WORLDWIDE SECURITIES SERVICES

J.P.Morgan

Change – The Only Constant

Pension Funds and Charities Annual Summit Voting Results

MAY 2011

Foreword

The challenge for a successful Pensions Summit is to spin the golden thread that links the macro views of world events to the practical ways that funds, managers, consultants and advisers reflect their views of those events in their strategies.

Anatole Kaletsky gave us a pessimistic view of the UK's role in the world tomorrow, while Terry Smith painted an optimistic scenario of how his investment philosophy could turn pension deficits into surplus. A wide variety of speakers then expanded upon the practical details of what this could mean for us all.

A large audience was kept engaged and interested for the best part of four and a half hours. All in all, a successful Summit.

Mike Taylor

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Introduction

We welcomed around one hundred attendees from the UK, Netherlands, France and Germany to our fifth Annual Pension Funds and Charities Summit, which we held in April in London. The Summit is a key milestone in J.P. Morgan's thought leadership programme for pension funds and charities throughout Europe, including breakfast seminars, trustee training days, roundtables, webinars, regulatory updates and white papers.

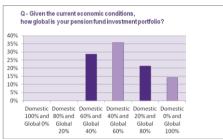
Voting Results and Key Discussion Themes

The theme for this year's event was 'Change - the only constant' and, in keeping with this sentiment, we made a deliberate departure from our approach of previous years in terms of programme content and speakers, to give our audience an opportunity to hear some alternative views from different parts of the industry. However, we decided not to change one of the more familiar features of our Summit agenda and this year included two voting sessions to canvas audience opinion on the subjects tackled by our preeminent speakers. We report on the results of our survey* below, along with insights from the discussions of the day.

ECONOMIC RECOVERY OR DOUBLE-DIP RECESSION?

Anatole Kaletsky, Principal Economic Commentator and Editor-at-Large, The Times addressed change at a macro level and opened by describing how his outlook has altered quite dramatically. Throughout most of his career, Anatole's optimism in the face of economic crisis has drawn criticism. Today, however, he is surprised to find himself at the other end of the spectrum, and indeed alarmed by the very relaxed attitude of many fund managers to whom he speaks. According to Anatole, there is more risk and more confusion in the financial markets today than over the last two years. The bad news, as far as Anatole is concerned, is that global risks have worsened severely in the last few months.

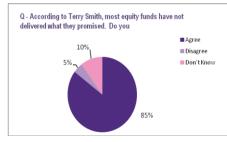
He reminded us that on the five previous occasions over the last 40 years when the oil price has doubled, a recession has occurred. We are not there quite yet, but he feels the signs are ominous. Our audience seemed to have more of an allegiance with the fund managers, however.

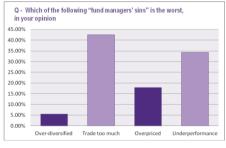


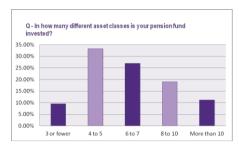


CHANGING THE RULES - FROM DEFICIT TO SURPLUS

Terry Smith, Chief Executive, Tullett Prebon and CEO, CIO of Fundsmith talked about changing the rules from an entrepreneur's perspective. He expounded the longer term view, reminding the audience of the folly of over-trading and over-diversifying, and of paying too highly for poor fund performance.







Terry identified the strength of his conviction as key to his investment success. He said "There is nothing wrong with being right and refusing to follow fads, provided your investors understand what you're doing. The only limit to investing is the number of people who understand what you're doing."

INSTITUTING A CULTURE OF CHANGE - IDEAS, RISKS, RESPONSIBILITIES

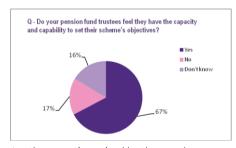
Next was a panel discussion on instituting a culture of change, featuring Michael Marks, head of BlackRock's fiduciary mandate investment team, Simon Chinnery from J.P. Morgan Asset Management's UK institutional business, Michael Gardner, global head of strategy for transition management at J.P. Morgan and moderated by Ann Doherty, Managing Director, Asset Managers and Insurance Companies at J.P. Morgan Worldwide Securities Services.

The conversation was wide-ranging and included risk and trustee responsibility and education. Opinion from the audience was that the focus of debate on risk should really be on the transfer of risk from the pension fund to the agent or consultant. It is agency risk that has not been properly understood until now and needs to be addressed.

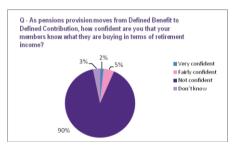
Following on from this point, a member of the audience brought the discussion right back to basics when he very succinctly stated that his biggest risk as a pensions manager is not balancing the responsibility of different participants, but whether the fund's revenues and assets will not be sufficient to meet its liabilities.

Risk pertaining to the trustee was then discussed, starting with the risk of lack of knowledge - and keeping up to speed is not easy when it comes to regulation alone, with over 60 pieces that affect institutional investors currently being tracked.

The panellists questioned how much detail a trustee needs to know, given they still retain responsibility once they have appointed agents to the pension fund. The suggestion was made that, rather than training or accreditation for completing courses or attending conferences, trustee education should maybe focus on reclaiming oversight of their schemes and redefining where the boundaries and responsibilities lie.



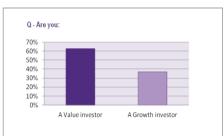
Another question raised by the panel was whether Defined Contribution schemes will provide the next mis-selling scandal. Below is how our audience felt about this - clearly an issue we should revisit in future:



BEHAVIOURAL CHANGE AND THE IMPORTANCE OF BEING A CONTRARIAN

The next speaker was James Montier, responsible for European asset allocation at GMO and author of *The Little Book of Behavioural Investing*, who spoke about changing investment behaviour. James questioned the wisdom of using volatility as a measure of risk, claiming that upholding such a view means we do the wrong thing at the wrong time - buy high and sell low.

On the contrary, valuation works, he said, and is the closest thing we have in the world of finance to the law of gravity - if you buy cheaply, returns are high, and vice versa. Absolute, not relative, returns are what we should look at. Real returns matter - they are what we pay pensions from. This was later echoed in the audience vote when asked to describe their attitude towards investing:



Like our earlier speaker, Terry Smith, James spoke out against over trading, comparing the eight to ten year average holding period of a stock through the 40s, 50s and 60s to the 6 month average today.

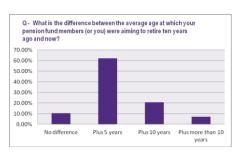
He also encouraged trustees and pension managers in the audience to challenge over-complication from their investment managers.

Quoting Einstein, "If you can't explain something to a five-year-old, you don't understand it."

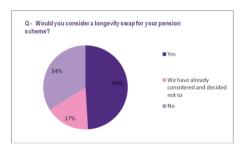
FORECASTING CHANGE -LONGEVITY MODELS AND EARLY ADOPTERS

In the final session of the event, David Epstein, Head of Longevity Structuring at J.P. Morgan covered recent developments in the methodology used to model and forecast the impact of changes in life expectancy on pension liabilities.

The reality of an ageing population circled neatly back to an opening comment from Mike Taylor, who pointed to longevity as a key priority for his own scheme, since its members include several dozen centenarians, with the oldest pensioner having turned 110 in February of this year. The majority of our audience also felt they and their scheme members – would be working longer than anticipated before retirement:



The emergence of a new body (the Life and Longevity Markets Association or 'LLMA') and the illustration of a growing number of corporate and public sector schemes that have successfully executed longevity swaps to help mitigate this risk, provided evidence that there are strategies now available to the industry, and indeed, there was significant willingness among our audience to consider such a transaction in future.



SUMMARY

One piece of feedback summarised the event as "Relevant and well-structured, giving encouragement to question perceived wisdom and challenge advisers". Our aim is for our thought leadership programme to continue in this vein, and we look forward to welcoming you to other pensions focused events and activities throughout the year.

*Our survey results represent the views of managers of more than 60 pension funds with an average asset value of £1bn and the top end of the range at around £30bn