

## **BACK TO BASICS: PYRAMIS® SURVEY FINDS GLOBAL PENSION PLANS SEEK RISK MANAGEMENT SOLUTIONS POST CRISIS**

*Survey results include views of more than 460 pension plans representing more than \$2 trillion in assets*

**TORONTO, September 8, 2010** – According to new research by Pyramis Global Advisors®, the financial crisis of 2008-2009 has re-focused pension plans in North America, the U.K. and Northern Europe on defining and solving the risk management challenges they face in the decade ahead. The findings also highlight the key lessons learned by plan sponsors from the financial crisis, their top concerns right now, and the investment strategies they believe they will need to meet their challenges in the years ahead.

A continuation of a research series that has tracked institutional investor views and attitudes since its launch in 2002, the Pyramis Global Defined Benefit (DB) research study surveyed chief investment officers, treasurers and executive directors at 466 corporate and public pension plans in the U.S., Canada, and 11 European countries which cumulatively hold more than \$2.0 trillion USD in assets, an estimated 12% of the global defined benefit plan market.

“Pension plan executives gained a new appreciation for risk management during the recent financial crisis,” said Young D. Chin, chief investment officer, Pyramis Global Advisors. “Based on this survey and our own conversations with clients, there is a great deal of concern in the market today about how best to assess risk and address it. As a result of the many lessons learned, plans are implementing new investment strategies and risk measures designed to meet their long-term goals.”

### **Lessons learned from the financial crisis, top concerns**

Respondents in the U.S., Canada, and Europe said that the top three lessons they learned from the financial crisis were the need for more downside protection (62%), improved risk management (54%), a better match of assets and liabilities (49%), and a realization that they were less diversified than they thought (42%).

The top concern cited by pension plan sponsors was their current funded status (23%), followed by volatility (21%) -- either volatility of a plan’s funded status or asset volatility-- and a low-investment-return environment (19%). In the U.S., the top concern among corporate plans was the volatility of their funded status, while public plans are most concerned with their current level of their plans’ funded status. “Solvency ratio,” which is a financial strength measure of Canadian pensions, was cited by 23% of plans responding in that country. In the U.K. and Northern European countries, the top concern was a low-investment-return environment. The exception was the Nordic countries – Finland, Ireland, Sweden, Norway and Denmark – which cited risk management as their top concern (36%).

### **Addressing concerns with investment strategies**

Plan sponsors across the regions also differed in their definition of volatility, which influences the investment strategies they are pursuing and their views of risk. For example, U.S. corporate and Canadian public pension plans define volatility as funded status or solvency ratio volatility, respectively. They often seek to better match assets and liabilities to protect funded status, according to the survey. Conversely, U.S. public and Northern European pensions which define volatility as asset volatility intend to broaden diversification -- as a return enhancer and risk reducer -- to include more global equity and alternative assets. In addition, they expect to offer more investment committee education and streamline decision-making in order to execute timelier asset allocation decisions.

“The solutions that respondents identified are consistent with the lessons they have learned, their top concerns, and their definitions of volatility and risk,” Chin said. “For example, many plans are managing investment risks to protect their funded status through liability-driven investing (LDI), while others are broadening asset allocations or implementing multi-asset-class strategies with pre-approved risk and return goals for asset managers who invest tactically as markets change.

“There is an important educational component to each strategic response,” explained Chin. “The committees responsible for pension plan investments need to understand how global diversification, for example, can introduce new portfolio risks or, how broadening allocations can affect liquidity risk management. Managers who can develop effective investment strategies and effectively partner with institutional investors in the educational effort are best positioned to help their clients find solutions for the new decade.”

### **About the Surveys**

Pyramis conducted surveys of institutional investors during June and July 2010, including 249 U.S. pension plans (159 corporate, 90 public), 79 Canadian pension plans (47 corporate, 32 public) and 138 U.K. and Northern European institutional investors (57 private, 43 public, 30 multi-managers, eight insurers) in 11 countries (33 Netherlands, 32 U.K., 27 Switzerland, 14 Sweden, 13 Denmark, seven Germany, and 12 in five other countries). Total assets managed in plans represented by respondents more than \$2.0 trillion USD. The surveys were executed in association with Asset International, Inc., in the U.S., the Canadian Institutional Investment Network, and the Financial Times in the U.K. and Northern Europe. CEOs, COOs, CFOs, and CIOs responded to an online questionnaire or telephone inquiry. A report on the survey is available by writing to [Pyramis@pyramis.com](mailto:Pyramis@pyramis.com). (PyramisUK@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 investors around the world. Pyramis is a multi-asset class manager with extensive experience managing investments for and serving the needs of some of the world’s largest corporate and public defined benefit and defined contribution plans, endowments and foundations, insurance companies, and financial institutions. The firm offers traditional long-only and alternative equity, as well as fixed income and real estate debt and REIT investment strategies. As of June 30, 2010, assets under management totaled approximately

\$144.1 billion USD. Headquartered in Smithfield, RI, USA ,Pyramis offices are located in Boston, Toronto, Montreal, London, and Hong Kong.

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