



EasySTEPS
DIVERSIFIED FUND RANGE



Review 2021

EasySTEPS

Executive Summary



The EasySTEPS **Diversified Fund Range** (the “Funds”) have been in place since January 2010. As part of our ongoing governance of the Fund range we look to ensure the strategic allocations evolve as the industry develops, and crucially, that they continue to provide a market leading value for money proposition for clients.

Over recent months, we have conducted a strategic review of the Fund range and as a result have identified a number of tilts within the portfolios which we are proposing to carry out in the coming weeks. Fundamentally, the proposed changes do not change the funds’ strategic mindset, and they also do not impact the management charges applicable for investing in them.

We believe these changes ensure the funds remain a compelling market offering, in conjunction with our ongoing endeavours to integrate further Environmental, Social & Governance (ESG) factors into the strategic design of the Diversified Fund Range, when and where appropriate.



Proposed Updates

Set out below are the proposed updated strategic allocations for the Diversified Fund Range and the Lifestyle End-Points.

Figure 1 – Diversified Fund Range Proposed Strategic Allocation

		DIVERSIFIED CAUTIOUS	DIVERSIFIED MODERATE	DIVERSIFIED GROWTH	DIVERSIFIED HIGH GROWTH
CASH	Cash	35.0%	—	—	—
BONDS	Government Bonds	—	17.5%	8.0%	—
	Inflation linked Government Bonds	7.0%	20.5%	15.0%	5.0%
	European Corporate Bonds	30.0%	17.5%	10.0%	—
	High Yield Bonds	2.0%	2.5%	3.5%	5.0%
	Emerging Market Debt (Local)	1.0%	1.5%	2.0%	2.5%
	Emerging Market Debt (Hard)	1.0%	1.5%	2.0%	2.5%
	Total Bonds		41.0%	61.0%	40.5%
SHARES	ESG Global Shares	7.0%	16.0%	27.0%	38.0%
	Global Shares – ESG Value Strategy	6.0%	6.5%	6.0%	8.0%
	Low Volatility Shares	7.0%	6.5%	7.0%	8.0%
	Emerging Market Shares	—	2.5%	5.0%	8.0%
	Smaller Company Shares	—	2.5%	5.0%	8.0%
	Total Shares		20.0%	34.0%	50.0%
ALTERNATIVES	Infrastructure Shares	2.0%	2.5%	3.0%	5.0%
	Property Shares	2.0%	2.5%	3.5%	5.0%
	Private Shares	—	—	3.0%	5.0%
	Total Alternatives		4.0%	5.0%	9.5%
TOTAL		100%	100%	100%	100%

Proposed Updates (continued)

Figure 2 – Lifestyle End-Points Proposed Strategic Allocation

		PENSION & CASH MATCH	ARF MATCH	CASH MATCH
CASH	Cash	60.0%	25.0%	70.0%
BONDS	Government Bonds	—	13.0%	4.0%
	Long Dated Government Bonds	24.0%	—	—
	Inflation linked Government Bonds	—	15.0%	4.0%
	European Corporate Bonds	—	13.0%	9.0%
	Long Dated European Corporate Bonds	16.0%	—	—
	High Yield Bonds	—	2.0%	2.0%
	Emerging Market Debt (Local)	—	1.0%	1.0%
	Emerging Market Debt (Hard)	—	1.0%	1.0%
	Total Bonds	40.0%	45.0%	21.0%
SHARES	ESG Global Shares	—	12.0%	5.0%
	Global Shares – ESG Value Strategy	—	5.0%	2.0%
	Low Volatility Shares	—	5.0%	2.0%
	Emerging Market Shares	—	2.0%	—
	Smaller Company Shares	—	2.0%	—
	Total Shares	—	26.0%	9.0%
ALTERNATIVES	Infrastructure Shares	—	2.0%	—
	Property Shares	—	2.0%	—
	Private Shares	—	—	—
	Total Alternatives	—	4.0%	—
TOTAL		100%	100%	100%

Background



The Diversified Fund Range have allocations to a number of different assets, designed to help scheme members generate targeted returns in line with their risk appetite. These allocations are all passively managed and are designed to track relevant investment indices for each type of asset (for example, an index of low volatility shares).

