



24 Sep 2009

State of Financial Markets? Implications for Pension Fund Investment Strategy?

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Agenda

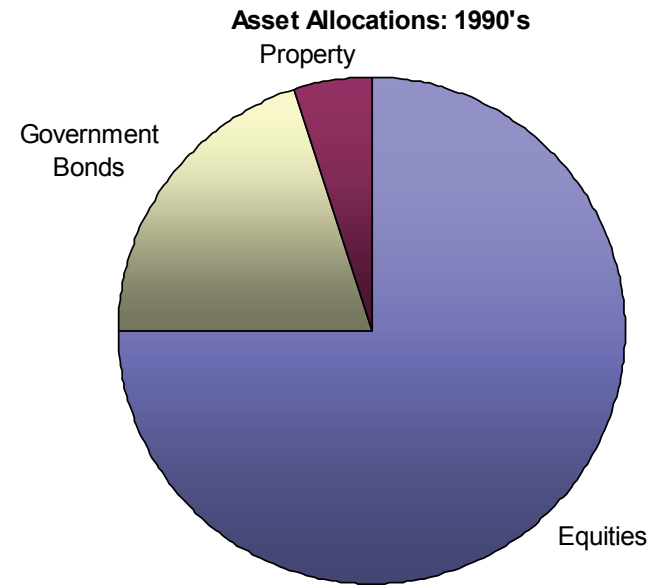
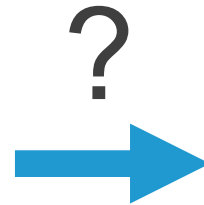
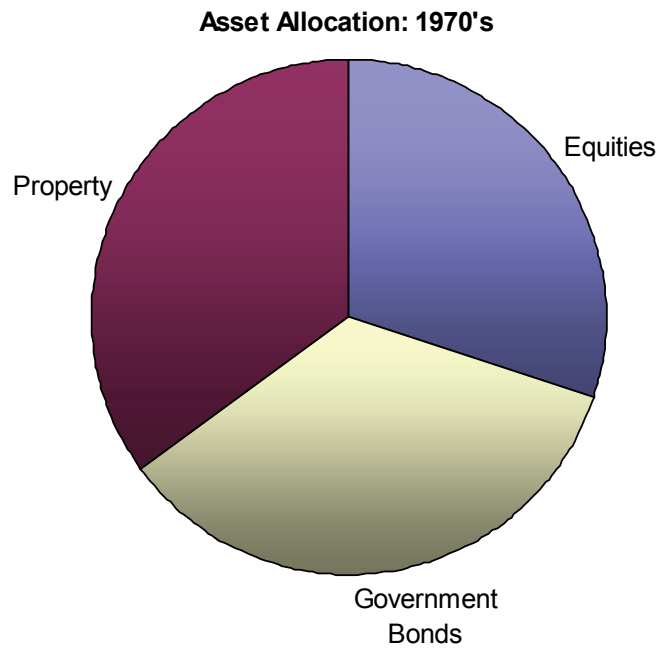
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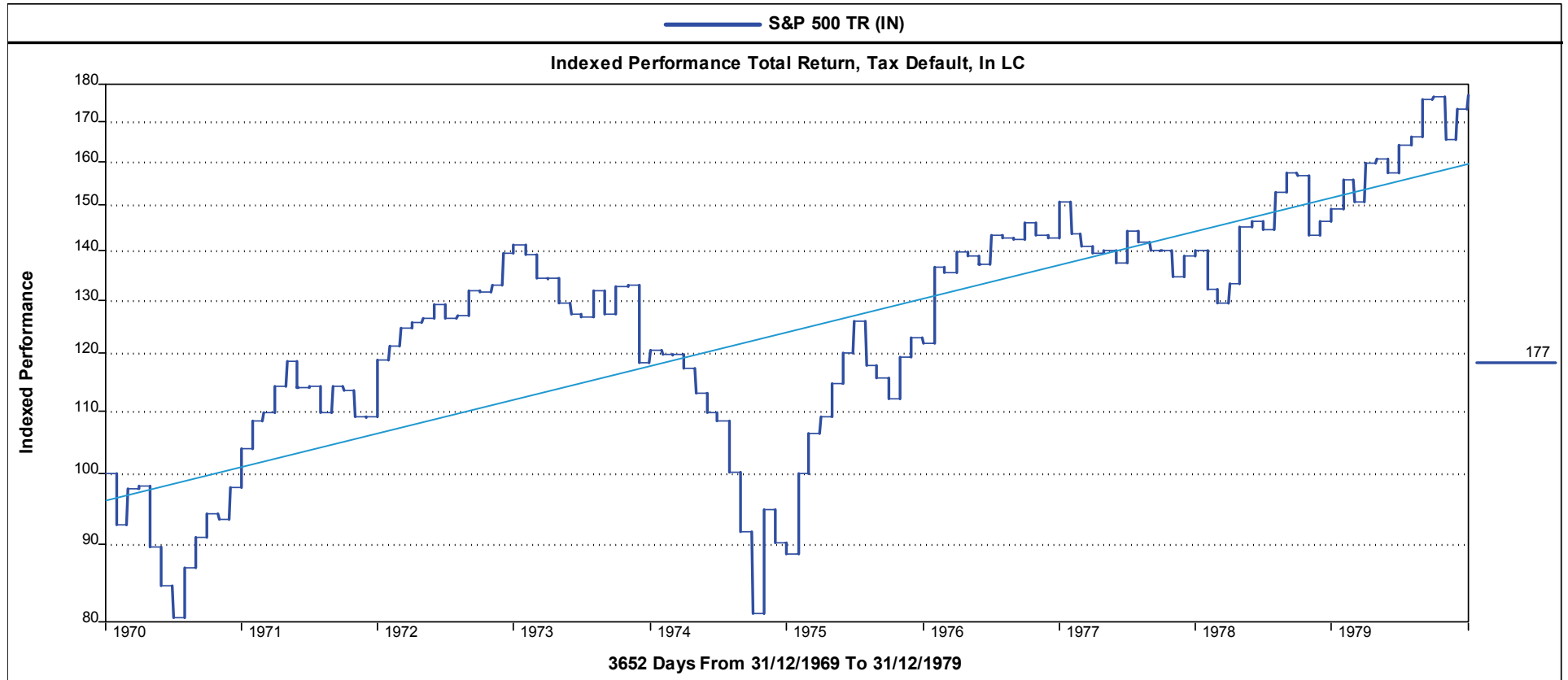
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Trends in Pension Fund Asset Allocation



