

PENSION MANAGEMENT RESEARCH PANEL

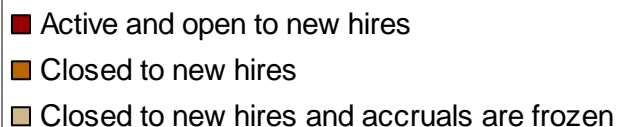
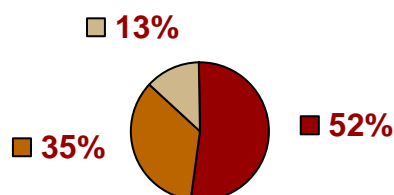
Taking Back Control of Pensions: The Global Turnaround Has Started

The **Pension Management Research Panel** recently conducted a global Quick Poll of pension executives from three markets - Canada, United Kingdom and United States. The poll was completed by 105 executives overseeing pensions ranging from US \$30 million to more than US \$5 billion in assets. None of the participants were institutional clients of SEI. The poll was completed in July 2009 with a goal of determining what changes pension executives are currently making and what the expectations are moving forward.

Section I – The Current Pension Focus

- **Are more plans currently active or closed?**

Almost half (44 percent) of all global participants said the recent market turmoil has increased the likelihood the organization will take steps to terminate the pension plan as soon as possible. Here is a breakdown of the current status of pension plans around the world:

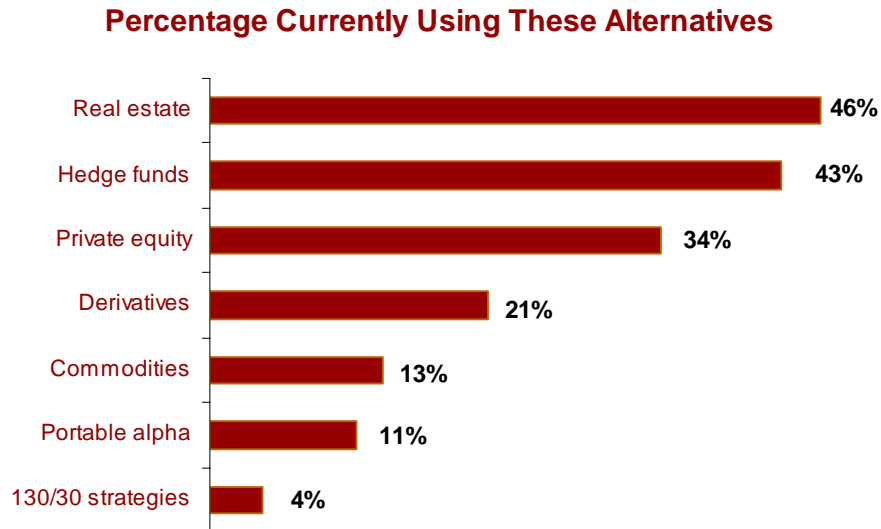


U.S. Highlights:

The US had the highest percentage of plan sponsors that have frozen accruals. US respondents gave similar feedback to the global results as half (50 percent) said the plan was active and open and 29 percent said the plan was closed. However, the remaining 21 percent saying the plan was closed and accruals were frozen.

- **What alternative investment strategies are currently being used?**

More than half (53 percent) of the poll participants said the organization currently invests in alternatives in the pension portfolio. Of the group using alternatives, the most popular products are real estate (46 percent) followed closely by hedge funds (43 percent). Here is a breakdown of the alternative asset classes currently being used in global pension investments:

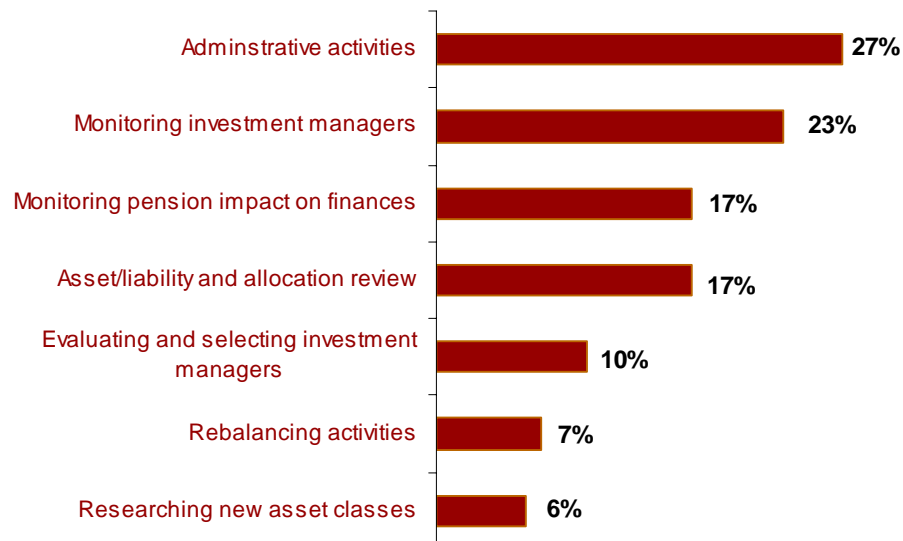


U.S. Highlights:

