



Ryan ALM
Asset/Liability Management

**Presentation to:
FPPTA's CEU Session
"Importance of Cash Flow"
Russ Kamp - CEO**

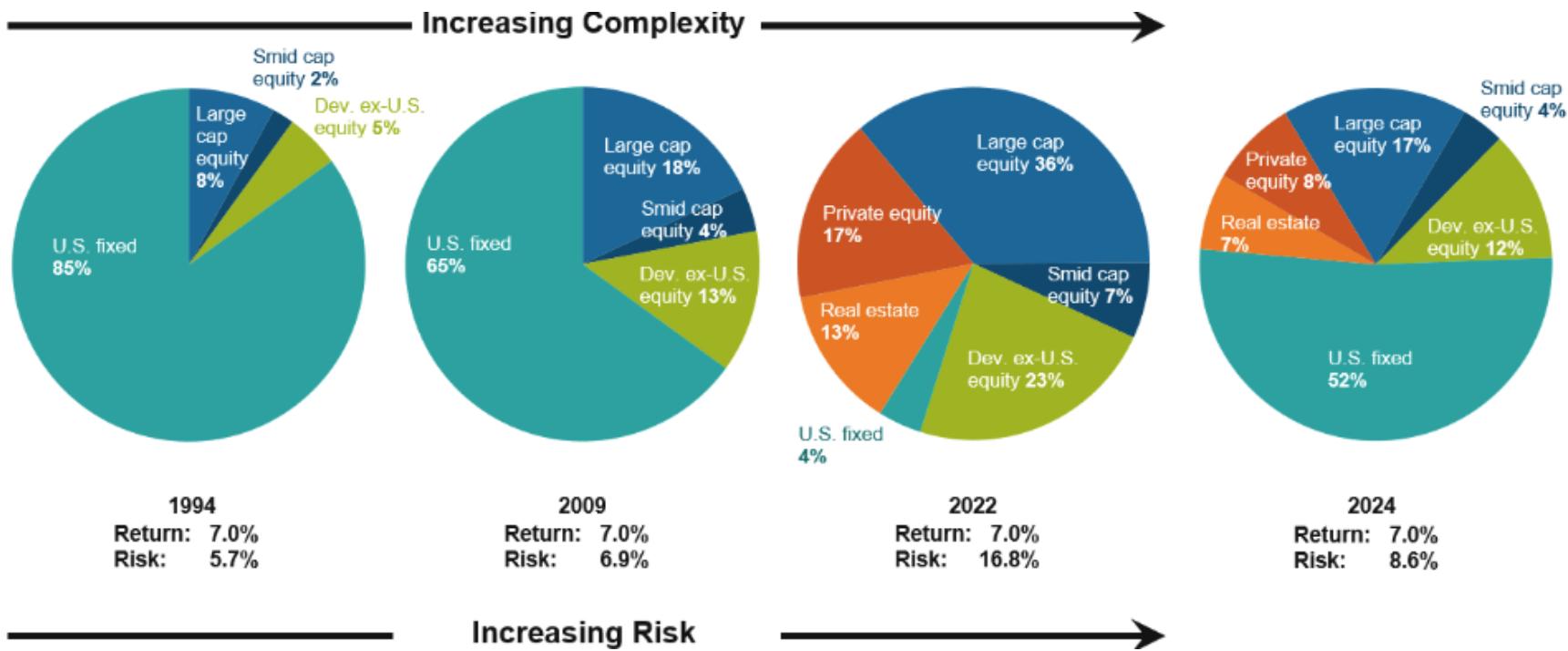
Presented by
Ron Ryan, CFA
CEO
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Importance of Cash Flow

- Managing a DB pension plan is all about cash flows
- Asset cash flows = Liability cash flows
- But current pension practices are impacting the creation of asset cash flows
- This presentation will explore the current environment and a strategy to enhance the liquidity necessary to meet those promises.

