

## **Introduction**

Following the success of the first IAPF Investment Survey in 1999, we decided to "strike while the iron was hot" and commissioned a second survey for the year 2000. Investments and related topics are never far from the minds of our members and as such, we believe that this report will be of interest to both trustees and members of group pension arrangements. We hope that it will act as a reference point for those looking for particular information on the issue of investments and for those simply seeking to ascertain where their own pension plan fits in with the wider Irish pensions industry.

We have re-designed the survey somewhat from 1999 with the most significant change being the separation of the questionnaire into two sections; one for defined benefit and a second for defined contribution plans. Many of the issues facing trustees of these two groups differ in importance and indeed relevance and so by separating the questionnaires it has allowed us to tailor questions on issues specific to each. This survey is distinct from the ongoing asset analysis report, also commissioned by the IAPF, which concentrates primarily on asset distributions.

In all, we received 167 completed questionnaires, covering pension assets in excess of IEP£17bn. We are delighted with such a high number of responses and are very grateful to our members for taking the time to complete the questionnaire. We would also like to thank the IAPF staff who have helped greatly in putting this report together.

**Tom Murphy**  
**IAPF Investment Committee**

*Note: Unless otherwise stated, all percentage figures are based on the number of schemes. The numbers shown in brackets relate to the results of the 1999 survey. As the 1999 survey did not separate defined contribution from defined benefit schemes, the '99 figures are an amalgamation of the two plan types.*

**Part One: Scheme Details**

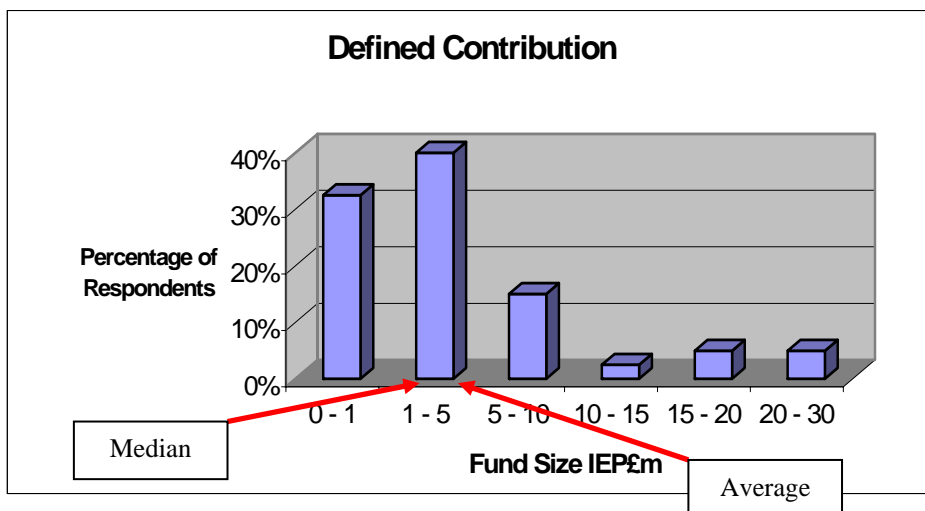
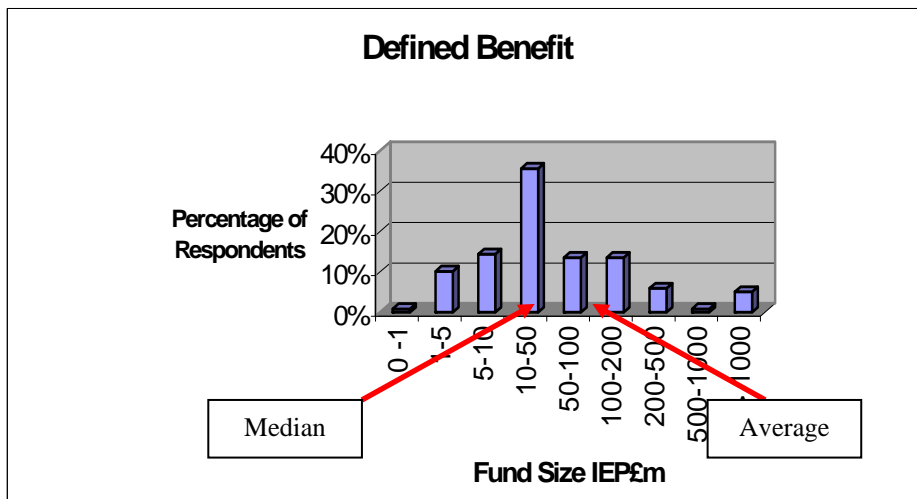
**What type of pension scheme(s) do you offer**

