

asset allocation survey 2008

IAPF ASSET ALLOCATION SURVEY 2008

1. The value of Irish pension funds declined dramatically during 2008. At year end, assets under management amounted to €63.5bn compared with €86.6bn at the end of 2007, a decline of 26.7%. This change is less than we would have expected based on market conditions over the year, which may indicate reasonably strong cashflow into pension funds and/or the impact of changes in investment strategy by pension schemes. As a result of recent falls, the total value of assets managed by Irish Pension Funds has almost retreated to 2004 levels (€62.3bn).
2. Once again, we have attempted to determine the breakdown of these assets between those managed on behalf of Defined Benefit schemes and Defined Contribution schemes. Although not all respondents were able to provide this information, we believe that the results of those who did are representative of the industry as a whole. On this basis, 62.0% of assets are managed on behalf of Defined Benefit schemes, 34.4% are managed on behalf of Defined Contribution schemes, while 3.6% is invested under Additional Voluntary Contribution arrangements. This represents a continuing, significant increase in Defined Contribution assets under management reflecting the growth in membership of Defined Contribution schemes and the advancing maturity of Defined Benefit arrangements. In 2006, 14% of assets under management were recorded as managed on behalf of Defined Contribution schemes, while in 2007 this figure rose to 20%.
3. In recent years we have seen a steady increase in funds moving to passive management. In 2008 this trend continued, and at the end of the year the proportion of assets under passive management was 29.6%, compared with 28.5% at the end of 2007. Again, looking at the longer term trend, this acceleration towards passive management has been significant – rising steadily from 12.6% at the end of 2002.
4. By year end, equities accounted for 52.3% of assets under management compared with 66.3% at the end of 2007. Based on the relative performance of equity markets alone, this proportion could have been expected to fall to just over 54%. Therefore, it appears that pension funds continue to have a strong appetite for equities, in spite of recent market conditions.

Figure 1:
Total Value of Irish Pension Fund Assets (€bn)

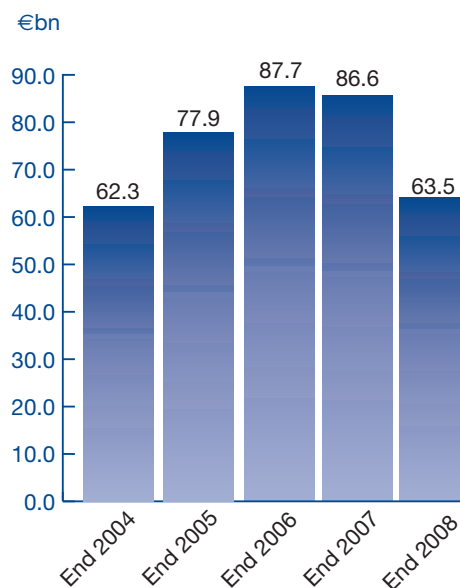
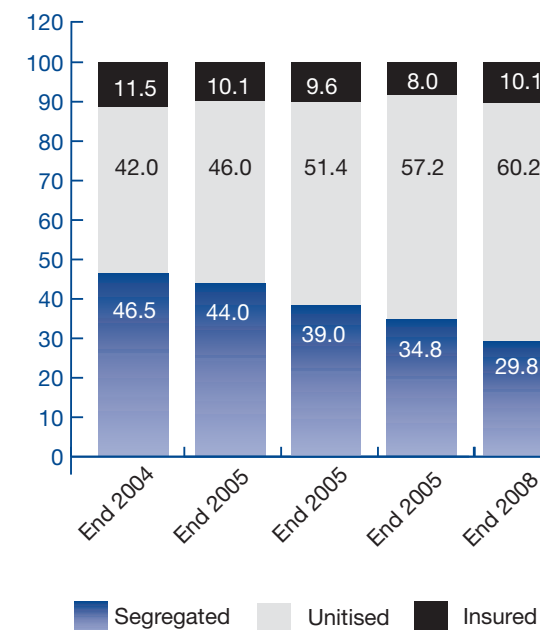
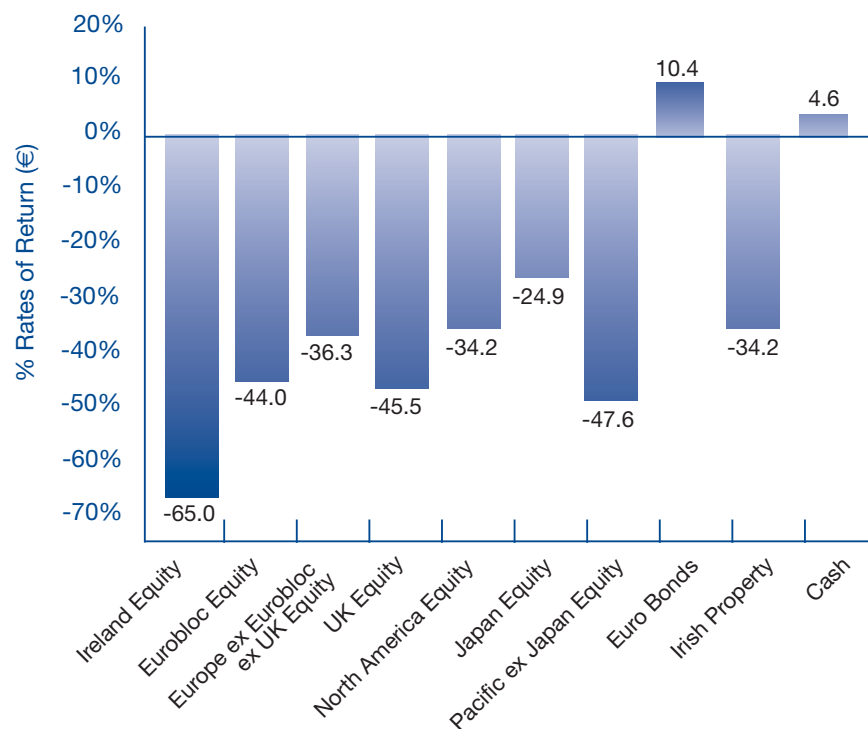


