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**‘2020 Vision’:
Research on the future pension
and investment landscape**

Findings of the Expert Opinion Survey

Thinking Ahead Group
January 2008

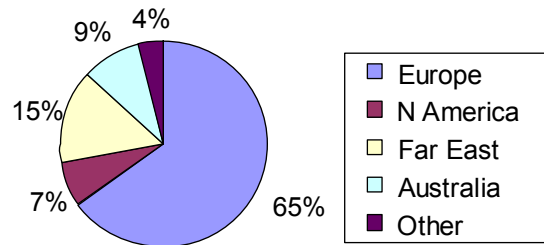
Goal of the survey

- The investment world is subject to change on an unprecedented level. The pressure on pension fund sponsors, fiduciaries, asset managers and consultants to keep up with change is intense.
- Watson Wyatt is developing a view on how this landscape might evolve over the next decade or so. The survey, run in association with the Financial Times, was designed to encourage participation from all parts of the industry in developing these views.
- This presentation summarises the results from the survey. A longer paper is currently being prepared.

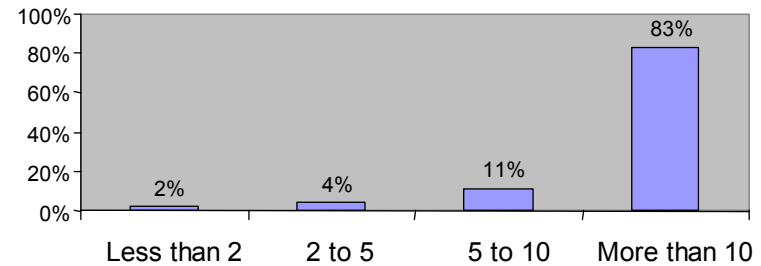
1. Talent	The talent bubble boiling over
2. Governance	Large-scale change for some funds
3. Product proliferation	Any shape of investment product under the sun
4. Extra-financial factors	Deriving value from environmental and social factors
5. Pensions design	Increased power to the people with the shift to DC
6. Marketplace change	Significant and accelerating change to organisations

Who responded to the survey?

Geographical Breakdown



Years of Industry Experience



- 486 responses received, predominantly from experienced investors in Europe and Asia
 - Nearly two-thirds of respondents came from Europe (including UK)
 - More than four-fifths had at least 10 years industry experience

The survey reveals a largely optimistic industry with plenty of consensus

- Respondents expected the appetite for alpha to rise, stirred by a focus on absolute return investment, premised on greater investment product transparency.
- There was agreement on both the shortage of talent to deal with the industry's challenges, and also its inevitable link to increased compensation for talent
- Respondents expected an increasing number of relationships that institutional buyers will have as a result of a demand for greater specialisation
- Increasing interest in extra-financial factors (such as sustainability) were viewed as on the increase in institution's investment decisions
- While there was an optimism that financial education would improve financial literacy, set against this there was a mixed opinion on how successful DC decision-making would prove
- Respondents' greatest fears for the future were the potential for DC outcomes to disappoint members and the industry tendency to short termism
- Fears also surfaced with respect to the consequences of over-complexity in product proliferation, derivatives and the likelihood of increased regulation
- Respondents thought that over the coming years the likelihood of financial crises would continue at a rate similar to that seen over recent years, consistent with 3 to 4 financial crises between now and 2020
- There was strong consensus in a number of areas, especially with respect to what *should* happen
 - More institutional fund governance resources combining to exert more collective influence, supported by more independent advice
 - More specialisation in investment products, focusing more on alpha-beta separation but with a greater long-term emphasis.
- Although there was a strong view that institutional funds *should* spend more on governance resources, opinion was more divided on whether funds *would* be able to make strides to better governance.

More alpha focus from more players

- The survey found that the search for alpha remains a key part of funds' strategy and fund managers' business plans
 - Survey respondents suggested this would increasingly be sought from absolute return type products and from boutique managers
- Defining winners and losers in terms of growth in revenue relative to the current starting position, the view of respondents was that the industry winners and losers would be:

Industry Winners

multi-strategy funds
fiduciary management
niche consultants
investment banks

Industry Losers

hedge funds
fund of funds
large consultants
buy-out firms

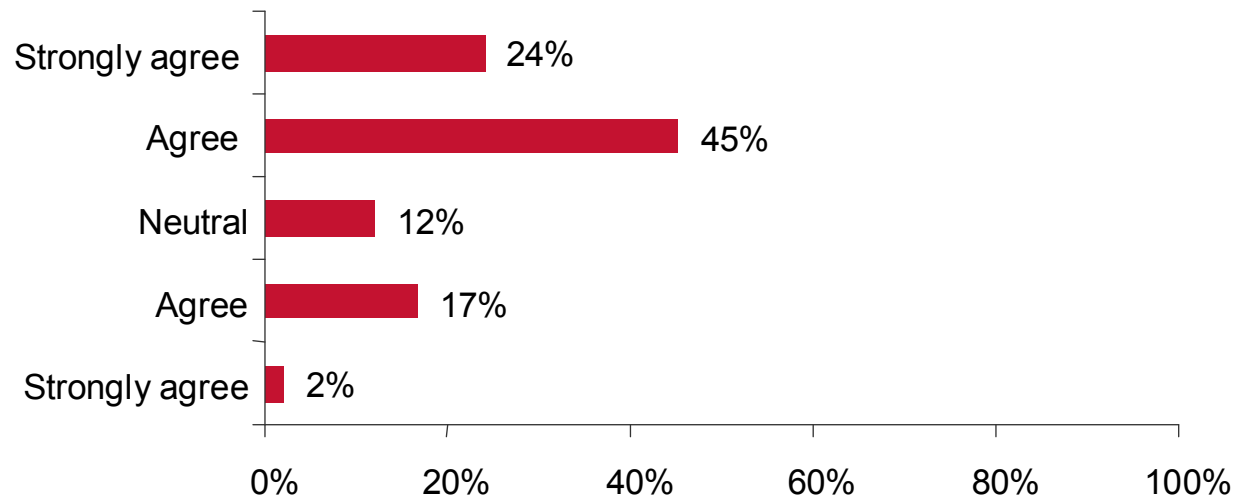
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Survey responses

Please note the following 21 slides contain a series of paired statements, all of which are diametrically opposing views to which respondents provided answers based on where on the spectrum between the two their view lies.

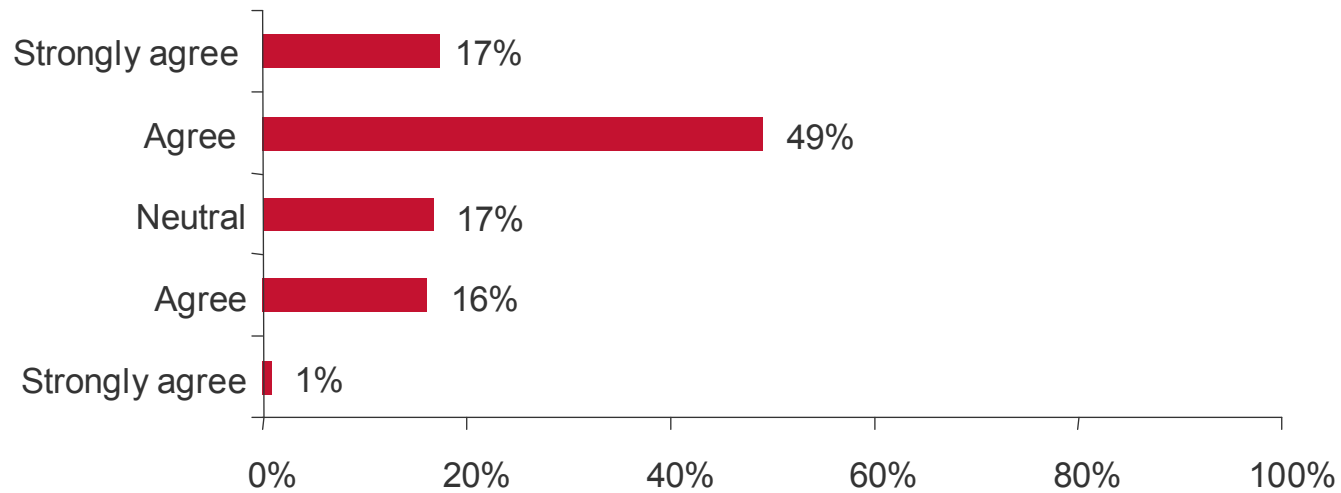
Talent shortages are here to stay



Demand for talent is cyclically high and will decline

The survey consisted of a series of paired statements giving opposing views. Respondents provided their opinion on where on the spectrum they lay, from strongly agreeing with the first statement through to strongly agreeing with the opposing statement.