US Equity (S&P 500) Total Return in the 1970's

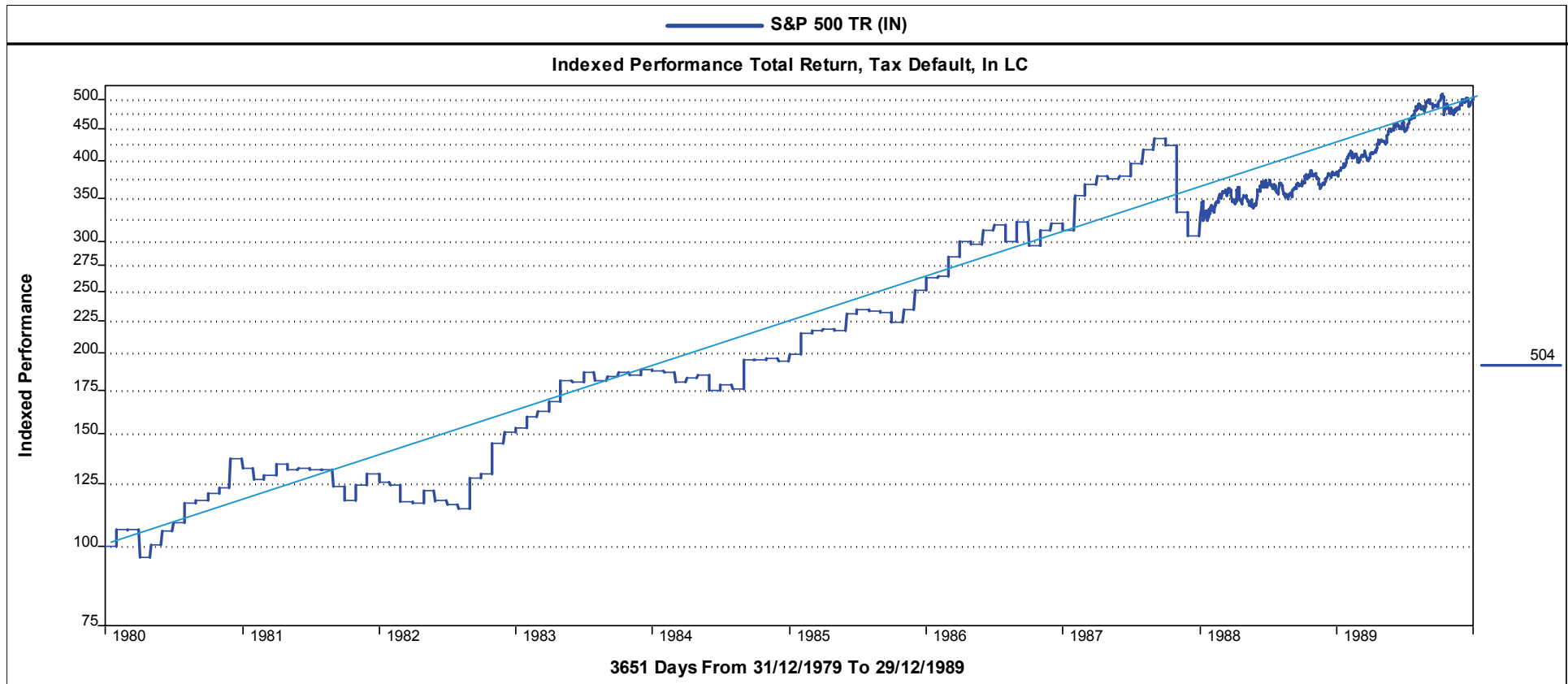


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Total Return: 77% = 5.9% p.a.

