

Liberty Corporate Consultants & Actuaries

ASSET LIABILITY MODELLING

What is Asset Liability Modelling?

Asset Liability Modelling (ALM) is an approach to examining retirement risks and allows the sponsor and trustees to set informed policies for funding, benefit design and asset allocation.

Asset Liability Modelling goes beyond traditional, asset-only analysis of the asset allocation decision. Traditional asset-only models analyse risk and reward in terms of investment performance. Asset liability models take a comprehensive approach to analyze risk and reward in terms of the overall retirement fund impact.

Retirement funds face a variety of liability risks including price and wage inflation risk, interest rate risk and longevity risk. While some of these risks materialize slowly over time, others – such as interest rate risk – are felt with each measurement period. How to manage these risks and ensure informed policies are in place to cover funding, benefit design and asset allocation are a key focus of Asset Liability Modelling.

Why do funds need ALM?

The recent (and ongoing) worldwide financial crisis has driven many funds to record huge financial losses. In the wake of these losses, many retirement fund sponsors have been led to re-examine their retirement fund asset allocation strategies, to consider the risk exposures to the funds and to the sponsors.

Studies have indicated that many corporate benefit funds fail to address the full range of risks facing them, especially the ones related to liabilities. Too often corporate sponsors and trustees are distracted by concerns that have nothing to do with the long-term health of the fund.

ALM aims to increase a fund sponsor's understanding of the retirement fund's current situation and likely future trends. Specific deliverables would include:

- Highlight key asset and liability risks that should be considered
- Help establish a cohesive risk management framework
- Analyse surplus return, standard deviation, funded status, contribution requirements and balance sheet impacts
- Consider customised risk measures based on the fund sponsor, fund design and time horizon
- Help design an appropriate strategic investment strategy
- Provide insight into current market dislocations and practical implications for the near term

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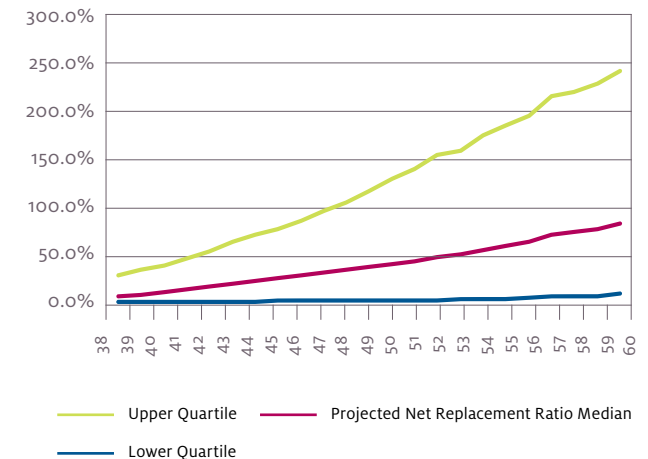
Liberty Corporate Consultants & Actuaries have successfully developed, tested and implemented an Asset liability model. This is a stochastic model and consistent with market reality, allows for random variation of economic variables.

The underlying model parameters are based on international best estimates of future economic trends calibrated for the South African market. These parameters are updated frequently to allow for changing economic conditions. This ensures our model remains applicable and relevant.

The Difference

This Asset Liability Model is one of Liberty Corporate Consultants & Actuaries points of difference in the retirement fund space and promotes the Liberty Group vision of being the market leading wealth management company in Africa. It leverages the power of our specialisation and enhances various partnering relationships within the collective group.

Asset Liability Modelling is an approach to examining retirement risks and allows the sponsor and trustees to set informed policies for funding, benefit design and asset allocation.



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Liberty Corporate Consultants & Actuaries

Actuarial & Investment Consulting

Employee Benefits is a complex field, with a range of defined contribution and defined benefit funds, different funding structures, risk benefits and investment options available. The legislative and tax environment within which the retirement funds operate, as well as competing individual member needs, add to this complexity.

In this context, it is important that the primary parties involved in Employee Benefits i.e. the employer, the employee and the trustees are continually kept up-to-date with current developments and are well informed on how these impact the underlying fund.

Liberty Corporate Consultants & Actuaries have significant experience and expertise in the Employee Benefits field. The funds we advise range from small funds for private companies to very large funds for both the private and public sector.

Why Liberty Corporate Consultants & Actuaries?

As actuaries it is our business to analyse the financial consequences of risk, and develop appropriate solutions for our clients. To do this we use mathematics, statistics, and financial theory to model and quantify uncertain future events of concern to retirement funds and employers. It is through the demonstration of the highest quality actuarial service that solutions are provided to meet our clients' needs.

Our actuarial services offered include (but are not limited to) the following:

- Advice on benefit design
- Advice on fund establishment
- Costing of benefit changes
- Valuation of pension funds
- Valuation of provident funds

- Cashflow projections
- Full or partial fund conversions
- Individual member reserve value calculations
- Analysis of fund surplus
- Post retirement medical aid valuations
- Accounting (AC116/IAS19/FAS158) valuations

In addition, our investment consulting services offered include (but are not limited to) the following:

- Asset Liability Modelling
- Development and implementation of appropriate long-term investment strategies
- Establishing, measurement and reporting on investment performance versus benchmarks
- Evaluation of investment managers and their portfolios
- Advice on individual member investment choice

Our Staff

At Liberty Corporate Consultants & Actuaries, we believe in integrating the two aspects of staff and systems, to deliver the required level of expertise and service to meet our clients' requirements.

Our staff are the most critical element of our service delivery. This is why we are committed to their education, training and development, in both the actuarial and investment consulting functions, and within the overall context of the South African Employment Equity Program.

Service excellence extends from a basic upgrade of computer hardware, to leading edge actuarial software and modern communication facilities. Whatever the challenge, our staff are equipped with the latest systems technologically, to provide the expected levels of service and assistance.

The Difference

The unique skills and service offering that our Actuarial & Investment Consulting team bring is one of Liberty Corporate Consultants & Actuaries points of difference in the retirement fund space. In addition, this service offering promotes the Liberty Group vision of being the market leading wealth management company in Africa and leverages the power of our specialisation and partnering relationships within the collective group.

We have the people and skills to meet the actuarial & investment consulting requirements of your fund.



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