Compensation for top talent will continue to increase

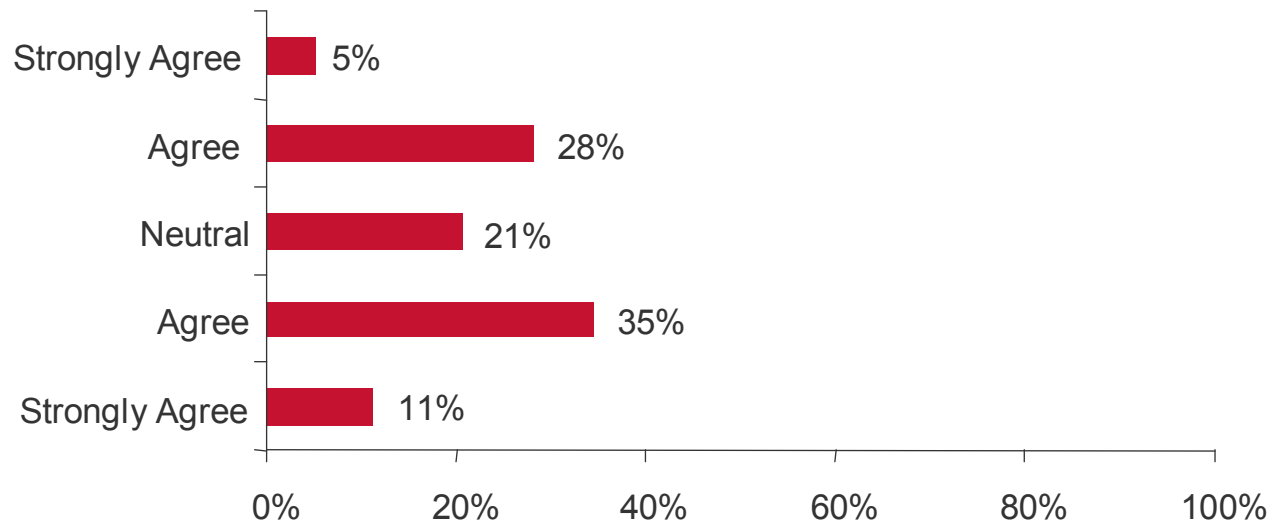


Compensation for top talent will stabilise at today's levels

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Governance

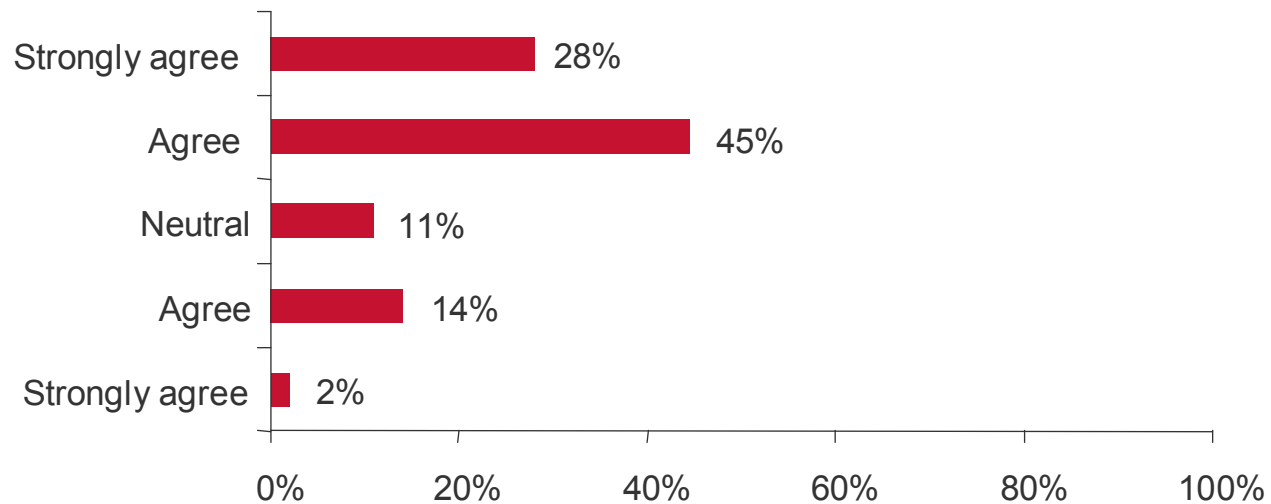
For many institutional funds governance will change quickly



Institutional fund governance will be slow to change

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The resources of institutional funds will expand significantly

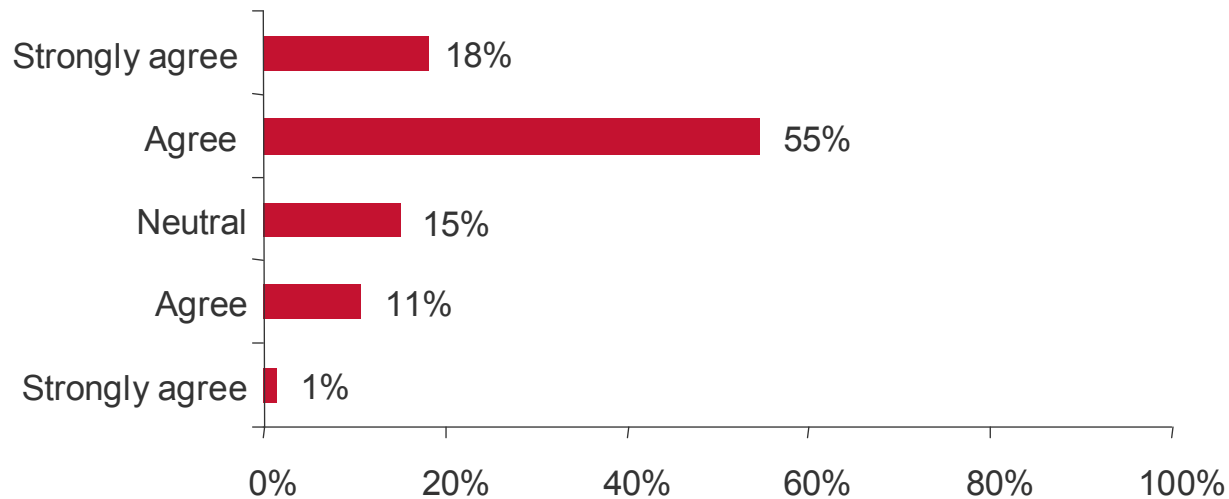


Institutional funds will continue to have a weaker call on talent than other sectors of the industry

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Product proliferation

Appetite for alpha will grow significantly, due to the need for higher returns

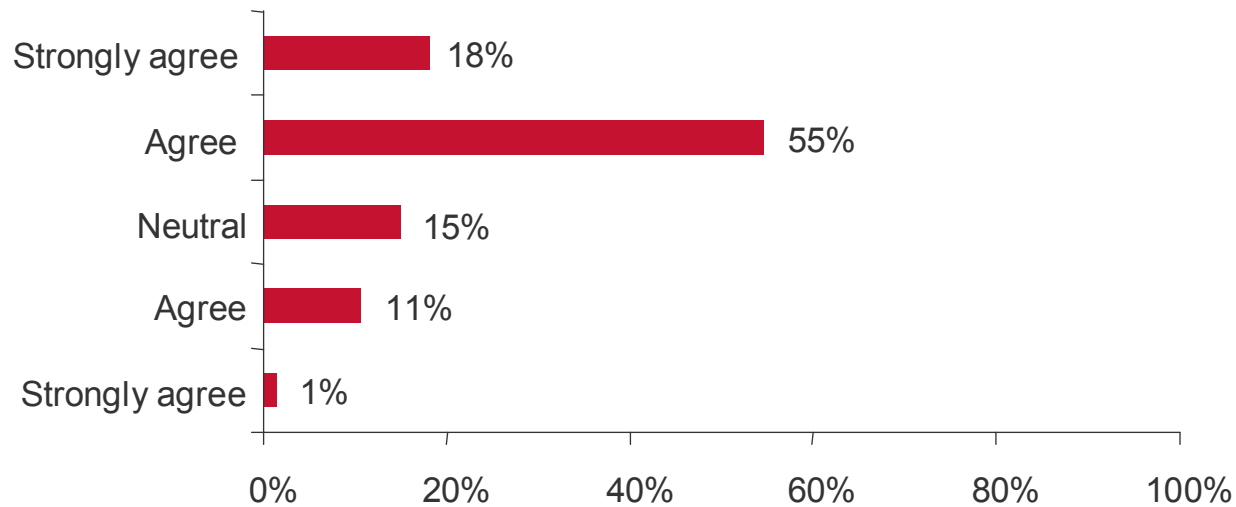


Appetite for alpha (manager skill) will be modest, reflecting doubts about its sustainability and likely impact

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Product proliferation

Institutional funds will increasingly favour absolute return products

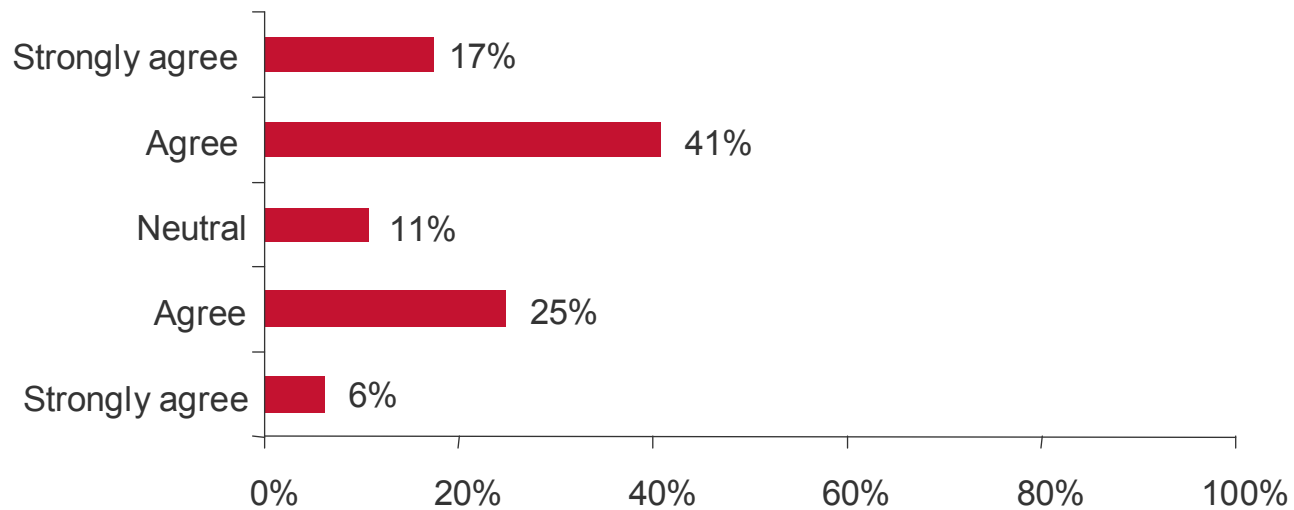


Institutional funds will consider mandates with benchmarks more robust, limiting the growth of absolute return products

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Product proliferation

Funds will demand product transparency and get it

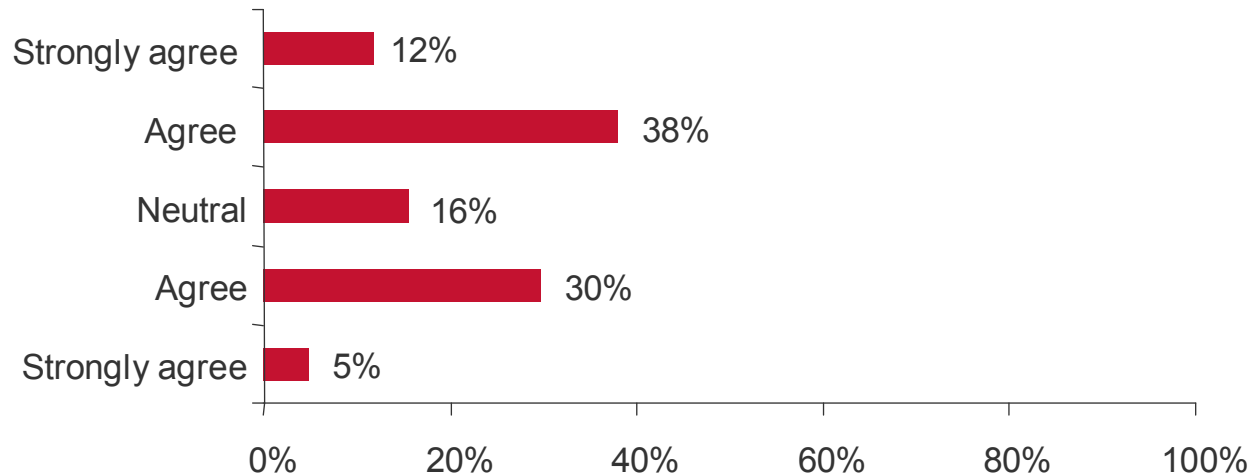


Transparency of investment products will remain problematic in the alternatives area

