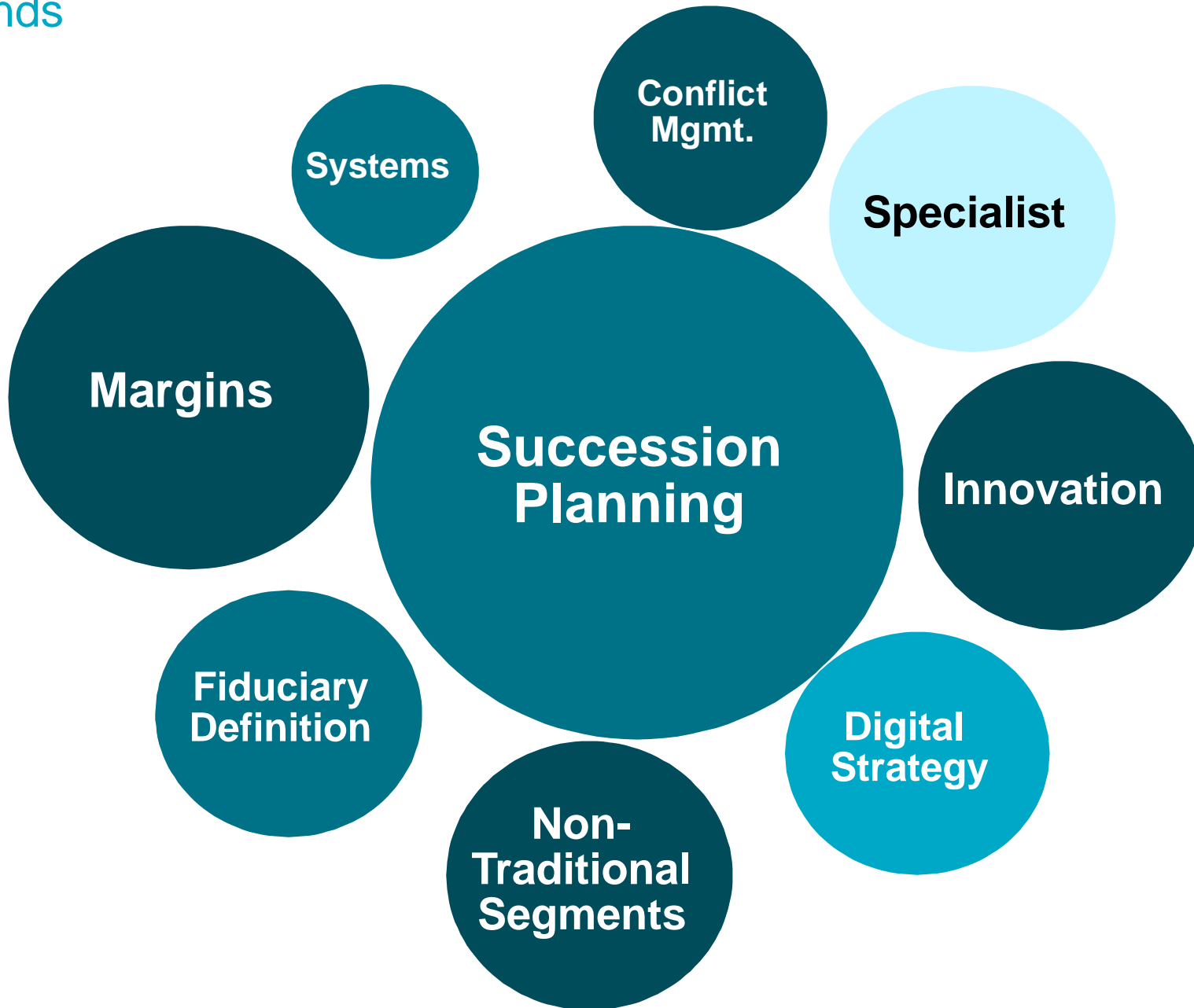
Mercer global delegated assets reach US\$115 billion (US\$40 billion delegated DC assets)

\* Source: 2013 Spence Johnson OCIO Survey

# Delegated Investment Solutions Trends



# Investment Consulting Trends



# Corporate Pension Plans

## Plan Sponsor Focus

### Retain the Risk

- Plan re-design
- Dynamic Investment Policy, best in class Growth Portfolio, improved Hedge Ratio, Guaranteed LDI products & Borrow-to-Fund

