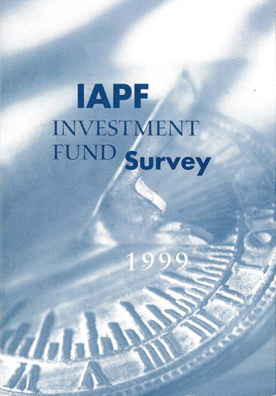
# IAPF
# INVESTMENT FUND Survey

1999



*Note: Unless otherwise stated, all percentage figures are based on the number of schemes.*

## PART ONE: SCHEME DETAILS

### Q1a What type of pension scheme(s) do you offer?

| | |
|---|---|
| Defined Benefit | 78% |
| Defined Contribution | 21% |
| AVC | 54% |
| Other | 1% |

### Q1b What is the approximate percentage split of your company's overall pension scheme assets?

| | *% of assets* |
|---|---|
| Defined Benefit | 83% |
| Defined Contribution | 14% |
| AVC | 3% |
| Other | 0% |

**Commentary**
Many companies sponsor more than one pension scheme and, as such, may have more than one of the scheme types outlined in Q1a above. 78% of all funds in the survey are defined benefit schemes while 21% are defined contribution schemes. Just over half of the companies in the survey offer an AVC scheme to members although when we breakdown these figures, it shows that 60% of companies with defined benefit schemes sponsor AVC's whereas this figure falls to only 44% for defined contribution schemes. This may be due to the fact that most new schemes are defined contribution and these may not, as yet, have set up an AVC scheme.

In terms of funds under management, defined benefit schemes make up 83% of the assets with defined contribution constituting just 14% of the total.



IAPF Pension Fund Investment Survey

### Q2 Do you use one or more investment managers? (Defined Benefit only)

| | |
|---|---|
| One | 65% |
| Two | 23% |
| Three | 12% |

**Commentary**
Given that the typical defined benefit pension fund in the Irish market is still relatively small, it is not surprising to see that most funds use just one investment manager. The same analysis for defined contribution schemes is shown in section 4 below.

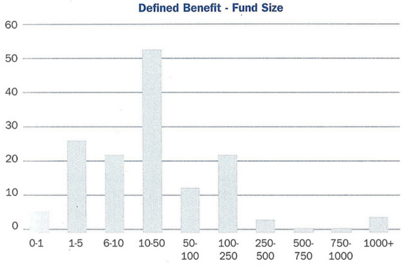
### Q3 What is the approximate market value at 31 December 1998 of your Irish pension scheme assets?

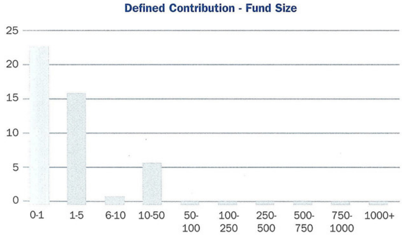
Summary Table of Responses

| *£m* | *Defined Benefit* | *Defined Contribution* |
|---|---|---|
| 0-1 | 4% | 49% |
| 1-5 | 18% | 36% |
| 5-10 | 15% | 2% |
| 10-50 | 34% | 13% |
| 50-100 | 9% | 0% |
| 100-250 | 15% | 0% |
| 250-500 | 3% | 0% |
| 500-750 | 0% | 0% |
| 750-1000 | 0% | 0% |
| over 1000 | 3% | 0% |

**Commentary**
From the above table, we can approximate the average fund size of defined benefit schemes as £101m with the average size of a defined contribution scheme standing at just £5m. These average figures are far higher than the corresponding median fund sizes which are £30m and £1m for defined benefit and defined contribution respectively. The differences between the average and the median figures are due to a few very large schemes participating in the survey.

Graphically, the above information can be presented as follows:








**Q4a Are you an affiliate of an international company?**

| | |
|---|---|
| Yes | 53% |
| No | 47% |

**Q4b Where is your parent company's base?**

| | |
|---|---|
| US | 44% |
| UK | 28% |
| Europe | 25% |
| Other | 3% |

**Commentary**

More than half of schemes had parent sponsors domiciled outside of Ireland. Not surprisingly, most of these were based in the US with Europe and the UK making up the rest in broadly level terms.

