

Pension Risk Management Global Survey **20**
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Executive Summary

Recent sharp stock market declines and the ensuing global recession have caused plan sponsors worldwide to examine the risks inherent in their defined benefit (DB) pension plans.

While few in the market want to see another year like 2008, it is critical to reflect, learn and get a sense of where we now stand.

The first of its kind, Aon's survey aims to review the existing state of the pension risk management industry, determine the extent to which providers and risk management products are responding to plan sponsor needs and provide some thoughts on emerging trends relative to these findings.

About the Survey

Aon Consulting's global survey of pension risk providers conducted in November 2009 covers three major geographic areas and economic environments: the United States, the United Kingdom and Canada.

Survey respondents included 41 companies from the financial services industry, including investment managers, insurance companies and investment banks. Sixty-seven percent of the respondents are multinational firms and 66 percent have assets under management in excess of US\$50 billion.

Aon Perspective

The survey results have reinforced three key guiding principles for pension plan sponsors:

1. All plan sponsors should **measure and monitor all risks** being taken in managing their plans and make conscious decisions to take only those risks that are required and are expected to have positive results.
2. Risk varies depending on plan design, plan maturity and funded position. A prudent course of action avoids micromanaging against average pension fund asset mix or median pension fund returns and, instead, **sets asset mix and structure that suit specific plan design and individual needs**.
3. To manage all these risks effectively, sponsors must ensure that they and the plan fiduciaries (e.g., trustees) **have solid skills and knowledge of risk management best practices**, or else be required to delegate strategy implementation to managers and consultants.

Aon's perspective is grounded in our survey analysis which has identified a number of emerging trends and expected challenges for pension plan decision makers.

Current State of the Pension Industry

In the United States and Canada, apart from very large pension plans, there generally appears to be more discussion than significant action around risk management. However, in the United Kingdom, more advanced, sophisticated solutions are being adopted by a wide range of plans, not just the largest.

Emerging Trends

Over the next few years we expect increased activity in the risk management marketplace in all three regions, in particular:

- United States: Interest rate and equity market risks
- United Kingdom: Inflation and longevity risks
- Canada: Interest rate and equity market risks

We will likely see new products introduced with leverage underlying the product. However, the pace of uptake for these products will likely vary due to the 2008 liquidity and leverage crisis.

Use of glide paths as a method of equity risk management (de-risking) is prevalent and the extent of interest rate hedging in plans will depend on the improving funded status of plans.

Currently there is very little activity in the United States or Canada in the buyout or annuity market due to historically low long-term interest rates in all regions. Most annuity products have seen marginal increased activity due to DB plan wind-ups and terminations. In the U.K., while full buyouts remain rare there continues to be activity throughout partial buy-ins of liabilities for retired participants, and now also the use of longevity swaps to cover separately the risk of longer life expectancies.

Expected Challenges

We expect that pension risk management will continue to face challenges in all three markets as a result of:

- A lack of understanding by plan sponsors, trustees and pension consultants
- DB plan governance structures that do not support rapid implementation of new strategies
- Current weak funded positions that force some plan sponsors to take risk in order to improve their plan's funded position

Future events that will influence a much broader implementation of risk management strategies by pension plan sponsors include improving funded status of pension plans, increasing long-term interest rates and increasing inflation rates.

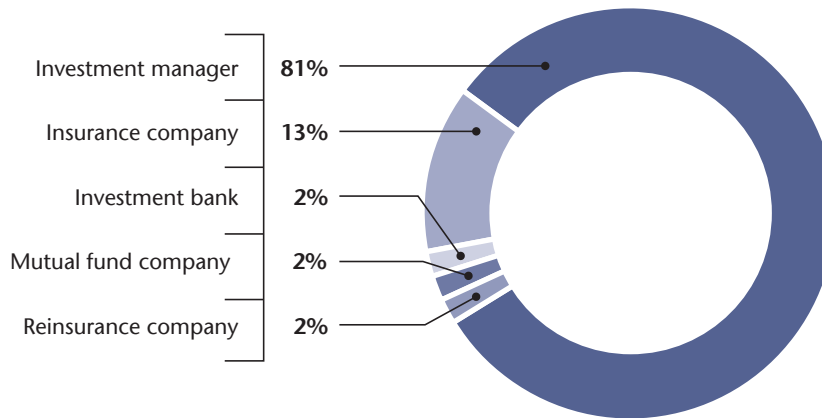
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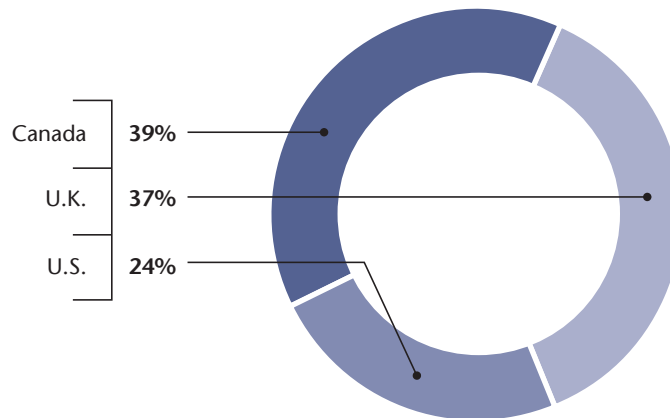
Participant Demographics

The survey revealed certain noteworthy facts about the players in this market. The majority (67 percent) are large, multinational firms with many local offices globally. This type of scale is needed to build teams and sophisticated products. In addition, pension fund management is increasingly becoming a global business wherein an international network infrastructure is a key requisite for effective resourcing and reach.

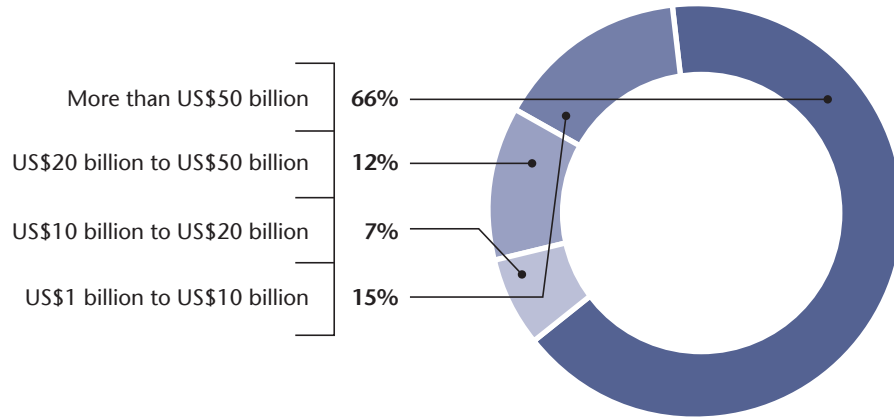
Type of firm (primary business line)



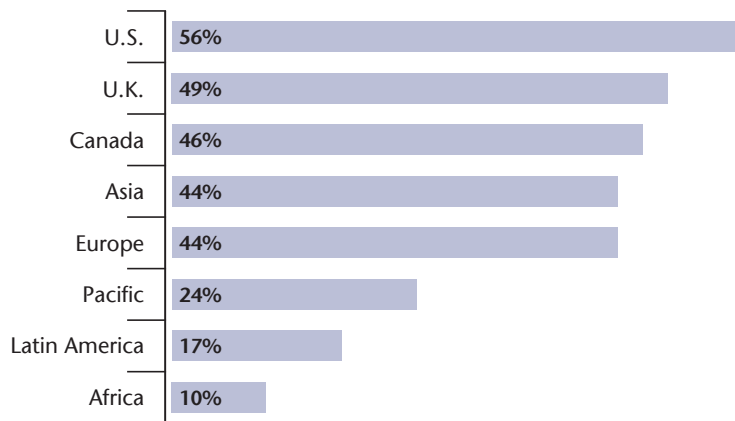
Respondent location



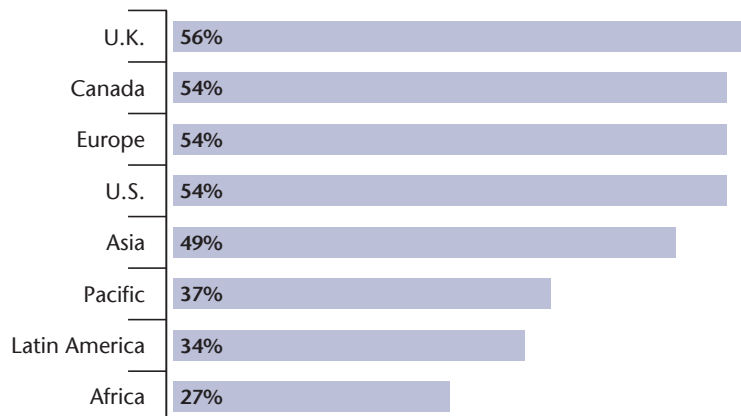
Assets under management (internal and client assets)



Location of respondent offices



Where respondents serve clients



Results Overview

Background

Globally, stock markets performed well in 2009 after dismal returns in 2008 (all returns below are in local currencies):

	2009	2008
U.S. equities (S&P 500 – USD)	+26.5%	-37.0%
U.K. equities (FTSE 100 – GBP)	+27.3%	-28.3%
Canadian equities (S&P/TSX Composite – CAD)	+35.1%	-33.0%

However, even after the 2009 recovery, pension plans globally still face funding shortfalls. The impact of funding shortfalls is significant and differs by stakeholder group:

Plan sponsors	Increased cash contributions; increased pension expense in financial statements
Members	Concerns about benefit security, in particular with insolvent employers
Governments	Increase in taxes or lending needed to fund public sector pension plans

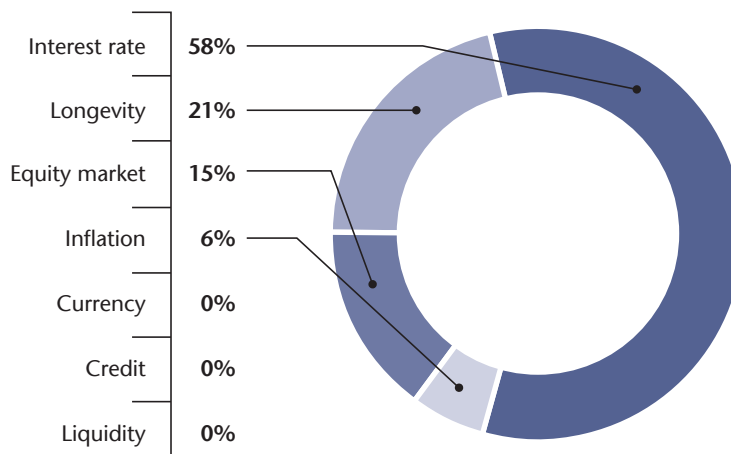
This underfunding problem has naturally given way to a heightened awareness of risk in the industry and raises the question of whether or not plan sponsors and plan members clearly understand pension plans and pension risks.

Current Practices and Emerging Trends

Survey respondents identified the following issues as the major risks facing DB pension plans:

- Interest rates
- Longevity
- Equity market
- Inflation

Which of these risks do you consider most important?



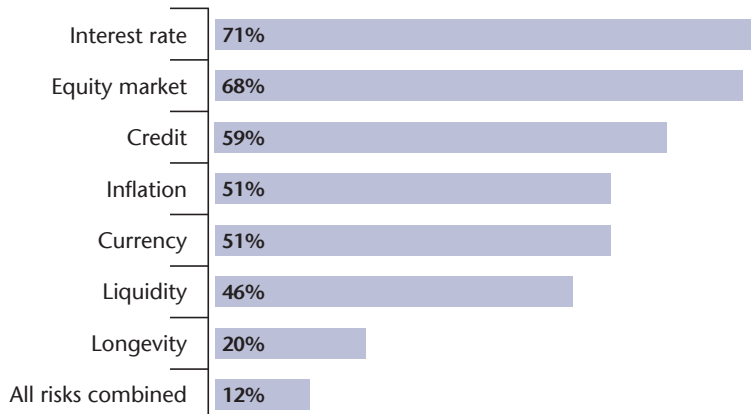
Respondents also note longevity and equity market risk as the two risks that are most difficult to remove. Outside of interest rate risk, these are also the two most significant risks pension plans face globally.

Plan sponsors are now looking at the above risks in detail and are implementing strategies to measure, monitor and manage some or all of these risks.

» Respondents also note that longevity and equity market risk are the two risks most difficult to remove. Outside of interest rate risk, these are also the two most significant risks pension plans face globally.

Over the last few years, providers of financial services have reacted to this issue by increasing the quantity and complexity of investment, insurance and financial products for more effective pension risk management. Respondents are involved in almost all areas of pension risk management.

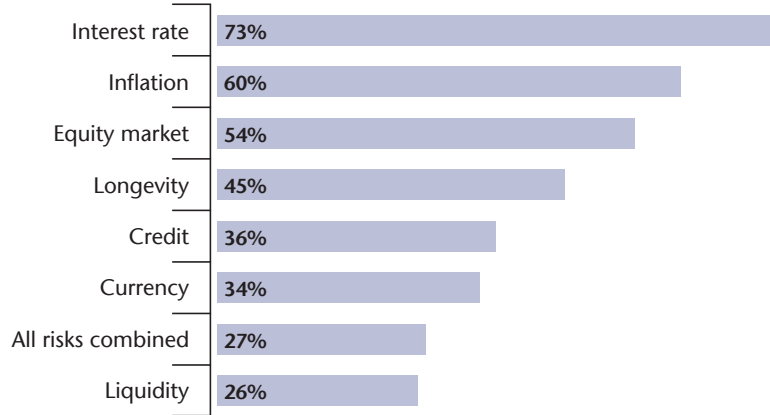
In the last 12 months, against what risks have you provided solutions for defined benefit (DB) pension plans? (please tick *all* that apply)



In many cases, plan sponsors have not removed all pension plan risk for a number of reasons including insufficient current funding and lack of understanding of the risks. Over the next 12 months, respondents say they expect sponsors to seek to remove mainly interest rate, inflation and equity market risks.