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Product proliferation

The use of derivatives will grow very quickly, putting pressure on operational risk

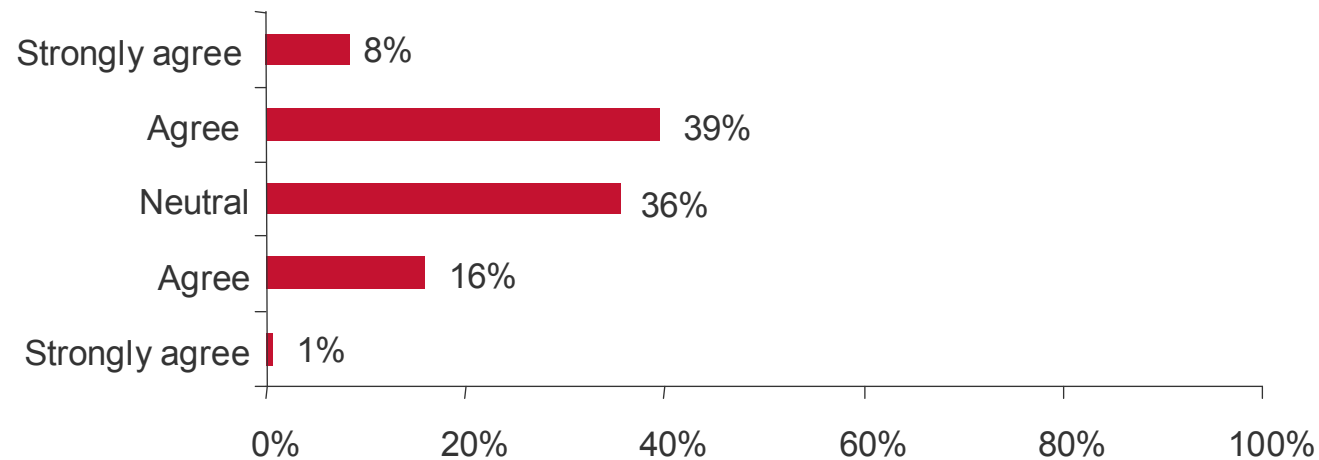


Derivatives will be important but their take up will not grow as fast as their invention

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Product proliferation

The pay-offs of products used by institutions will become increasingly asymmetrical

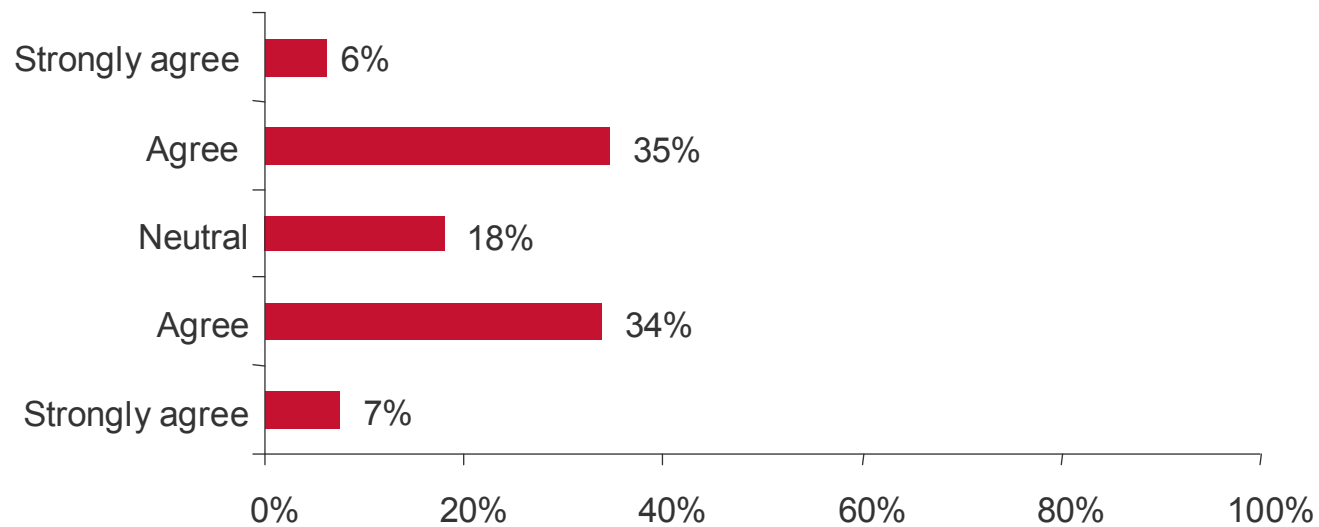


The products institutional funds employ will remain substantially symmetrical in pay-off

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Product proliferation

Collective bargaining power will lead to reduced fees

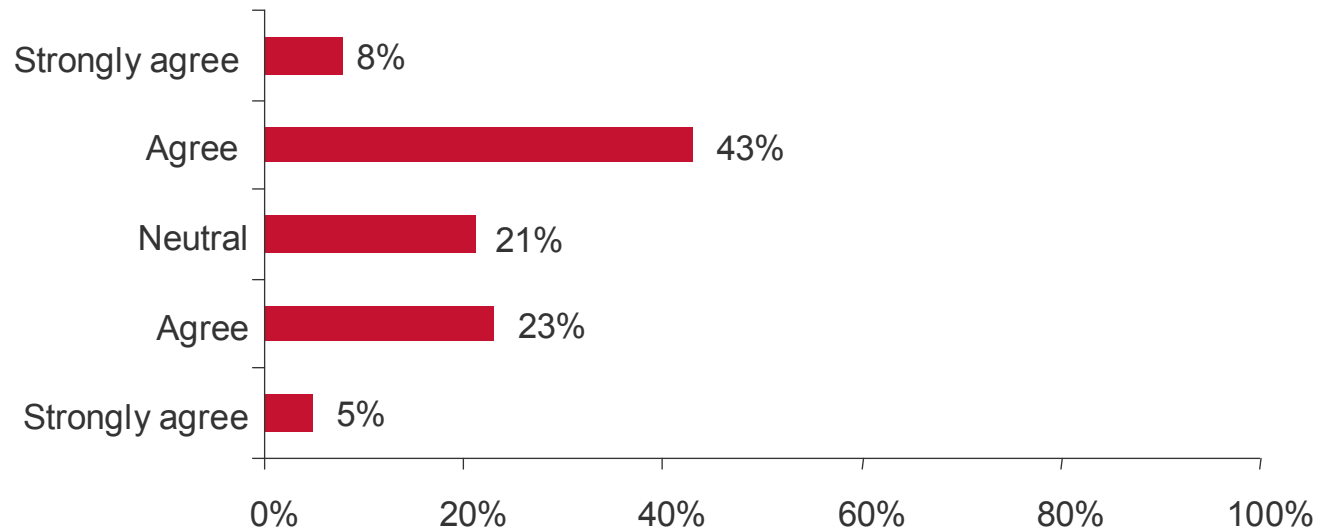


Institutional funds will continue to accept high fees for alpha

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Extra-financial factors

Extra-financial factors will have an important part in institutional fund decision taking

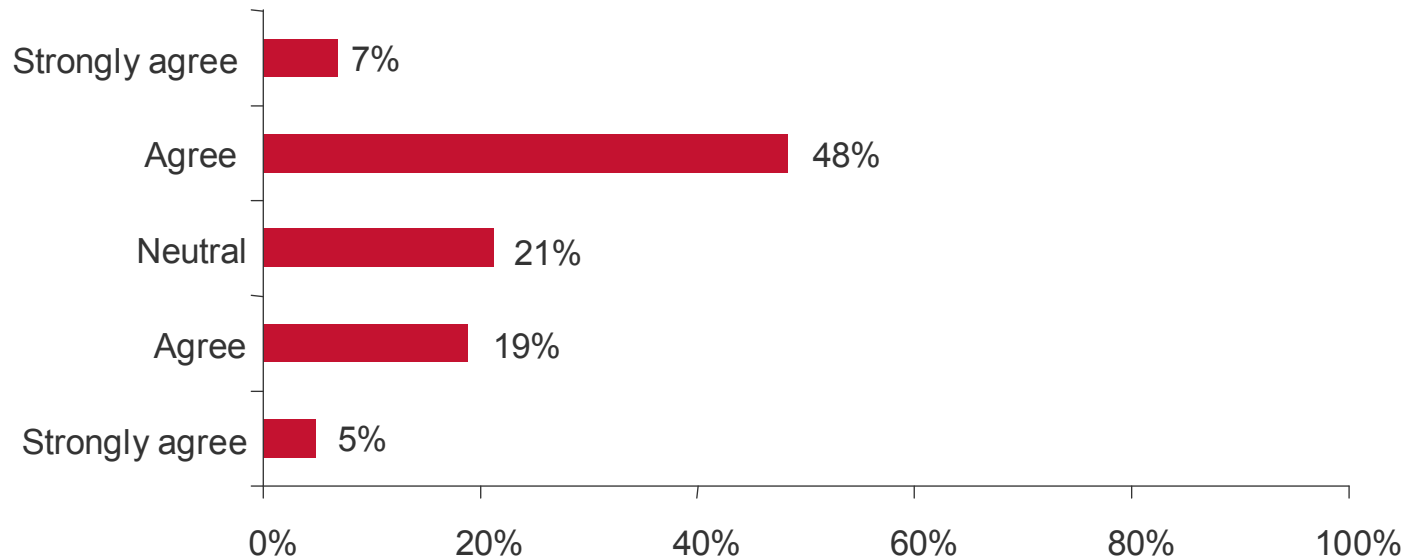


Extra-financial factors will remain low in importance

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Extra-financial factors

Financial education/literacy will increase substantially through private and state-sponsored initiatives