Defined Benefit	74% (78%)
Defined Contribution	26% (22%)

**What was the approximate market value of your pension plan at 31st December 1999.**

Total Defined Benefit Assets	IEP£16.7bn
Total Defined Contribution Assets	IEP£157m

The average size of a responding defined benefit plan is IEP£90m with the median fund size at IEP£25m. For defined contribution plans, the average fund size is IEP£4m with the median being just IEP£3m.



<b>What is the approximate net cash-flow into your pension plan</b>	
Total Defined Benefit	IEP£240m
Total Defined Contribution	IEP£19m

<b>Does your pension plan offer an AVC facility</b>	
% of Defined Benefit Plans offering AVC's	91%
% of Defined Contribution Plans offering AVC's	94%

<b>Are you an affiliate of an international company</b>	
Defined Benefit	62% Yes
Defined Contribution	50% Yes

## **Part Two: Policy**

### **If performance related fees were offered as an option, would you avail of the opportunity**

Defined Benefit	61% Yes	} (53%)
Defined Contribution	38% Yes	

### **How often do you meet with your investment manager**

	<u>Defined Benefit</u>	<u>Defined Contribution</u>
Quarterly	29%	12%
Half-Yearly	40%	33%
Yearly	25%	40%
Other	6%	15%

### **How often do you critically review your investment management arrangements**

	<u>Defined Benefit</u>	<u>Defined Contribution</u>
Annually	36%	32%
Every Three Years	43%	42%
Every Five Years	7%	11%
Only after a period of under-performance	14%	16%

### **Have you received a draft investment management agreement from your investment manager / consultant**

Defined Benefit	70% Yes
Defined Contribution	56% Yes

### **Do you have a signed investment management agreement in place with your manager**

Defined Benefit	55% Yes
Defined Contribution	51% Yes

The figures shown here are much lower than the IAPF would like to see. It is our recommendation that all pension plans should have a signed investment management agreement in place with their managers.

**Have you ever undertaken an asset liability modelling study**

Defined Benefit	14% Yes
Defined Contribution	N/A

**If yes, did it lead to a change in investment strategy**

Defined Benefit	48% Yes
Defined Contribution	N/A

Asset liability modelling (ALM) is the technique used internationally by trustees of defined benefit plans to help them set their investment strategy. ALM's are routinely carried out by pension plans in the US, UK, and European markets, often in conjunction with the triennial actuarial valuation. . We have seen more and more Irish pension plans employ asset liability modelling techniques in recent years and it is envisaged that this trend will continue.

**Do you employ a custodian other than the custodian associated by your investment manager(s)**

Defined Benefit	10% Yes
Defined Contribution	N/A

Defined Contribution plans are almost always unitised and therefore simply invest in the unit funds offered by investment management houses. By pooling their assets this way, they lose the control over the investment policy adopted by the unit fund including the choice of custodian

**Do you have a Statement of Investment Policy in place**

Defined Benefit	70% Yes
Defined Contribution	50% Yes

} (54%)

**Do you have a specific performance objective in place for your manager(s)**

Defined Benefit	68% Yes
Defined Contribution	44% Yes

} (65%)

**For a defined benefit plan: If yes to the above, is performance measured against**

Managed Fund Survey Average	21%
CPMS Manager Average	43%
A benchmark tailored to your funds' investment strategy	29%
Other	7%

The IAPF certainly advocate that every pension plan should have a statement of investment policy in place with their managers. This statement should outline the investment constraints placed on the manager and also detail the performance target against which they will be judged. In the UK, it is best practice for pension funds to disclose whether or not they have a statement of investment policy in place as part of the fund accounts. It is envisaged that this will also become best practice in Ireland over the next year or two.