### Transfer the Risks

- Term Vested Lump Sums, Retiree Lump Sums & Active Lump Sums
- Retiree Longevity Swap, Retiree Buy-in & Termination and Buyout

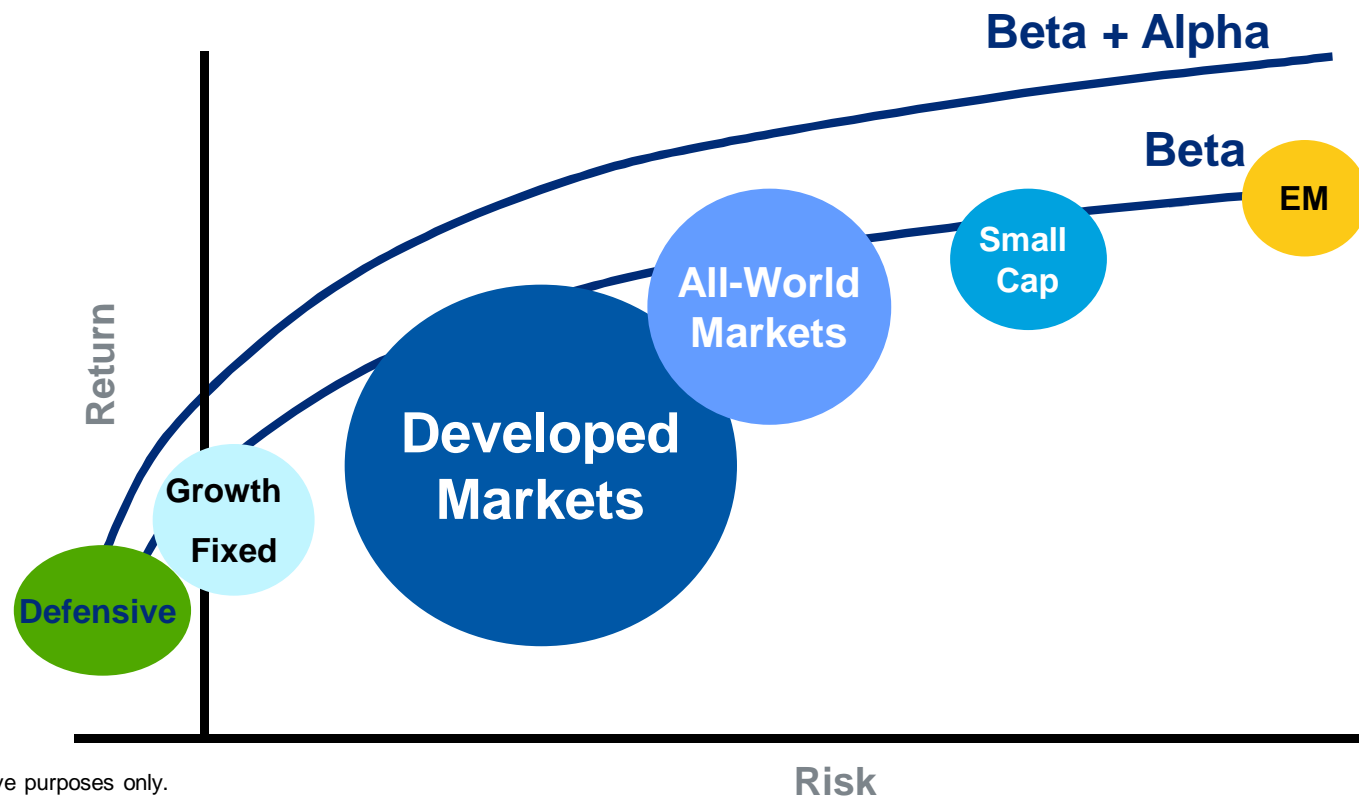
### Risk Mitigation

# Corporate Pension Plans

## Retain the Risks – Constructing a Better Growth Portfolio

### Balancing Return & Volatility

- Building a core portfolio that emphasizes diversification
- Taking advantage of growth areas like small cap and emerging markets
- Rebalancing risk with defensive equity strategies
- Reduce cost with passive management in efficient markets