During 2020 we introduced two new indices which integrate ESG considerations into the underlying allocations, highlighted in the table on the following page. Our commitment to integrating further ESG factors into the Funds remains, and as the industry evolves and where appropriate we will look to integrate ESG factors into each component. Building on these recent changes over the last number of quarters, we have carried out a wider-scale strategic review of the EasySTEPS Diversified Fund Range.

OUR COMMITMENT TO INTEGRATING FURTHER ESG FACTORS INTO THE FUNDS REMAINS, AND AS THE INDUSTRY EVOLVES AND WHERE APPROPRIATE WE WILL LOOK TO INTEGRATE ESG FACTORS INTO EACH COMPONENT

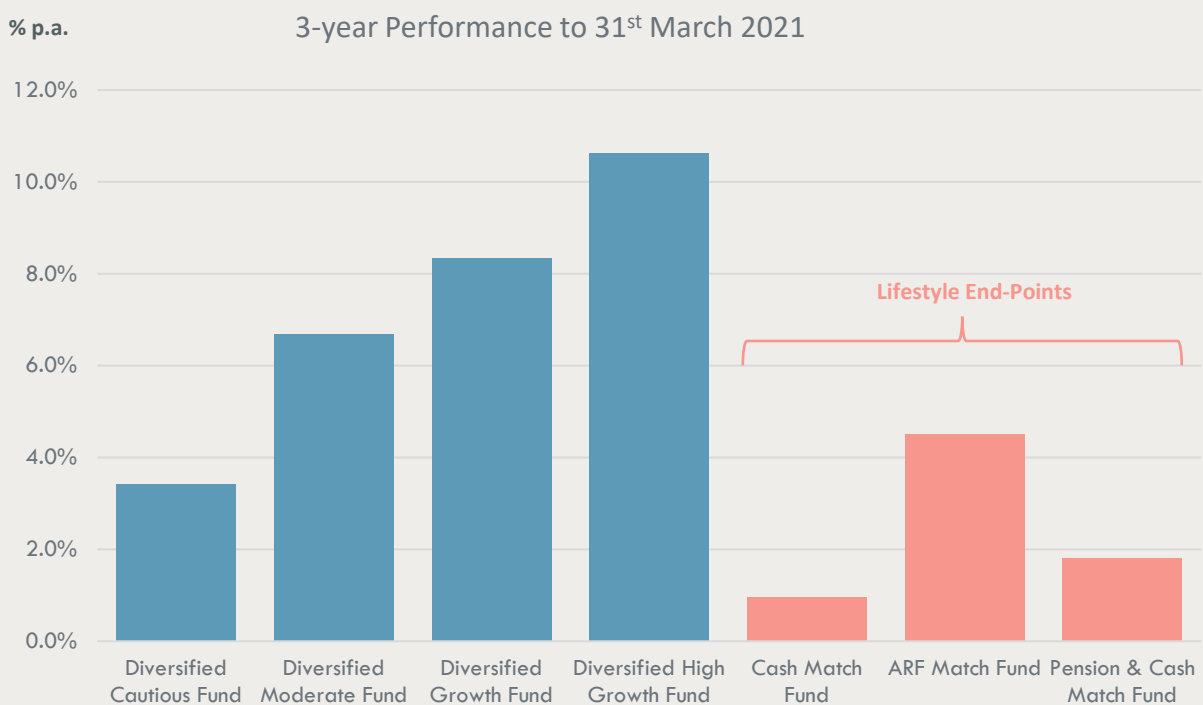


Strategic Review

The strategic review of the EasySTEPS Diversified Fund Range was conducted during 2020 and early 2021. The purpose was to review the strategic allocations of the Diversified Fund Range and identify new opportunities to add further diversification to the fund range.

