Introduction

The November 2009 Global Pension Pulse Polls conducted by Pyramis Global Advisors focused on identifying the top concerns, attitudes and future investment intentions of defined benefit (DB) pension plan sponsors. Separate polls were conducted in the US, Canada, the UK and Northern Europe.

Pyramis Pulse Polls recorded the views of institutional investors after one of the most volatile two-year periods in investment history and following a decade of highs and lows for investors around the world.

Conducting the polls at the end of 2009 offered a timely look at how the events of the prior 24 months and the first decade of a new century have impacted institutional investors and their pension plans. The polls captured insights from respondents who experienced investment losses in 2008 and early 2009 as well as investment gains during the final three-quarters of 2009. These investors witnessed investment missteps and scandals that came to light during the prior 18 months and are assessing potential changes to local, regional and global regulatory and legislative rules that govern world markets. They have viewed the efforts of governments and central banks to revive credit and financial markets and they have considered the long-term economic and capital market implications of those efforts.

Poll responses showed areas in which respondents share common views as well as areas of noteworthy differences in opinion and outlook.

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Certain questions were asked in each of the polls. They included questions about:

- Top concerns
- Planned strategic asset allocation changes over the next one to two years
- Top three preferred hedge fund strategies
- Attitudes about active equity management’s ability to generate alpha
- Considerations of changes to investment mix to manage volatility
- Views of the most likely pension asset allocation in 10 years, and
- Perceptions of the bigger threat to the capital markets over the next five years: inflation or deflation.

At the highest level, the November 2009 Pyramis Global Pension Pulse Polls showed that leading global pensions plans believe that future growth will come from active equity management and that the biggest challenges confronting pensions are funded status, risk management and volatility. Pensions face significant challenges as to how they move forward after the sustained volatility global equity markets have experienced. One of the strongest points of view among investors was that the majority believes actively managed equity strategies, versus passive management, will deliver excess market returns in the future as they seek to match growth of their plans’ assets to their future payment obligations to plan participants and their beneficiaries.

The details underneath the high level findings continue to point to important differences between pension plan sponsors in the US, Canada, the UK and Northern Europe based on key plan demographics such as their public or corporate/private status, the relative size of their assets under management, their regional location and the governmental, business, regulatory and legislative environments in which they operate.
Institutional investors worldwide ranked the current funding status of their pension plans, risk management, and continued volatility as the most significant challenges to achieving their future goals.

In the US, four-in-ten (43%) public plans reported funding status was their top concern, followed by a low return environment impacting future asset growth (29%). In contrast, 36% of US corporate plans ranked volatility as their top concern.

In Canada, the current funding status of plans was the top concern (42%) for both corporate and public plans. Canadian plans also were concerned about risk management (20%) and the potential impact of upcoming accounting and regulatory changes (14%).

Across Europe, plans ranked risk management/solidity ratios (29%) and volatility (24%) as their top concerns. In Europe, solidity ratios are a measure of a plan’s solvency or funded status.

Looking more closely at US responses, funding status was the most frequently cited concern of plans regardless of asset size. US corporate plans with assets under management of $1 billion or more most commonly select volatility as their top concern, perhaps reflecting the impact of funding volatility on their corporate business operations. US corporate pensions managing less than $1 billion cited funding status as their top concern. For US public plans, funding status was the top concern regardless of asset size.

In Canada, closer examination shows that 50% of corporate pension plans said funding status was their top concern followed by regulatory and accounting changes (21%). Canadian public pensions, cited funding status and risk management (both at 32%) as their top concern, followed by volatility at 14%. Funding status was the greatest concern of plans with less than $1 billion in assets under management (44%) including corporate plans (59%) and public plans (27%).