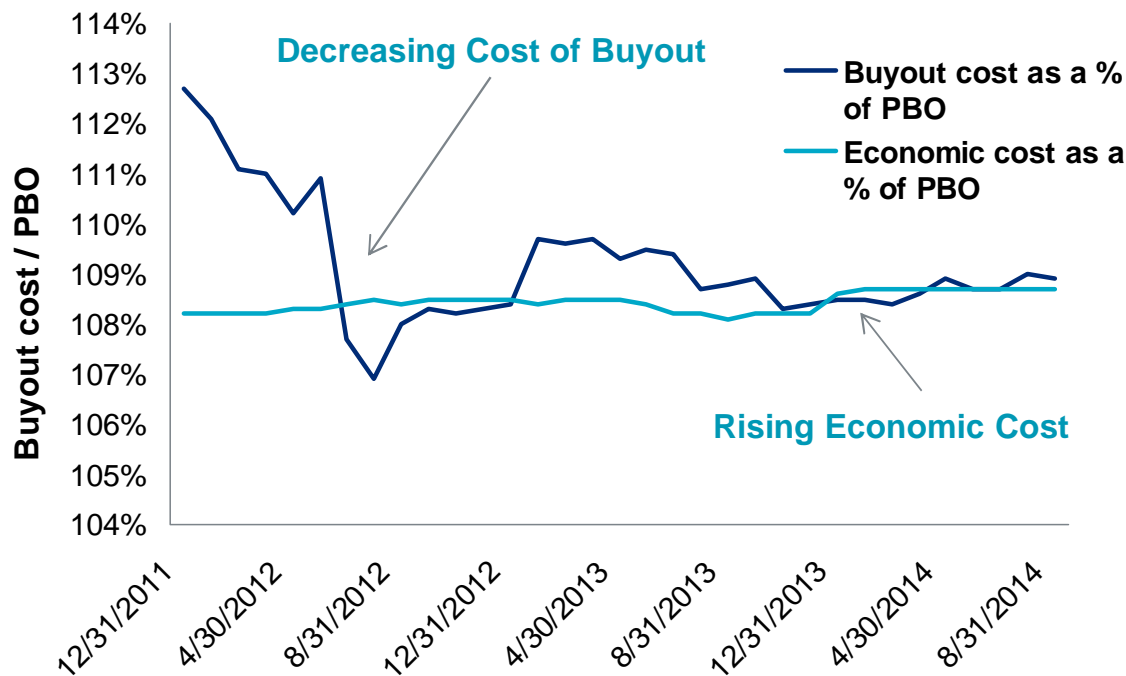


For illustrative purposes only.

# Corporate Pension Plans

## Transfer the Risks – Buyout Pricing Trends

### Mercer US Pension Buyout Index 2011 - 2014



#### Drivers of Change

Decreasing insurer premiums relative to accounting discount rates.

- Expect this trend to continue as new mortality tables are adopted

Rising economic cost of retaining pension obligations, to include:

- Rising PBGC premiums
- Rising administration costs
- Investment expense

**Buyout cost relative to liabilities fluctuates significantly, offering opportunities to settle at more attractive prices.**