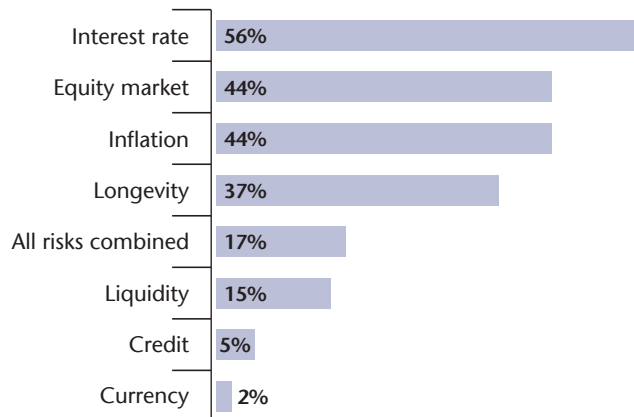
According to Lucy Barron of Insight in the United Kingdom, "The main barrier to interest rate and inflation hedging has been the very low level of real interest rates. Many funds have been delaying implementation and putting policies in place in anticipation of higher future interest rates."

In the next 12 months, which risks do you expect DB pension plans to seek to remove the most? (relative strength of ranking)



Survey respondents also expect the greatest increase in demand from pension plans over the next three years for risk management of interest rates, inflation, equity market and longevity.

In which areas of risk management do you expect the greatest percentage increase in demand from DB pension plans over the next three years? (choose up to three)



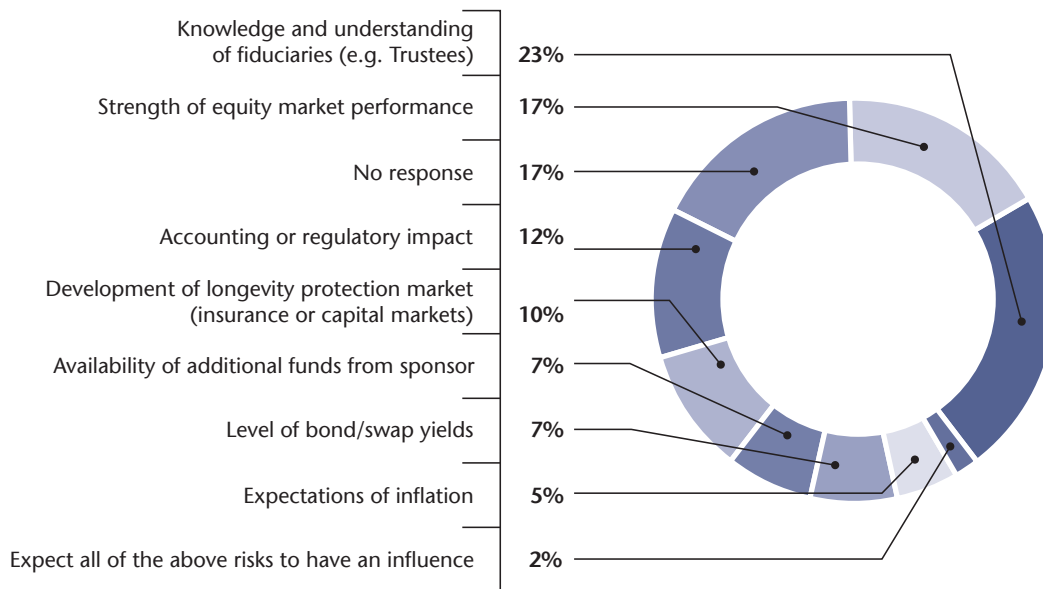
Increasingly, plan sponsors are looking at the use of glide paths to reduce risks over time or when specific events occur. Seventy-one percent of respondents currently provide or will provide glide paths or trigger points to assist plan sponsors in managing pension risks. The most commonly used triggers include funded status, specific dates, equity market indices monitored daily and bond market indices monitored daily.

Key Take-aways for Risk Management

Based on respondents' expectations, the following reflect the most significant factors influencing the ability of DB pension plans to manage their overall risks over the next three years:

- Knowledge and understanding of fiduciaries (e.g., trustees) and plan sponsors
- Strength of equity market performance
- Accounting or regulatory impact (e.g., moves to international accounting standards, which will increase balance sheet volatility and impact of pension plans on plan sponsors)

What do you expect to be the most significant factor over the next three years influencing the ability of DB pension plans to manage their overall risks?



Breakdown of Findings on Risk

Survey responses show certain key similarities and differences among pension risk management markets in the United States, the United Kingdom and Canada.

	U.S.	U.K.	Canada
Most commonly offered risk mitigation strategies			
• Interest rates	60%	67%	73%
• Equity markets	70%	60%	44%
• Inflation	50%	67%	50%
• Longevity	20%	33%	6%
Most important risk for plan sponsors	Interest rates	Interest rates	Interest rates
Most challenging risk to manage	Equity markets	Longevity	Equity markets, inflation and longevity
Two areas of risk management with greatest expected increase in demand over the next three years	Interest rates and equity markets	Longevity and inflation	Interest rates and equity markets

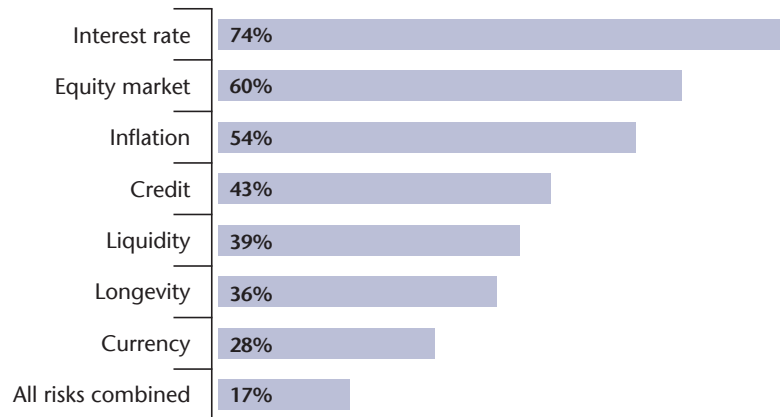


United States

Summary

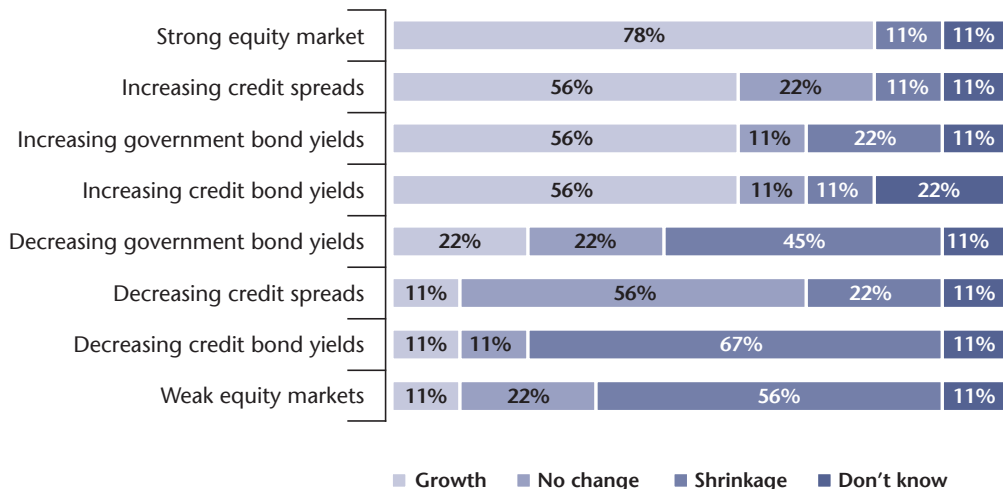
In the United States, the vast majority of risk management activity is focused on interest rate and credit risk because funding and accounting measures are based on high-grade corporate bonds. That said, managing equity risk remains a growing interest.

In the next 12 months, which risks do you expect DB pension plans to seek to remove the most? (relative strength of ranking)



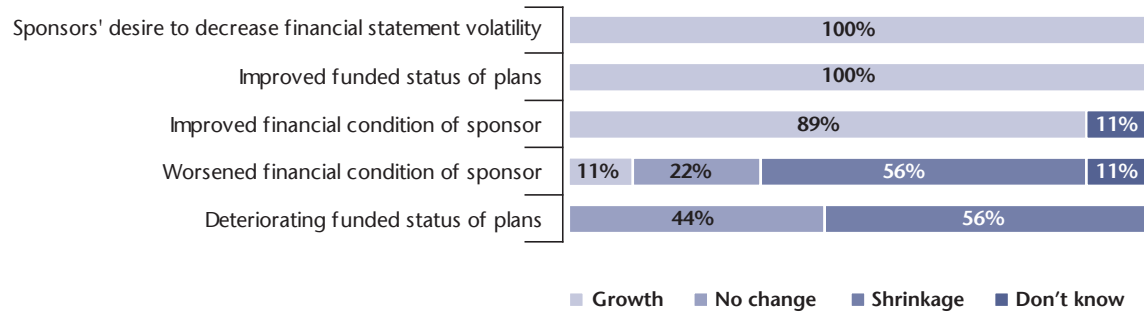
Improved equity performance, increasing credit spreads and increasing yields will increase plan sponsors' appetite for interest rate risk management.

How will the following contribute to the change in demand for the management of interest rate risk?



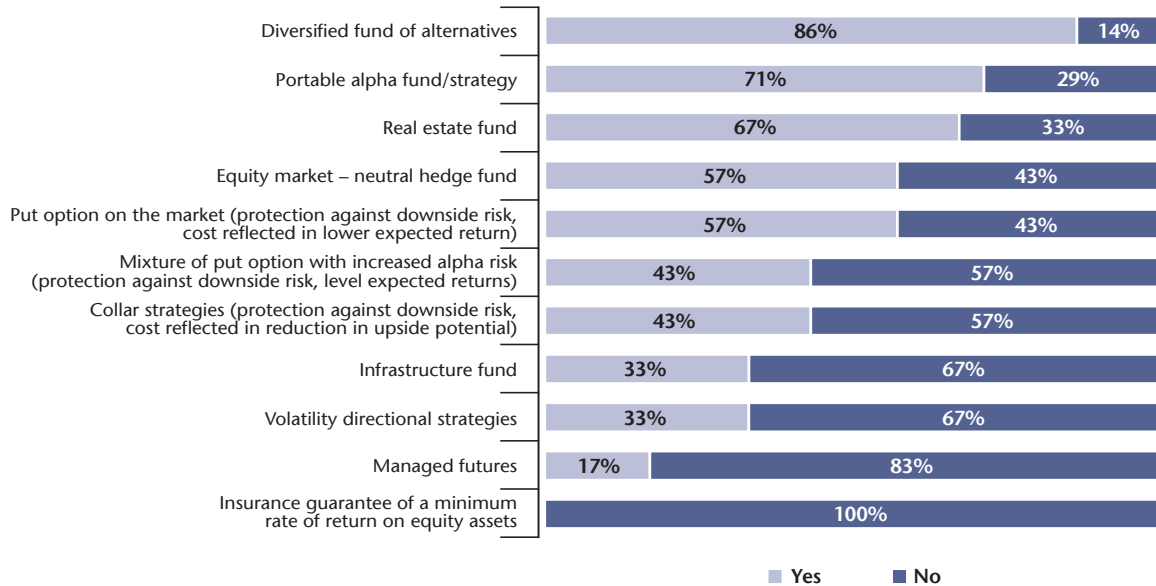
An increased desire to reduce funding and financial volatility, improved funded status and the improved financial condition of plan sponsors will increase the demand for pension risk management.

Which of the following specific plan sponsor situations over the next three years will contribute to the change in demand for the management of interest rate risk?



The most popular approaches to managing equity risk are diversified funds of alternatives and portable alpha strategies.

In the next 12 months, what are your plans with regard to managing equity market risk? (Do you plan to offer the following in the next 12 months?)



Current Practices and Emerging Trends

Overall Risk Management

	Which of these risks do you consider most important? (choose one)	Which of these risks do you consider the greatest challenge to DB pension plans to remove/manage? (choose one)	In which areas of risk management do you expect the greatest percentage increase in demand from DB pension plans over the next three years? (choose up to three)
	% of participants		
Credit	0%	0%	4%
Equity market	20%	50%	30%
Inflation	10%	0%	9%
Interest rate	40%	10%	30%
Liquidity	0%	0%	9%
Longevity	20%	30%	9%
Currency	0%	0%	0%
All risks combined	0%	0%	9%
No response	10%	10%	0%

Interest Rate and Credit Risk

Physical long duration bonds are the preferred approach to managing interest rate risk. The use of swaps and futures fell out of favor in 2009 because credit spreads were large and thus the basis risk of swaps versus liabilities is significant.

Once credit spreads become small again, however, we expect renewed interest in swaps. Plan sponsors are generally concerned about moving to long government or credit bond yields as interest rates are expected to rise due to inflationary concerns.

We anticipate continued growth in managing interest rate and credit risk. We also expect more active management of credit risk. If accounting rules are changed so as to not favor the deferral of pension expense, we anticipate a rush to interest rate risk management.

» “Managing credit risk is the major issue in LDI portfolios. Issuer-specific credit risk can only be mitigated through diversification but opportunities are limited at the long end of the curve. Building such portfolios take time.”

*Pierre Couture,
Vice President and Senior Actuary, ING*

Equity Risk

Respondents expressed general concern that the expected reward for equity risk may be inadequate over the short term. However, the large funding gap facing most sponsors has kept them hopeful for potential upside returns from equities.

Sponsors will seek allocations that result in higher returns with a low correlation of returns with the general equity market. The extent of exposure to illiquid assets will depend on whether plans are ongoing or frozen. There is growing interest in managing equity risk. We expect greater demand for equity risk management if equity markets remain volatile.

Inflation Risk

There is little interest in managing explicit inflation risk in the United States as few plan designs automatically increase benefit payments along with inflation. A more common approach to inflation protection in the United States is an ad hoc increase in retiree pensions to cover inflation risk. In the United States, the detrimental effect of inflation on asset returns is a bigger concern and is frequently addressed through the holding of commodities.

Overall, we do not expect increased interest in managing inflation risk due to the limited use of automatic inflationary increases to pension benefits.

