

Press Release

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Immediate Release

PENSION FUNDS CONTINUE TO DIVERSIFY ASSET INVESTMENTS

The latest Annual Survey¹ from the National Association of Pension Funds (NAPF) has shown that pension funds are continuing to move their assets out of equities and into other investment classes. The survey received responses from 294 defined benefit funds with £450 billion in assets.

The percentage of all pension fund assets invested in equities has fallen from 59.7% in 2006 to 49.9% this year (UK equity investment has fallen from 28.2% to 21.1%). There has been an increase in fixed interest investments from 27.7% in 2006 to 31.2% in 2008

David McCourt, NAPF Policy Adviser on Investment and Governance, said

“The pattern of UK pension fund investment continues towards greater diversification as a means of better risk management and reducing the impact of significant volatility in world equity markets. If volatile equity markets persist it would be likely that this trend will continue in 2009.”

Other key findings from the survey included:

- Nearly a quarter of schemes (23%) have implemented a liability-driven investment strategy and a further 41% have considered implementing such a strategy;
- Half of the respondents reported a reduction in their exposure to equities while only 3% said that they had increased their investment in this asset class;

- However, 92% of schemes continue to invest in UK equities.

Allocation Changes (see annex 1 for full breakdown):

UK equities – the percentage of all pension fund assets invested in UK equities has fallen from 28.2% in 2006 to 21.1% in 2008

Table 1: percentage of assets invested in UK equities

	2008	2007	2006
Equities – UK	21.1%	25.0%	28.2%

Overseas equities – the trend away from equities is not just confined to UK stocks and shares. The percentage of assets invested in overseas equities fell from 31.5% in 2006 to 28.8% in 2008.

Table 2: percentage of assets invested in overseas equities

	2008	2007	2006
Equities – Overseas	28.8%	29.9%	31.5%

Fixed Income Assets - pension funds are increasingly moving their investments into

fixed income assets, such as gilts and bonds. Investment in fixed income assets has increased from 27.7% in 2006 to 31.2% in 2008.

Table 3: percentage of assets invested in fixed income assets

	2008	2007	2006
Fixed Income Assets	31.2%	29.4%	27.7%

Private equity – investment in private equity has risen from 1.7% to 2.5%.

Table 4: percentage of assets invested in Private Equity/ Venture Capital

	2008	2007	2006

Private Equity/Venture Capital	2.5%	1.7%	1.7%
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Property – the percentage of assets invested in property has remained the same at 7% over the last three surveys.

Table 5: percentage of assets invested in property

	2008	2007	2006
Property	7.0%	7.3%	7.0%

Hedge Funds – pension funds have increased their investment in hedge funds to 1.9% in 2008 from 1% in 2006.

Table 6: percentage of assets invested in hedge funds

	2008	2007	2006
Hedge Funds	1.9%	1.2%	1.0%

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1. The 34th National Association of Pension Funds' Annual Survey of UK Pension Funds 2008 can be purchased via www.napf.co.uk/Publications/Index.cfm.

The survey received responses (between 30th June 2008 and 31st July 2008) from 327 NAPF fund members, though not all responded to every question. Nearly all respondents operate defined benefit schemes. Most also operate defined contribution schemes. 502 schemes were covered by the survey.

Assets in respondents' defined benefit schemes total £454 billion. Assets in defined contribution schemes total £9.5 billion.

7.1 million people have pension entitlements in the defined benefit schemes operated by respondents. Around 650,000 people are saving in their defined contribution schemes.

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About the National Association of Pension Funds

The NAPF is the leading voice of workplace pensions in the UK. We speak for 1,200 pension schemes with some 15 million members and assets of around £800 billion. NAPF members also include over 400 businesses providing essential services to the pensions sector.

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ANNEX 1: Defined benefit pension funds' strategic asset allocation 2006-2008

	% of schemes which invest in asset class			Average % of fund invested in asset class (schemes which invest)			% of all assets in sample invested in asset class		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
EQUITIES									
Equities – UK	92	92	96	26.9	29.8	32.6	21.1	25.0	28.2
Equities – Europe	59	63	71	9.0	9.8	9.2	7.0	7.8	8.3
Equities - North America ¹	57	60	69	9.0	8.9	6.5	7.8	6.8	8.5
Equities – Japan	53	59	68	4.0	4.3	4.5	3.2	3.3	3.9
Equities - dev.ec. and emg. mkts ²	42	43	32	3.5	3.5	5.9	4.2	4.0	5.0
Equities - global equity	55	46	32	21.6	23.2	24.3	6.6	8.0	5.8
FIXED INTEREST									
UK conventional gilts	58	62	64	12.4	13.0	12.8	6.3	6.8	6.7
UK index-linked gilts	68	66	66	14.9	13.3	13.5	9.9	8.9	9.8
Overseas government bonds	33	21	22	5.1	5.7	4.6	2.1	2.8	1.6
Corporate bonds	69	68	70	17.4	16.4	14.9	10.0	8.5	8.2
CDOs	5	2	2	3.0	7.0	2.0	0.2	0.1	0.1
Other fixed interest	22	17	11	18.6	16.3	11.6	2.7	2.3	1.3
OTHER ASSETS									
Property	64	60	54	7.9	8.1	8.1	7.0	7.3	7.0
Private equity/venture capital	24	20	20	3.7	3.2	3.2	2.5	1.7	1.7
Hedge funds	24	17	11	7.8	6.7	5.8	1.9	1.2	1.0
Infrastructure/PFI/PPP	14	7	2	3.2	2.4	6.0	0.6	0.5	0.1
Insurance policies (excl. AVCs)	7	4	4	42.7	29.9	31.8	0.2	0.1	0.1
Commodities	8	4	2	3.6	2.2	3.5	0.4	0.4	0.4
Cash and short-term investments	47	47	48	5.2	5.3	5.2	1.9	2.7	1.6
Active currency	16	12	n/a	4.2	2.7	n/a	0.3	0.2	n/a
Other	22	18	n/a	20.3	12.1	n/a	2.1	1.6	11.6

1 The 2006 survey only covered the US: The 2007 and 2008 surveys asked about North America.

2 In 2007, the other equity categories were emerging markets and other developed economies; in 2006 and 2005 they were Far East (excl. Japan), emerging markets and other