Source: Mercer buyout index

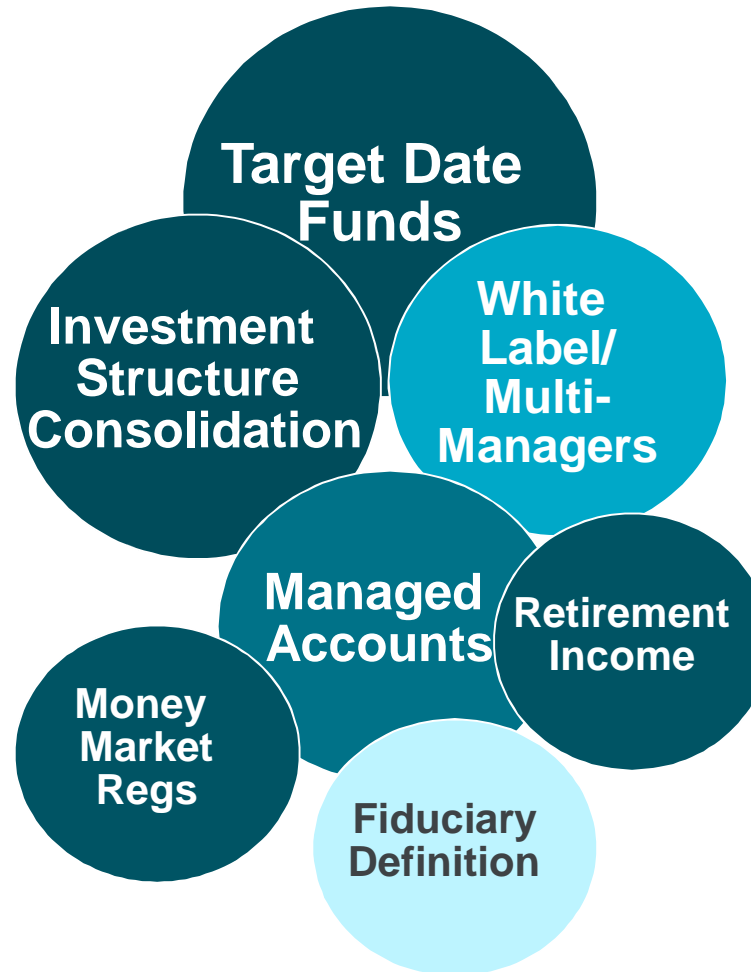
# Corporate Defined Contribution Plans

## Plan Sponsor Focus

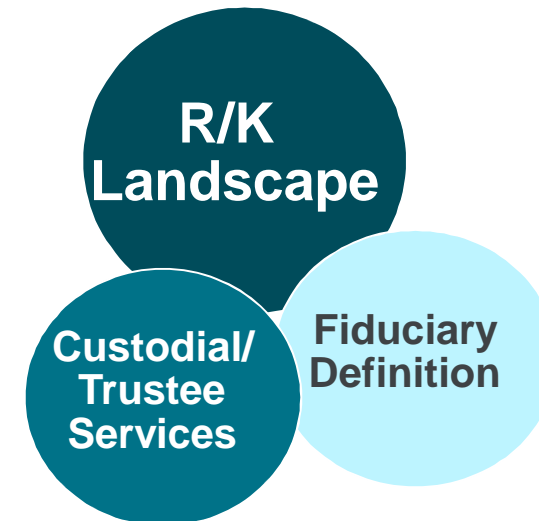
### Governance



### Investments



### Administration





# Corporate Defined Contribution Plans

## Investment Philosophy

### Institutional Approach with Diversified Investment Options

**Streamlined Lineup**

**Best in class managers**

**Broad use of institutional vehicles**

**Use of custom, multi-manager funds**

**Customize to employee profile**

**Fee transparency**

Simplify participant options, customize to employee profile and allow for greater diversification within the custom portfolios.....  
**All delivered in a flexible solution that is customized to plan sponsor and participants needs**

# Corporate Defined Contribution Plans

## Types of Defined Contribution Participants

### **“DO IT FOR ME” Investor**

- Rarely reviews portfolio
- No engagement in investment allocation decisions
- Lacking in investment knowledge, interest and/or time to proactively managed investments
- Wants professional assistance managing investment exposure over time

### **“GUIDE ME” Investor**

- Reviews overall investment allocation occasionally
- Wants control over major shifts in allocation
- Limited engagement on implementation, rebalancing and other shorter-term issues

### **“LET ME DO IT” Investor**

- Frequently reviews portfolio
- Utilizes full range of investment options
- Wants to control all key investment allocation decisions

# Corporate Defined Contribution Plans

## Future Streamlined Investment Structure – Consolidated Global Options

Tier I Do it for me <i>Target Date Options</i>	Tier II & III Help me do it <i>Passive &amp; Active Core Options</i>		Tier IV Leave me to it <i>Specialty Options</i>
		Capital Preservation	
	Diversified Fixed Income	Diversified Fixed Income	
<b>Target Date Funds</b> 5-year increments		Diversified Inflation	
	Global All Cap Equity	Global All Cap Equity	
	Managed Accounts		<b>Example:</b> Brokerage Window

**Simplifying participant options, customizing to employee profile, and allowing for greater diversification within the custom portfolios**