## PART TWO: POLICY

**Q5 If performance related fees were offered as an option, would you avail of the opportunity?**

| | |
|---|---|
| Yes | 53% |
| No | 47% |

**Commentary**
It will surprise many people that there is such a substantial interest in performance related fees given that there is very little on offer from the investment management industry.

**Q6a Do you have member trustees?**

| | |
|---|---|
| Yes | 73% |
| No | 27% |

**Q6b What portion of the total number of trustees do they represent?**
Where they are present, member trustees make up, on average, 50% of the trustee board.

**Commentary**
The percentage of funds with member trustees shown here is higher than that shown on the benefits survey. This may be due to the fact that the two surveys have different universes or that the question was misinterpreted by some.

**Q7 Do you have an investment management agreement in place?**

| | |
|---|---|
| Yes | 72% |
| No | 28% |





**Commentary**
Looking at these figures in greater detail shows that, the IMA's already in place are split 50/50 between unitised and segregated schemes but that defined benefit plans have a higher proportion in place than defined contribution plans with 74% and 56% respectively.

**Q8a Do you have a custody agreement in place?**

| | |
|---|---|
| Yes | 83% |
| No | 17% |

**Q8b Directly with the custodian?**

| | |
|---|---|
| Yes | 25% |

**Q8c Under an umbrella arrangement between the fund manager and custodian?**

| | |
|---|---|
| Yes | 58% |

**Commentary**
There is quite a high number of custodian agreements in place, most of which are via umbrella arrangements between the investment manager and the custodian.

**Q9a Do you have a statement of investment policy in place?**

| | |
|---|---|
| Yes | 54% |
| No | 46% |

**Q9b Do you have a specific performance objective in place for your fund?**

| | |
|---|---|
| Yes | 65% |
| No | 35% |

**Q9c If yes, is it linked to the average/median pension fund performance or a benchmark tailored to the scheme's liability profile?**

| | |
|---|---|
| Average/Median | 69% |
| Benchmark | 31% |

**Commentary**
Just over half of the scheme's have a statement of investment policy in place while 65% have a specific performance objective. That leaves plenty of room for improvement over the next few years. In terms of those scheme's with a specific performance objective, 69% are measured against the average / median of the peer group whereas only 31% of schemes have tailored benchmarks.





## PART THREE: INVESTMENT MANAGEMENT

**Q11a Have you selected fund managers for either one or more of these mandates?**

| | |
|---|---|
| Active Balanced | 85% |
| Active Specialist | 11% |
| Passive (including consensus) | 13% |

**Q11b If yes, please specify the percentage of your company's total pension fund assets (all schemes) managed under each mandate and indicate how you think this mix might change over the next two years.**

80% of schemes felt that there would be no change in their mandates over the next 3 years. This figure may surprise some people given projections for passive management in Ireland (in the UK and US, passive management makes up approximately 30%-40% of pension assets) and also the growing awareness of specialist management.

However, for those who envisaged change;

1) 16% of schemes with an active balanced mandate believe that the proportion held will fall over the next 3 years. Of those who envisaged a fall, the average decrease was 30%.

2) 7% of schemes believe that the specialist portion will increase with an average expected increase of 33%.

3) 9% of the schemes expect that the passive portion of their assets will rise by an average of almost 20%.

**Commentary**
Because some funds use a mixture of investment mandates, the percentages in Q11a above add up to more than 100%. In Q11b, it looks like any changes will result in a fall in the traditional active balanced mandates and an increase in passive and specialist management.

**12a Do you anticipate that your fund's asset mix will change as a consequence of the Euro?**

| | |
|---|---|
| Yes | 80% |
| No | 20% |

**Q12b If yes, who do you expect to be the primary instigator of change?**

| | |
|---|---|
| Trustees | 15% |
| Investment Managers | 77% |
| Pension Consultants | 8% |

**Commentary**

It is interesting to note that the vast majority of schemes believe that the change in asset mix will be instigated by the investment managers with only 8% believing that pension consultants will instigate this change.

**Q13a Approximately what percentage of your total pension assets was invested in Irish equities at 31/12/1998?**

*In order to arrive at a meaningful answer to this and the following question in relation to "a typical" Irish pension fund, we have omitted funds whose current Irish equity distribution was above 45% or below 15%.*

The average Irish equity content of the remaining funds was 29%.