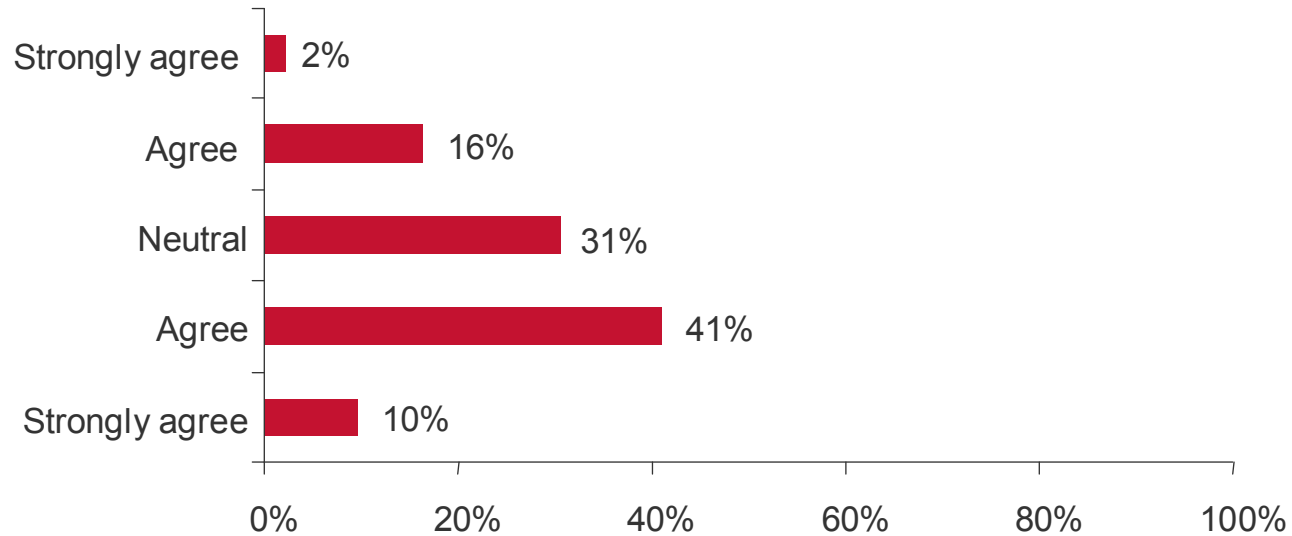


There will be no material change in the level of financial education/literacy

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Pension design

The majority of DB funds will pass to buyout vehicles

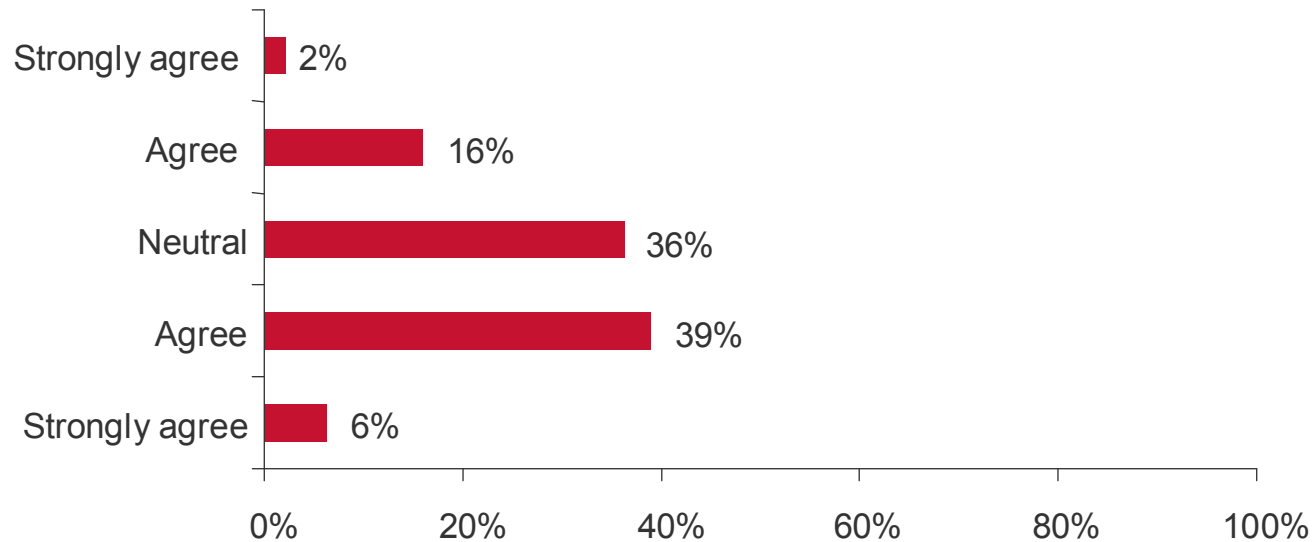


Buyout vehicles will capture only a small proportion of DB pension funds

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Pension design

The majority of DB funds will pass to investment run-off vehicles, supported by bank balance sheets

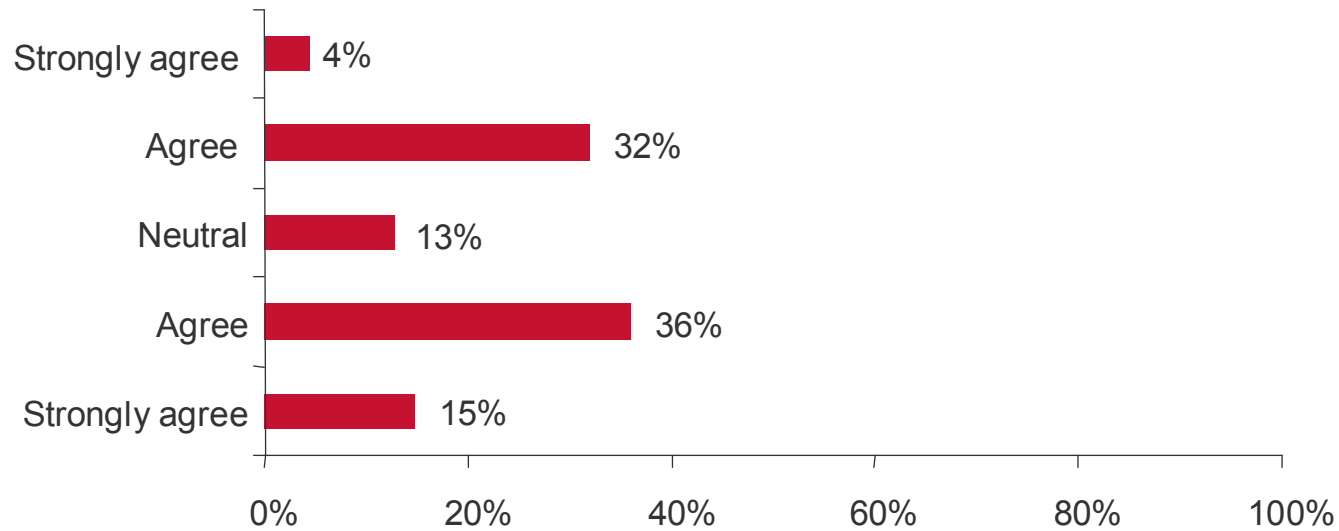


Investment run-off vehicles, supported by bank balance sheets, will capture only a small proportion of DB pension funds