Figure 2:
Structural Split of Pension Fund Assets (€bn)



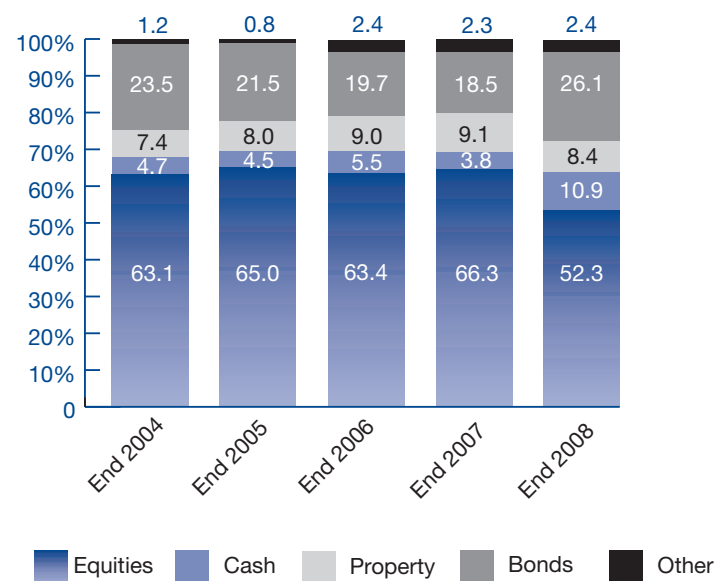
- Given the performance of bonds relative to equities during 2008, in addition to the appetite among pension schemes for liability-matching assets, it is not surprising that the overall proportion of assets held in fixed interest and index-linked stock increased from 18.5% at the end of 2007 to 26.1% at 31 December 2008. Government bonds represented 20.7% of total assets, with corporate and index-linked bonds increasing by 2.0% to 5.5%. Of the overall bond holding, 38.4% had durations of over 10 years compared with 42.1% at the end of 2007.
- The Irish equity content decreased by 3.1% over the year, from 8.2% at 31 December 2007 to 5.1% at the end of 2008. The year-end weighting is higher than would be expected based on the performance of the Irish equity market during 2008, which may indicate new cashflow into this market during the year. Taking a longer term view, the exposure of Irish pension schemes to Irish equities has fallen by almost 60% in the five years since the end of 2003, at which point 12.4% of assets were held in Irish equities. However, we believe that many pension schemes may have no direct allocation to Irish equities. Therefore, the average exposure to Irish equities - for those schemes that do have a specific allocation to this asset class - is likely to be higher than the average shown here. The €3.2bn that is invested in Irish equities on behalf of Irish pension schemes represents 10.0% of the total Irish equity market, compared with 7.6% at the end of 2007.