US Equity (S&P 500) Total Return in the 1980's

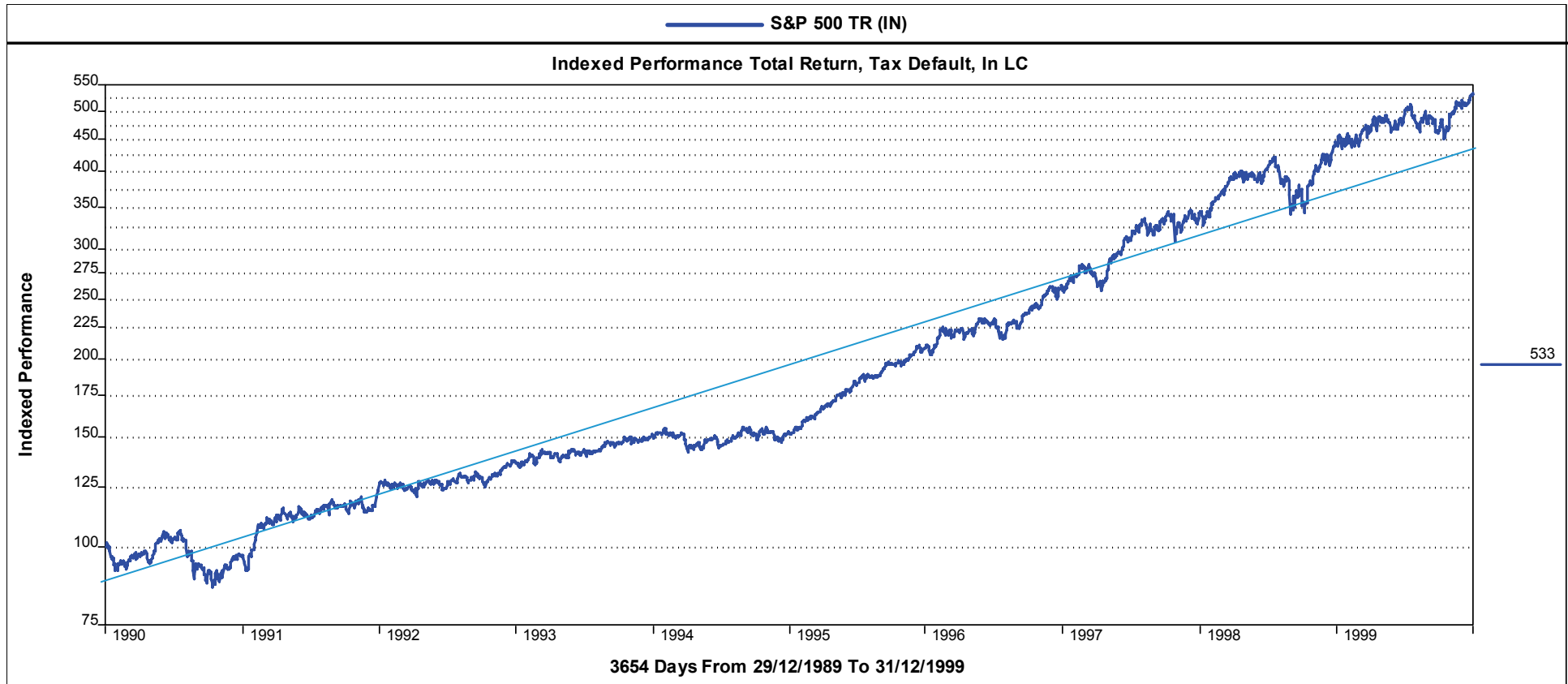


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Total Return: 404% = 17.6% p.a.