In the UK and Europe, countries citing risk management/solidity ratios as the top concern were the Netherlands (62%), Iceland (50%), UK (32%), and Finland (25%). Volatility was cited as the top concern in Germany (57%), Sweden (46%) and Norway (29%). High inflation or rising nominal yields were identified as the top concern in Denmark (60%) and Switzerland (23%). A low return or low inflationary environment was identified as the top concern in Austria (50%) and Norway (also 29%, the same percentage response for volatility).
EXHIBIT II: CONCERNS ABOUT INFLATION AND DEFLATION

Inflation concerns were highest among US pension plan sponsors at 89%, followed by 85% of Nordic (Finland, Sweden, Iceland, Denmark and Norway) plans, 74% of Canadian plans and 61% of UK plans. Interestingly, deflation concerns were highest amongst Dutch plans with 40%.

EXHIBIT III: PENSIONS AGREE ACTIVE MANAGEMENT WILL DELIVER ALPHA

One of the strongest points of consensus in all three polls was the belief that actively managed equity strategies will deliver alpha in the future. Almost nine-in-ten (88%) Canadian plans either strongly agreed or agreed with the statement, “We believe actively managed equity strategies will deliver alpha in the foreseeable future,” followed by 77% of Nordic plans, 76% UK plans, 71% of Dutch plans, and 70% of US plans.

The belief in the likelihood of active management, as opposed to passive management, to deliver alpha in the future was consistent across plan type and size in all three polls. In the US, 71% of corporate plans and 67% of public plans either strongly agreed or agreed with the premise. Among US plans managing $1 billion or more in their plans, 74% strongly agreed or agreed while 65% of plans with less than $1 billion in assets under management strongly agreed or agreed.

In Canada, 86% of corporate plans and 90% of public plans and 88% of plans with more than $1 billion in assets under management and 88% with less than $1 billion strongly agreed or agreed that active management would deliver alpha.
Among poll respondents who were planning to make asset allocations changes within the next one to two years, two primary objectives were noted: increasing returns and managing volatility. While many institutions planned to reduce allocations to their own countries’ domestic equities, global equity strategies still have a role to play. Plans for increasing returns included increased allocations to global equity strategies with strong interest in emerging market equities. Efforts to manage volatility sometimes differed, possibly due to varying definitions of volatility related either to financial or investment market-based conditions or the funded status of plans.

It is worth noting that, in most cases, the majority of poll respondents in all regions did not intend to make any strategic asset allocation changes within the next 12 to 24 months. This may reflect continued caution among institutional investors as they re-set their investment strategies and policies after the financial crisis of 2008-2009 and the fact that, generally, institutional investors most often take a long-term view in their asset allocation strategies.

The following are snapshots of responses from poll participants when asked, “What strategic asset allocation changes, if any, are you planning to make in the next one to two years?”

In Canada, the top priority among 50% of corporate plans was lengthening the duration for their bond portfolios and implementing Liability-Driven Investing (LDI) strategies. For public plans, the top priority among 40% of the plans was adding real estate and infrastructure assets.

Overall, Canadian plans that expected to make asset allocation changes most frequently indicated plans to increase allocations to long bonds (43%), real estate (38%), explicit inflation hedging strategies (32%), emerging market equities (30%) and corporate bonds (27%). Planned reductions in Canadian equity allocations were indicated by 31% of Canadian corporate plans and 32% of Canadian public plans. Reductions in US equity allocations were planned by 40% of Canadian corporate plans while only 10% of Canadian public plans expected to reduce US equity allocations.

Among Canadian public plans, 45% planned to implement inflation hedging strategies which could include US Treasury Inflation Protected Securities (TIPS), commodities, and real assets, while 41% were targeting increased allocations to emerging market equities and another 15% plan to increase global equity allocations.

In the US, both corporate and public plans were moving out of allocations to US equity strategies, but paths appeared to diverge after their exits. Among US corporate pension plans, 55% expected to decrease allocations to US equity strategies consistent with the trend away from Canadian domestic equity investments seen in the Canadian Pension Pulse Poll.
The movement away from equities was not wholesale for US corporate plans. Only 12% of them planned to decrease allocations to non-US equities, while increases were planned for global equity (21%), emerging market equity (20%) and non-US equity allocations (19%).

