

2011 Challenges and Priorities: Pensions Trustee Training Survey Results

MARCH 2011

J.P. Morgan recently hosted its fourth U.K. Pension Funds Trustee Training day in London. The theme of this year's event was an update on current concerns for pension funds. The agenda addressed the importance of security, longevity risk, trends in alternatives investing and the RPI versus CPI debate. We took advantage of having assembled representatives from more than 50 U.K. pension funds, using the opportunity to canvas opinion on a number of subjects.

In addition to collating thoughts on the day, we also ran a follow-up survey online. This report is an assessment of both sources of feedback from U.K. pension fund trustees. We hope that you will be interested to compare your thinking with that of some of your peers.

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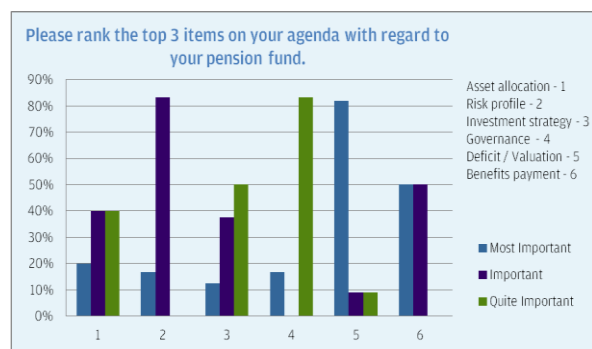
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Survey Results and Key Discussion Themes

With regard to the three agenda items which are currently foremost in the minds of pension funds, trustees voted the fund deficit or valuation as by far the most important. Benefits payment was considered the second most important. The other suggested agenda items receiving a high number of votes were governance (receiving over 80% of votes), which demonstrates a consistent theme over time, and risk profile (identified as “important” by over 80% of respondents).



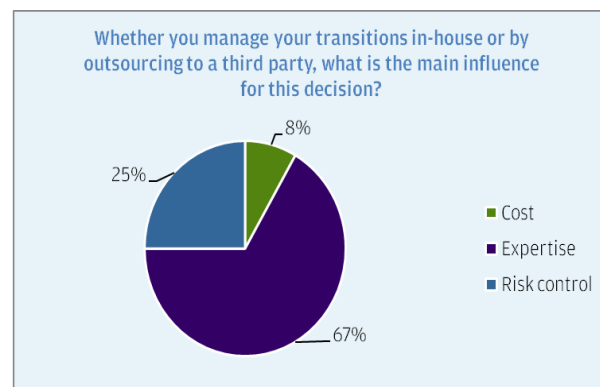
Risk has always been under the microscope when it comes to pension fund investment, but now it is certainly being looked at under an even more powerful lens. When asked to rank the top three risks on which they were focussed, our respondents voted counterparty risk and balance sheet risk in equal first place, with solvency risk coming in third.

Interestingly, longevity risk received the highest number of votes with an “important” rating. This is consistent with discussion on the day, which showed longevity risk to be much higher up the priority list now for scheme managers and trustees, with the accelerating trend of defined benefit schemes closing to new entrants or even new contributions from existing members.

The survey results showed that the frequency of monitoring such risks is evenly split between weekly and quarterly. While daily monitoring is still fairly exceptional, it would be true to say that frequency of monitoring certain risks has stepped up - what, five years ago, would have been a monthly check has now been elevated to weekly scrutiny.

Among our U.K. pension fund client base last year, we saw a great deal of investment portfolio restructuring and transition management activity.

In such bids to try to address the fund deficits mentioned earlier, half of the pension fund trustees who responded to our survey planned to use a transition manager, with the remainder planning to implement the change in-house. The main reason for outsourcing transition management to a third party was to gain access to expertise. Risk control was another important driver for outsourcing.



Judging by the results of J.P. Morgan Asset Management’s *Market Pulse: Alternative Asset Survey 2010* - which was shared with the audience of the Trustee Training day - a sizeable proportion of such portfolio restructuring activity would support the continuing trend of increasing allocations to alternative asset classes. In two to three years’ time, average exposure to alternatives is expected to be 31% of a U.K. institutional investor’s portfolio, an increase from the current 28% and 21% only three years ago - proof of the broad satisfaction with the returns afforded by this asset class.

In years past, securities lending had become a popular among UK pension funds as a way to use their assets to generate additional revenue. The last few years have seen a marked change in such activity. Indeed, a quarter of the respondents we surveyed had suspended their lending programmes in the last two years in response to the financial crisis.

However, confidence is gradually returning with over a third of those surveyed intending to resume their securities lending programmes within the next two years. We anticipate that caution will continue to be exercised as regards cash collateral, however. No doubt, as our experience with our own lending programme bears out (all but one of our UK pension funds has subsequently rejoined), the availability of segregated, rather than pooled cash collateral reinvestment programmes, will significantly influence that decision.

Conclusion

All of the above factors are at play against a backdrop of regulatory change as a dominant force in today’s custody environment, with the attendant market, operational and legal implications. The opportunity to share thoughts and opinions with fellow players in the pensions industry therefore, produced lively debate and a welcome forum. We look forward to hosting the next event in this series later this year.