Figure 3:
2008 Asset Class Returns in Euro (Source: Rubicon Investment Consulting)



- Over the year the property content declined 0.7% to 8.4%. This change is broadly in line with market movements. Cash and other short-term instruments increased significantly from 3.8% to 10.9% at year end. This increase is greater than can be explained by the relative out-performance of cash during 2008, and we believe this represents a tactical increase in exposure to cash; that is, pension schemes are holding cash as a short-term measure until investment market conditions improve.
- Under the heading of “Alternative Assets”, the weighting was virtually unchanged over the course of 2008, increasing slightly from 2.3% to 2.4%. This is made up of 0.3% in forestry, 0.1% in hedge funds, 0.1% in venture capital, 0.6% in direct currency holdings and 0.2% in tactical asset allocation, with 0.7% in derivatives used for hedging and 0.4% in other alternatives. Investment in alternative assets may help pension funds to either reduce risk or increase returns, by diversifying away from traditional investments. Please note that these assets were classified as “alternative” by the respondents to the survey, and that some respondents may have different definitions of what this term represents.
- At the end of 2008, 51.7% of pension fund assets were invested with a single manager across a range of asset classes (multi-asset mandates). The proportion invested on the basis of an individual fund manager investing in one asset class only (single or “specialist” mandates) was 45% at the end of 2008, while the proportion invested in multi-manager products (where, within a single portfolio, a number of managers invest across a range of asset classes) was 1.6%, with 1.8% of pension fund assets being invested in “other” investment structures.

Figure 4:
Asset Class Weights (%)



10. Of the €63.5bn of assets under management for Irish pension funds, approximately €35.7bn (56.2%) was managed according to scheme-specific benchmarks. That is, the trustees of these schemes have given direction to the investment managers regarding the proportion of their funds that should be invested in each of the various asset classes. On average, the equity weighting of these assets was 42.9%, while the average allocation to bonds was 29.7%, with 9.9% invested in property. Interestingly, these funds had 14.9% on average being held in cash at year end, while investment in “alternative assets” fell from 4.7% in 2007 to 2.7% in 2008. Investment managers retained full discretion over the asset allocation of the remaining €27.8bn. Of this, 64.3% was invested in equities and 21.5% was invested in bonds, with 6.4% allocated to property, 5.7% held in cash and 2.0% invested in alternative assets (up from zero at the end of 2007).
11. Of the total assets, €49.9bn (78.6%) was managed by domestic fund managers, compared with 75.1% in 2007. International (mainly UK-based) managers were responsible for €10.6bn (16.7%) compared with 21.1% in 2007. Pension schemes, with assets not managed by the domestic and international managers covered by the survey, reported holdings of €3.0bn (4.7%) compared with 3.7% in 2007.
12. 42.7% of the assets managed by domestic managers were in respect of Defined Contribution schemes, compared with 3.3% of the international managers’ assets and 9.4% of the schemes’ directly reported assets. In monetary terms, this means that domestic managers are responsible for €21.3bn in Defined Contribution money out of a total of €21.9bn. Thus, it is clear that domestic managers continue to dominate the Defined Contribution market, with 97.5% of Defined Contribution funds being managed by these firms.

Survey Methodology

The survey was conducted by circulating a questionnaire to financial institutions involved in pension fund asset management. Complementing this source, the largest Irish pension funds were asked, on a similar basis, to return information on any assets where management was not delegated to one of the financial institutions already contacted.

The information collected this year was also compared, by the Pensions Board, with information it had collected from defined benefit schemes. As a result of this comparison more precise information was collected, particularly in relation to the split between Defined Benefit and Defined Contribution managed assets. Where this information was not specifically provided, assumptions had been made based on previously submitted information. The result is that there is a larger proportion of assets managed for Defined Contribution Schemes than had been shown in previous surveys. The assets managed for Defined Benefit schemes is broadly comparable with the information collected by the Pensions Board.

Please note that the figures in this report have been rounded, and may not always add up exactly as a result.