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Pension design

Individuals will be empowered by education and technology

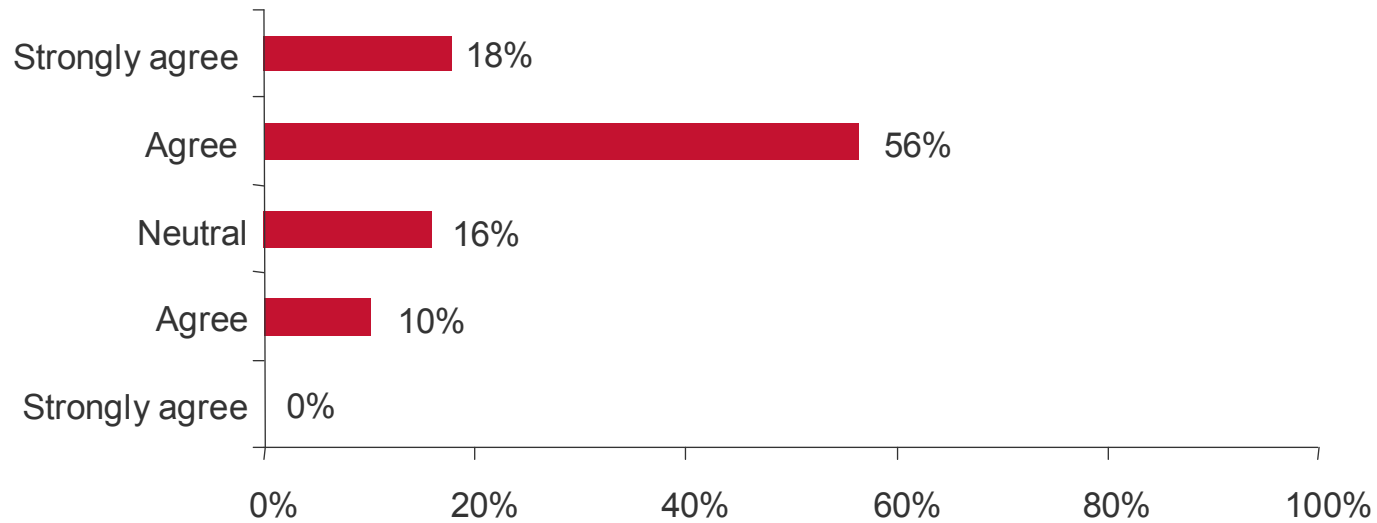


Individuals will remain largely uninformed in relation to their DC decisions

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Marketplace change

Marketplace change will be substantial

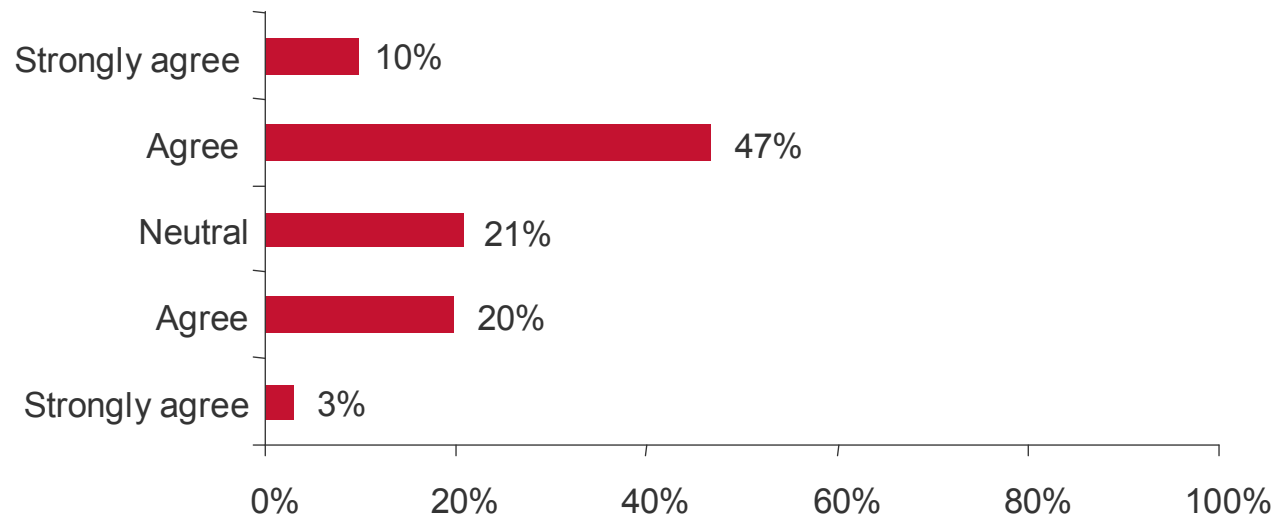


Marketplace change will be limited

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Marketplace change

Manager size will be constrained by a lack of scalability

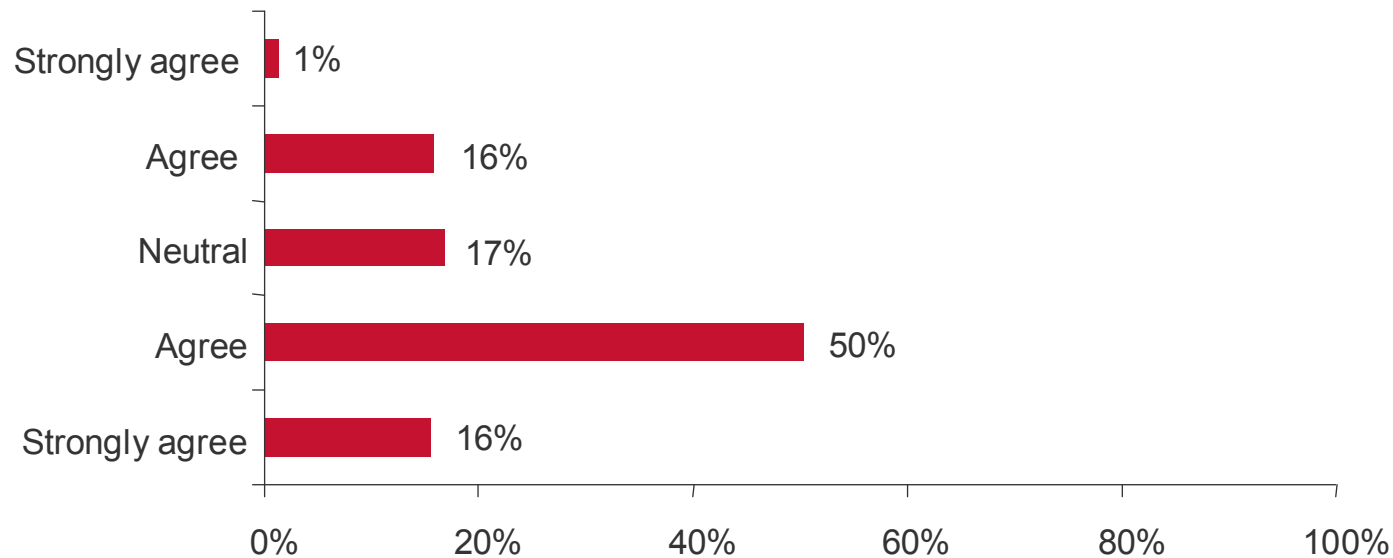


Large asset managers will consolidate into a handful of mega-managers

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Marketplace change

Regulation will drive an increasing minimum economic size, limiting opportunities for boutiques

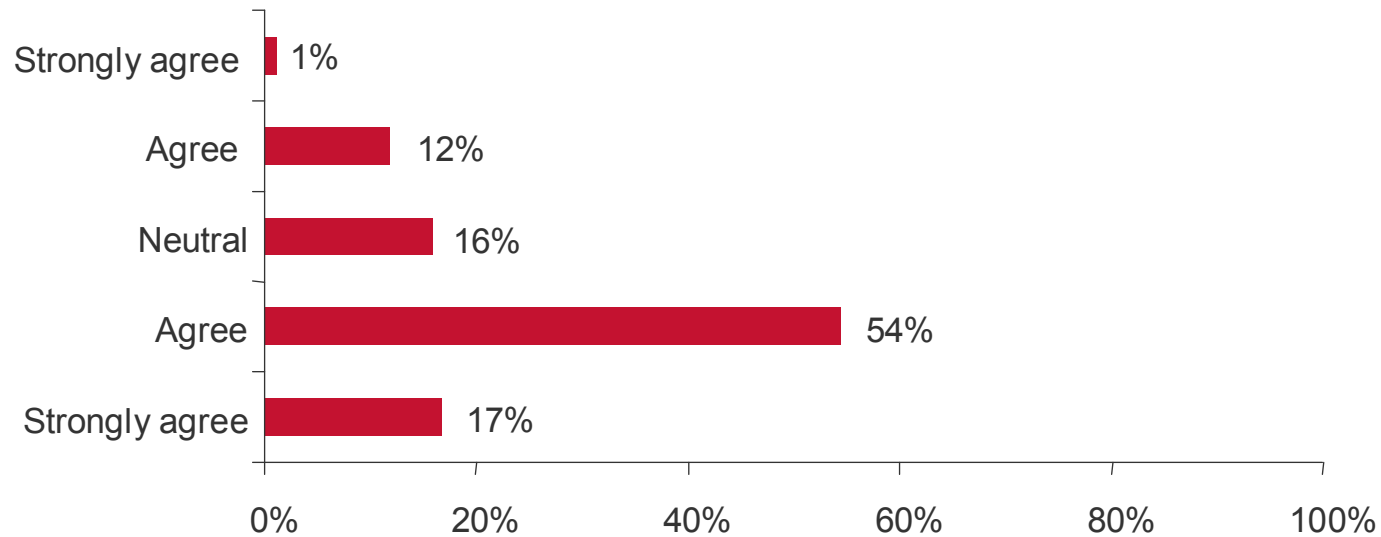


There will be a proliferation of small-scale, specialist asset management boutiques

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Marketplace change

Institutional buyers will increasingly turn to one-stop-shops

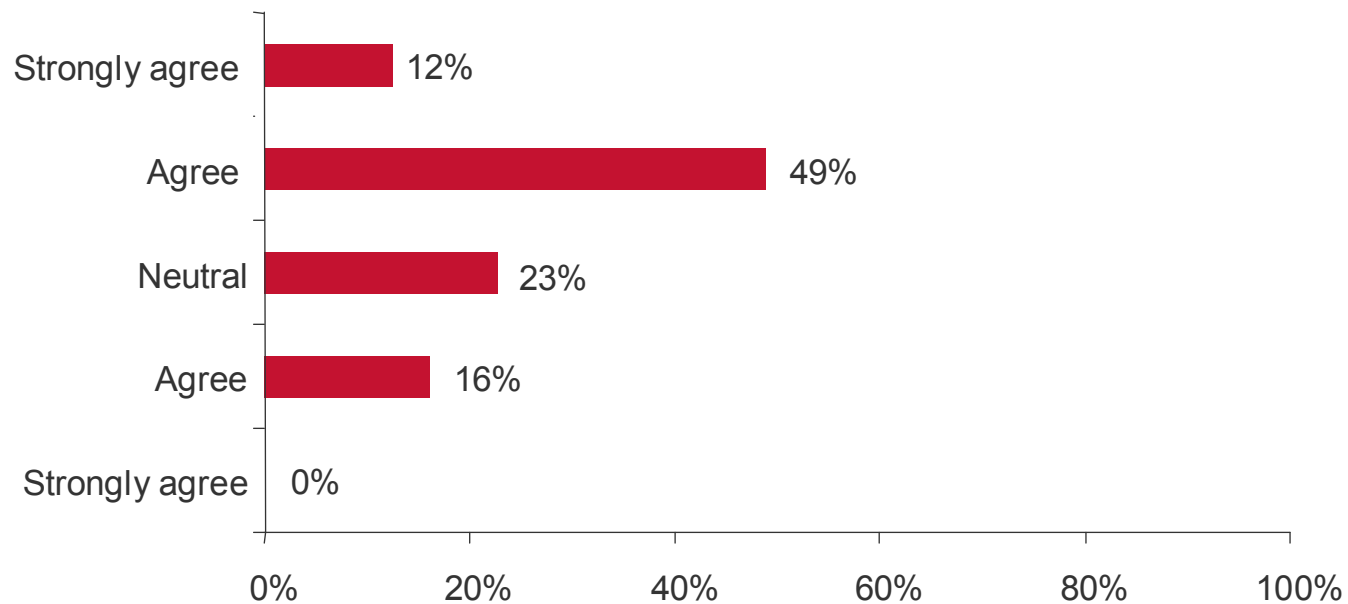


Institutional buyers will have an increasing number of relationships as specialisations deepen