The most popular alternative asset class currently being used by US respondents was private equity as 57 percent said that was the case. More than half of the US respondents also said they currently use hedge funds (52 percent) and private real estate (52 percent). Nearly a third (29 percent) said they invest in venture capital and about a fifth (19 percent) said they used portable alpha strategies.

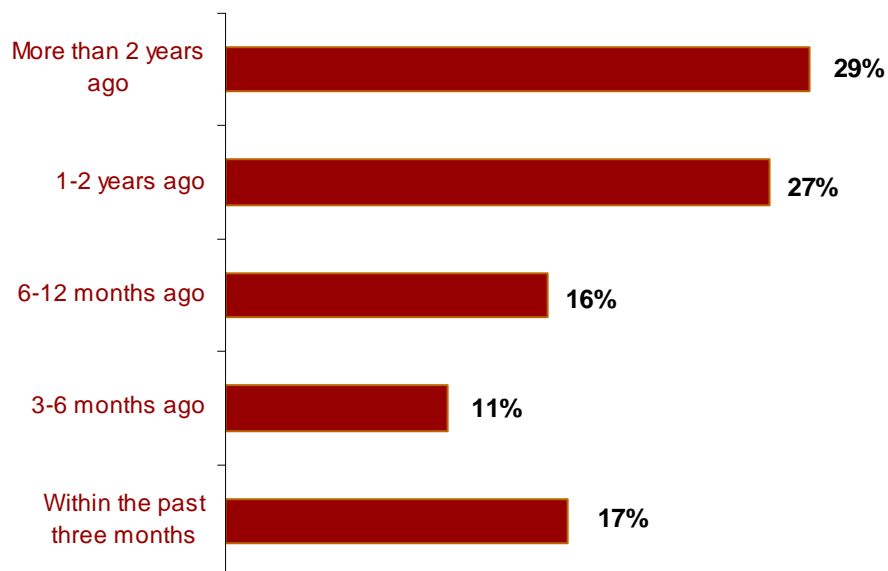
- **Where are executives spending their time when managing pensions?**

The poll participants were asked, given the current pension environment, how their organization allocates the time of internal resources in managing the pension. Below are the means for each category:



- **When was the last time that changes were made to the asset allocation policy for pension investments?**

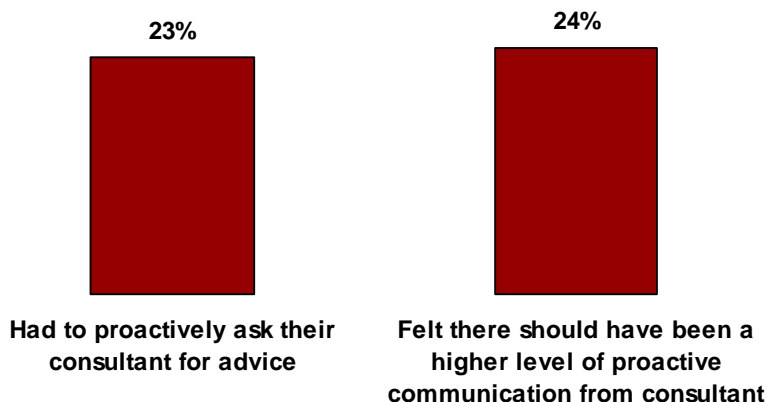
The poll participants were asked when their organization last made changes to the asset allocation policy and the results show that it has been longer than expected. Despite ongoing marketing volatility, it appears that very few organizations have made formal changes to their policies. Below is a breakdown of how long ago poll participants made changes to the asset allocation policy:



Section II – What to Expect Moving Forward

- **Re-evaluation of existing investment management model**
 Poll participants expressed high levels of concern about the traditional approach for investment management of pension plans. Traditionally, most organizations offering pensions have used an outside investment consultant to recommend money managers and leave actual decisions to the organizations internal resources. The market downturn and ongoing volatility has created strain on the viability of this model. More than a third (34 percent) of those using a consultant said the heightened investment risk has made trustees question whether or not the consultant provides enough accountability for results and fiduciary protection.

During Market Turmoil...