US corporate pensions planned to increase allocations to long bonds (43%), investment grade fixed income (37%) and corporate bonds (22%). Such fixed income allocations may be intended to smooth funding volatility in returns and immunize asset-liability structures from market volatility. Also, 26% of US corporate plans expected to increase allocations to explicit inflation-hedging strategies. Lower percentages of US corporate pensions are planning increases to hedge funds of funds (17%), private equity (13%), equity market neutral (12%), and high yield (11%).

US public pension plans also expected to decrease allocations to US equities (57%) but, unlike US corporate plans, public pensions expected to allocate to non-US and global equity strategies in larger percentages. Of respondents, 39%, 34% and 25%, respectively, planned to increase non-US equity, emerging markets equity and global equity allocations. US public pensions also expect to increase allocations to real estate (35%) and other inflation hedging strategies (34%), private equity (31%), and hedge funds of funds (24%).

In the UK and Europe, data analysis focused on the UK and Europe overall, with closer looks at Swiss, Dutch and Nordic plans. Few extremes—that is, “significant” increases or decreases to any individual asset class or strategy—were identified in large percentages among the poll respondents with a couple of exceptions. In the Netherlands, plans expected to significantly increase allocations to inflation hedging strategies (20%) and emerging market equities (17%). In all other cases, “significant” increases were restricted to single digit percentage responses among poll participants. Changes planned were identified as “modest” increases or decreases.

Overall, in Europe the most notable decreases planned among respondents were interest rate strategies (24%), equities (23%), and cash/money market assets (23%). The most frequently cited increases were to emerging markets equity (41%), real estate/private property (37%), inflation hedging strategies (30%), hedge funds (28%), and equities (27%).

Results recorded in individual countries and regions revealed similarities and differences. For example, Swiss (26%), Nordic (21%) and Dutch (18%) planned to decrease allocations to cash/money market assets. Nordic plans registered their highest response rate (38%) when asked about intentions to decrease allocations to interest rate strategies and extended credit (22%) such as high yield, emerging market debt and leveraged loans. On the other hand, in the Netherlands, 50% of plans are targeting increases to emerging markets equity, and inflation hedging strategies (47%). Respondents from Switzerland most often cited real estate/private property (36%) for increased allocations, followed by equities (28%), emerging markets equity (28%), and inflation hedging strategies (22%).

In the UK, almost as many plans (23%) were planning to increase equity allocations as were planning to decrease (28%) them. The next highest response rate for planned decreases was to allocations to extended credit strategies and cash/money market assets (both 17%). The allocations most often targeted for increases among UK pensions included real estate/private property (40%), emerging market equity (36%) and hedge funds (30%). Following closely on those results were plans for increased allocations to strategies aimed at inflation hedging (29%), interest rates (29%), directional long/short (28%) and extended credit (27%).
Even as they seek to enhance returns, pension plan sponsors also clearly indicated in their poll responses a significant concern about the impact of volatility in its many forms on their portfolios. Data was gathered to learn what types of changes to their investment mix plan sponsors were considering to better manage volatility.

Poll participants had a choice of six strategies that might help mitigate the portfolio impact of volatility. These were: 1) reduce equities, 2) increase fixed income assets, 3) increase fixed income duration, 4) adopt LDI, 5) combine LDI with low volatility hedge fund strategies, and 6) diversify into alternative asset classes such as property or infrastructure. Respondents could choose multiple strategies and were asked to indicate whether they definitely will consider, likely will consider, will consider, will not consider, and definitely will not consider these options.

Combining responses indicating they will, likely will or definitely will consider the strategies proposed, 80% of US corporate pensions indicated they would increase fixed income, reduce equities (76%) or increase duration of fixed income (74%). In contrast, US public pensions were most comfortable diversifying into alternative asset classes (65%) as a way to manage volatility, followed by reducing equities (49%) and increasing fixed income duration (40%).