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Marketplace change

Regulation will become more prescriptive and onerous

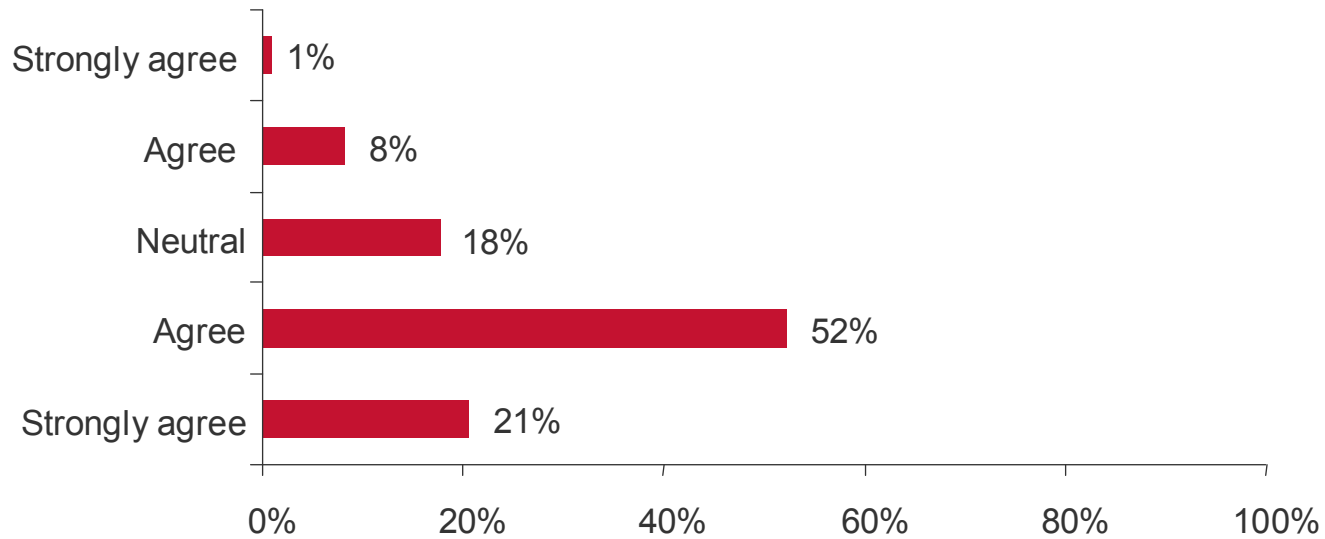


The nature of regulation will not change significantly

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Marketplace change

The value attached to independent advice will fall

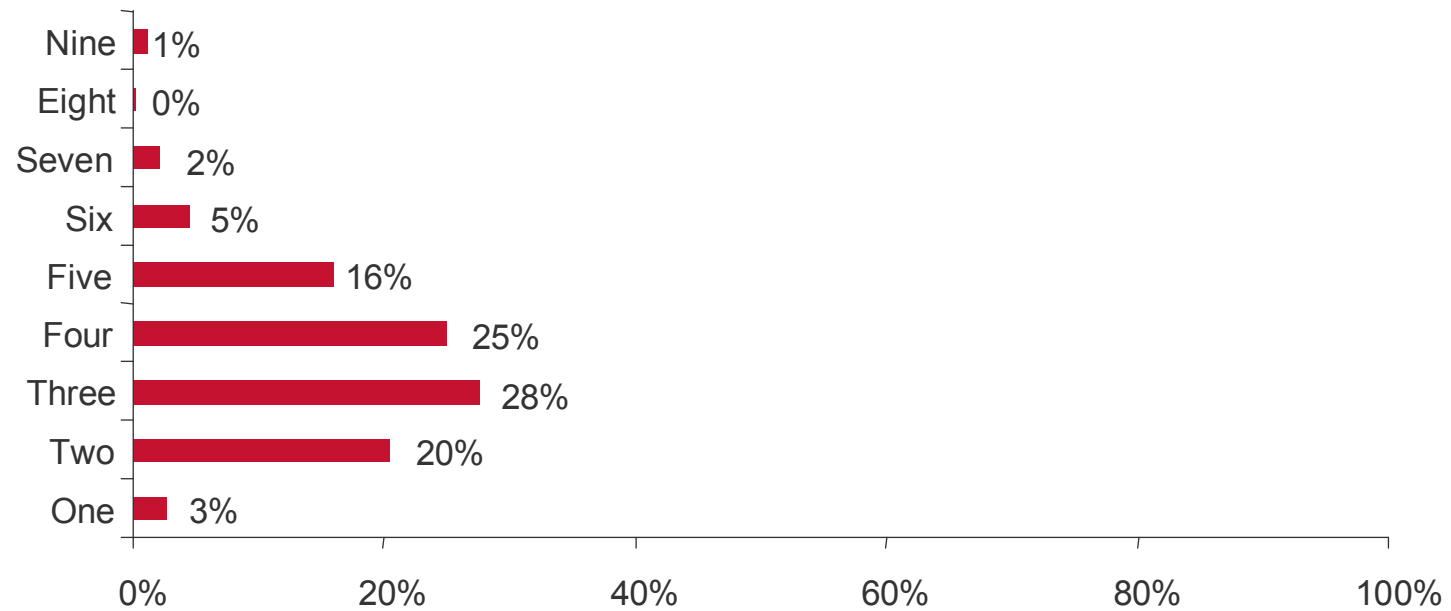


The value attached to independent advice will rise

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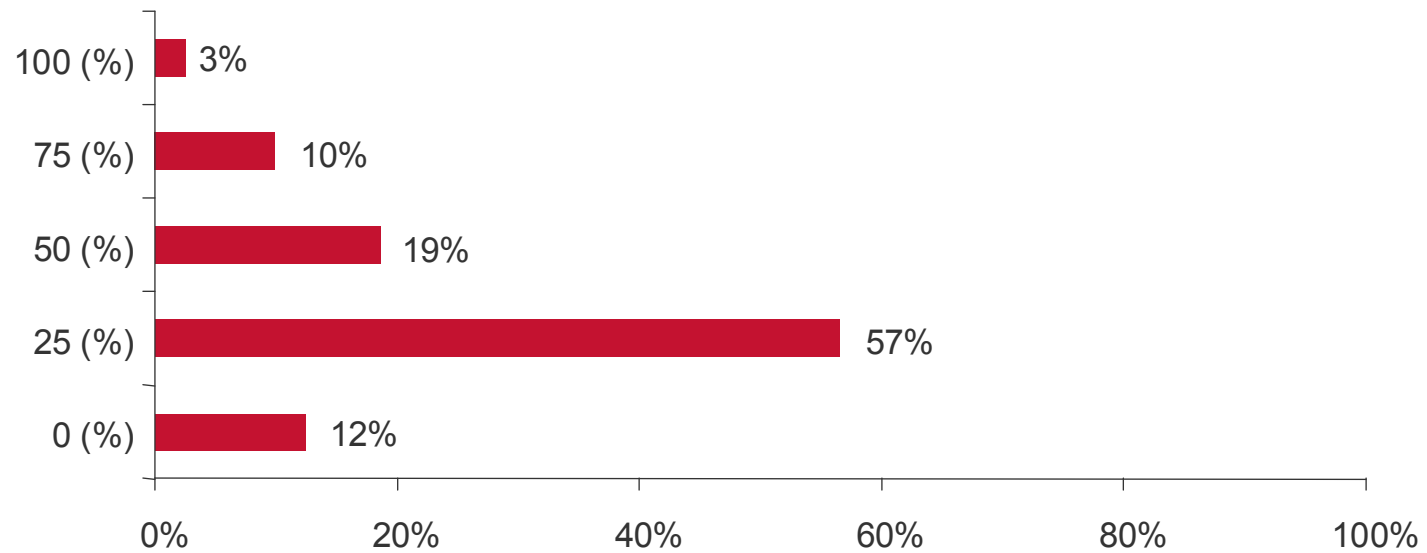
Financial crisis

How many financial crises will there be in the run-up to 2020?



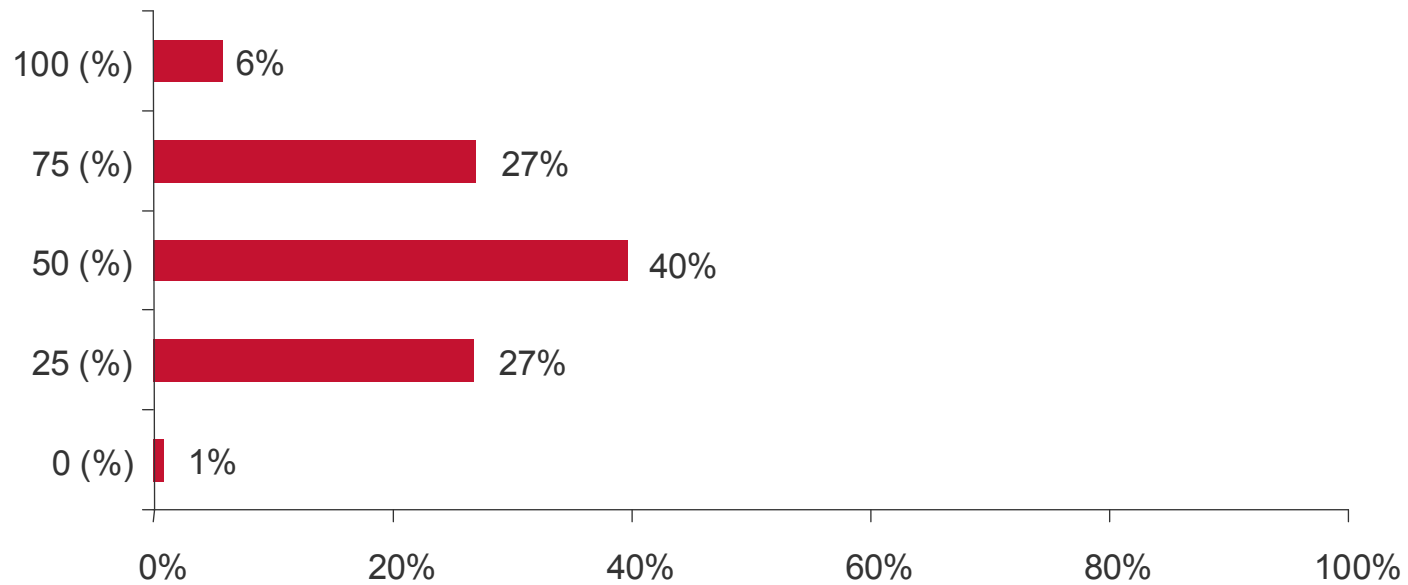
Operational crisis

Operational crisis: how likely is a back office meltdown that causes some institutions to stop trading?



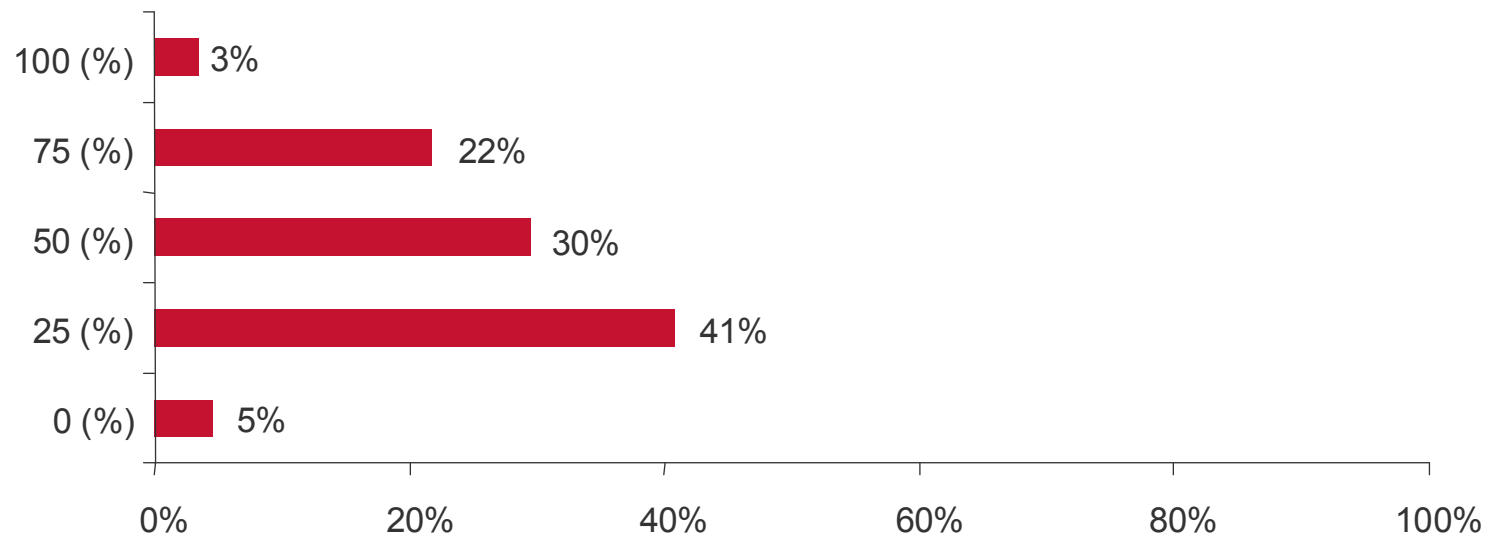
Leverage crisis

Leverage crisis: how likely is it that the build-up of debt (consumer, corporate and government) causes a debt-deflationary crisis?