Figure 5:
Split between Active and Passive Assets

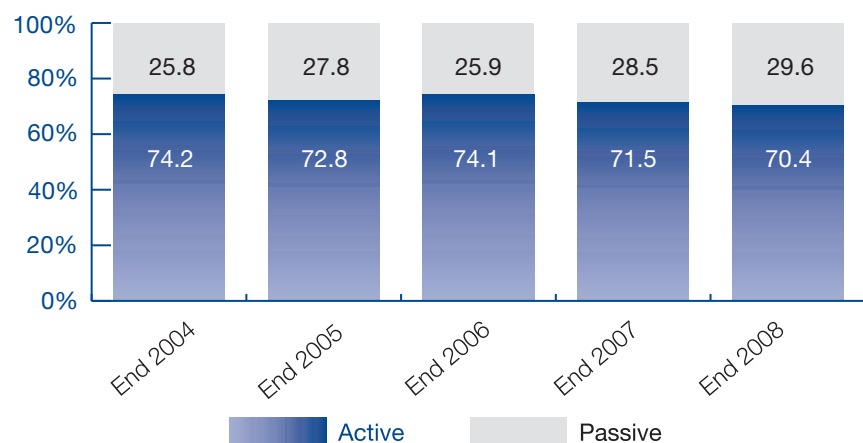
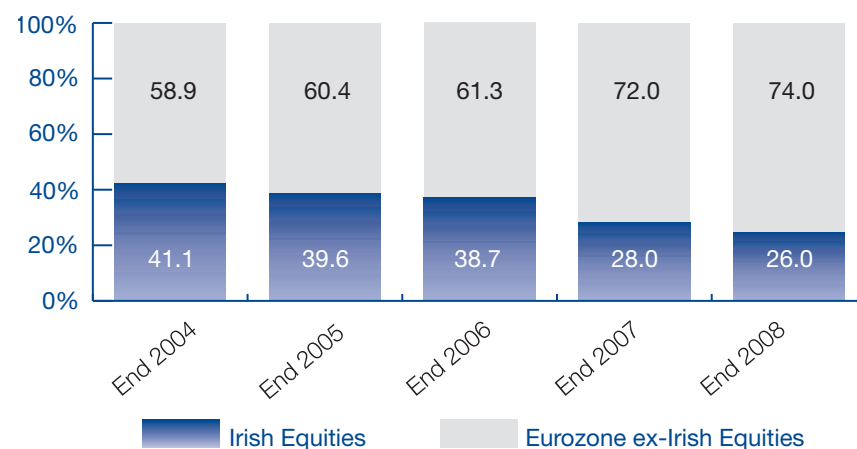


Figure 6:
Domestic Equity - Split between Irish and Eurozone ex Ireland Equities (%)



Appendix A: Irish Pension Fund Asset Analysis - End 2007

	Segregated Assets		Unitised Assets		Insured Assets		Total Assets	
	€m	%	€m	%	€m	%	€m	%
MARKET VALUE OF ASSETS	30142.5	100.0	49557.1	100.0	6902.6	100.0	86602.2	100.0
ASSET DISTRIBUTION BY SECTOR								
Equities								
Irish	1966.2	6.5	4605.7	9.3	526.7	7.6	7098.6	8.2
Euro	7681.2	25.5	10089.8	20.4	504.6	7.3	18275.6	21.1
UK	2082.1	6.9	3838.9	7.7	212.0	3.1	6133.0	7.1
US	4933.4	16.4	6934.9	14.0	251.4	3.6	12119.8	14.0
Rest of Europe	708.0	2.3	1541.9	3.1	396.9	5.7	2646.8	3.1
Japanese	1664.2	5.5	1714.0	3.5	23.6	0.3	3401.9	3.9
Pacific Basin ex Japan	887.1	2.9	2811.8	5.7	42.5	0.6	3741.4	4.3
Emerging Markets	1242.1	4.1	299.5	0.6	0.0	0.0	1541.6	1.8
Small Cap	0.0	0.0	136.9	0.3	0.0	0.0	136.9	0.2
Other	1236.7	4.1	1081.4	2.2	0.7	0.0	2318.8	2.7
Equities - Total	22400.9	74.3	33054.9	66.7	1958.4	28.4	57414.2	66.3
Bonds - Under 10 Years								
Euro Government	1802.5	6.0	2707.0	5.5	2695.3	39.0	7204.9	8.3
Euro Corporate	783.0	2.6	228.9	0.5	494.7	7.2	1506.6	1.7
Non Euro Government	33.8	0.1	23.5	0.0	41.5	0.6	98.8	0.1
Non Euro Corporate	21.5	0.1	52.2	0.1	93.2	1.3	166.9	0.2
Index Linked	11.3	0.0	113.1	0.2	155.8	2.3	280.3	0.3
Bonds - Over 10 Years								
Euro Government	1868.1	6.2	2984.6	6.0	736.7	10.7	5589.4	6.5
Euro Corporate	102.9	0.3	241.7	0.5	51.6	0.7	396.2	0.5
Non Euro Government	68.1	0.2	12.8	0.0	0.4	0.0	81.3	0.1
Non Euro Corporate	92.7	0.3	10.2	0.0	9.4	0.1	112.3	0.1
Index Linked	558.0	1.9	0.0	0.0	6.5	0.1	564.5	0.7
Bonds - Total	5341.9	17.7	6374.1	12.9	4285.2	62.1	16001.2	18.5
Property								
Irish	527.2	1.7	3709.5	7.5	296.2	4.3	4532.9	5.2
Euro ex Ireland	449.5	1.5	1424.0	2.9	0.0	0.0	1873.5	2.2
UK	110.6	0.4	1348.2	2.7	0.0	0.0	1458.8	1.7
Other Non Euro	5.0	0.0	22.0	0.0	0.0	0.0	27.0	0.0
Property - Total	1092.3	3.6	6503.7	13.1	296.2	4.3	7892.2	9.1
Cash and Cash Instruments								
Euro	460.2	1.5	2403.8	4.9	327.2	4.7	3191	3.7
Non Euro	38.8	0.1	36.1	0.1	0.0	0.0	75.0	0.1
Alternative Assets	808.3	2.7	1184.5	2.4	35.4	0.5	2028.3	2.3
TOTAL ASSETS	30142.5	100.0	49557.1	100.0	6902.6	100.0	86602.2	100.0