**Q13b What do you expect this portion to be at each of the following dates?**

| *Date* | *Average Irish Equity Distribution* |
|---|---|
| 31 December 1999 | 27% |
| 31 December 2000 | 25% |
| 31 December 2001 | 24% |
| 31 December 2002 | 23% |
| 31 December 2003 | 22% |





**Commentary**

Most members of the investment community subscribe to the fact that the Irish equity content of balanced funds will fall over the next few years as a result of the introduction of the Euro. It is, therefore, interesting to note that quite a high proportion of respondents do not agree. Also, of those respondents who do believe that there will be a decrease, the average fall of just 7% over the next five years may be seen by some as quite small.

**Q14 Do you manage the investments for any of your pension funds directly?**

| | |
|---|---|
| Yes | 9% |
| No | 91% |

**Q15 Do you have any limits on stock specific risk?**

| | |
|---|---|
| Yes | 41% |
| No | 59% |

**Commentary**

If the Irish equity weighting falls in the next few years, then stock specific risk may become less of an issue than in the past, as the stock specific risk inherent in a high Irish equity weighting will reduce. However, trustees may still want to impose such a restriction, if they wish to reduce the risk associated with over-concentration in any one stock.

**Q16 Do you have any limits on self-investment?**

| | |
|---|---|
| Yes | 43% |
| No | 57% |

**Commentary**

This question really only applies to quoted companies and so we cannot conclude that the schemes surveyed have a relatively high/ low level of risk control in the place on this issue as all those surveyed were entitled to answer the question.

PART FOUR: DEFINED CONTRIBUTION SCHEMES ONLY

***If you offer a defined contribution scheme:***

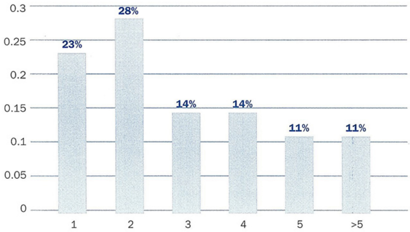
**17a Do you provide an option where members can contribute to a fund investing exclusively in a parent company stock (if quoted)?**

| | |
|---|---|
| Yes | 7% |
| No | 93% |

**17b Do you plan to offer such an option in the future?**

| | |
|---|---|
| Yes | 5% |
| No | 95% |

**17c How many fund choices do you currently offer to members?**

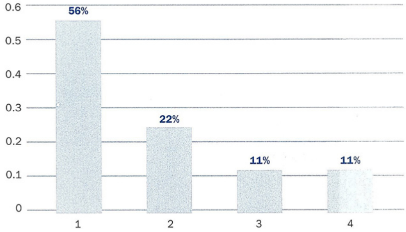



The above chart shows a breakdown of the percentage of schemes offering the different numbers of fund choices. The most popular choice is two funds with an average of three funds being offered.





**17d How many choices of fund manager do you offer?**




Most defined contribution funds offer just one fund manager to members with the average number of managers on offer being two. This slide, coupled with the above, means that on average one manager tends to be appointed for two mandates with a second manager appointed for the third mandate.

**17e Do you believe that this amount of choice is adequate?**

| | |
|---|---|
| Yes | 84% |
| No | 16% |

**Commentary**
Looking closer at the results shows that 85% of schemes offering just one manager believe that this is adequate while 75% of schemes offering just one type of fund believe that this is adequate. One possible reason for these high figures may be the fact that defined contribution funds tend to be relatively new and therefore, they may not feel that they need a suite of funds to offer their members just yet.

**17f Who performs the member record-keeping activity?**

| | |
|---|---|
| Life Assurance Company | 27% |
| Pension Consultant | 63% |
| Fund Manager | 0% |
| Sponsoring Company | 6% |
| Other | 4% |

**17g Where choice is provided do you have a communication / education programme for members?**

| | |
|---|---|
| Yes | 85% |
| No | 15% |

**17h If yes, who provides this?**

| | |
|---|---|
| Company / Trustees | 29% |
| Pension Consultant | 57% |
| Fund Manager | 4% |
| Combination of the above | 11% |

**Commentary**
It is very important, that where choice is offered to members, the trustees are seen to make available to the members some form of education regarding their fund choice, particularly where the choice involves selecting between fund types. 85% of funds currently meet this requirement and the majority rely on pension consultants to provide the service.