**Canadian** corporate plans most frequently chose increasing duration (54%) followed by adopting LDI strategies (41%) and increasing fixed income (36%). Reducing equities was ranked fourth among the options by Canadian corporate plans tied at 31% with diversifying onto alternative asset classes.

The four most commonly cited changes to investment mix chosen by participants in the **UK/European** poll were: 1) diversify into alternative assets classes, 2) adopt LDI 3) increase fixed income assets, and 4) reduce equities. Respondents in the UK (73%), the Netherlands (70%), and Nordic countries (66%) chose diversify into alternatives. Increasing fixed income assets was selected in the UK (68%), Nordic countries (60%) and Switzerland (50%). Adopting LDI was a preferred change in the UK (68%), the Netherlands (68%) and Switzerland (59%). Reducing equities was selected in the Nordic countries (55%), Switzerland (53%), and the Netherlands (52%).

**Allocating to Alternatives, Hedge Funds**

Whether using hedge funds as a return enhancer or as a diversifier to manage volatility, institutional investors may choose from a broad array of options. In the last of a series of questions related to portfolio and investment strategy, poll participants in all three regions were asked to rank their top three hedge fund preferences. Plan sponsors in all regions preferred fund-of-hedge-fund structures followed by single manager hedge fund strategies.
In UK/Europe, poll data was analyzed from the UK and other European countries as differences in choices were not significant enough in countries outside the UK to warrant separate reporting.

The highest percentage of UK pensions (17%) ranked directional long/short equity as the preferred single manager hedge fund option followed by equity market neutral (10%) and multi-strategy (single manager) and global macro (both at 7%). Respondents from other European countries participating in the UK/European poll ranked their most preferred options as global macro (15%), directional long/short equity and credit (both at 13%) and multi-strategy (single manager) (12%).

In Canada, corporate pension plans ranked relative value (43%) as the preferred single manager hedge fund option ahead of multi-strategy (single manager) (35%) and directional long/short equity (30%). Public plans in Canada, on the other hand, ranked equity market neutral as the most preferred single manager hedge fund strategy at 38%, followed by directional long/short equity (33%) and, in a tie with 29% each, multi-strategy (single manager), relative value and emerging markets.

In the US, multi-strategy (single manager) with 42% was preferred single manager hedge fund strategy among corporate pension plans, followed by equity market neutral at 21% and directional long/short equity at 18%. US public pensions preferred multi-strategy (single manager) (35%), global macro (21%), and emerging markets and directional long/short equity (both with 19%) among single manager hedge fund strategies.

Pulse Poll participants in each region were asked for their views on the most likely future for pension asset allocations in 10 years. Clear divergences were recorded in the responses from US public and corporate plans, Canadian corporate and public plans, and plans in the UK and Northern Europe.

In the US, 42% of all plans expect asset allocations to shift largely to fixed income and/or immunized strategies over the next 10 years. The majority response was driven predominantly by corporate plans. Fifty-seven percent (57%) of US corporate pension plan sponsors expect fixed income/immunized strategies to be predominant in pension plan allocations in the next 10 years, while only 12% of US public pension plan expect this change to occur. Public plans, on the other hand, overwhelmingly (61%) expect allocations to shift to global equity and global fixed income strategies.
Thematic trends in asset allocation for corporate pensions have become more pronounced since June 2008. In comparison with prior Pyramis surveys, the fourth quarter 2009 response from corporate plans in the US is 1% higher than the percentage choosing fixed income/immunized in the second quarter of 2009 and 17% higher than the percentage choosing that answer in the second quarter of 2008.

Similarly, in Canada, 40% of respondents overall indicated that allocations will shift significantly towards fixed income and/or immunized strategies with a 61% response rate among corporate pensions driving that percentage. Just 14% of public plans selected fixed/immunized strategies as the most likely future asset allocation for plans. All corporate plans in Canada (100%) managing $1 billion or more in pension assets said that a shift to fixed income/immunized strategies would occur over the next 10 years while 35% of plans managing less than $1 billion hold the same view. Like their US counterparts, 36% of Canadian public plans expected allocations to shift to global equity and fixed income allocations. The next most common response, from 27% of Canadian public plans, was a shift of allocations to alternative asset classes.

