



# MARKETS IN MOTION

developments that matter in financial markets

## Global Pension Funds : Overview

"Supervisory authorities require that a pension fund acts with due diligence when assessing alternative investments to ensure they take appropriate account of the specific risk and return characteristics of these investments."  
International Organization of Pension Supervisors

### FTKMC

FT KNOWLEDGE MANAGEMENT COMPANY LIMITED

- MARKETS**
    - Equities
    - Commodities
    - Currencies
    - Debt
    - Banking
    - Insurance
    - Financial Services
  - PRACTICE**
    - Executive Education
    - Certification
    - Consultancy
    - Research
    - Advisory Services
  - FORUMS**
    - The Strategy Dialogue
    - Financial Markets Forum
    - fiNET
    - Commodities Camp
  - REPORTS**
    - Financial Markets Review
    - Market Briefings
  - SPL PROGRAMMES**
    - Markets in Motion
    - Global Financial Markets Practice
    - Winter School
  - NATIONAL SIMULATION LAB**
- www.catchthefuture.in  
www.ftkmc.com

### Introduction

The growth of pension funds over the last three decades into a huge global block of capital has dramatically changed the funds' investment practices. The OECD (Organization for Economic Cooperation and Development) countries account for more than 90 percent of the world's private pension assets and the US account for nearly half of the total assets of private pension assets. Pension fund assets in BRIC countries are relatively low in relation to their GDP (17 percent in Brazil, 2 percent in Russia, 5 percent in India, and one percent in China).

Occupational pension plans are dominant in West European, North American, and Asia-Pacific countries. These plans are voluntary in the UK and the US, mandatory in Australia and quasi-mandatory (i.e., most workers are enrolled as a result of employment agreements between unions and employers) in the Netherlands. Latin American and Central and East European countries, on the other hand, rely mainly on mandatory personal pension plans.

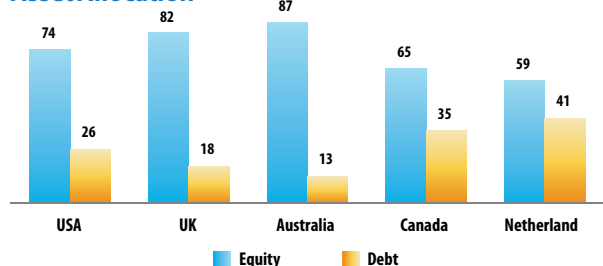
Top 10 countries with large private pension funds	
Country	As a % of GDP
Switzerland	151.9
Netherlands	149.1
Iceland	147.4
Denmark	140.6
USA	124.0
Australia	119.5
Canada	103.5
United Kingdom	96.4
Ireland	93.6
Finland	78.1

www.oecd.org

Most of the countries with large private pension funds invest a substantial portion of their assets in equities, and asset allocation between equity and bonds shows a wide dispersion among different countries.

These differences in asset allocation in different countries can be partly explained by the liability structure of the pension plans (Defined Benefit Occupational Plans or Defined Contribution Plans), and by investment regulations of the countries. Other variables such as the age distribution of members, historical reasons, sponsor's own preferences, or the expected capital market return also impact the asset allocation of these funds.

### Asset Allocation

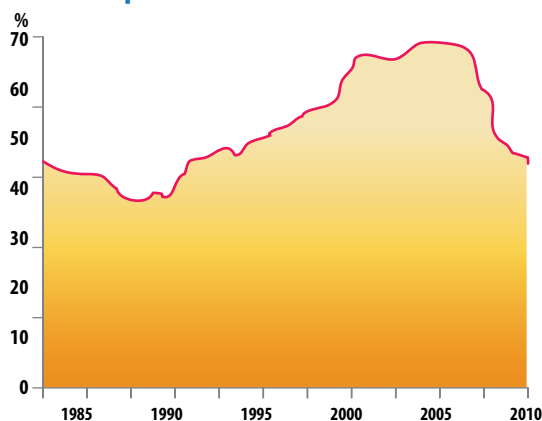


www.oecd.org

### Current Trends

Post-financial crisis, many stock markets have seen gains of the past decade completely wiped out and the value of pension fund equity holdings in the US alone fell by \$4 trillion over the past year. With retirement savings making up the largest block of those holdings, pension funds are central to the health of the financial system and are a primary source of capital. The following table shows the steady decline of pension plan assets in equities in the US.

### Percentage of Private Sector Pension-plan Assets in Stocks



\*As of the End of the Second Quarter  
Source: Centre for Retirement Research at Boston College

With a view to reduce volatility, many pension funds in the US are now trying to match their plan's expected income to the expected need to pay benefits with the least risk possible. Some pension funds follow a strategy called 'liability-driven investing' with a mix of bonds, annuities and derivatives with predictable maturities and yield. Pension funds may prefer equities once the financial market in developed countries stabilizes but for the moment these funds are very cautious in investing in equities.

Contributed by M Ravindran

### Forthcoming Programme

## POSTGRADUATE DIPLOMA IN FINANCIAL MARKETS PRACTICE

Offered jointly by IGNOU & FTKMC

For details, contact:  
Ms Sarika Deorukhkar  
Tel: +91 22 6731 8808  
Email: sarika.deorukhkar@ftkmc.com

Published by  
FT Knowledge Management Company Limited  
Exchange Square, 1st Floor, Suren Road,  
Chakala, Andheri (East), Mumbai - 400093, India.  
Tel: +91 22 6731 8888 • Fax: +91 22 6726 9541  
Email: marketinmotion@ftkmc.com • Website : www.ftkmc.com

Register Now  
For details, contact:  
Mr Afzal Saboowala  
+91 99302 67954  
afzal.saboowala@ftkmc.com

GLOBAL FINANCIAL MARKETS  
**EXPOSURE PROGRAMME** November 20 to December 4, 2010  
HONG KONG • SEOUL • SHANGHAI • SINGAPORE • KUALA LUMPUR • BANGKOK