US Equity (S&P 500) Total Return in the 1990's

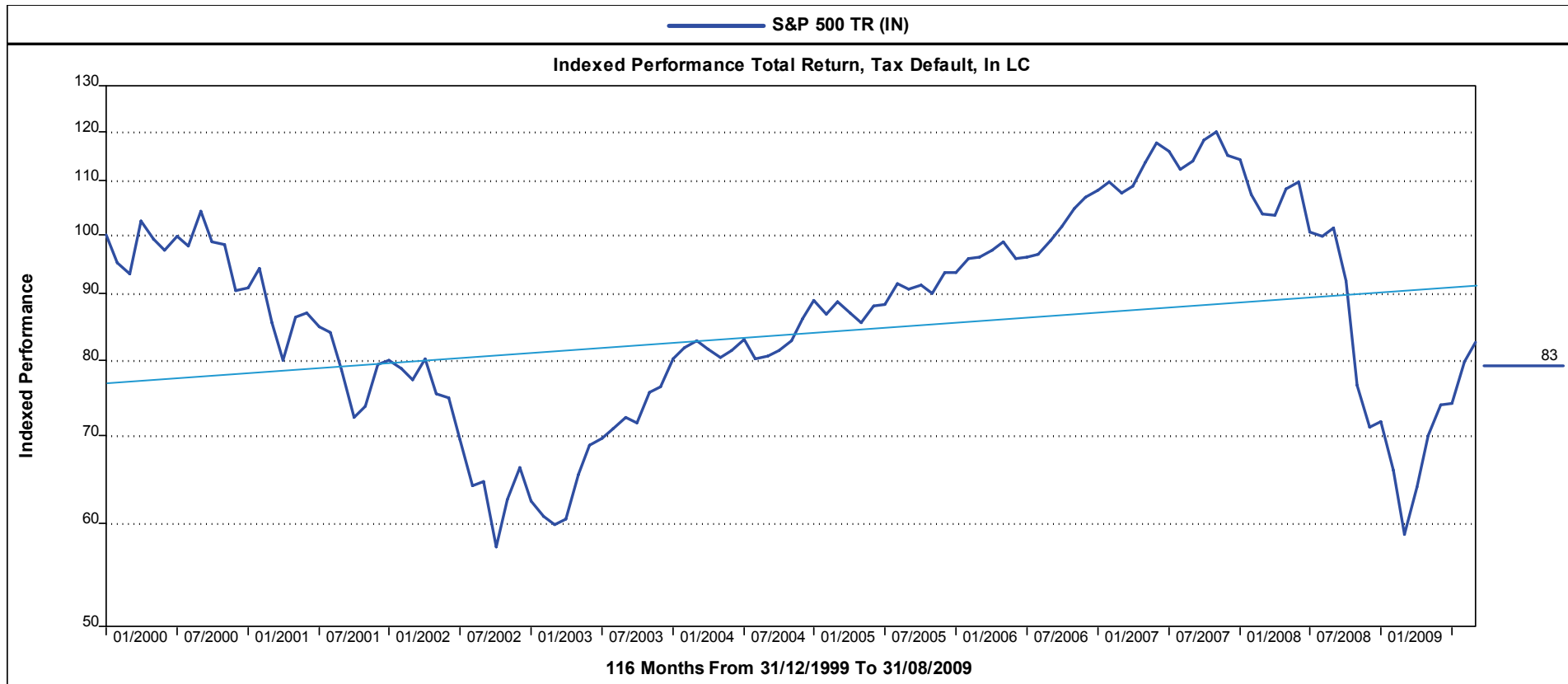


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Total Return: 433% = 18.2% p.a.