The previous strategic review, which concluded early in 2018, identified a number of opportunities including infrastructure shares, private shares and high yield bonds which were added to the strategic allocations. In the interim 3-year period, the EasySTEPS funds have performed strongly. Further information on the performance of each individual component of the Diversified Fund Range can be found in Appendix B. These components have experienced varying levels of performance over the period, as anticipated. Whilst we have proposed some tilts, the review reaffirmed our convictions in the retention of these components within the Diversified Fund Range.

Figure 4 – Annualised performance net of management fees



Strategic Review (continued)

The most recent review itself was comprehensive, analysing market conditions and industry changes in reassessing the structural design of the funds. For the most part our review supports our belief that the existing strategic allocations remain broadly in order. There are a number of slight tilts which we propose making to each of the strategic allocations of the Diversified Fund Range. These include:

- > The addition of **Emerging Market Debt Hard Currency** to the Diversified Fund Range.
- > Increasing the Diversified Fund Range strategic allocations to **Inflation linked Government Bonds**.
- > Adding further exposure to **Global Shares – ESG Value Strategy** and **Low Volatility Shares** for the **Diversified Moderate Fund**.
- > Replacing active alternatives in the **Cash Match Fund** with passively managed components.
- > Tilting the **Pension & Cash Match Fund** to asset allocations which are more closely aligned to the assets which life assurance companies now use to determine pension annuity costs.

More information on each of the tilts within the above Fund range can be found in Appendix A. In making these changes, the philosophy of the Diversified Fund Range remains with a clear focus on a long term and strategic approach to investing.

Impact on Investment Management Fees

For members the most important return generated is performance net of management fees. The tilts being proposed will have no impact on the charges of the fund range, apart from the Cash Match Fund which will see a significant reduction in its headline cost.

Please consult your Scheme investment guide or fund factsheets for the Total Expense Ratios (TERs) applicable to your Scheme's investment funds.

TIMELINES FOR REVISING THE PORTFOLIOS

We aim to revise the EasySTEPS Diversified Fund range during May 2021.

WHAT DO I NEED TO DO?

There is no need for you to do anything in this regard as the portfolio tilts will take place seamlessly in the background with no out-of-market exposure.

THE TILTS BEING PROPOSED WILL HAVE NO IMPACT ON THE CHARGES OF THE FUND RANGE, APART FROM THE CASH MATCH FUND WHICH WILL SEE A SIGNIFICANT REDUCTION IN ITS HEADLINE COST.

Conclusion



The strategic review of the EasySTEPS Diversified Fund Range has highlighted that the Fund range has performed strongly since the previous triennial review. We have, however, identified marginal portfolio tilts that we intend to implement along with the introduction of Hard Currency Emerging Market Debt. We believe these changes will produce better risk-adjusted returns over the longer term for scheme members.

Whilst we are not proposing any further ESG integration at the moment, we will continue to evaluate the funds in the context of ESG integration as the industry evolves and further opportunities arise for full adoption of ESG factor selection within the portfolios.



In the meantime, if you have any questions on the proposed changes or the funds please get in touch with us.

Appendix A:

EasySTEPS Diversified Fund Range Proposed Changes



Detailed below are a summary of the tilts being proposed for each of the funds. For simplicity, we have identified the components which are impacted as a result of this strategic review.

DIVERSIFIED CAUTIOUS FUND – PORTFOLIO TILTS FOR COMPONENT REVISIONS

	EXISTING ALLOCATION WITHIN FUND	REVISED ALLOCATION WITHIN FUND	CHANGE
Inflation linked Government Bonds	—	7.0%	+7.0%
European Corporate Bonds	37.0%	30.0%	-7.0%
Emerging Market Debt (Local)	2.0%	1.0%	-1.0%
Emerging Market Debt (Hard)	—	1.0%	+1.0%

RATIONALE FOR REVISIONS TO THIS FUND:

- > Introduction of Hard Currency Emerging Market Debt to add further diversification
- > Further improving inflation matching characteristics of Fund's bonds exposures