Longevity Risk

Only large ongoing plans are showing interest in these products. The available longevity swaps are most often tied to *Regulation XXX* governing the reserving of life insurance with guaranteed premiums on term life insurance. Such swaps do not represent a good hedge for the longevity risk of pension plan sponsors; however, some large plans purchase them with an expectation of higher returns with low expected risk.

Insured Buyout Market

Current annuity purchases for irrevocable annuities (i.e., secured in the names of participants) average US\$2 billion per year. Almost all of these annuities are purchased on plan termination. The purchase of annuities prior to full funding generally does not occur as the funded status of the plan declines and contribution requirements are increased.

As we approach 2012, we anticipate increased annuity purchase placements. Provisions in the *Pension Protection Act of 2006* provide lump sums on a lower cost basis in 2012 and beyond. Accordingly, we expect that many sponsors will terminate their frozen plans in 2012 and two to three years thereafter.

Insured Buy-in Market

Current annuity purchases for revocable annuities or other forms of annuity ownership by pension plans is hindered by the high cost of annuities relative to funding and accounting liability measures.

If the cost of these types of annuities more closely approximates funding and accounting liabilities, we may see an increase in these purchases.



Non-Insured Buyout Market

This market currently does not exist in the United States. On August 6, 2008, the Internal Revenue Service published *Revenue Ruling (RR) 2008-45*, holding that, under current rules, frozen pension plan “buyouts” would generally violate the Internal Revenue Code’s “exclusive benefit” rule.

Currency Risk

Concern for currency risk among U.S. plans is not high, as most plans’ international exposure is under 20 percent of their total assets. Where plan holdings are greater, traditional active currency risk management is employed.

Aon Perspective

Seven major themes dominate managing pension risk in the United States:

- A focus on interest rate and credit risk due to the fact that funding and accounting measures are based on high-grade corporate bonds
- A focus on equity risk as a rewarded risk that will improve the funded status of plans
- Concern with a shortened time horizon for most equity exposures as the funded status of most plans are expected to reach 100 percent on a funding basis in seven to ten years
- An increased focus on the use of glide paths to manage equity risk exposure as the funded statuses of plans improve
- The continued need to educate plan fiduciaries on managing pension risk
- An expectation for increased monitoring of plan performance and funded status to carry out glide path and other strategies
- A change in plan governance in which either a subcommittee or external managers are delegated to take quick action along a predetermined strategy. Currently, most pension risk is managed in a siloed approach. We expect to see more integrated approaches over time.



“Clients are tending to look at things in a siloed fashion – trying to address risks separately. Expect to see growth in more holistic approaches to all risks of pension plans.”

*Dr. James Moore,
Senior Vice President, PIMCO*

Large plans have seen more risk management activity than medium and small plans which are largely still in the education phase of the risk management process.



United Kingdom

Summary

In the past, U.K. plans have focused most risk management efforts on interest rate and inflation exposures as the main unrewarded hedgeable risks. Interest rate risk continues to be considered the most important, but managers are expecting as much focus in the next year on inflation exposures and an increasing interest in managing longevity risk.

Meanwhile, the buy-in market has continued to be active, and this has helped to focus the attention of both sponsors and trustees on putting in place a plan to de-risk and eventually wind up their plans.

We have seen increased sophistication amongst larger plans as they seek to hedge unrewarded risks, while simultaneously maintaining or increasing exposure to rewarded risks such as equity markets.

The survey has highlighted a series of key themes from the U.K. perspective:

- Reduced funded status and very low real yields on gilts and swaps have been a barrier to increased interest rate and inflation hedging; instead, plans have been taking on credit exposure on a tactical basis to enhance returns.
- Credit risk to liabilities is not a major feature as funding measures typically do not include specific credit spreads, though it remains an accounting exposure.
- Inflation is becoming an increasing focus, and there is growing interest in hedging this independently from interest rates (rather than both together through inflation-linked bonds, for example). Also, interest in the use of options on interest rate swaps is emerging amongst larger plans.
- There is a lot of interest and concern about longevity exposure. While previously used primarily by insurers on their annuity books, longevity swaps are now being seen as a potential tool for pension plans.
- We see increased use of equity derivatives to combine market exposure with underlying assets that provide liability matching benefits.
- Equity risk was overlooked by many in 2009, but we expect to see more protection and diversification strategies re-emerging in 2010, particularly where some inflation-linkage can be found in alternative asset classes.
- Trustee knowledge and understanding remains a challenge for all forms of risk management, particularly in smaller plans.
- Triggers are being used widely to initiate switches from growth (i.e., equity) to matching (i.e., fixed income) assets, although much of this is based on equity and bond indices (or just time-delayed) rather than on funding status.



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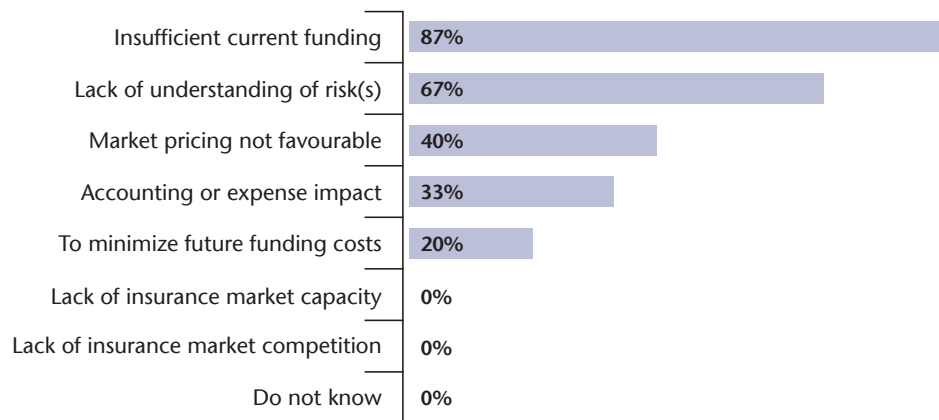
Current Practices and Emerging Trends

Overall Risk Management

	Which of these risks do you consider most important? (choose one)	Which of these risks do you consider the greatest challenge to DB pension plans to remove/manage? (choose one)	In which areas of risk management do you expect the greatest percentage increase in demand from DB pension plans over the next three years? (choose up to three)
	% of participants		
Credit	0%	7%	0%
Equity market	13%	0%	9%
Inflation	7%	7%	27%
Interest rate	47%	7%	15%
Liquidity	0%	0%	3%
Longevity	20%	67%	31%
Currency	0%	0%	0%
All risks combined	0%	0%	15%
No response	13%	12%	0%

The results provide some significant insights. Although interest rate risk is considered the most important to address, longevity is deemed to be the greatest challenge to remove. In addition, both inflation and longevity are expected to be the fastest growing areas of risk management in 2010.

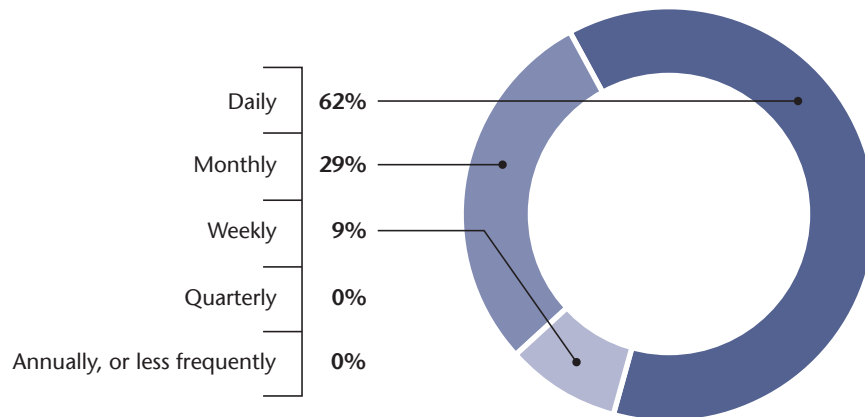
In your experience, what reasons exist for DB pension plans retaining exposure to some or all of these risks? (select up to three)



The main barriers to removing risk are the poor state of funding of many plans, and the level of knowledge and understanding of risks by those responsible.

However, there is increasing use of trigger points to reduce risk. These are more commonly based on the actual and relative level of equity and bond markets, but also include automatic switches at specific time intervals. For those triggers monitored by fund managers, the most common frequency is daily.

What triggers do you use/monitor to enable the de-risking process?



Interest Rate and Inflation Risk

Two factors reduced the hedging of interest rate risk in 2009: lower funding levels requiring maintenance of growth asset allocations, and very low (historic) nominal and real yields discouraging plans from locking into current yield levels.

These factors have resulted in the increased use of phased or intelligent hedging, which may result in deferment of action (as Insight put it, “putting pipework in place but not hitting the trigger”), but has also caused larger plans to look for more innovative solutions.

One of these solutions has been the use of synthetic exposure to equities (i.e., through total return swaps), effectively replicating a passive exposure, and using the freed-up capital to hedge liabilities. This route has also allowed plans to take advantage of the small extra yield currently available on physical government bonds compared to swaps, but removes any active management on the equity portfolio. In the past year alone, BlackRock (U.K.) reports a significant increase in the number of inquiries received about synthetic equity solutions.

» Ninety-one percent of survey respondents identified improved plan funding status as the main driver of increased interest rate and inflation risk management in 2010, expected to be brought about either by strong asset performance or higher yields reducing liabilities.

One very common solution implemented in 2009 was for plans to switch matching fund allocations to corporate bonds, in order to benefit from the exceptionally high additional yield over government bonds (the credit spread). However, this solution offers limited protection from the impact of interest rate declines or rising inflation on long-term pension liabilities.

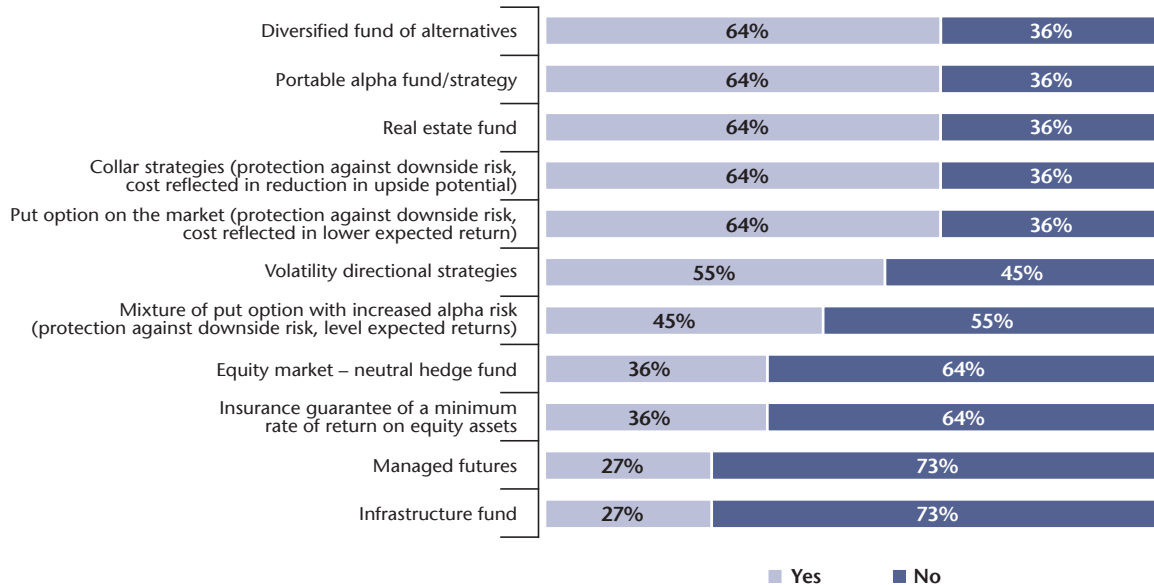
Low real interest rates have also caused plans to consider hedging inflation separately from interest rates. This is typically only possible on a segregated basis, though we have seen the increased use of client-specific unitized funds, and also now the launch of pooled funds offering exposure to inflation swaps in isolation.

Ninety-one percent of survey respondents identified improved plan funding status as the main driver of increased interest rate and inflation risk management in 2010. This is expected to be brought about either by strong asset performance or higher yields reducing liabilities.

Equity Risk

As funded status improves, plans are also expected to look more closely at removing equity risk (identified by 82 percent of respondents). Respondents named a wide range of solutions, from the use of options to buy downside protection on an equity portfolio (or introduce a zero-cost collar where equity upside is also sold to finance the downside protection) to using a range of diversifying alternative asset classes (property, hedge funds or pooled diversified funds).

In the next 12 months, what are your plans with regard to managing equity market risk? (Do you plan to offer the following in the next 12 months?)



Longevity Risk

Few respondents currently offer longevity protection products, though this is seen as the most likely growth area. There is continued activity in buyout/buy-in markets as plans pass on total risks for retired participants where this is affordable. For less well funded plans, the ability to hedge longevity through a swap contract (again, mainly for retired participants)—while retaining control of the investment of the underlying assets—is now a reality.

» The ability of trustees and their advisers to understand a particularly complex area of hedging longevity through a swap contract may pose a potential barrier to the rapid adoption and growth of this solution.

One respondent identified hedging longevity through a swap contract as the next logical step for plans that already have a strategy in place for managing interest rate and inflation risks, and wish to remove the other main unrewarded risk. One significant driver for this sentiment has been the increase in typical allowances for longevity in plans'

funding valuations, which means that the gap between the funding reserve and what is required for insurance or hedging is reduced. The ability of trustees and their advisers to understand a particularly complex area of hedging longevity through a swap contract may pose a potential barrier to the rapid adoption and growth of this solution.

Aon Perspective

The DB pension market in the United Kingdom is rapidly becoming a legacy issue for plan sponsors, and proper risk management has become a primary focus. A number of vibrant and innovative providers have emerged in this area, and the sophisticated buyer finds a myriad of ways to manage unrewarded risks while maintaining exposure to assets with higher returns that control long-term costs.

Increasingly these solutions are being commoditized (e.g., pooled swap funds) and made available to smaller plans. However, a major barrier exists in the level of trustee knowledge and understanding, and this prevents many plans from adopting the most effective risk management strategy.