US Equity (S&P 500) Total Return in the 2000's

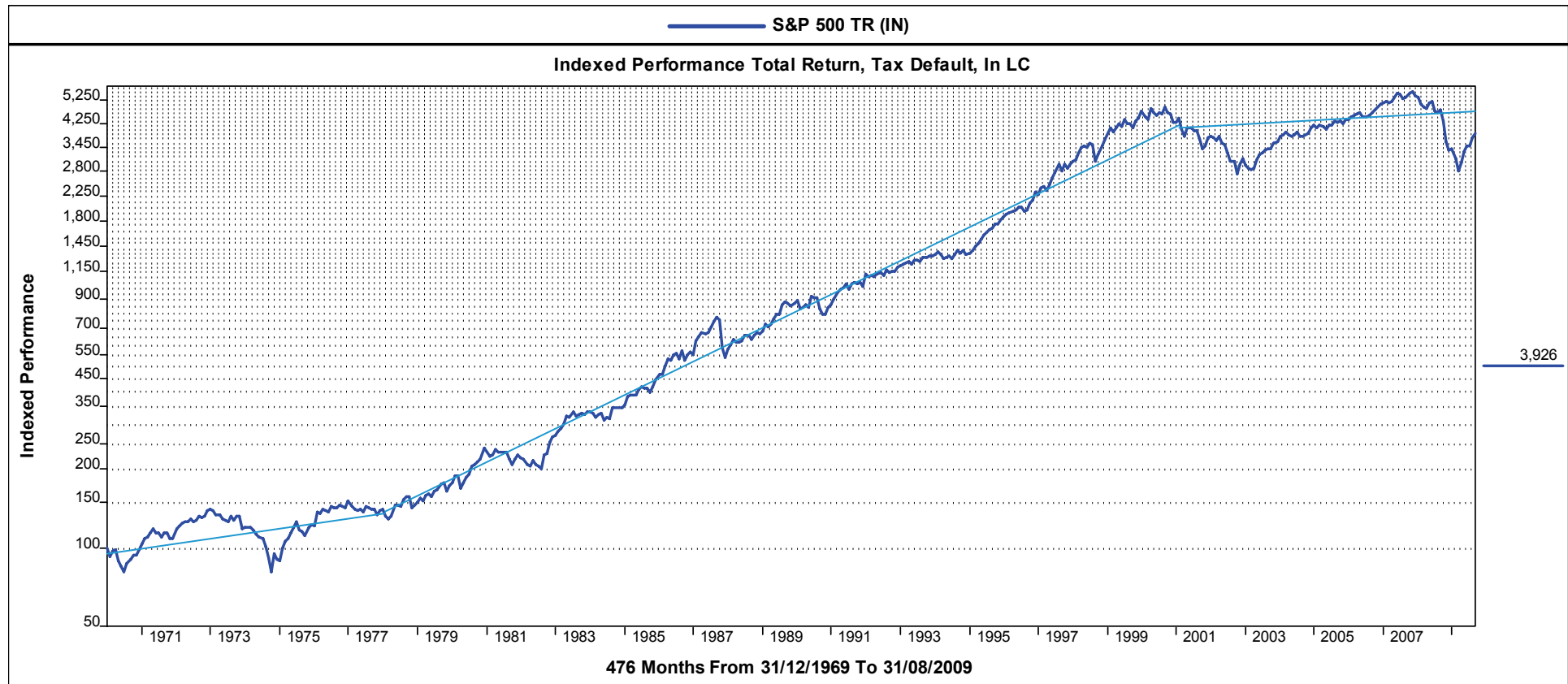


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Total Return: -17% = -2.0% p.a.