Appendix B: Irish Pension Fund Asset Analysis - End 2008

	Segregated Assets & Unithised Assets		Insured Assets		Total Assets	
	€m	%	€m	%	€m	%
MARKET VALUE OF ASSETS	57120.2	100.0	6398.7	100.0	63518.9	100.0
ASSET DISTRIBUTION BY SECTOR						
Equities						
Irish	2926.5	5.1	291.0	4.5	3217.4	5.1
Euro	9025.9	15.8	115.8	1.8	9141.7	14.4
UK	3134.1	5.5	157.1	2.5	3291.2	5.2
US	7909.2	13.8	170.5	2.7	8079.7	12.7
Rest of Europe	2863.3	5.0	154.9	2.4	3018.1	4.8
Japanese	1904.6	3.3	33.3	0.5	1937.9	3.1
Pacific ex Japan	1723.7	3.0	32.9	0.5	1756.6	2.8
Emerging Markets	717.8	1.3	0.6	0.0	718.4	1.1
Other	2027.7	3.5	0.0	0.0	2027.7	3.2
Equities - Total	32232.7	56.4	956.0	14.9	33188.7	52.3
Bonds- Under 10 Years						
Euro Government	5631.5	9.9	1953.9	30.5	7585.4	11.9
Euro Corporate	1075.5	1.9	413.3	6.5	1488.8	2.3
Non Euro Government	188.2	0.3	165.6	2.6	353.8	0.6
Non Euro Corporate	96.8	0.2	73.1	1.1	169.9	0.3
Index Linked	387.6	0.7	228.7	3.6	616.4	1.0
Bonds- Over 10 Years						
Euro Government	3939.0	6.9	1119.7	17.5	5058.6	8.0
Euro Corporate	273.8	0.5	44.1	0.7	317.9	0.5
Non Euro Government	102.1	0.2	0.0	0.0	102.1	0.2
Non Euro Corporate	109.2	0.2	10.4	0.2	119.5	0.2
Index Linked	694.8	1.2	86.5	1.4	781.3	1.2
Bonds Total	12498.5	21.9	4095.3	64.0	16593.8	26.1
Property						
Irish	3528.3	6.2	333.5	5.2	3861.8	6.1
Euro ex Ireland	696.4	1.2	195.3	3.1	891.7	1.4
UK	553.4	1.0	1.1	0.0	554.5	0.9
Other Non Euro	15.4	0.0	0.0	0.0	15.4	0.0
Property -Total	4793.5	8.4	529.9	8.3	5323.4	8.4
Cash and Cash Instruments						
Euro	5864.8	10.3	786.2	12.3	6651.0	10.5
Non Euro	253.0	0.4	0.1	0.0	253.0	0.4
Alternative Assets	1477.7	2.6	31.3	0.5	1509.0	2.4
TOTAL ASSETS	57120.2	100.0	6398.7	100.0	63518.9	100.0