Although buyout rates have improved, many plans are still several years away from being able to secure liabilities fully in this way. In the meantime, plans need to set a strategy to reach full funding and ensure that risks are removed gradually over time as it becomes affordable to do so. Opportunities to remove different risks will emerge at different times, and plans should have an overall strategy in place to lock in when appropriate. More frequent detailed and ongoing trustee training is necessary; otherwise, the only sensible option is to delegate the implementation of risk management strategies to a third party.

» ... the sophisticated buyer has a myriad of ways to manage unrewarded risks while maintaining exposure to assets with higher returns that control long-term costs.



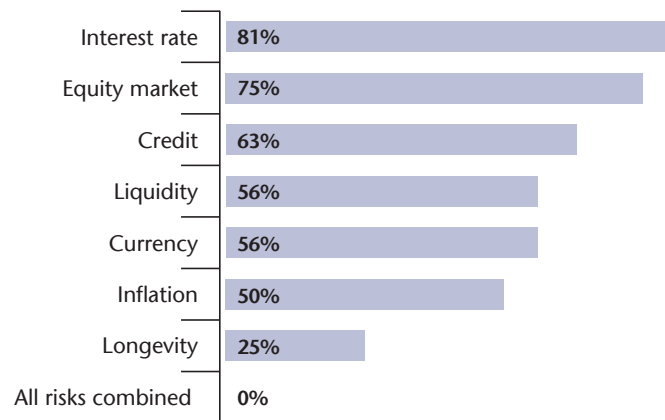
Canada

Summary

Investment managers were the main survey respondents in Canada, with more than 50 percent managing over CAN\$50 billion and being part of a multinational firm.

Respondents report that recent trends in risk management efforts have focused primarily around interest rate risk, followed by equity risk. For the moment, less attention is focused on longevity risk.

In the last 12 months, against what risks have you provided solutions for defined benefit (DB) pension plans?

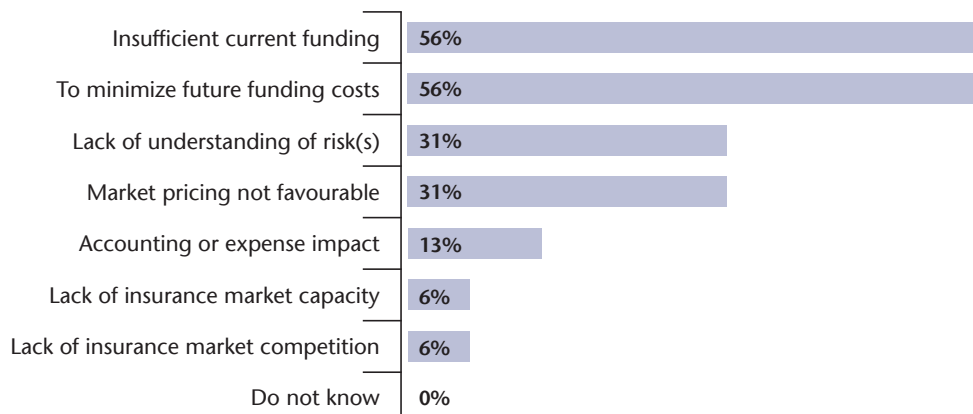


According to the survey, interest rate risk continues to be considered the most crucial, but managers expect to see a growing focus on both equity exposure and inflation exposure over the course of 2010.

While inflation risk is considered easy to hedge in the United Kingdom, our survey findings reflect a different reality for the Canadian market, with inflation risk ranking first in terms of being difficult to hedge, similar to equity and longevity risks.

The main reason why Canadian DB plan sponsors are retaining some of these risks in their portfolios is due to their plans' current funded status and the associated costs of such plans. Globally, a lack of understanding is also a critical factor.

In your experience, what reasons exist for DB pension plans retaining exposure to some or all of these risks? (select up to *three*)





“The stars seem to be aligned as consultants, investors and the asset industry create and look for new risk solutions at the same time.”

*Stephen Foote, Executive Director,
UBS Global Asset Management (Canada)*

Results suggest that improved funded status and sponsors’ desire to decrease financial statement volatility will increase the demand for pension risk management.

Furthermore, approximately 75 percent of the respondents plan to use glide path strategies for de-risking solutions. The two most preferred triggers for implementing glide path solutions over time are pre-determined dates followed by the level of yields in the bond market.

In general, service providers are expecting more activity in the risk management space from Canadian pension plans in the near future.

Current Practices and Emerging Trends

Overall Risk Management

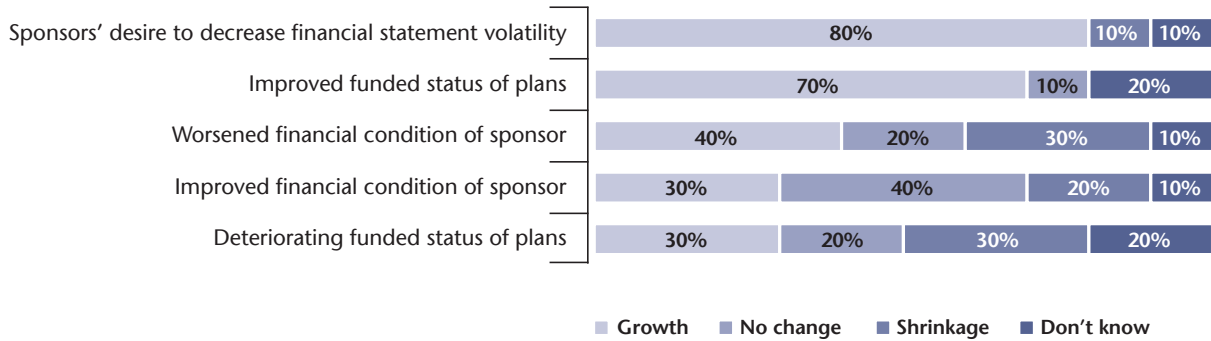
	Which of these risks do you consider most important? (choose one)	Which of these risks do you consider the greatest challenge to DB pension plans to remove/manage? (choose one)	In which areas of risk management do you expect the greatest percentage increase in demand from DB pension plans over the next three years? (choose up to three)
	% of participants		
Credit	0%	0%	3%
Equity market	6%	19%	23%
Inflation	0%	19%	21%
Interest rate	56%	6%	32%
Liquidity	0%	6%	9%
Longevity	13%	19%	9%
Currency	0%	0%	3%
All risks combined	0%	0%	0%
No response	25%	31%	0%



Interest Rate Risk

A growing demand for interest rate risk management is expected over the next three years as the funded status of plans improves and as sponsors seek to reduce financial statement volatility.

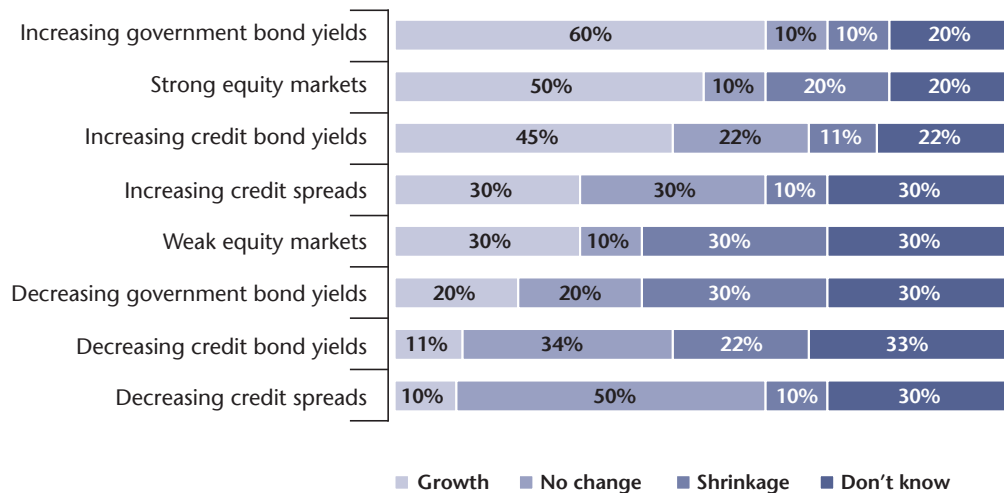
Which of the following specific plan sponsor situations over the next three years will contribute to the change in demand for the management of interest rate risk?



The physical holding of long duration bonds in the portfolio continues to be the preferred approach for managing interest rate risk, but an increasing proportion of providers (40 percent) are expecting to offer derivative-based solutions. The use of swaps and futures fell out of favor in 2009 when credit spreads widened and increased the basis risk associated with holding swaps.

Once credit spreads are closer to their historical levels, more interest in hedging with swaps is expected. As Paul Purcell, Managing Director at BlackRock Asset Management Canada Limited mentioned in his response, "Now that swap spreads are back to more normal levels, they become a more interesting and credible option for hedging purposes." Our survey findings support this statement.

How will the following contribute to the change in demand for the management of interest rate risk?



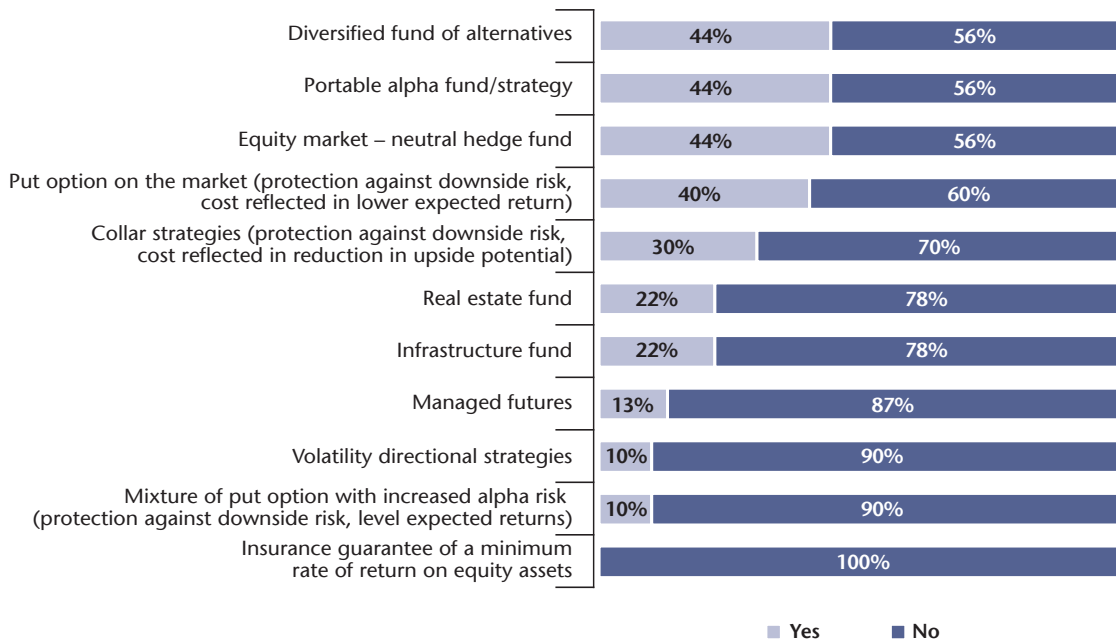
Equity Risk

While the increased risk associated with holding equities is typically offset by a greater expected return, sponsors are slowly realizing that too much of their risk budgets may be allocated to this asset class. However, despite this creeping realization, sponsors still seem hopeful that a healthy equity exposure will help reduce the large funding gap should markets rebound substantially.

Investments in alternative asset classes and portable alpha strategies represent the two most popular solutions for mitigating equity risk. However, an increasing number of respondents are expecting to use derivative solutions, such as put options or collars, in the short run.

» While the increased risk associated with holding equities is typically offset by an increased expected return, sponsors are slowly realizing that too much of their risk budgets may be allocated to this asset class. However, despite this creeping realization, sponsors still seem hopeful that a healthy equity exposure will help reduce the large funding gap should markets rebound substantially.

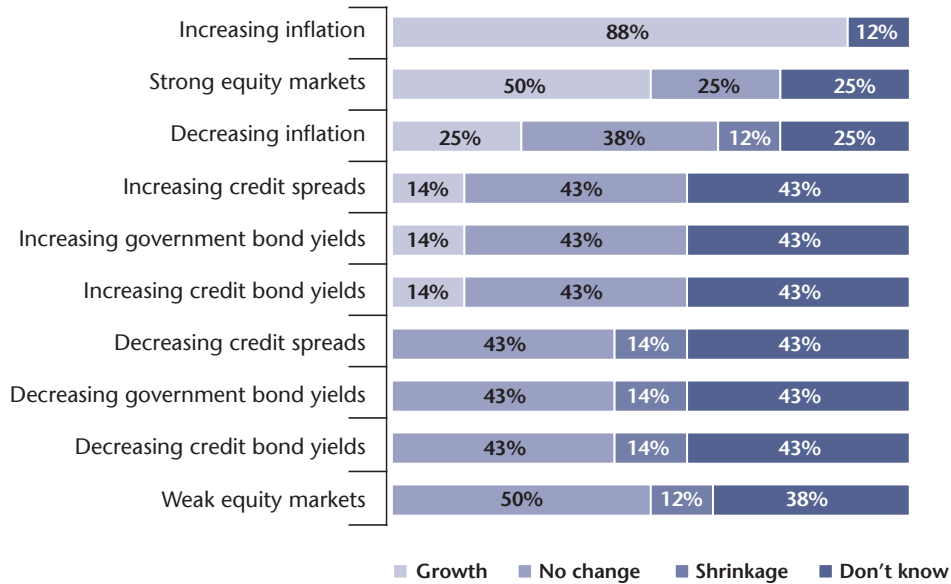
In the next 12 months, what are your plans with regard to managing equity market risk? (Do you plan to offer the following in the next 12 months?)



Inflation Risk

Inflation risk is an important issue for some Canadian DB plans, most notably in the public sector where plans usually provide pensions indexed to inflation. However, because of an underdeveloped and illiquid market for inflation swaps, government real return bonds and investments in commodities are the preferred means of mitigating inflation risk.

How will the following contribute to demand for the management of inflation risk?



Results point to increasing inflation and strong equity markets adding to plan sponsors' appetite for inflation risk management.