### **Part Three: Investment Management Arrangements**

#### **Did you change investment manager during the last three years**

Defined Benefit	36% Yes
Defined Contribution	26% Yes

#### **If yes, did you have the transfer of assets monitored / managed by a party other than the investment managers involved**

Defined Benefit	72% Yes
Defined Contribution	45% Yes

#### **If yes to the above, was this party**

	<u>Defined Benefit</u>	<u>Defined Contribution</u>
a consultant	76%	100%
the Plan auditor	7%	0%
an internal resource	7%	0%
Other	10%	0%

#### **Did the monitoring process result in any recoveries to the plan**

Defined Benefit	30%
Defined Contribution	100%

Increasingly, when pension funds change managers, they commission an independent reviews of the process undertaken. As you can gauge from the above figures, a significant amount of these reviews result in recoveries (ie. the pension plan has received extra value from the managers or mistakes have been uncovered and the plan has been compensated) to the plan. The 100% figure shown for defined contribution plans is based on quite a small sample.

#### **Has your fund's asset mix changed as a result of the Euro**

Defined Benefit	80% Yes	} (80%)
Defined Contribution	75% Yes	

All surveys produced since the introduction of the Euro have shown that the asset distribution of Irish pension funds has changed dramatically as a result of the Euro. Therefore, it would appear that quite a number of trustees have not kept abreast of these development and are unaware of the impact the Euro has had.

#### **If yes to the above question, who has been the primary instigator of change**

	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>1999 Figures</u>
Trustees	19%	7%	(15%)
Investment Managers	71%	86%	(77%)
Pension Consultant	10%	7%	(8%)

#### **Approximately, what percentage of your total pension assets were invested in Irish equities at 31st December, 1999**

Defined Benefit	23%	} (29%)
Defined Contribution	23%	

**What do you expect the proportion to be on**

	<u>Defined Benefit</u>	<u>Defined Contribution</u>	<u>1999 figures</u>
31st December 2000	20%	19%	(25%)
31st December 2001	18%	17%	(24%)
31st December 2002	17%	16%	(23%)
31st December 2003	15%	14%	(22%)
31st December 2004	15%	12%	

As we can see from the above, trustees have significantly altered their view as to the final resting place of the Irish equity allocation of their pension plan. It will be interesting to see how these figures progress over the next year or two.

**If you expect a reduction in Irish equities, where do you expect this to be re-allocated**

	<u>Defined Benefit</u>	<u>Defined Contribution</u>
Other Global Equities	31%	31%
Euroland Equities	67%	69%
Bonds	2%	0%

**Do you have any limits on stock specific risk**

Defined Benefit	40% Yes	} (41%)
Defined Contribution	28% Yes	

**If yes to the above, please indicate the percentage limit applying to a single holding in both Irish and overseas assets**

	<u>Defined Benefit</u>	<u>Defined Contribution</u>
Irish Average	5.5%	6%
Overseas Average	4.7%	5%

Some trustees groups have a higher stock concentration limit for Irish equities because Irish equities have historically made up such a large portion of total assets. Given the significant reduction in the Irish equity content of a typical fund, this differential should disappear. The range of answers for both Irish and overseas stock concentration was from a low of 3% to a high of 10%.

**Where respondents where publicly quoted are there any limits on self investment**

Defined Benefit	56% Yes	} (43%)
Defined Contribution	63% Yes	

**If yes to the above, please indicate the maximum holding as a percentage of your fund**

Defined Benefit	Average=2.5%, max=5%, min=2%
Defined Contribution	Average=4%, max=5%, min=1%

**Do you feel that you understand your investment managers process and investment style and the likely effect they will have on future relative performance**

Defined Benefit	85% Yes
Defined Contribution	93% Yes

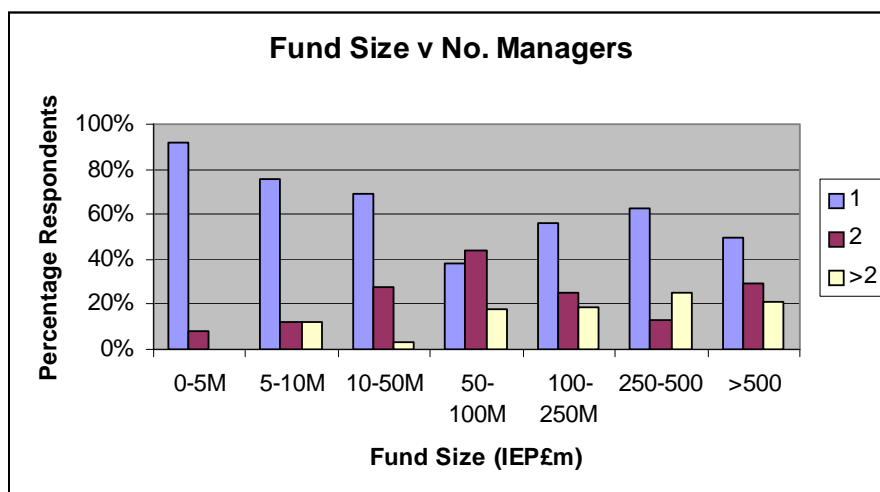
In an ideal world, these figures should both equal 100% !

## Defined Benefit Plans Only

How many investment managers do you employ to manage the main scheme assets

Number of Managers	Percentage
1	64%
2	24%
3	9%
4 or more	3%

The following chart shows the breakdown of the plan size versus the number of managers employed



Do you currently employ investment managers for any of the following mandates

Mandate	Percentage of Schemes*	Percentage of Assets
Active Balanced	84% (85%)	70%
Active Specialist	13% (11%)	16%
Passive (incl. Consensus)	18% (13%)	14%

\* These figures add to more than 100% because individual plans can be invested in more than one type of investment mandate

As you can see, the vast majority of Irish pension assets are still invested in balanced mandates. However, the percentage invested through balanced mandates is much reduced when viewed by asset size, this implies that the larger funds have embraced the concept of specialist and passive management much more than the smaller plans in the market.

Please indicate how you feel this mix will change over the next 2-5 year period

Mandate	Increase / Decrease
Active Balanced	- IEP£500m
Active Specialist	+ IEP£173m
Passive (incl. Consensus)	+ IEP£327m

As expected, trustees envisage that there will be a reduction in balanced investment mandates with a corresponding increase in specialist and passive funds. These figures are relatively small compared to international trends but this trend away from balanced and into specialist/passive mandates does look to be continuing.

### **Defined Contribution Plans Only**

Please complete the following table;

	<b>Managed Fund</b>	<b>Equity Fund</b>	<b>Fixed Interest Fund</b>	<b>Cash Fund</b>	<b>Consensus Fund</b>	<b>With-profit or Other</b>
<b>% Schemes offering mandate</b>	76%	23%	14%	12%	21%	30%
<b>% Total Assets</b>	79%	5%	0%	0%	14%	2%
<b>% Cashflow</b>	51%	10%	0%	0%	37%	2%

It is interesting to note the significant presence of passive / consensus funds in the DC market. Indeed, these funds account for nearly 40% of cash-flow. Another interesting point is the fact that while some plans offer fixed interest and cash funds, these funds have not proved popular with plan members possibly because of the young age profile of the majority of Irish defined contribution plans.

### **How many investment managers do you employ**

<b>Number of Managers</b>	<b>Percentage</b>
1	57%
2	22%
3	14%
4 or more	7%

On average, defined contribution plans employ two investment managers and offer 3 different fund choices to their members.

### **Do you believe that the fund choice you offer is adequate**

Yes 88% (84%)

No 12% (16%)

### **If applicable, indicate the default option**

56% of funds offer a default option

58% of the defaults are managed fund vehicles, 25% are consensus funds, 17% are other funds such as with-profit vehicles.



**Where choice is offered, do you have a communication / education programme for members.  
Who provides this information and how is it provided**

Yes 91% (85%)  
No 9% (15%)

Although 9% seems like a relatively low figure, this is a worrying statistic. If trustees of defined contribution plans offer investment choices to members, they have a responsibility to educate their members as to the choices facing them. Therefore, 1 in 10 trustee groups for defined contribution plans are effectively not fulfilling their duties.

<b>Provider</b>	<b>Percentage</b>
Company / Trustees	41%
Consultant	36%
Fund Manager	9%
Combination	14%

<b>Provided Through</b>	<b>Percentage</b>
Written Material	35%
Staff Presentations	8%
Internet	0%
Combination	57%