US Equity (S&P 500) Total Return 1970 to 31 Aug 2009



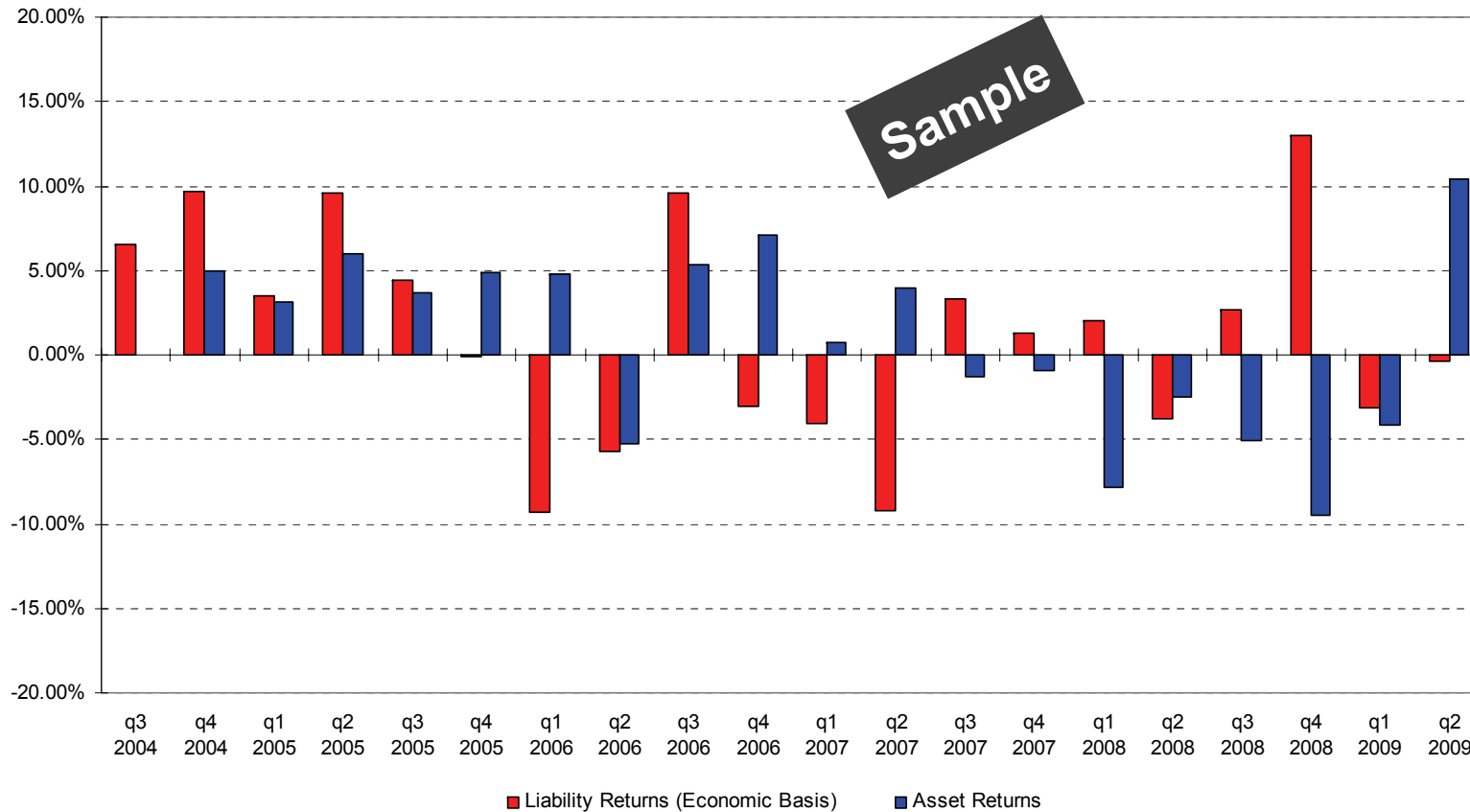
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Total Return: 3826% = 9.7% p.a.