Longevity Risk

Only large plans are showing any interest in products that hedge longevity risk as the Canadian market for such instruments is underdeveloped with few offerings.

Currency Risk

Currency is a significant issue for Canadian-based pension plans as most plans have currency exposure in the 30 to 40 percent range. However, there is no clear industry trend with respect to managing currency risk. Some argue that exposure to foreign currencies is an unrewarded risk and should consequently be hedged while others argue that currency exposure increases portfolio diversification.

In addition, the survey shows that passive currency risk management with a fixed hedge ratio is the most prevalent strategy used by those who manage this risk.

Aon Perspective

The pension risk industry in Canada is still in its infancy but seems to be on the verge of taking off.

We expect increased activity in interest rate risk hedging over the next few years, as plans' funded status improves and solutions are made available to smaller plans. Plan sponsors are also likely to invest time, resources and effort in the areas of currency and equity risk management. We believe the focus should be on eliminating unrewarded risks (interest and currency) and achieving an excellent diversification of the equity risk component.

At present, the main deterrents to sponsors implementing pension risk management solutions in Canada are plans' poor funded status and low interest rates. One solution is to establish a de-risking process to gradually increase the interest rate hedge ratio by switching assets from the return-seeking (i.e., equity) component of the portfolio to the liability-matching (i.e., fixed income) component as the funding ratio improves. Some plans implemented such processes in 2009; we expect many more will follow suit in the near future.

Educating plan sponsors, increasing the accessibility to solutions and changes in governance structures are crucial to the progress of the risk management industry in Canada.

Plans differ widely in their needs and objectives. However, all plan sponsors must ensure that they understand the risks inherent in their pension plans, measure them properly and monitor them closely so that they make the right decisions and mitigate large, uncompensated risks.



About Aon Consulting

Aon Consulting is among the top global human capital consulting firms, with more than 6,300 professionals in 229 offices worldwide. The firm works with organizations to improve business performance and shape the workplace of the future through employee benefits, talent management and rewards strategies and solutions. Aon Consulting was named the best employee benefit consulting firm by the readers of Business Insurance magazine in 2006, 2007, 2008 and 2009.

Aon Consulting's Retirement and Investment Practice

Aon Consulting's retirement practice has been navigating the many legal, financial and social complexities of designing and administering retirement plans for more than 60 years. The firm's retirement and investment consultants help clients and prospects quantify costs and risks with multi-year projections of plan financials and provide comprehensive advice and solutions to help manage the financials through plan design, plan right-sizing and investment/hedging policy.

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Glossary ▶

Basis risk – The risk that offsetting investments in a hedging strategy will not experience price changes in directions entirely opposite from each other. This imperfect correlation between the two investments creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position.

Collar strategy – Also known as a *fence* or *cylinder*. Involves an investor buying downside protection on an asset held through a put option, and then selling the upside of returns above a certain level through a call option. Combined in this way, an investor can put boundaries on the return from the asset class, often at a small or zero cost (a *zero cost collar*).

Commodity fund – A mutual fund that invests in commodities. A commodity is a good produced in bulk, such as coffee, meat or grain; and raw materials, such as metals and oil. They are traded on local, regional and/or international markets called commodity exchanges, either on a spot basis or through futures contracts, which allow the purchase or sale of a commodity at a predetermined price on a particular date in the future.

Credit bond yield – The discount rate of a non-government bond. A credit bond yield is higher than government bond yield because companies' credit is generally worse than the government's. See also **credit spread**.

Credit spread – The difference between yields on Treasuries and on corporate bonds. Companies must offer a higher return on their bonds because their credit is generally worse than the government's.

Funded status – The amount by which a pension plan's assets exceed (or fall short of) the plan's projected benefit obligations (the amount the plan will have to pay in the future). The funded status is important because it forecasts whether or not the plan is fully funded.

Gilts – Risk-free bonds issued by the British government. They are the equivalent of U.S. Treasury securities.

Glide path – A process through which a plan gradually changes its asset strategy over a period of time, normally in reaction to an improving funded status. Typically, as the funded status improves, the plan will reduce the allocation of risk assets (e.g., equities) in favor of matching assets (e.g., bonds). Also referred to as a *roadmap*, *rutemap* or *de-risking strategy*.

Inflation swap – An over-the-counter and exchange-traded derivative used to transfer inflation risk from one counterparty to another.

Insured buy-in – A transaction in which annuities are purchased from an insurance company and are secured in the name of the pension plan (i.e., the plan retains the risk of insurer default).

Insured buyout – A transaction in which annuities are secured in the names of participants with an insurance company.

Interest rate future – A financial derivative (a futures contract) with an interest-bearing instrument as the underlying asset. Examples include Treasury-bill futures, Treasury-bond futures and Eurodollar futures.

Interest rate swap – A derivative in which one party exchanges a stream of floating rate interest payments for another party's stream of fixed cash flows. Can be used by hedgers to manage fixed or floating assets and liabilities. Unlike corporate bonds, interest rate swaps do not involve risk on the principal amount. They can also be used by speculators to replicate unfunded bond exposures to profit from changes in interest rates. Interest rate swaps are very popular and highly liquid instruments.

Longevity swap – A transaction that enables a pension fund to hedge its longevity risk. In the transaction, one party exchanges a stream of cash flows based on the actual mortality experience of a group of plan members for another party's stream of cash flows based on the expected mortality experience of the same group.

Non-insured buyout – The assumption of pension liabilities by a third party (non-insurer), typically through the acquisition of a shell company.

Passive currency risk management – A type of risk management strategy whose goal is to eliminate currency risk as a component of overall portfolio performance.

Physical long duration bond – A bond with 25 or more years to maturity, whose price is highly sensitive to interest rate movements. The bond's sensitivity is approximately equal to the percentage change in price for a given change in yield.

Portable alpha strategy – An investment strategy predicated on the notion that the extra returns (alpha) can be separated from market changes by hedging or eliminating the market exposure of the portfolio. The process of portable alpha is also sometimes referred to as *alpha transport*.

Put option – An option contract that gives the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time. This is the opposite of a *call option*, which gives the holder the right to buy shares.

Synthetic equity solution – A derivative strategy used to simulate the payoff of a physical (long) stock position. It could be entered by buying at-the-money calls and selling an equal number of at-the-money puts of the same underlying stock and expiration date. The synthetic equity exposure can be achieved by purchase of index futures contracts.

Total return swap – An agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. In total return swaps, the underlying asset (referred to as the *reference asset*) is usually an equity index, loans or bonds owned by the party receiving the set rate payment. Total return swaps allow the party receiving the total return to gain exposure and benefit from a reference asset without actually having to own it.

Trigger points – Predetermined levels of markets, yields or funded status at which action will be taken to buy or sell assets. These are often used as part of a glide path in order to de-risk plan strategies at favorable opportunities.

Participants

1. Aberdeen Asset Management
2. Addenda Capital Inc.
3. AEGON U.K.,
part of the AEGON
group of companies
4. AllianceBernstein
5. Beutel, Goodman &
Company Ltd.
6. BlackRock*
7. CI Institutional Asset
Management/Nexus
Risk Management
8. CIBC Global Asset
Management Inc.
9. Credit Agricole Asset
Management (CAAM)
10. Credit Suisse's Life
Finance Group
11. DB Advisors
12. Fidelity Investments
Canada ULC
13. Gartmore Investment
Management Ltd.
14. GE Asset Management
15. Greystone Managed
Investment Inc.
16. ING Investment Management
17. Insight Investment
18. Integra Capital Management
19. Legal and General Group PLC
20. Leith Wheeler
Investment Counsel
21. M&G Investment
Management Limited
22. McLean Budden
23. MetLife Assurance Limited
24. MFS Investment Management
25. PanAgora Asset Management
26. Paternoster U.K. Limited
27. Pension Insurance Corporation
28. Phillips, Hager & North
Investment Management Ltd.
(RBC Global Asset Management)
29. PIMCO
30. Prudential Assurance Ltd.
31. Putnam Investments
32. Schroders plc
33. Scotia Asset Management LP
34. Standard Life Investments
35. State Street Global Advisors
36. SwissRe
37. UBS Global Asset Management
(Canada) Inc.
38. UBS Global Asset Management
(U.K.) Ltd.
39. UBS Global Asset Management
(U.S.)
40. Vanguard

* BlackRock recently acquired Barclays Global Investors (BGI), who also participated in the survey.

Appendix ►

Survey Results

Note: Some numbers may not add up to 100% and variance between graphs and tabulated results may occur due to rounding.

1. What type of organization is your firm? (please pick *one* only – your primary business line)

	Canada	U.K.	U.S.	Total
Insurance company	0	5	0	5
	0%	33%	0%	12%
Investment bank	0	0	1	1
	0%	0%	10%	2%
Investment manager	16	9	8	33
	100%	60%	80%	80%
Mutual fund company	0	0	1	1
	0%	0%	10%	2%
Reinsurance company	0	1	0	1
	0%	7%	0%	2%
	16	15	10	41

2. Organization size (number of currently active employees)

	Canada	U.K.	U.S.	Total
Less than 100 employees	5	2	2	9
	31%	13%	20%	22%
100 - 1,000 employees	7	4	1	12
	44%	27%	10%	29%
More than 1,000 employees	4	9	7	20
	25%	60%	70%	49%
	16	15	10	41

3. Assets under management (internal and client assets)

	Canada	U.K.	U.S.	Total
More than US\$50 billion	8	12	7	27
	50%	80%	70%	66%
US\$20 billion to US\$50 billion	4	0	1	5
	25%	0%	10%	12%
US\$10 billion to US\$20 billion	1	0	2	3
	6%	0%	20%	7%
US\$1 billion to US\$10 billion	3	3	0	6
	19%	20%	0%	15%
	16	15	10	41

4. Is your company part of a multinational firm?

	Canada	U.K.	U.S.	Total
No	5	5	3	13
	31%	33%	30%	32%
Yes	10	10	7	27
	63%	67%	70%	66%
(Blank)	1	0	0	1
	6%	0%	0%	2%
	16	15	10	41

5. Please identify what office you represent:

	Canada	U.K.	U.S.	Total
Corporate headquarters	6	5	4	15
	38%	33%	40%	37%
Field office	2	1	2	5
	13%	7%	20%	12%
Subsidiary	2	4	1	7
	13%	27%	10%	17%
(Blank)	6	5	3	14
	38%	33%	30%	34%
	16	15	10	41

6. Jurisdictions in which you have offices (i.e. physical presence):

U.S.	23	56%
U.K.	20	49%
Canada	19	46%
Latin America	7	17%
Europe	18	44%
Asia	18	44%
Africa	4	10%
Pacific	10	24%

7. Jurisdictions in which you operate (i.e. serve clients):

U.S.	22	54%
U.K.	23	56%
Canada	22	54%
Latin America	14	34%
Europe	22	54%
Asia	20	49%
Africa	11	27%
Pacific	15	37%

8. In the last 12 months, against what risks have you provided solutions for defined benefit (DB) pension plans?
 (please tick *all* that apply)

	Canada	U.K.	U.S.	Total
Interest rate	13	9	7	29
	81%	60%	70%	71%
Inflation	8	8	5	21
	50%	53%	50%	51%
Longevity	4	2	2	8
	25%	13%	20%	20%
Equity market	12	8	8	28
	75%	53%	80%	68%
Currency	9	7	5	21
	56%	47%	50%	51%
Credit	10	7	7	24
	63%	47%	70%	59%
Liquidity	9	3	7	19
	56%	20%	70%	46%
All risks combined	0	4	1	5
	0%	27%	10%	12%
	65	48	42	155

9. a) Which of these risks do you consider most important?

	Canada	U.K.	U.S.	Total
Credit	0	0	0	0
	0%	0%	0%	0%
Currency	0	0	0	0
	0%	0%	0%	0%
Equity market	1	2	2	5
	6%	13%	20%	12%
Inflation	0	1	1	2
	0%	7%	10%	5%
Interest rate	9	7	4	20
	56%	47%	40%	49%
Liquidity	0	0	0	0
	0%	0%	0%	0%
Longevity	2	3	2	7
	13%	20%	20%	17%
(Blank)	4	2	1	7
	25%	13%	10%	17%
	16	15	10	41

9. b) Which of these risks do you consider the greatest challenge to DB pension plans to remove/manage?
(choose one)

	Canada	U.K.	U.S.	Total
Credit	0	1	0	1
	0%	7%	0%	2%
Currency	0	0	0	0
	0%	0%	0%	0%
Equity market	3	0	5	8
	19%	0%	50%	20%
Inflation	3	1	0	4
	19%	7%	0%	10%
Interest rate	1	1	1	3
	6%	7%	10%	7%
Liquidity	1	0	0	1
	6%	0%	0%	2%
Longevity	3	10	3	16
	19%	67%	30%	39%
(Blank)	5	2	1	8
	31%	13%	10%	20%
	16	15	10	41

10. In your experience, what reasons exist for DB pension plans retaining exposure to some or all of these risks? (choose up to *three*)

	Canada	U.K.	U.S.	Total
Insufficient current funding	9	13	7	29
	56%	87%	70%	71%
To minimize future funding costs	9	3	7	19
	56%	20%	70%	46%
Accounting or expense impact	2	5	4	11
	13%	33%	40%	27%
Market pricing not favourable	5	6	0	11
	31%	40%	0%	27%
Lack of insurance market capacity	1	0	0	1
	6%	0%	0%	2%
Lack of insurance market competition	1	0	0	1
	6%	0%	0%	2%
Lack of understanding of risk(s)	5	10	7	22
	31%	67%	70%	54%
Do not know	0	0	0	0
	0%	0%	0%	0%
	32	37	25	94

11. In which areas of risk management do you expect the greatest percentage increase in demand from DB pension plans over the next three years? (choose up to *three*)

	Canada	U.K.	U.S.	Total
Interest rate	11	5	7	23
	69%	33%	70%	56%
Inflation	7	9	2	18
	44%	60%	20%	44%
Longevity	3	10	2	15
	19%	67%	20%	37%
Equity market	8	3	7	18
	50%	20%	70%	44%
Currency	1	0	0	1
	6%	0%	0%	2%
Credit	1	0	1	2
	6%	0%	10%	5%
Liquidity	3	1	2	6
	19%	7%	20%	15%
All risks combined	0	5	2	7
	0%	33%	20%	17%
	34	33	23	90

12. What reason do you give for your answer to the preceding question?

Insufficient data to accurately report on the above question.