Appendix A: EasySTEPS Diversified Fund Range Proposed Changes (continued)

DIVERSIFIED MODERATE FUND – PORTFOLIO TILTS FOR COMPONENT REVISIONS

	EXISTING ALLOCATION WITHIN FUND	REVISED ALLOCATION WITHIN FUND	CHANGE
Government Bonds	20.0%	17.5%	-2.5%
Inflation linked Government Bonds	15.0%	20.5%	+5.5%
Emerging Market Debt (Local)	2.5%	1.5%	-1.0%
Emerging Market Debt (Hard)	—	1.5%	+1.5%
ESG Global Shares	18.0%	16.0%	-2.0%
Global Shares – ESG Value Strategy	6.0%	6.5%	+0.5%
Low Volatility Shares	5.0%	6.5%	+1.5%
Emerging Market Shares	3.0%	2.5%	-0.5%
Smaller Company Shares	3.0%	2.5%	-0.5%
Private Shares	2.5%	—	-2.5%

RATIONALE FOR REVISIONS TO THIS FUND:

- > Introduction of Hard Currency Emerging Market Debt to add further diversification
- > Further improving inflation matching characteristics of Fund's bonds exposures
- > Slight reduction of equity and alternative exposures to bring Fund firmly within Risk Profile

Appendix A: EasySTEPS Diversified Fund Range Proposed Changes (continued)

DIVERSIFIED GROWTH FUND – PORTFOLIO TILTS FOR COMPONENT REVISIONS

	EXISTING ALLOCATION WITHIN FUND	REVISED ALLOCATION WITHIN FUND	CHANGE
Government Bonds	10.0%	8.0%	-2.0%
Inflation linked Government Bonds	10.0%	15.0%	+5.0%
European Corporate Bonds	13.5%	10.0%	-3.5%
Emerging Market Debt (Local)	3.5%	2.0%	-1.5%
Emerging Market Debt (Hard)	—	2.0%	+2.0%

RATIONALE FOR REVISIONS TO THIS FUND:

- > Introduction of Hard Currency Emerging Market Debt to add further diversification
- > Further improving inflation matching characteristics of Fund's bonds exposures

DIVERSIFIED HIGH GROWTH FUND – PORTFOLIO TILTS FOR COMPONENT REVISIONS

	EXISTING ALLOCATION WITHIN FUND	REVISED ALLOCATION WITHIN FUND	CHANGE
Inflation linked Government Bonds	—	5.0%	+5.0%
European Corporate Bonds	5.0%	—	-5.0%
Emerging Market Debt (Local)	5.0%	2.5%	-2.5%
Emerging Market Debt (Hard)	—	2.5%	+2.5%

RATIONALE FOR REVISIONS TO THIS FUND:

- > Introduction of Hard Currency Emerging Market Debt to add further diversification
- > Further improving inflation matching characteristics of Fund's bonds exposures

Appendix A: EasySTEPS Diversified Fund Range Proposed Changes (continued)

ARF MATCH FUND – PORTFOLIO TILTS FOR COMPONENT REVISIONS

	EXISTING ALLOCATION WITHIN FUND	REVISED ALLOCATION WITHIN FUND	CHANGE
Government Bonds	15.0%	13.0%	-2.0%
Inflation linked Government Bonds	10.0%	15.0%	+5.0%
European Corporate Bonds	16.0%	13.0%	-3.0%
Emerging Market Debt (Local)	2.0%	1.0%	-1.0%
Emerging Market Debt (Hard)	—	1.0%	+1.0%

RATIONALE FOR REVISIONS TO THIS FUND:

- > Introduction of Hard Currency Emerging Market Debt to add further diversification
- > Further improving inflation matching characteristics of Fund's bonds exposures



Appendix A: EasySTEPS Diversified Fund Range Proposed Changes (continued)