In Pursuit of the ROA



The Rollercoaster of Returns



DB Pensions Have a Cloud of Uncertainty



Pension Trend: More Risk



Pension Trend: Less Liquidity



Time to Change Course



Time to WAKE UP to Fundamentals



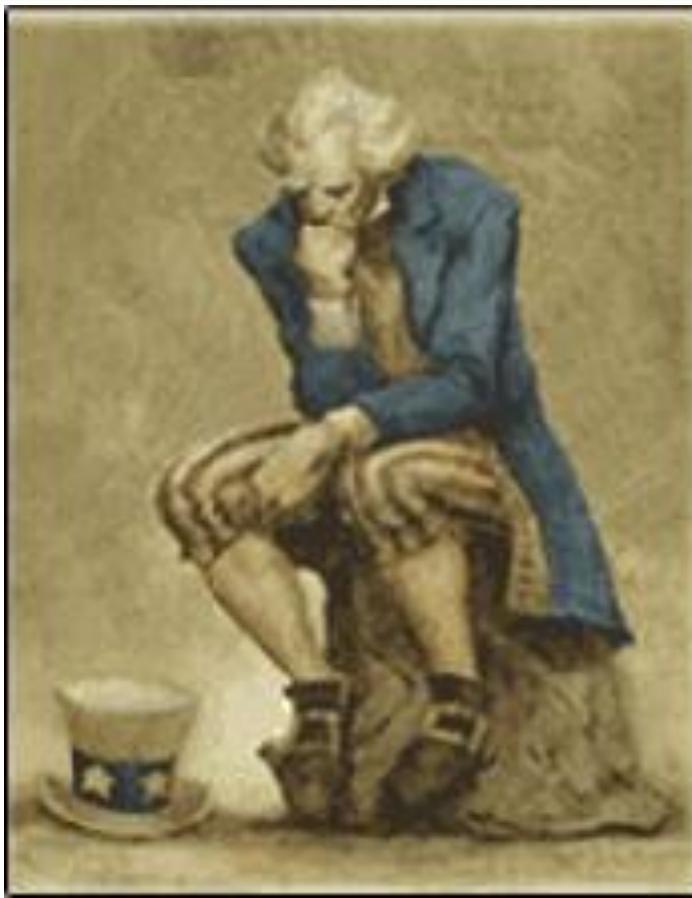
The TRUE Pension Objective

**SECURE and FULLY FUND
benefits and expenses (B&E)
in a cost-efficient manner with prudent risk**

Benefits + Expenses = Liability Cash Flows

It is NOT a return objective

Time to Rethink Asset Allocation



Current Asset Allocation Approach

- Establish a return target (ROA) through consultation with your actuary and consultant
- The actuary will forecast contribution levels based on that return target
- The consultant will cobble together asset classes/strategies with the goal of achieving the ROA over the “long-term”.
- However, current asset allocation approaches come with substantial risk and uncertainty

Separate Liquidity from Performance Assets

- **Liquidity assets**
 - Mission: fund benefits + expenses (B+E)
 - Fund B+E chronologically
 - Buys Time for Performance assets
 - **Bond allocation goes here**
- **Performance (growth/alpha) assets**
 - Mission: Grow unencumbered to meet future liabilities (active lives)
 - No need to fund B+E

Sources of Asset Cash Flows

- Interest income
- Dividend income
- Capital distributions
- Sales of Securities
- According to Guinness Global (UK-based), sweeping dividends from equity managers is a very harmful practice.
- Forcing sales in choppy or bearish markets can cause significant harm.

The Beauty in Bonds

- **Bond's Value = Certainty of its cash flows**
 - Principal and interest
 - Only asset class with a certain cash flow
- **Convert core fixed income into a Cash Flow Matching (CFM) portfolio**
 - Portfolio of investment-grade bonds
 - Cash flows match/fund benefits and expenses
(Chronologically)

Liquidity Bucket - Cash Flow Matching

- **Cash Flow Matching**
 - Asset cash flows of principal and interest match/fund benefits and expenses (B+E, monthly)
 - Focus is on FV of B+E...Mitigates interest rate risk
 - Secures B+E in a cost-efficient manner
 - Sophisticated optimization process
- It is ***NOT*** a laddered bond portfolio.