13. What do you expect to be the most significant factor over the next three years influencing the ability of DB pension plans to manage their overall risks?

	Canada	U.K.	U.S.	Total
Accounting or regulatory impact	1	1	3	5
	6%	7%	30%	12%
Availability of additional funds from sponsor	1	2	0	3
	6%	13%	0%	7%
Development of longevity protection market (insurance or capital markets)	1	2	1	4
	6%	13%	10%	10%
Expectations of inflation	0	1	1	2
	0%	7%	10%	5%
Knowledge and understanding of fiduciaries (e.g., Trustees)	3	3	3	9
	19%	20%	30%	22%
Level of bond/swap yields	2	1	0	3
	13%	7%	0%	7%
Strength of equity market performance	4	2	1	7
	25%	13%	10%	17%
(Blank)	4	2	1	7
	25%	13%	10%	17%
Expect all of the above risks to have an influence	0	1	0	1
	0%	7%	0%	2%
	16	15	10	41

14. Have you ever, do you now, or do you plan to, provide solutions for pension plans to reduce risks over time using a pre-defined process? (e.g., through trigger points, glide paths, or equivalent)

	Canada	U.K.	U.S.	Total
No	1	1	3	5
	6%	7%	30%	12%
Yes	12	12	5	29
	75%	80%	50%	71%
(Blank)	3	2	2	7
	19%	13%	20%	17%
	16	15	10	41

15. In the next 12 months, which risks do you expect DB pension plans to seek to remove the most?
 (please order 1 = most, 8 = least)

Overall

	Average	Median	Number
Interest rate	2	2	32
Inflation	3	3	32
Longevity	4	5	32
Equity market	4	3	32
Currency	5	6	31
Credit	5	5	32
Liquidity	6	6	32
All risks combined (e.g., buyout or buy-in)	6	7	28

U.S.

	Average	Median	Number
Interest rate	2	1	9
Inflation	4	4	9
Longevity	5	5	9
Equity market	3	3	9
Currency	6	6	9
Credit	5	5	9
Liquidity	5	5	9
All risks combined (e.g., buyout or buy-in)	7	7	9

U.K.

	Average	Median	Number
Interest rate	2	2	12
Inflation	2	2	12
Longevity	4	4	13
Equity market	5	5	12
Currency	6	6	12
Credit	6	6	12
Liquidity	7	7	12
All risks combined (e.g., buyout or buy-in)	4	4	13

Canada

	Average	Median	Number
Interest rate	2	1	12
Inflation	4	4	12
Longevity	5	5	11
Equity market	3	3	12
Currency	5	4	11
Credit	5	5	12
Liquidity	6	6	12
All risks combined (e.g., buyout or buy-in)	8	8	7

16. What triggers do you use/monitor to enable the de-risking process? (please tick *all* that apply)

Total

	Yes	No	Daily	Monthly	Quarterly	Weekly	Annually, or less frequently
Equity market indices	16	4	10	2	1	1	0
	80%	20%	71%	14%	7%	7%	0%
Bond market indices	17	4	11	2	2	0	0
	81%	19%	73%	13%	13%	0%	0%
Actual equity (or general growth asset) portfolio value	14	4	8	3	2	0	0
	78%	22%	62%	23%	15%	0%	0%
Relative position of equity to bond markets (price or yield index ratios)	13	4	7	2	2	1	0
	76%	24%	58%	17%	17%	8%	0%
Automatic triggers on specific dates, irrespective of market levels or funding status	20	4	7	2	5	2	2
	83%	17%	39%	11%	28%	11%	11%
Other	13	4	5	1	3	0	2
	76%	24%	45%	9%	27%	0%	18%

U.S.

	Yes	No	Daily	Monthly	Quarterly	Weekly	Annually, or less frequently
Equity market indices	3	2	3	0	0	0	0
	60%	40%	100%	0%	0%	0%	0%
Bond market indices	4	1	4	0	0	0	0
	80%	20%	100%	0%	0%	0%	0%
Actual equity (or general growth asset) portfolio value	4	1	3	0	1	0	0
	80%	20%	75%	0%	25%	0%	0%
Relative position of equity to bond markets (price or yield index ratios)	3	2	3	0	0	0	0
	60%	40%	100%	0%	0%	0%	0%
Automatic triggers on specific dates, irrespective of market levels or funding status	5	0	2	1	2	0	0
	100%	0%	40%	20%	40%	0%	0%
Other	3	1	0	0	2	0	1
	75%	25%	0%	0%	67%	0%	33%

U.K.

	Yes	No	Daily	Monthly	Quarterly	Weekly	Annually, or less frequently
Equity market indices	9	0	5	2	0	0	0
	100%	0%	71%	29%	0%	0%	0%
Bond market indices	9	0	5	2	0	0	0
	100%	0%	71%	29%	0%	0%	0%
Actual equity (or general growth asset) portfolio value	6	3	3	2	0	0	0
	67%	33%	60%	40%	0%	0%	0%
Relative position of equity to bond markets (price or yield index ratios)	7	2	3	2	0	1	0
	78%	22%	50%	33%	0%	17%	0%
Automatic triggers on specific dates, irrespective of market levels or funding status	7	1	2	1	0	2	0
	88%	13%	40%	20%	0%	40%	0%
Other	7	1	4	1	0	0	0
	88%	13%	80%	20%	0%	0%	0%

Canada

	Yes	No	Daily	Monthly	Quarterly	Weekly	Annually, or less frequently
Equity market indices	4	2	2	0	1	1	0
	67%	33%	50%	0%	25%	25%	0%
Bond market indices	4	2	2	0	2	0	0
	67%	33%	50%	0%	50%	0%	0%
Actual equity (or general growth asset) portfolio value	4	2	2	1	1	0	0
	67%	33%	50%	25%	25%	0%	0%
Relative position of equity to bond markets (price or yield index ratios)	3	2	1	0	2	0	0
	60%	40%	33%	0%	67%	0%	0%
Automatic triggers on specific dates, irrespective of market levels or funding status	8	1	3	0	3	0	2
	89%	11%	38%	0%	38%	0%	25%
Other	3	1	1	0	1	0	1
	75%	25%	33%	0%	33%	0%	33%

17. Do you currently offer products or strategies to allow pension plan sponsors to mitigate or eliminate interest rate risk they face from their pension plan?

	Canada	U.K.	U.S.	Total
No	1	1	2	4
Yes	11	10	6	27
(Blank)	4	4	2	10

18. In the last 12 months, have you used the following solutions to help DB plan sponsors remove interest rate risk?

Overall

	Currently offer solutions?		Currently offer solutions with leverage?	
	Yes	No	Yes	No
Long duration credit bonds – separate/segregated account	16	6	6	14
	73%	27%	30%	70%
Long duration government bonds – separate/segregated account	20	2	9	11
	91%	9%	45%	55%
Long duration credit bonds – pooled fund approach	14	7	4	15
	67%	33%	21%	79%
Long duration government bonds – pooled fund approach	16	6	7	14
	73%	27%	33%	67%
Long duration credit and government bonds – separate/segregated account	21	2	9	12
	91%	9%	43%	57%
Long duration credit and government bonds – pooled fund approach	16	5	5	15
	76%	24%	25%	75%
Interest rate swaps – separate account	14	8	11	8
	64%	36%	58%	42%
Total return swaps – separate account	12	10	9	9
	55%	45%	50%	50%
Interest rate futures – separate account	12	10	7	10
	55%	45%	41%	59%
Interest rate swaps, total return swaps, or interest rate futures – offered in a fund approach	11	10	7	9
	52%	48%	44%	56%

U.S.

	Currently offer solutions?		Currently offer solutions with leverage?	
	Yes	No	Yes	No
Long duration credit bonds – separate/segregated account	4 80%	1 20%	2 40%	3 60%
Long duration government bonds – separate/segregated account	4 80%	1 20%	4 80%	1 20%
Long duration credit bonds – pooled fund approach	4 80%	1 20%	1 20%	4 80%
Long duration government bonds – pooled fund approach	4 67%	2 33%	2 33%	4 67%
Long duration credit and government bonds – separate/segregated account	6 100%	0 0%	3 50%	3 50%
Long duration credit and government bonds – pooled fund approach	5 83%	1 17%	1 20%	4 80%
Interest rate swaps – separate account	3 50%	3 50%	3 60%	2 40%
Total return swaps – separate account	1 17%	5 83%	1 25%	3 75%
Interest rate futures – separate account	4 67%	2 33%	3 60%	2 40%
Interest rate swaps, total return swaps, or interest rate futures – offered in a fund approach	2 33%	4 67%	2 50%	2 50%

U.K.

	Currently offer solutions?		Currently offer solutions with leverage?	
	Yes	No	Yes	No
Long duration credit bonds – separate/segregated account	7 88%	1 13%	4 50%	4 50%
Long duration government bonds – separate/segregated account	7 88%	1 13%	4 50%	4 50%
Long duration credit bonds – pooled fund approach	7 88%	1 13%	2 25%	6 75%
Long duration government bonds – pooled fund approach	7 88%	1 13%	2 25%	6 75%
Long duration credit and government bonds – separate/segregated account	7 88%	1 13%	4 50%	4 50%
Long duration credit and government bonds – pooled fund approach	5 63%	3 38%	2 25%	6 75%
Interest rate swaps – separate account	7 88%	1 13%	5 71%	2 29%
Total return swaps – separate account	7 88%	1 13%	5 71%	2 29%
Interest rate futures – separate account	5 71%	2 29%	3 50%	3 50%
Interest rate swaps, total return swaps, or interest rate futures – offered in a fund approach	6 86%	1 14%	3 50%	3 50%

Canada

	Currently offer solutions?		Currently offer solutions with leverage?	
	Yes	No	Yes	No
Long duration credit bonds – separate/segregated account	5 56%	4 44%	0 0%	7 100%
Long duration government bonds – separate/segregated account	9 100%	0 0%	1 14%	6 86%
Long duration credit bonds – pooled fund approach	3 38%	5 63%	1 17%	5 83%
Long duration government bonds – pooled fund approach	5 63%	3 38%	3 43%	4 57%
Long duration credit and government bonds – separate/segregated account	8 89%	1 11%	2 29%	5 71%
Long duration credit and government bonds – pooled fund approach	6 86%	1 14%	2 29%	5 71%
Interest rate swaps – separate account	4 50%	4 50%	3 43%	4 57%
Total return swaps – separate account	4 50%	4 50%	3 43%	4 57%
Interest rate futures – separate account	3 33%	6 67%	1 17%	5 83%
Interest rate swaps, total return swaps, or interest rate futures – offered in a fund approach	3 38%	5 63%	2 33%	4 67%

19. In the next 12 months, which of the following do you plan to offer to help plan sponsors manage interest rate risk?

Overall

	Plan to offer in next 12 months?		Plan to offer solutions with leverage in next 12 months?	
	Yes	No	Yes	No
Long duration credit bonds – separate/segregated account	19 83%	4 17%	8 44%	10 56%
Long duration government bonds – separate/segregated account	19 83%	4 17%	10 56%	8 44%
Long duration credit bonds – pooled fund approach	19 79%	5 21%	5 25%	15 75%
Long duration government bonds – pooled fund approach	18 72%	7 28%	6 30%	14 70%
Long duration credit and government bonds – separate/segregated account	22 92%	2 8%	8 42%	11 58%
Long duration credit and government bonds – pooled fund approach	21 84%	4 16%	6 30%	14 70%
Interest rate swaps – separate account	16 67%	8 33%	10 50%	10 50%
Total return swaps – separate account	13 54%	11 46%	8 42%	11 58%
Interest rate futures – separate account	13 54%	11 46%	7 37%	12 63%
Interest rate swaps, total return swaps, or interest rate futures – offered in a fund approach	12 50%	12 50%	6 32%	13 68%

U.S.

	Plan to offer in next 12 months?		Plan to offer solutions with leverage in next 12 months?	
	Yes	No	Yes	No
Long duration credit bonds – separate/segregated account	6	1	1	3
	86%	14%	25%	75%
Long duration government bonds – separate/segregated account	4	3	2	2
	57%	43%	50%	50%
Long duration credit bonds – pooled fund approach	8	1	1	5
	89%	11%	17%	83%
Long duration government bonds – pooled fund approach	5	4	1	5
	56%	44%	17%	83%
Long duration credit and government bonds – separate/segregated account	6	1	1	3
	86%	14%	25%	75%
Long duration credit and government bonds – pooled fund approach	8	1	1	4
	89%	11%	20%	80%
Interest rate swaps – separate account	5	3	2	3
	63%	38%	40%	60%
Total return swaps – separate account	2	6	1	3
	25%	75%	25%	75%
Interest rate futures – separate account	3	5	2	3
	38%	63%	40%	60%
Interest rate swaps, total return swaps, or interest rate futures – offered in a fund approach	2	6	1	3
	25%	75%	25%	75%

U.K.

	Plan to offer in next 12 months?		Plan to offer solutions with leverage in next 12 months?	
	Yes	No	Yes	No
Long duration credit bonds – separate/segregated account	7	1	5	3
	88%	13%	63%	38%
Long duration government bonds – separate/segregated account	7	1	5	3
	88%	13%	63%	38%
Long duration credit bonds – pooled fund approach	7	1	2	6
	88%	13%	25%	75%
Long duration government bonds – pooled fund approach	7	2	2	6
	78%	22%	25%	75%
Long duration credit and government bonds – separate/segregated account	8	1	5	4
	89%	11%	56%	44%
Long duration credit and government bonds – pooled fund approach	5	3	2	6
	63%	38%	25%	75%
Interest rate swaps – separate account	8	1	6	3
	89%	11%	67%	33%
Total return swaps – separate account	8	1	5	4
	89%	11%	56%	44%
Interest rate futures – separate account	6	3	4	5
	67%	33%	44%	56%
Interest rate swaps, total return swaps, or interest rate futures – offered in a fund approach	6	3	3	6
	67%	33%	33%	67%

Canada

	Plan to offer in next 12 months?		Plan to offer solutions with leverage in next 12 months?	
	Yes	No	Yes	No
Long duration credit bonds – separate/segregated account	6	2	2	4
	75%	25%	33%	67%
Long duration government bonds – separate/segregated account	8	0	3	3
	100%	0%	50%	50%
Long duration credit bonds – pooled fund approach	4	3	2	4
	57%	43%	33%	67%
Long duration government bonds – pooled fund approach	6	1	3	3
	86%	14%	50%	50%
Long duration credit and government bonds – separate/segregated account	8	0	2	4
	100%	0%	33%	67%
Long duration credit and government bonds – pooled fund approach	8	0	3	4
	100%	0%	43%	57%
Interest rate swaps – separate account	3	4	2	4
	43%	57%	33%	67%
Total return swaps – separate account	3	4	2	4
	43%	57%	33%	67%
Interest rate futures – separate account	4	3	1	4
	57%	43%	20%	80%
Interest rate swaps, total return swaps, or interest rate futures – offered in a fund approach	4	3	2	4
	57%	43%	33%	67%

20. How will the following contribute to the change in demand for the management of interest rate risk?

Overall

	Growth	No change	Shrinkage	Don't know
Weak equity markets	5	8	12	5
	17%	27%	40%	17%
Strong equity markets	21	1	4	4
	70%	3%	13%	13%
Increasing credit bond yields	13	6	5	4
	46%	21%	18%	14%
Decreasing credit bond yields	6	6	12	5
	21%	21%	41%	17%
Increasing government bond yields	16	4	6	4
	53%	13%	20%	13%
Decreasing government bond yields	8	6	11	5
	27%	20%	37%	17%
Increasing credit spreads	9	11	5	5
	30%	37%	17%	17%
Decreasing credit spreads	7	14	4	5
	23%	47%	13%	17%

U.S.

	Growth	No change	Shrinkage	Don't know
Weak equity markets	1	2	5	1
	11%	22%	56%	11%
Strong equity markets	7	0	1	1
	78%	0%	11%	11%
Increasing credit bond yields	5	1	1	1
	56%	11%	11%	22%
Decreasing credit bond yields	1	1	6	1
	11%	11%	67%	11%
Increasing government bond yields	5	1	2	1
	56%	11%	22%	11%
Decreasing government bond yields	2	2	4	1
	22%	22%	44%	11%
Increasing credit spreads	5	2	1	1
	56%	22%	11%	11%
Decreasing credit spreads	1	5	2	1
	11%	56%	22%	11%

U.K.

	Growth	No change	Shrinkage	Don't know
Weak equity markets	1	5	4	1
	9%	45%	36%	9%
Strong equity markets	9	0	1	1
	82%	0%	9%	9%
Increasing credit bond yields	4	3	3	1
	36%	27%	27%	9%
Decreasing credit bond yields	4	2	4	1
	36%	18%	36%	9%
Increasing government bond yields	5	2	3	1
	45%	18%	27%	9%
Decreasing government bond yields	4	2	4	1
	36%	18%	36%	9%
Increasing credit spreads	1	6	3	1
	9%	55%	27%	9%
Decreasing credit spreads	5	4	1	1
	45%	36%	9%	9%

Canada

	Growth	No change	Shrinkage	Don't know
Weak equity markets	3	1	3	3
	30%	10%	30%	30%
Strong equity markets	5	1	2	2
	50%	10%	20%	20%
Increasing credit bond yields	4	2	1	2
	44%	22%	11%	22%
Decreasing credit bond yields	1	3	2	3
	11%	33%	22%	33%
Increasing government bond yields	6	1	1	2
	60%	10%	10%	20%
Decreasing government bond yields	2	2	3	3
	20%	20%	30%	30%
Increasing credit spreads	3	3	1	3
	30%	30%	10%	30%
Decreasing credit spreads	1	5	1	3
	10%	50%	10%	30%

21. Which of the following specific plan sponsor situations over the next three years will contribute to the change in demand for the management of interest rate risk?

Overall

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	26	0	1	3
	87%	0%	3%	10%
Deteriorating funded status of plans	4	11	12	3
	13%	37%	40%	10%
Sponsors' desire to decrease financial statement volatility	26	2	0	2
	87%	7%	0%	7%
Improved financial condition of sponsor	16	7	4	3
	53%	23%	13%	10%
Worsened financial condition of sponsor	11	7	9	3
	37%	23%	30%	10%

U.S.

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	9	0	0	0
	100%	0%	0%	0%
Deteriorating funded status of plans	0	4	5	0
	0%	44%	56%	0%
Sponsors' desire to decrease financial statement volatility	9	0	0	0
	100%	0%	0%	0%
Improved financial condition of sponsor	8	0	0	1
	89%	0%	0%	11%
Worsened financial condition of sponsor	1	2	5	1
	11%	22%	56%	11%

U.K.

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	10	0	0	1
	91%	0%	0%	9%
Deteriorating funded status of plans	1	5	4	1
	9%	45%	36%	9%
Sponsors' desire to decrease financial statement volatility	9	1	0	1
	82%	9%	0%	9%
Improved financial condition of sponsor	5	3	2	1
	45%	27%	18%	9%
Worsened financial condition of sponsor	6	3	1	1
	55%	27%	9%	9%

Canada

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	7	0	1	2
	70%	0%	10%	20%
Deteriorating funded status of plans	3	2	3	2
	30%	20%	30%	20%
Sponsors' desire to decrease financial statement volatility	8	1	0	1
	80%	10%	0%	10%
Improved financial condition of sponsor	3	4	2	1
	30%	40%	20%	10%
Worsened financial condition of sponsor	4	2	3	1
	40%	20%	30%	10%

22. Do you currently offer products or strategies to allow pension plan sponsors to mitigate or eliminate inflation risk they face from their pension plan?

	Canada	U.K.	U.S.	Total
No	3	1	3	7
	19%	7%	30%	17%
Yes	8	10	5	23
	50%	67%	50%	56%
(Blank)	5	4	2	11
	31%	27%	20%	27%
	16	15	10	41

23. In the last 12 months, which of the following solutions have you used to help plan sponsors manage inflation risk?

Overall

	Currently offer?		Currently offer solutions with leverage?	
	Yes	No	Yes	No
Inflation protected government bonds – separate/segregated account	15	3	4	11
	83%	17%	27%	73%
Inflation protected government bonds – pooled fund approach	13	5	4	10
	72%	28%	29%	71%
Treasury bill futures – separate/segregated account	6	10	4	10
	38%	63%	29%	71%
Treasury bill futures – pooled fund approach	3	13	1	11
	19%	81%	8%	92%
Commodities	7	8	2	13
	47%	53%	13%	87%
Annuity products with inflation protection	1	14	0	12
	7%	93%	0%	100%
Inflation swaps	10	5	6	9
	67%	33%	40%	60%

U.S.

	Currently offer?		Currently offer solutions with leverage?	
	Yes	No	Yes	No
Inflation protected government bonds – separate/segregated account	2	2	1	1
	50%	50%	50%	50%
Inflation protected government bonds – pooled fund approach	2	2	1	1
	50%	50%	50%	50%
Treasury bill futures – separate/segregated account	1	3	1	1
	25%	75%	50%	50%
Treasury bill futures – pooled fund approach	0	4	0	1
	0%	100%	0%	100%
Commodities	2	2	1	2
	50%	50%	33%	67%
Annuity products with inflation protection	0	3	0	2
	0%	100%	0%	100%
Inflation swaps	3	1	0	2
	75%	25%	0%	100%

U.K.

	Currently offer?		Currently offer solutions with leverage?	
	Yes	No	Yes	No
Inflation protected government bonds – separate/segregated account	7 88%	1 13%	3 38%	5 63%
Inflation protected government bonds – pooled fund approach	7 88%	1 13%	2 29%	5 71%
Treasury bill futures – separate/segregated account	5 63%	3 38%	3 38%	5 63%
Treasury bill futures – pooled fund approach	3 38%	5 63%	1 14%	6 86%
Commodities	2 29%	5 71%	0 0%	7 100%
Annuity products with inflation protection	1 13%	7 88%	0 0%	6 100%
Inflation swaps	6 86%	1 14%	5 63%	3 38%

Canada

	Currently offer?		Currently offer solutions with leverage?	
	Yes	No	Yes	No
Inflation protected government bonds – separate/segregated account	6 100%	0 0%	0 0%	5 100%
Inflation protected government bonds – pooled fund approach	4 67%	2 33%	1 20%	4 80%
Treasury bill futures – separate/segregated account	0 0%	4 100%	0 0%	4 100%
Treasury bill futures – pooled fund approach	0 0%	4 100%	0 0%	4 100%
Commodities	3 75%	1 25%	1 20%	4 80%
Annuity products with inflation protection	0 0%	4 100%	0 0%	4 100%
Inflation swaps	1 25%	3 75%	1 20%	4 80%

24. In the next 12 months, do you plan to offer products to help DB plan sponsors to manage inflation risk?

Overall

	Plan to offer in next 12 months?		Plan to offer solutions with leverage in next 12 months?	
	Yes	No	Yes	No
Inflation protected government bonds – separate/segregated account	13	10	5	16
	57%	43%	24%	76%
Inflation protected government bonds – pooled fund approach	14	11	3	18
	56%	44%	14%	86%
Treasury bill futures – separate/segregated account	7	17	3	17
	29%	71%	15%	85%
Treasury bill futures – pooled fund approach	4	19	1	17
	17%	83%	6%	94%
Commodities	11	13	2	18
	46%	54%	10%	90%
Annuity products with inflation protection	3	22	0	19
	12%	88%	0%	100%
Inflation swaps	13	12	6	15
	52%	48%	29%	71%

U.S.

	Plan to offer in next 12 months?		Plan to offer solutions with leverage in next 12 months?	
	Yes	No	Yes	No
Inflation protected government bonds – separate/segregated account	2	6	1	5
	25%	75%	17%	83%
Inflation protected government bonds – pooled fund approach	3	5	1	5
	38%	63%	17%	83%
Treasury bill futures – separate/segregated account	1	7	1	5
	13%	88%	17%	83%
Treasury bill futures – pooled fund approach	0	7	0	4
	0%	100%	0%	100%
Commodities	4	4	2	4
	50%	50%	33%	67%
Annuity products with inflation protection	1	7	0	6
	13%	88%	0%	100%
Inflation swaps	3	5	0	5
	38%	63%	0%	100%

U.K.

	Plan to offer in next 12 months?		Plan to offer solutions with leverage in next 12 months?	
	Yes	No	Yes	No
Inflation protected government bonds – separate/segregated account	8 89%	1 11%	4 44%	5 56%
Inflation protected government bonds – pooled fund approach	8 80%	2 20%	1 11%	8 89%
Treasury bill futures – separate/segregated account	4 44%	5 56%	2 25%	6 75%
Treasury bill futures – pooled fund approach	3 33%	6 67%	1 13%	7 88%
Commodities	4 44%	5 56%	0 0%	8 100%
Annuity products with inflation protection	2 20%	8 80%	0 0%	7 100%
Inflation swaps	8 89%	1 11%	5 56%	4 44%

Canada

	Plan to offer in next 12 months?		Plan to offer solutions with leverage in next 12 months?	
	Yes	No	Yes	No
Inflation protected government bonds – separate/segregated account	3 50%	3 50%	0 0%	6 100%
Inflation protected government bonds – pooled fund approach	3 43%	4 57%	1 17%	5 83%
Treasury bill futures – separate/segregated account	2 29%	5 71%	0 0%	6 100%
Treasury bill futures – pooled fund approach	1 14%	6 86%	0 0%	6 100%
Commodities	3 43%	4 57%	0 0%	6 100%
Annuity products with inflation protection	0 0%	7 100%	0 0%	6 100%
Inflation swaps	2 25%	6 75%	1 14%	6 86%

25. How will the following contribute to demand for the management of inflation risk?

Overall

	Growth	No change	Shrinkage	Don't know
Weak equity markets	2	12	5	8
	7%	44%	19%	30%
Strong equity markets	13	6	2	5
	50%	23%	8%	19%
Increasing credit bond yields	4	10	3	8
	16%	40%	12%	32%
Decreasing credit bond yields	3	10	4	8
	12%	40%	16%	32%
Increasing government bond yields	8	7	3	7
	32%	28%	12%	28%
Decreasing government bond yields	3	9	6	7
	12%	36%	24%	28%
Increasing credit spreads	1	12	4	8
	4%	48%	16%	32%
Decreasing credit spreads	4	12	1	8
	16%	48%	4%	32%
Increasing inflation	20	1	0	5
	77%	4%	0%	19%
Decreasing inflation	3	7	9	7
	12%	27%	35%	27%

U.S.

	Growth	No change	Shrinkage	Don't know
Weak equity markets	2	3	1	2
	25%	38%	13%	25%
Strong equity markets	1	4	1	2
	13%	50%	13%	25%
Increasing credit bond yields	1	3	1	3
	13%	38%	13%	38%
Decreasing credit bond yields	1	3	1	3
	13%	38%	13%	38%
Increasing government bond yields	3	2	1	2
	38%	25%	13%	25%
Decreasing government bond yields	1	2	3	2
	13%	25%	38%	25%
Increasing credit spreads	0	3	1	4
	0%	38%	13%	50%
Decreasing credit spreads	1	3	0	4
	13%	38%	0%	50%
Increasing inflation	5	0	0	3
	63%	0%	0%	38%
Decreasing inflation	0	2	3	3
	0%	25%	38%	38%

U.K.