# Corporate Defined Contribution Plans

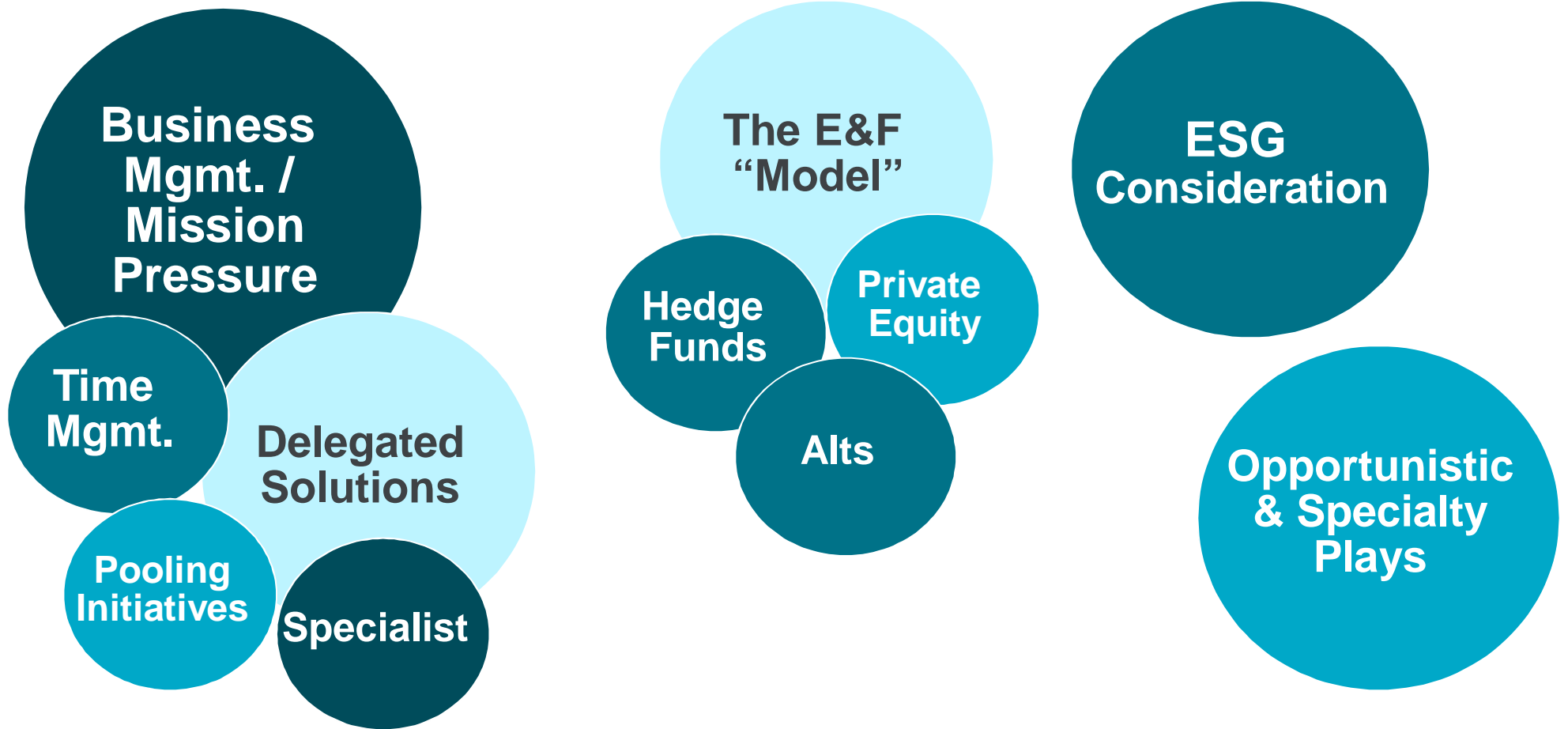
## Spend-Down Phase – Retirement Income Menu

Tier I Do it for me	Tier II – III Help me do it		Tier IV Leave me to it
Purchase into DB Plan Annuity with DC Assets	Income Advice Service	Social Security Optimization Tool	Simple Planning and Projection Tools
Target Date Fund with Annuity Component	Managed Account with Income Component	Annuity Bidding Service (SPIA, DIA, Longevity Annuity)	Minimum Required Distributions ★
Design-Based Accumulation Annuity Strategy	Hybrid Strategies (GMWB) / In-Plan Annuities	Managed Payout Option ★	Lump Sum Payment ★

★ Most commonly employed

Retirement income “menu” is consistent with offering a menu of investment options and requires providing more than the lump sum option.

# Not-for-Profits Organization & Trustee Focus



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