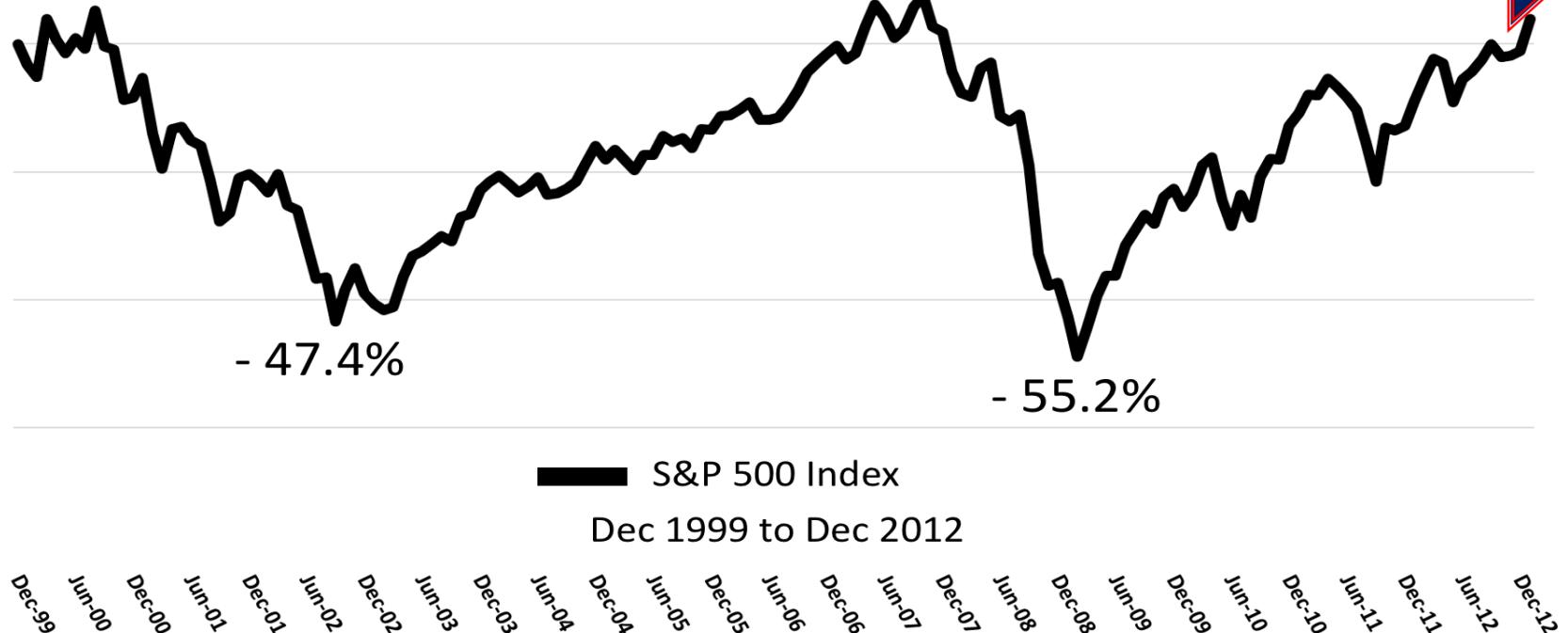
Cash Flow Matching (CFM) Benefits

- CFM has many benefits
 - **Secures** benefits with near certainty
 - **Reduces** funding costs
 - **Provides** liquidity to fully fund B+E chronologically
 - **Buys time** for alpha assets to grow unencumbered
 - **Eliminates** forced liquidity in choppy markets

CFM Buys Time: Bridge Over Troubled Waters

Like a Bridge over troubled waters

Ryan ALM LBP Cash Flow Bridge



Asset Classes Have Different Functions - Stay in Your Lane



Time to Get Off This Scary Ride



CFM Makes your Ride Much Smoother



Key Takeaways

- Significant unknowns
 - Don't live with uncertainty
- Bifurcate your plan's assets
 - Liquidity + Growth allocations
- Secure/fund pension liabilities through CFM
- Enhance asset cash flows to meet liability cash flows
- Extend the investing horizon for the growth assets
 - Enhance the probability of positive outcomes