	Growth	No change	Shrinkage	Don't know
Weak equity markets	0	5	3	3
	0%	45%	27%	27%
Strong equity markets	8	0	1	1
	80%	0%	10%	10%
Increasing credit bond yields	2	4	2	2
	20%	40%	20%	20%
Decreasing credit bond yields	2	4	2	2
	20%	40%	20%	20%
Increasing government bond yields	4	2	2	2
	40%	20%	20%	20%
Decreasing government bond yields	2	4	2	2
	20%	40%	20%	20%
Increasing credit spreads	0	6	3	1
	0%	60%	30%	10%
Decreasing credit spreads	3	6	0	1
	30%	60%	0%	10%
Increasing inflation	8	1	0	1
	80%	10%	0%	10%
Decreasing inflation	1	2	5	2
	10%	20%	50%	20%

Canada

	Growth	No change	Shrinkage	Don't know
Weak equity markets	0	4	1	3
	0%	50%	13%	38%
Strong equity markets	4	2	0	2
	50%	25%	0%	25%
Increasing credit bond yields	1	3	0	3
	14%	43%	0%	43%
Decreasing credit bond yields	0	3	1	3
	0%	43%	14%	43%
Increasing government bond yields	1	3	0	3
	14%	43%	0%	43%
Decreasing government bond yields	0	3	1	3
	0%	43%	14%	43%
Increasing credit spreads	1	3	0	3
	14%	43%	0%	43%
Decreasing credit spreads	0	3	1	3
	0%	43%	14%	43%
Increasing inflation	7	0	0	1
	88%	0%	0%	13%
Decreasing inflation	2	3	1	2
	25%	38%	13%	25%

26. How will the following specific plan sponsor situations contribute to the change in demand for the management of inflation risk over the next three years?

Overall

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	18	2	1	6
	67%	7%	4%	22%
Deteriorating funded status of plans	4	8	8	6
	15%	31%	31%	23%
Sponsors' desire to decrease financial statement volatility	19	4	0	4
	70%	15%	0%	15%
Improved financial condition of sponsor	11	8	2	6
	41%	30%	7%	22%
Worsened financial condition of sponsor	7	9	5	6
	26%	33%	19%	22%

U.S.

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	4	1	1	2
	50%	13%	13%	25%
Deteriorating funded status of plans	1	3	2	2
	13%	38%	25%	25%
Sponsors' desire to decrease financial statement volatility	3	3	0	2
	38%	38%	0%	25%
Improved financial condition of sponsor	4	2	0	2
	50%	25%	0%	25%
Worsened financial condition of sponsor	1	4	1	2
	13%	50%	13%	25%

U.K.

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	9	0	0	2
	82%	0%	0%	18%
Deteriorating funded status of plans	2	3	4	2
	18%	27%	36%	18%
Sponsors' desire to decrease financial statement volatility	10	0	0	1
	91%	0%	0%	9%
Improved financial condition of sponsor	5	2	2	2
	45%	18%	18%	18%
Worsened financial condition of sponsor	5	2	2	2
	45%	18%	18%	18%

Canada

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	5	1	0	2
	63%	13%	0%	25%
Deteriorating funded status of plans	1	2	2	2
	14%	29%	29%	29%
Sponsors' desire to decrease financial statement volatility	6	1	0	1
	75%	13%	0%	13%
Improved financial condition of sponsor	2	4	0	2
	25%	50%	0%	25%
Worsened financial condition of sponsor	1	3	2	2
	13%	38%	25%	25%

27. Do you currently offer products or strategies to allow pension plan sponsors to mitigate or eliminate equity market risk (beta risk) they face from their pension plan?

	Canada	U.K.	U.S.	Total
No	4	2	1	7
	25%	13%	10%	17%
Yes	7	9	7	23
	44%	60%	70%	56%
(Blank)	5	4	2	11
	31%	27%	20%	27%
	16	15	10	41

28. What kind of strategies are you offering and what level of transactions were completed in the last 12 months? (number and value)

Insufficient data to accurately report on the above question.

29. In the next 12 months, what are your plans with regard to managing equity market risk?

	Overall		Canada		U.K.		U.S.	
	Yes	No	Yes	No	Yes	No	Yes	No
Put option on the market (protection against downside risk, cost reflected in lower expected return)	15	13	4	6	7	4	4	3
	54%	46%	40%	60%	64%	36%	57%	43%
Collar strategies (protection against downside risk, cost reflected in reduction in upside potential)	13	15	3	7	7	4	3	4
	46%	54%	30%	70%	64%	36%	43%	57%
Mixture of put option with increased alpha risk (protection against downside risk, level expected returns)	9	19	1	9	5	6	3	4
	32%	68%	10%	90%	45%	55%	43%	57%
Insurance guarantee of a minimum rate of return on equity assets	4	23	0	10	4	7	0	6
	15%	85%	0%	100%	36%	64%	0%	100%
Volatility directional strategies	9	18	1	9	6	5	2	4
	33%	67%	10%	90%	55%	45%	33%	67%
Infrastructure fund	7	19	2	7	3	8	2	4
	27%	73%	22%	78%	27%	73%	33%	67%
Real estate fund	13	13	2	7	7	4	4	2
	50%	50%	22%	78%	64%	36%	67%	33%
Equity market – neutral hedge fund	12	15	4	5	4	7	4	3
	44%	56%	44%	56%	36%	64%	57%	43%
Portable alpha fund/strategy	16	11	4	5	7	4	5	2
	59%	41%	44%	56%	64%	36%	71%	29%
Managed futures	5	20	1	7	3	8	1	5
	20%	80%	13%	88%	27%	73%	17%	83%
Diversified fund of alternatives	17	10	4	5	7	4	6	1
	63%	37%	44%	56%	64%	36%	86%	14%

30. How will the following plan sponsor expectations contribute to the changes in demand for the management of equity market risk?

Overall

	Growth	No change	Shrinkage	Don't know
Weak equity markets	15	6	4	3
	54%	21%	14%	11%
Strong equity markets	11	4	10	3
	39%	14%	36%	11%
Volatile equity markets	21	1	2	4
	75%	4%	7%	14%
Increasing credit bond yields	7	9	5	6
	26%	33%	19%	22%
Decreasing credit bond yields	6	9	5	6
	23%	35%	19%	23%
Increasing government bond yields	10	7	4	6
	37%	26%	15%	22%
Decreasing government bond yields	7	8	4	5
	29%	33%	17%	21%
Increasing credit spreads	7	7	6	6
	27%	27%	23%	23%
Decreasing credit spreads	6	10	4	6
	23%	38%	15%	23%

U.S.

	Growth	No change	Shrinkage	Don't know
Weak equity markets	5	1	1	0
	71%	14%	14%	0%
Strong equity markets	3	1	3	0
	43%	14%	43%	0%
Volatile equity markets	7	0	0	0
	100%	0%	0%	0%
Increasing credit bond yields	3	2	2	0
	43%	29%	29%	0%
Decreasing credit bond yields	2	3	2	0
	29%	43%	29%	0%
Increasing government bond yields	3	2	2	0
	43%	29%	29%	0%
Decreasing government bond yields	3	3	0	0
	50%	50%	0%	0%
Increasing credit spreads	3	2	1	1
	43%	29%	14%	14%
Decreasing credit spreads	1	3	2	1
	14%	43%	29%	14%

U.K.

	Growth	No change	Shrinkage	Don't know
Weak equity markets	6	3	1	1
	55%	27%	9%	9%
Strong equity markets	4	1	5	1
	36%	9%	45%	9%
Volatile equity markets	9	0	0	2
	82%	0%	0%	18%
Increasing credit bond yields	2	5	2	2
	18%	45%	18%	18%
Decreasing credit bond yields	3	3	2	2
	30%	30%	20%	20%
Increasing government bond yields	3	4	1	2
	30%	40%	10%	20%
Decreasing government bond yields	2	3	3	2
	20%	30%	30%	20%
Increasing credit spreads	2	4	3	1
	20%	40%	30%	10%
Decreasing credit spreads	3	5	1	1
	30%	50%	10%	10%

Canada

	Growth	No change	Shrinkage	Don't know
Weak equity markets	4	2	2	2
	40%	20%	20%	20%
Strong equity markets	4	2	2	2
	40%	20%	20%	20%
Volatile equity markets	5	1	2	2
	50%	10%	20%	20%
Increasing credit bond yields	2	2	1	4
	22%	22%	11%	44%
Decreasing credit bond yields	1	3	1	4
	11%	33%	11%	44%
Increasing government bond yields	4	1	1	4
	40%	10%	10%	40%
Decreasing government bond yields	2	2	1	3
	25%	25%	13%	38%
Increasing credit spreads	2	1	2	4
	22%	11%	22%	44%
Decreasing credit spreads	2	2	1	4
	22%	22%	11%	44%

31. Which of the following specific plan sponsor situations over the next three years will contribute to a change in demand for the management of equity market risk?

Overall

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	17	3	4	4
	61%	11%	14%	14%
Deteriorating funded status of plans	11	6	6	5
	39%	21%	21%	18%
Sponsors' desire to decrease financial statement volatility	22	1	1	4
	79%	4%	4%	14%
Improved financial condition of plan sponsor	10	5	7	6
	36%	18%	25%	21%
Worsened financial condition of plan sponsor	12	7	3	6
	43%	25%	11%	21%

U.S.

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	4	1	2	0
	57%	14%	29%	0%
Deteriorating funded status of plans	3	1	2	1
	43%	14%	29%	14%
Sponsors' desire to decrease financial statement volatility	7	0	0	0
	100%	0%	0%	0%
Improved financial condition of plan sponsor	4	0	1	2
	57%	0%	14%	29%
Worsened financial condition of plan sponsor	2	1	2	2
	29%	14%	29%	29%

U.K.

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	9	0	1	1
	82%	0%	9%	9%
Deteriorating funded status of plans	3	4	3	1
	27%	36%	27%	9%
Sponsors' desire to decrease financial statement volatility	8	1	1	1
	73%	9%	9%	9%
Improved financial condition of plan sponsor	4	2	4	1
	36%	18%	36%	9%
Worsened financial condition of plan sponsor	6	4	0	1
	55%	36%	0%	9%

Canada

	Growth	No change	Shrinkage	Don't know
Improved funded status of plans	4	2	1	3
	40%	20%	10%	30%
Deteriorating funded status of plans	5	1	1	3
	50%	10%	10%	30%
Sponsors' desire to decrease financial statement volatility	7	0	0	3
	70%	0%	0%	30%
Improved financial condition of plan sponsor	2	3	2	3
	20%	30%	20%	30%
Worsened financial condition of plan sponsor	4	2	1	3
	40%	20%	10%	30%

32. Which of the following products do you plan to offer in the next 12 months to manage currency risk?

	Overall		Canada		U.K.		U.S.	
	Yes	No	Yes	No	Yes	No	Yes	No
Currency hedging product for existing clients – segregated account (fixed hedge ratio)	16	11	5	4	7	4	4	3
	59%	41%	56%	44%	64%	36%	57%	43%
Stand-alone currency hedging product – segregated account (fixed hedge ratio)	11	16	4	5	4	7	3	4
	41%	59%	44%	56%	36%	64%	43%	57%
Currency hedging product for existing clients – pooled fund (fixed hedge ratio)	12	15	6	3	4	7	2	5
	44%	56%	67%	33%	36%	64%	29%	71%
Stand-alone currency hedging product – pooled fund (fixed hedge ratio)	6	21	3	6	1	10	2	5
	22%	78%	33%	67%	9%	91%	29%	71%
Active currency management product	13	15	3	6	5	6	5	3
	46%	54%	33%	67%	45%	55%	63%	38%

33. What products have you offered over the last 12 months and what volume of transactions have you completed to manage currency risk?

Insufficient data to accurately report on the above question.

34. Do you currently offer products or strategies to allow pension plan sponsors to mitigate or eliminate longevity risk they face from their pension plan?

	Canada	U.K.	U.S.	Total
No	10 63%	6 40%	6 60%	22 54%
Yes	1 6%	5 33%	2 20%	8 20%
(Blank)	5 31%	4 27%	2 20%	11 27%
	16	15	10	41

35. Do you offer any of the following products to DB pension plans?

Overall

	Currently offer?		Plan to offer in the next 12 months?	
	Yes	No	Yes	No
Insured buyouts	4 67%	2 33%	3 75%	1 25%
Insured buy-ins	3 50%	3 50%	2 50%	2 50%
Non-insured buyouts	1 17%	5 83%	1 25%	3 75%
Longevity bonds	1 17%	5 83%	1 25%	3 75%
Longevity swaps	2 33%	4 67%	2 50%	2 50%
Longevity insurance	1 17%	5 83%	1 25%	3 75%

36. Do you offer longevity hedging strategies for the following DB pension plan liabilities?

Overall

	Active members		Retired members		Deferred members	
	Yes	No	Yes	No	Yes	No
Insured buyouts	2 33%	4 67%	4 80%	1 20%	3 60%	2 40%
Insured buy-ins	3 50%	3 50%	3 60%	2 40%	3 60%	2 40%
Non-insured buyouts	1 20%	4 80%	1 25%	3 75%	1 25%	3 75%
Longevity bonds	1 20%	4 80%	1 25%	3 75%	1 25%	3 75%
Longevity swaps	2 40%	3 60%	2 50%	2 50%	2 50%	2 50%
Longevity insurance	1 20%	4 80%	1 25%	3 75%	1 25%	3 75%

37. In the next 12 months what do you expect to be the most significant factors affecting the level of transactions you complete in this buyout/annuity market? (choose up to *three*)

	Total
Your own pricing relative to competitors	3 22%
The level of the equity market	2 14%
The level of bond yields	1 7%
The level of credit spreads on corporate bonds	1 7%
The level of bond yields relative to the equity market	1 7%
New regulatory requirements	0 0%
Increase in demand for longevity protection	3 22%
Insolvencies forcing scheme settlement	1 7%
The availability of techniques to enable schemes to manage all risks internally	1 7%
Unknown	1 7%
	14

38. What level of activity (number and total value) of the following products do you expect to complete in the next year?

Insufficient data to accurately report on the above question.

39. Have you ever sold a product or service to a captive insurance organization?

	Canada	U.K.	U.S.	Total
No	9	6	7	22
	56%	40%	70%	54%
Yes	2	5	1	8
	13%	33%	10%	19%
(Blank)	5	4	2	11
	31%	27%	20%	27%
	16	15	10	41

40. What was the location of the plan sponsor?

Insufficient data to accurately report on the above question.

41. What was the location of the captive?

Insufficient data to accurately report on the above question.

42. Number of different captive organizations you have sold products/services to:

Insufficient data to accurately report on the above question.

43. What was the nature of the product or service provided to the captive?

Insufficient data to accurately report on the above question.