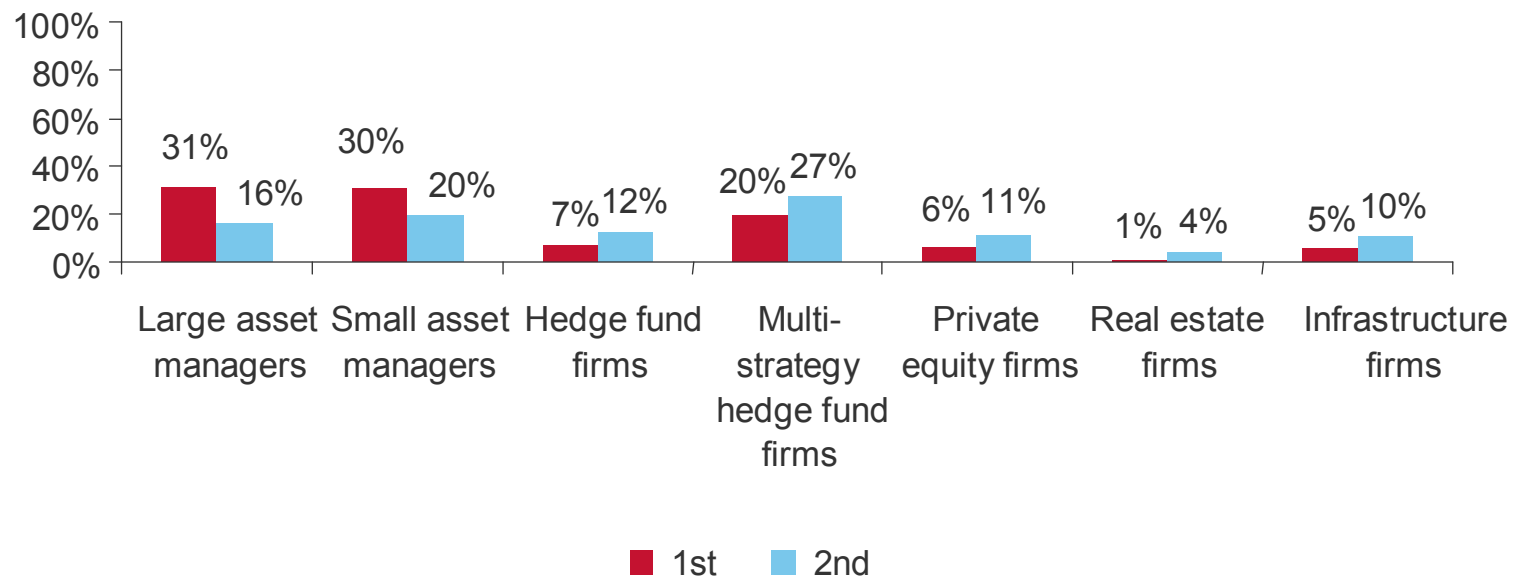
Derivatives crisis

Derivatives crisis: how likely is it that the derivatives do turn out to be 'weapons of mass financial destruction'?



Winners (asset managers)

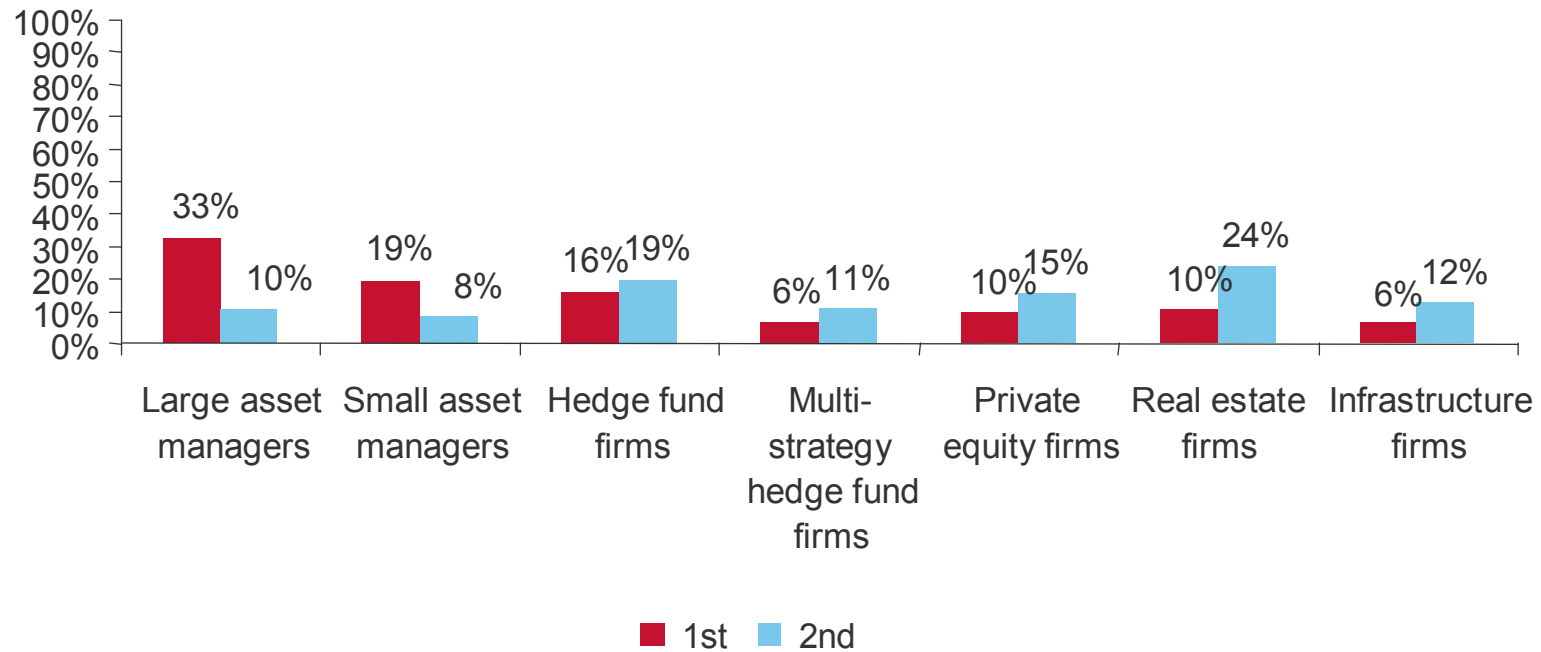
The types of asset managers that will be the biggest winners by 2020



Winners and losers defined in terms of growth in revenue relative to current starting position

Losers (asset managers)

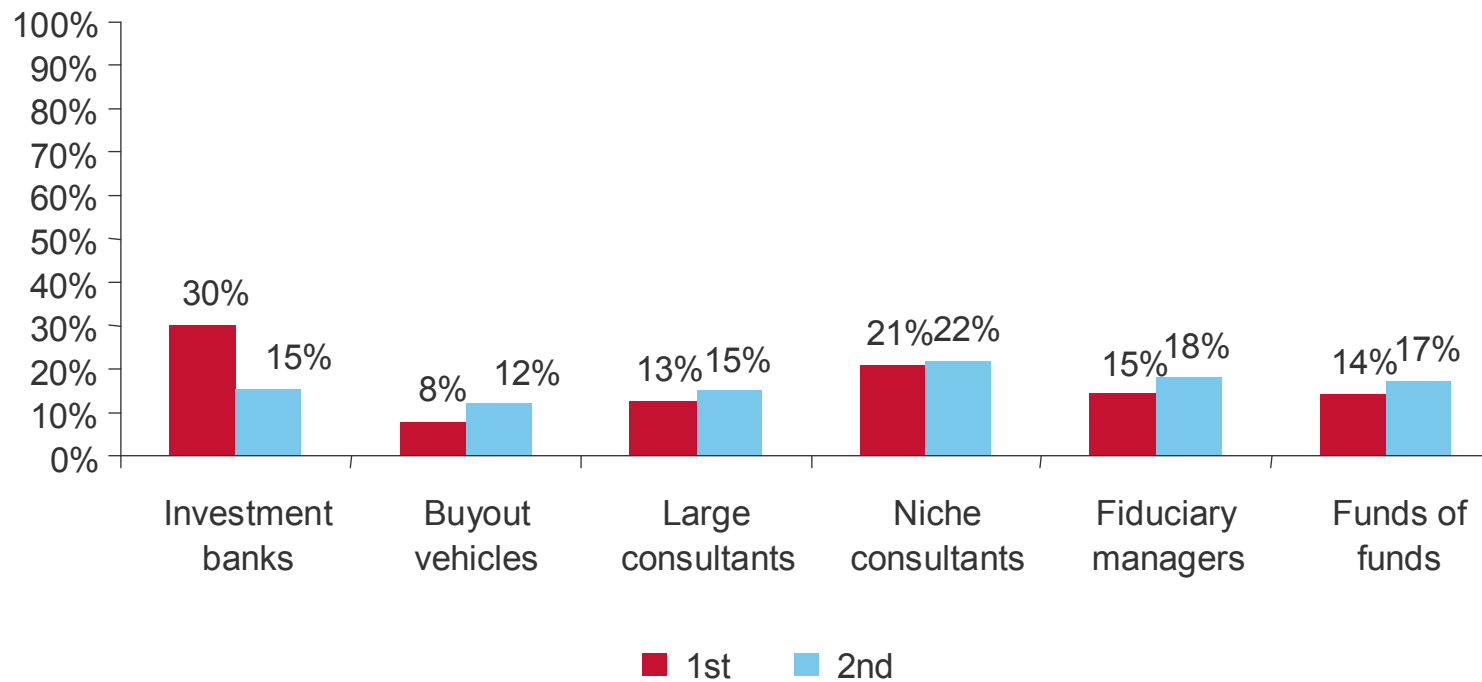
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Winners and losers defined in terms of growth in revenue relative to current starting position

Winners (intermediaries)