Funding Level Monitoring

Assets and Estimated Economic Value of Liabilities: Quarterly Returns



**Liability estimates are based on investment only factors and ignores mortality, changes in valuation basis etc*

- Increased requirements across pension plans to manage and monitor investment risks

Pension Fund Governance has become very complex



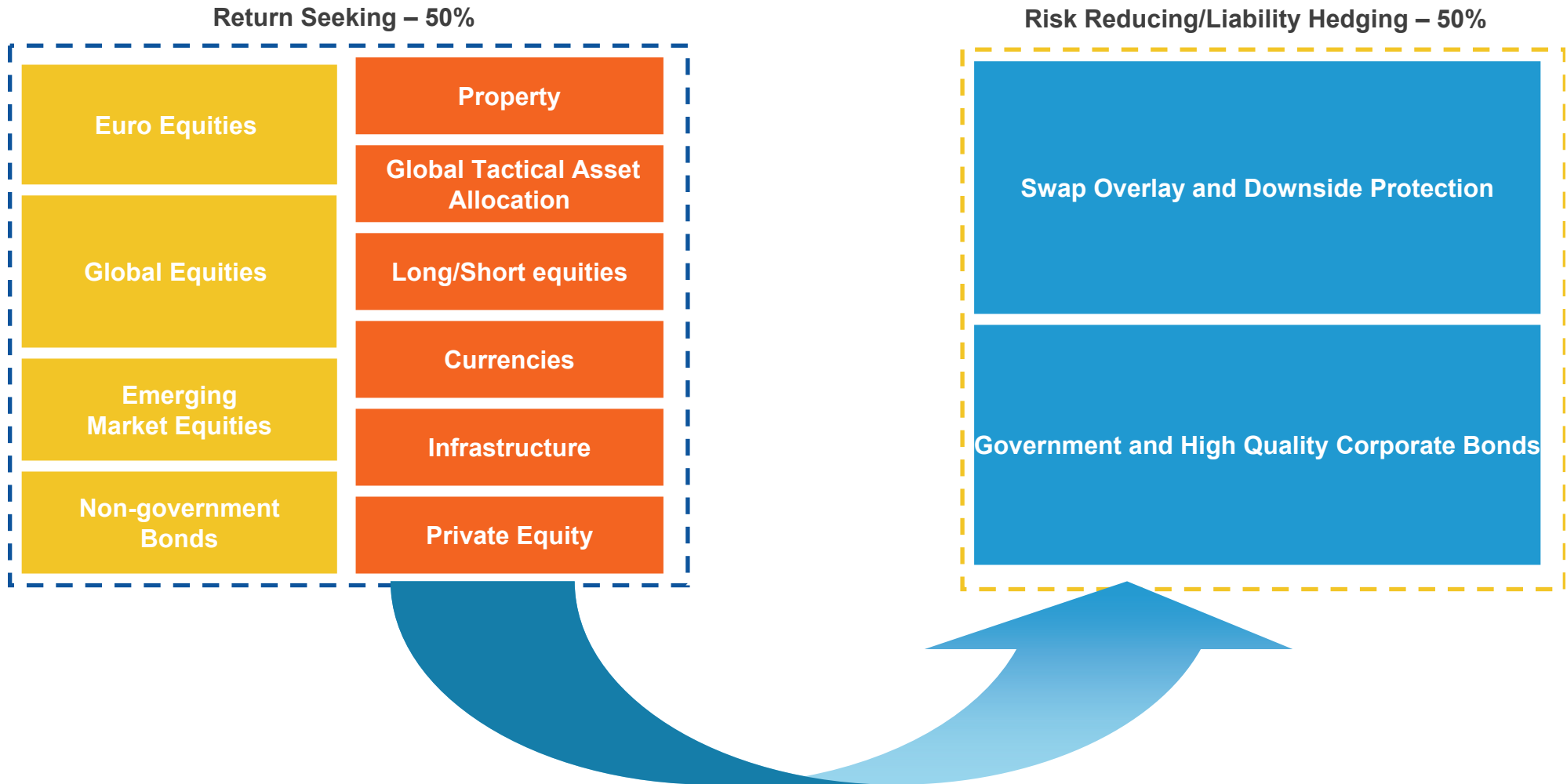
Economic Themes influencing pension fund investment strategy