In Europe, respondents’ expectations for asset allocation shifts were lowest for fixed income/immunized strategies across the board. This marked difference from the responses in other regions may be due to the fact that LDI strategies have been in place for a longer period of time in the UK and Northern Europe than in the US and Canada. Respondents to the European Pulse Poll most commonly expected allocations to become more global (both equity and fixed income) with 27% of respondents in the UK and 37% of respondents in the rest of Europe selecting that option.

Even within these groups of respondents, there were divergences. For example, 47% of respondents from Germany, Austria and other countries and 45% of responses from Nordic countries indicated an expectation that allocations will shift to global equity and fixed income strategies. By comparison, in Switzerland and the Netherlands, 29% and 25% of respondents, respectively, expected shifts to global equity and fixed income strategies. Respondents in Switzerland (41%) and the Netherlands (35%) more frequently said they expected the traditional 60/40-equity/fixed income asset allocation model to prevail in 10 years.
Conclusion
The November 2009 Pyramis Pension Pulse Polls show that, across all regions, pensions face headwinds in dealing with challenging equity markets and changing economic landscapes. While these headwinds might be strong, our research shows that plans are meeting these challenges head-on and are actively working to improve their future strategic position for the benefit of the plans and their members.

Trends that may be emerging in the wake of the 2008 financial crisis include:

• Resurgent confidence that actively managed equities will deliver alpha.

• Trends towards overseas investing, including investments in emerging markets equities, as pensions seek to return to equities. This may lead to new approaches to constructing equity portfolios and benchmarking investment performance.

• Movement towards global equity strategies as a means of generating alpha particularly by pensions that maintain a long-term commitment to the DB model such as Canadian pensions and US public plans.

• Diversification into alternatives to manage volatility within portfolios, especially among plans that already have made major structural shifts into fixed income.

• Modest interest among European pensions for hedge funds, including directional long/short and low volatility hedge fund strategies such as equity market neutral for diversification.

• Increasing interest in inflation hedges through tactical allocations to TIPS, commodities, real assets and, potentially to Core Plus with managers afforded the discretion for tactical allocations to TIPS.

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Methodology

The 2009 Pyramis Global Advisors Pension Pulse Poll data was collected through online questionnaires and telephone interviews conducted with institutions in the US, Canada, the UK and Northern Europe. Results are based on a representative sample of chief investment officers, treasurers and executive directors at 427 corporate and public pension plans in 12 countries who cumulatively manage in excess of $1 trillion USD in assets.

Pyramis conducted surveys of institutional investors during November 2009 among 217 US pension plans (142 corporate, 75 public), 50 Canadian pension plans (28 corporate, 22 public) and 160 UK and Northern European institutional investors (80 private pensions, 36 public pensions, 19 insurers, 25 multi-managers) in 10 countries (41 UK, 36 Switzerland, 21 Netherlands, 13 Sweden, 12 Finland, seven Germany, seven Norway, six Austria, six Iceland, five Denmark and six others). The polls were limited to one response per plan.

The surveys were executed in association with Asset International, Inc., in the US, Rogers Communications in Canada, and the Financial Times in the UK and Northern Europe. Pyramis was responsible for interpretation of results of the survey.

For more information on the Pyramis Global Pension Pulse Poll, please email pyramis@pyramis.com.
About Pyramis Global Advisors®

Pyramis Global Advisors, a Fidelity Investments company, delivers asset management products and services designed to meet the needs of institutional market investors around the world. We are a multiclass asset manager with extensive experience offering both traditional long-only and alternative equity, as well as fixed income and real estate debt and REIT investment strategies. While the Pyramis organization was formed in 2005, Fidelity has been managing money for institutions for more than 25 years.

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