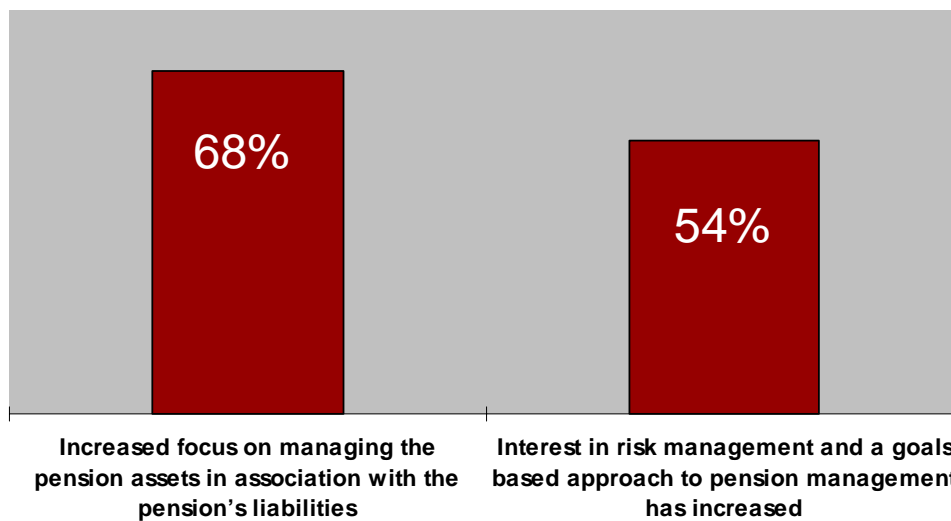


U.S. Highlights:

Nearly three quarters of the poll participants from North America (69 percent) said the organization's current approach to investment management involves a consultant, but internal resources focus on manager selection and change decisions.

- **Pension management philosophies are changing**

The volatility of the past year has resulted in a change in attitude when it comes to overseeing the pension plan. Many organizations now have a much different view of the components of pension management. Almost a third of those polled (28 percent) said the organization is looking for increased transparency when it comes to investment management. As attitudes around the world continue to change, two areas that poll participants said the organization's philosophy has changed are:



More than a quarter (27 percent) of those using a consultant are concerned that the resources are not in place to perform the necessary due diligence of investment managers moving forward.

U.S. Highlights:

Nearly half of the US participants (43 percent) said the heightened investment risk has made the pension trustees more concerned about meeting fiduciary obligations.

- **Dealing with pension related scrutiny**

More than half of the poll participants (56 percent) said the pension is having a negative impact on the organization's overall finances. Almost half (46 percent) said Board/Senior management are now scrutinizing the pension more so than in the past and are requesting a long-term strategy.

U.S. Highlights:

Nearly three-quarters of the US poll participants (72 percent) said the organization has not changed the specifics of rebalancing in the Investment Policy Statement as a result of the market turmoil over the past year.

Section III – Additional US Highlights

Below are some interesting statistics, specific to the US participants in the poll:

- 49 percent of US participants said that additional funding relief (beyond last December's relief bill) is needed for plan sponsors to make the necessary contributions
- 32 percent of the group using a consultant said they have concerns and are investigating other options for the investment management of the pension

Conclusion

The results of this Quick Poll suggest that pension executives are still searching for answers when it comes to pension management. The reality is that the market volatility of the past year has led some organizations to consider changes to the pension, such as closing it to new entrants or freezing accruals. Many pension executives are not making changes to the asset allocation. While a long-term focus should limit reactive asset allocation changes, some plan sponsors could be missing market opportunities or could have an asset allocation that is mismatched to the plan's funded level. Investments in alternative asset classes remain around where they were prior to the volatility.

Financial executives continue to be extremely busy in the management of pensions. More than half of their pension-related time is spent on either administrative activities or the monitoring of investment managers. Part of the reason for this is the heightened awareness of transparency, fiduciary responsibilities and the need for a risk managed approach.

Many of those organizations using a consultant as part of their investment management process were dissatisfied with the consultant's lack of proactive communications during market turmoil. Many had to ask for information and are now looking for greater transparency. Some are concerned that the resources are not in place to perform the necessary due diligence of investment managers moving forward.

Moving forward, pensions continue to impact corporate finances and Boards/Senior management are asking for answers amid concerns about meeting fiduciary obligations. Financial executives are evaluating their current process and looking for more effective ways to manage the pension investments while fulfilling their roles as fiduciaries. They are looking for options that better support the drain on internal resources and help match the pension assets with the correlating liabilities, thus better controlling volatility.



For more information please email SEIRESEARCH@SEI.COM

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