- Developed Economies consumers highly indebted: de-leveraging
- Unprecedented coordinated fiscal and monetary stimuli
- Quantitative Easing
- Deteriorating government finances
- Credit defaults rising and will not peak until mid 2010
- Interest Rates will stay very low for a long time as will credit creation
- Developed economies attempting to avoid Japan experience 1990-2010
- Economic Divergence between Developed and Emerging economies

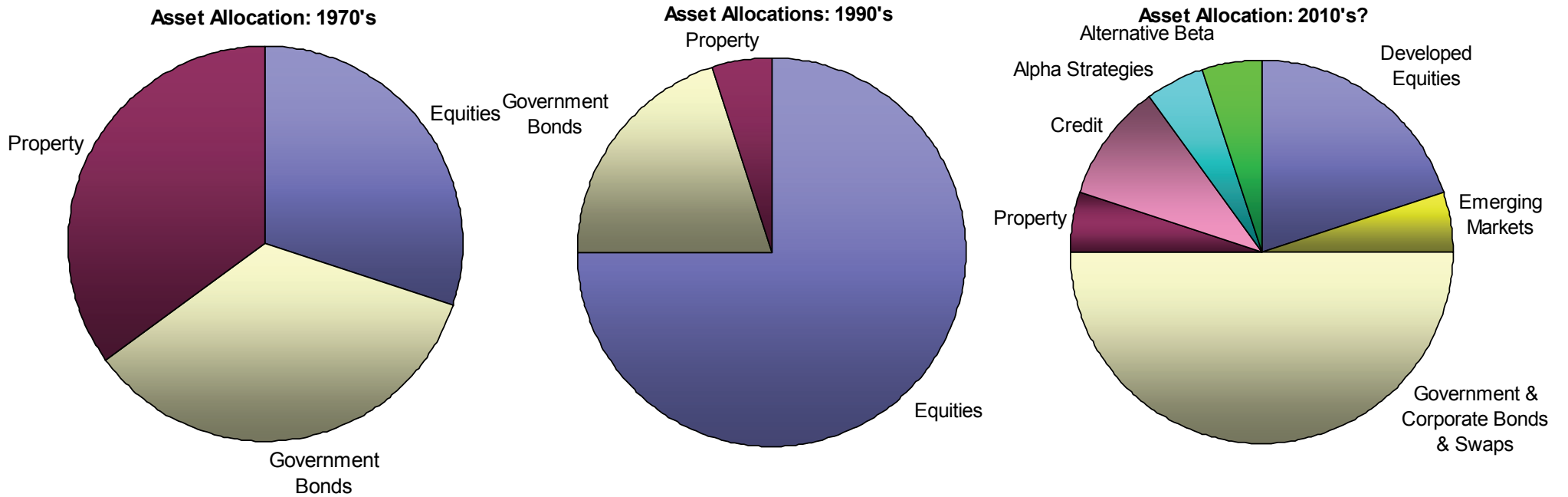
Implications for pension fund investment strategy

- **Strategy Review:** funding position and time horizon to liabilities
- **Risk Budget:** mismatch between growth and safe/liability hedging assets; how much can the sponsor afford to put in if under-funded?
- **Liability Hedging Portfolio:** government/corporate bonds or derivatives
- **Growth Portfolio:** Emerging Markets, illiquid assets, alternatives
- **Current Valuations and the Outlook**
- **Implementation plan and asset/manager/derivatives structures**
- **Ongoing monitoring & adapting** on the path to fully funded & hedged

Potential future investment strategy



Trends in Pension Fund Asset Allocation





Conclusions?

- Focusing just on Equities is unlikely to get pension funds out of trouble
- Diversification works in normal market conditions but not in systemic crises
- Should think in the context of the Risk Budget & the lowest risk position
- Need a detailed overall plan of where we are, where we need to get to and how/when to get there with clear “trigger points” for de-risking for example
- Plan needs to give consideration to asset classes/passive or specialist active managers/ derivatives for risk management
- **Making money will continue to be very hard work!**

THE END

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MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN