



Introduction

The fall in global pension fund assets in 2008 was striking – the largest 11 pensions markets now have only around 61 per cent of their annual GDPs stored up in funded pensions. With a severe demographic crunch ahead, the advanced funding of pensions should be growing relative to the size of their economies; instead it has gone down during the past 10 years. This is a wake-up call for everyone in the pensions industry and one that might even reach governments' ears – testing political will to engineer a bigger allocation to pension savings.

2009 will likely herald a deepening of the economic recession and will bring a new investment regime which will be more conservative on average than what we have seen over the past 20 years. One of the challenges will be finding a better balance of risk sharing between sponsor and participants than traditional defined benefit and defined contribution plans have offered to date. If the global shift to defined contribution continues, then the search for better designs that deliver value while properly addressing participants' investing behaviour will be critical.

In our lead article we assert that the traditional links between economics and financial markets may no longer apply in the new financial landscape and as a consequence investment thinking must change. This will cause pensions funds that have embarked on journey plans to rethink some of the options available to them, including: extra contributions from sponsors; contingent funding arrangements; investment strategy review; hedging strategies and insurance solutions; and of course changes to benefits structures. Finding solutions attractive to all parties will not be easy, but it is certain that greater attention will be paid to the quantitative and

qualitative features of risk. As a result, investment boards will be better primed to take adjusting actions in future.

In an attempt to help funds navigate through this environment, we undertook research (entitled 'Defining moments') into the future shape of the investment world. In this edition of 'global investment matters' we look at some of the findings, which include the three big problems funds face: an increasingly crisis-prone financial system, high investment costs and too much short-termism. While we take the view that these problems are deep rooted, our positive thought is that, for those fit enough to adapt, this is a world of opportunity. While a complex financial environment will support increasingly sophisticated investment products and solutions, it will also weigh down decision taking. We therefore expect to see more pension funds matching their investment strategies with their governance capabilities, either by simplifying their strategy or raising their game.

No discussion on pensions is complete without reference to fees, which have spiralled out of control. A better deal on fees remains to be struck – too much beta¹ is being sold at an alpha² price. While we strongly believe skilled managers should be fairly compensated, fees are generally still too high for the value they deliver. For a number of years we have been trying to negotiate a fairer deal on fees and this year we expect real progress.

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¹ market returns

² manager outperformance