

Pension funds remain uncertain about traditional assets

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<http://www.pensionsage.com/pa/pension-funds-remain-uncertain-about-traditional-assets.php>

Unease about the prospects for traditional assets remains, with only 12.5% of institutional investors saying they might increase their allocations to overseas equities, UK bonds and fixed income securities, property, hedge funds and commodities, while 20% liked infrastructure assets, a survey by SRL Global has shown.

The survey, questioning 59 pension funds, their associated asset managers, consultants and other institutional investors, found that 21% anticipated a decline in UK equities, while 12.5% also expected declines in their overseas equity holdings and in UK bonds and other fixed income securities.

One third of the survey group said market risk is a key issue while another third were fearful about the (absence of) transparency and some 17% expressed concern about the rising levels of regulatory reporting.

With regard to non-market risk, a quarter of the group were most concerned about being able to get their investment money back in the face of a crisis, while the more general issue of liquidity risk and counterparty risk both worried one fifth of respondents.

Neil Puri, CEO at SRL Global, expects fixed income markets to remain challenging over the next 12 months, resulting in a continuation of the trend to de-allocate from traditional assets and increase exposure to alternative assets as the focus shifts to absolute returns.

He said: "In the past pension funds and their consultants have focused heavily on refining and calibrating their liability forecasts but the last two years have seen a genuine refocus on the asset side of the balance sheet, with the realisation that it is actually the assets that deliver the pension promise.

"In this spirit, the survey shows that the alternatives continue to attract assets. However with increasing fiduciary pressures, both from the corporate sponsor and from the Regulator it is interesting to see that schemes are increasingly concerned with transparency and effective oversight. Those hedge funds who provide timely data and actionable intelligence will continue to attract investments from institutions.

"With a number of the UK's largest corporate and local authority schemes adopting the Stewardship code and increasing regulatory pressures such as employer related investments, will mean that the investment focus will continue its shift from mainly focusing on the pre-investment search and selection of investments to actually monitoring, measuring and managing those investments in aggregate, an area that has been heavily neglected."