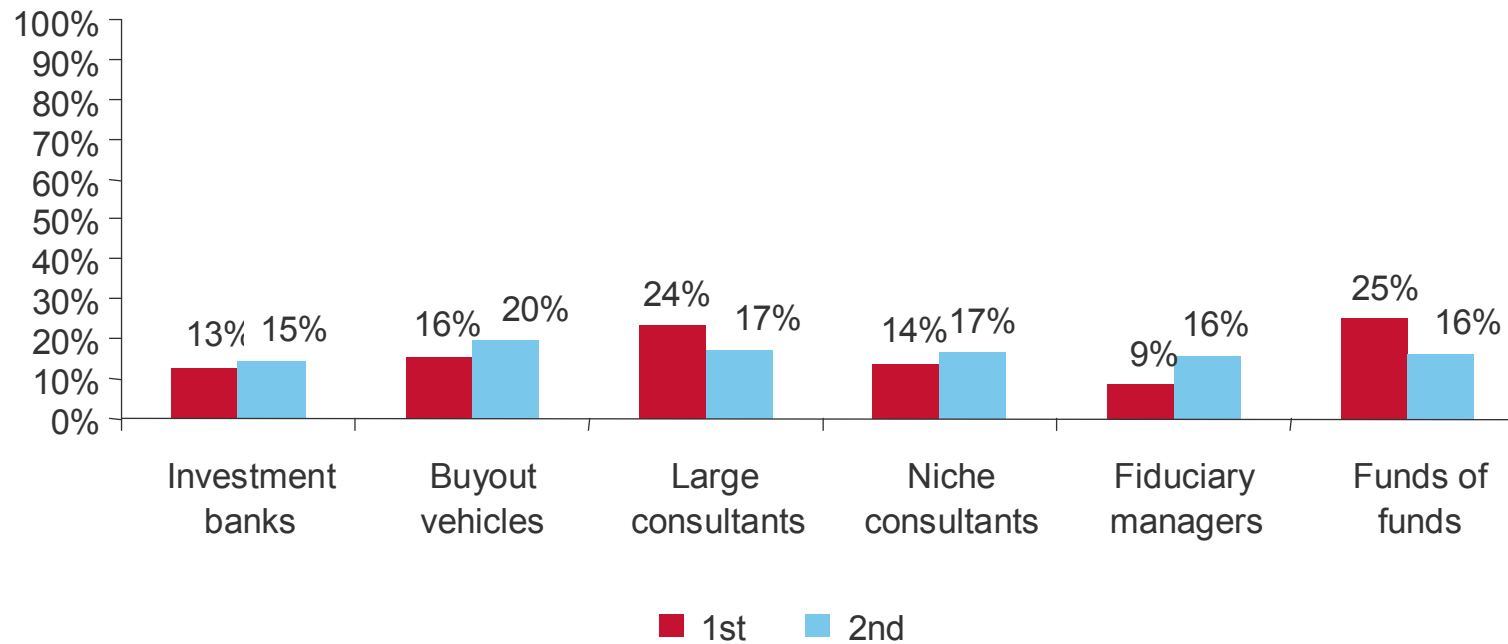
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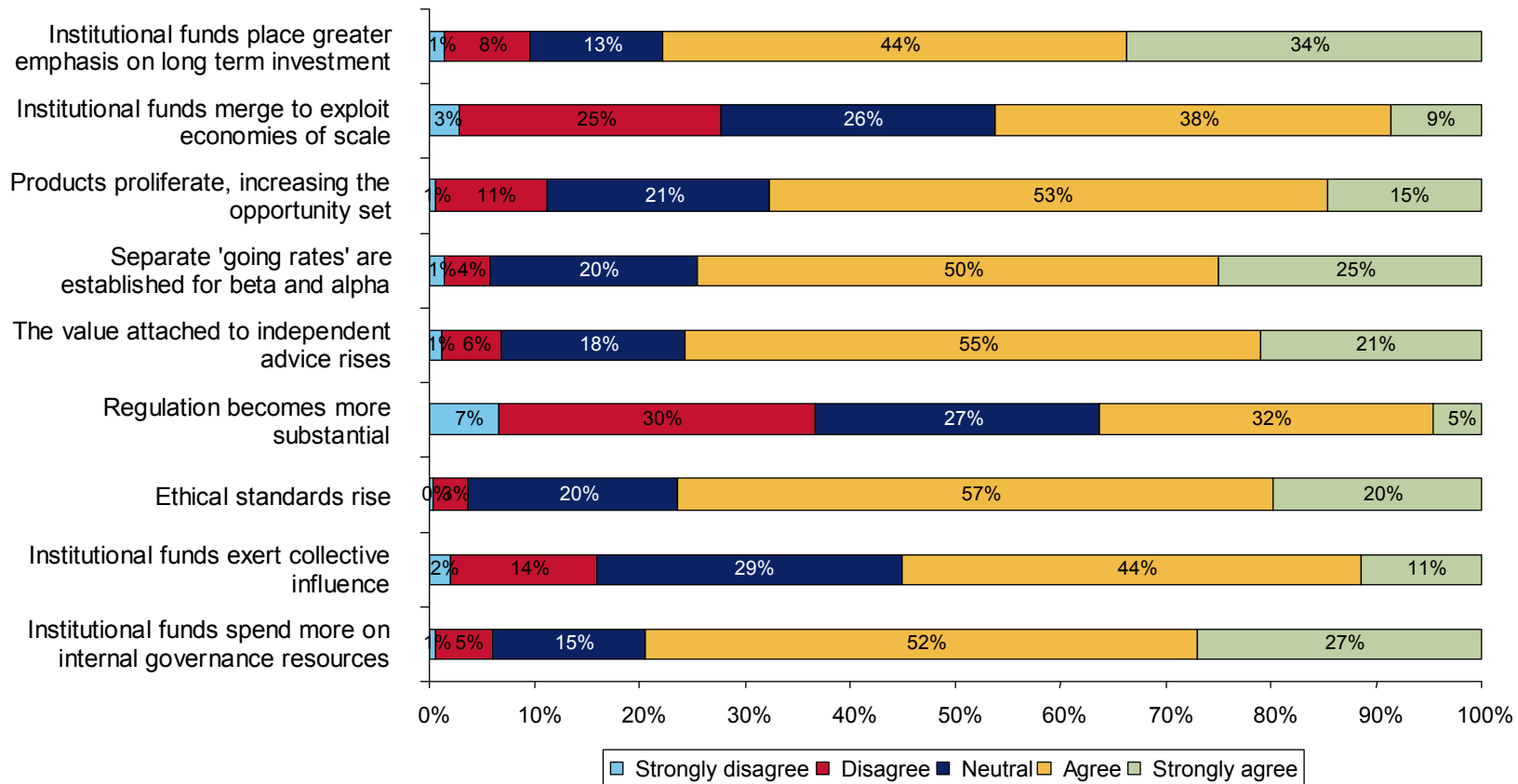
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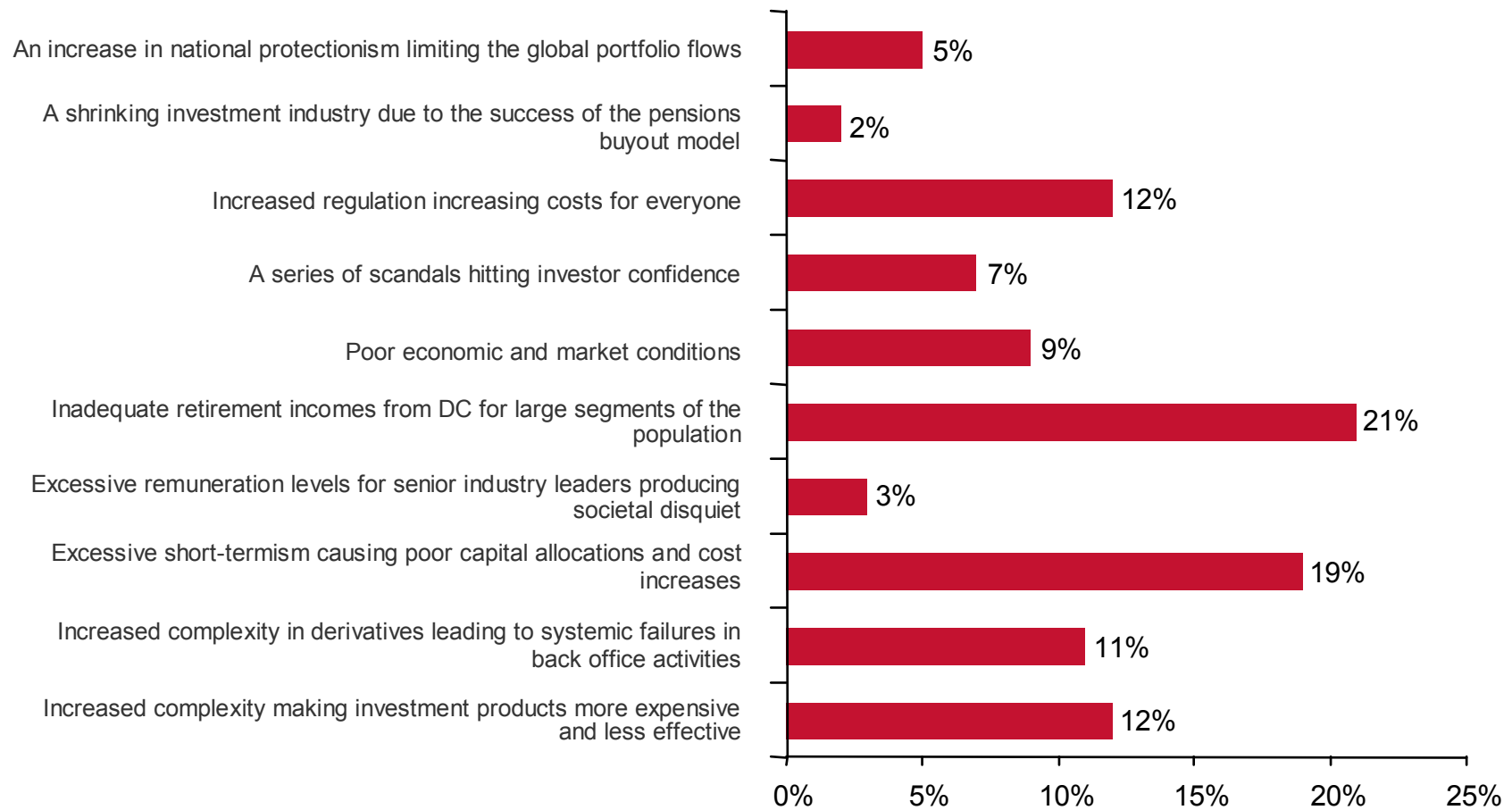
What should happen?

What do you think should happen over the next 10 to 15 years?



Concerns

The three things I fear most about the next 10-20 years



Contact details and Limitations of reliance

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Limitations of reliance – Thinking Ahead Group

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