CASH MATCH FUND – PORTFOLIO TILTS FOR COMPONENT REVISIONS

	EXISTING ALLOCATION WITHIN FUND	REVISED ALLOCATION WITHIN FUND	CHANGE
Government Bonds	—	4.0%	+4.0%
Inflation linked Government Bonds	—	4.0%	+4.0%
European Corporate Bonds	—	9.0%	+9.0%
High Yield Bonds	—	2.0%	+2.0%
Emerging Market Debt (Local)	—	1.0%	+1.0%
Emerging Market Debt (Hard)	—	1.0%	+1.0%
ESG Global Shares	—	5.0%	+5.0%
Global Shares – ESG Value Strategy	—	2.0%	+2.0%
Low Volatility Shares	—	2.0%	+2.0%
BlackRock DDG Fund	30.0%	—	-30.0%

RATIONALE FOR REVISIONS TO THIS FUND:

- > Removal of active risk

Appendix A: EasySTEPS Diversified Fund Range Proposed Changes (continued)

PENSION & CASH MATCH FUND – PORTFOLIO TILTS FOR COMPONENT REVISIONS

	EXISTING ALLOCATION WITHIN FUND	REVISED ALLOCATION WITHIN FUND	CHANGE
>10 year AAA/AA Government Bonds	40.0%	—	-40.0%
>15 year AAA Government Bonds	—	24.0%	+24.0%
Long Dated European Corporate Bonds	—	16.0%	+16.0%

RATIONALE FOR REVISIONS TO THIS FUND:

- > Closer alignment to current pension annuity pricing

Appendix B:

Performance of Underlining Asset Classes since 2018 in ascending order

2018	2019	2020	Q1 2021
Property Shares 8.9%	Private Shares 47.2%	Long Dated Government Bonds 9.8%	Global Shares ESG Value Strategy 15.5%
Infrastructure Shares 5.6%	ESG Global Shares 33.6%	Emerging Market Shares 8.9%	Private Shares 15.3%
Long Dated Government Bonds 3.5%	Infrastructure Shares 31.1%	ESG Global Shares 8.0%	Smaller Company Shares 14.0%
Low Volatility Shares 1.1%	Smaller Company Shares 29.1%	Smaller Company Shares 6.9%	Property Shares 9.8%
Government Bonds 1.0%	Global Shares ESG Value Strategy 27.9%	Government Bonds 4.9%	Infrastructure Shares 9.7%
ESG Global Shares -0.7%	Low Volatility Shares 25.6%	High Yield Bonds 3.9%	ESG Global Shares 9.1%
Cash -0.5%	Property Shares 24.7%	Inflation-Linked Government Bonds 3.7%	Emerging Market Shares 6.5%
Corporate Bonds -1.2%	Emerging Market Shares 21.1%	Corporate Bonds 2.7%	Low Volatility Shares 5.0%
Inflation-Linked Government Bonds -1.5%	Emerging Market Debt (local) 15.6%	Cash -0.6%	Inflation-Linked Government Bonds 1.3%
Emerging Market Debt (local) -1.5%	Long Dated Government Bonds 12.3%	Private Shares -4.1%	High Yield Bonds 0.4%
High Yield Bonds -4.4%	High Yield Bonds 11.6%	Low Volatility Shares -5.2%	Cash -0.2%
Global Shares ESG Value Strategy -5.6%	Inflation-Linked Government Bonds 7.1%	Global Shares ESG Value Strategy -5.4%	Corporate Bonds -0.7%
Private Shares -6.0%	Government Bonds 6.8%	Emerging Market Debt (local) -5.8%	Government Bonds -2.3%
Smaller Company Shares -9.1%	Corporate Bonds 6.3%	Infrastructure Shares -14.7%	Emerging Market Debt (local) -2.9%
Emerging Market Shares -9.9%	Cash -0.5%	Property Shares -15.6%	Long Dated Government Bonds -6.6%

Contact us

IF YOU HAVE ANY QUESTIONS ON THE PROPOSED CHANGES OR THE FUNDS PLEASE GET IN TOUCH WITH US

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