

FTfm Global alternatives survey in co-operation with Towers Watson

Pensions diversify but dubious about fees

Overview

Pension assets held by top managers are up 17%, writes Pauline Skypala

Pension funds are getting more adventurous. Over the past 10 years, they have increasingly deserted equities in favour of alternative investments. The share of the latter in global pension fund portfolios has grown from an average of 7 per cent in 2000 to 19 per cent in 2010, according to data from Towers Watson's Global Pension Asset Study.

Perhaps as a result, there is no shortage of asset managers seeking their custom. The number of managers responding to this year's Global Alternatives Survey by Towers Watson, in association with FTfm, rose to 271 from 224.

The top 100 of these registered a healthy increase in pension fund assets under management of 16 per cent. The fact that the total assets of these managers rose by less (12 per cent) suggests pension funds are an increasingly important source of business. The proportion of pension fund assets to total assets rose from 48 per cent in 2009 to 50 per cent last year.

Craig Baker, head of investment research at Towers Watson, says more of the consultant's pension fund clients now accept the need for greater diversification. Diversified portfolios saw lower losses in the financial crisis than those exposed primarily to equities, he adds.

But pension funds remain sceptical about the fees charged by alternative investment managers and the use of complex instruments. Their concern, says Mr Baker, is being charged for skill when what is delivered is traditional market returns in more opaque wrappers.

To the extent that alternative investment manag-

ers do provide "alternative betas" – in other words, a market return not available from traditional equities and bonds, Towers Watson is investigating how to deliver such returns more cheaply for clients.

Just as investing passively in equities has become a low cost way of gaining market returns, the same can be done to get cheap access to some alternative investment returns, such as the currency carry trade premium, says Mr Baker. "Then you can focus on the hedge funds producing genuine alpha [outperformance]."

The same is true for infrastructure, he adds. Returns from this asset class are highly attractive for pension funds, but fund managers add lots of leverage (that is, borrow money to invest in order to boost returns and their fees), so they can compete with private equity managers.

"Institutional investors don't need that, so we have been working with fund managers to construct low leveraged infrastructure vehicles."

There are a huge number of funds providing mainly market returns rather than using skill to unearth additional sources of return, he adds. The reason there are so many is because the complexity and opacity of their structures and strategies make it difficult for investors to see what managers are doing.

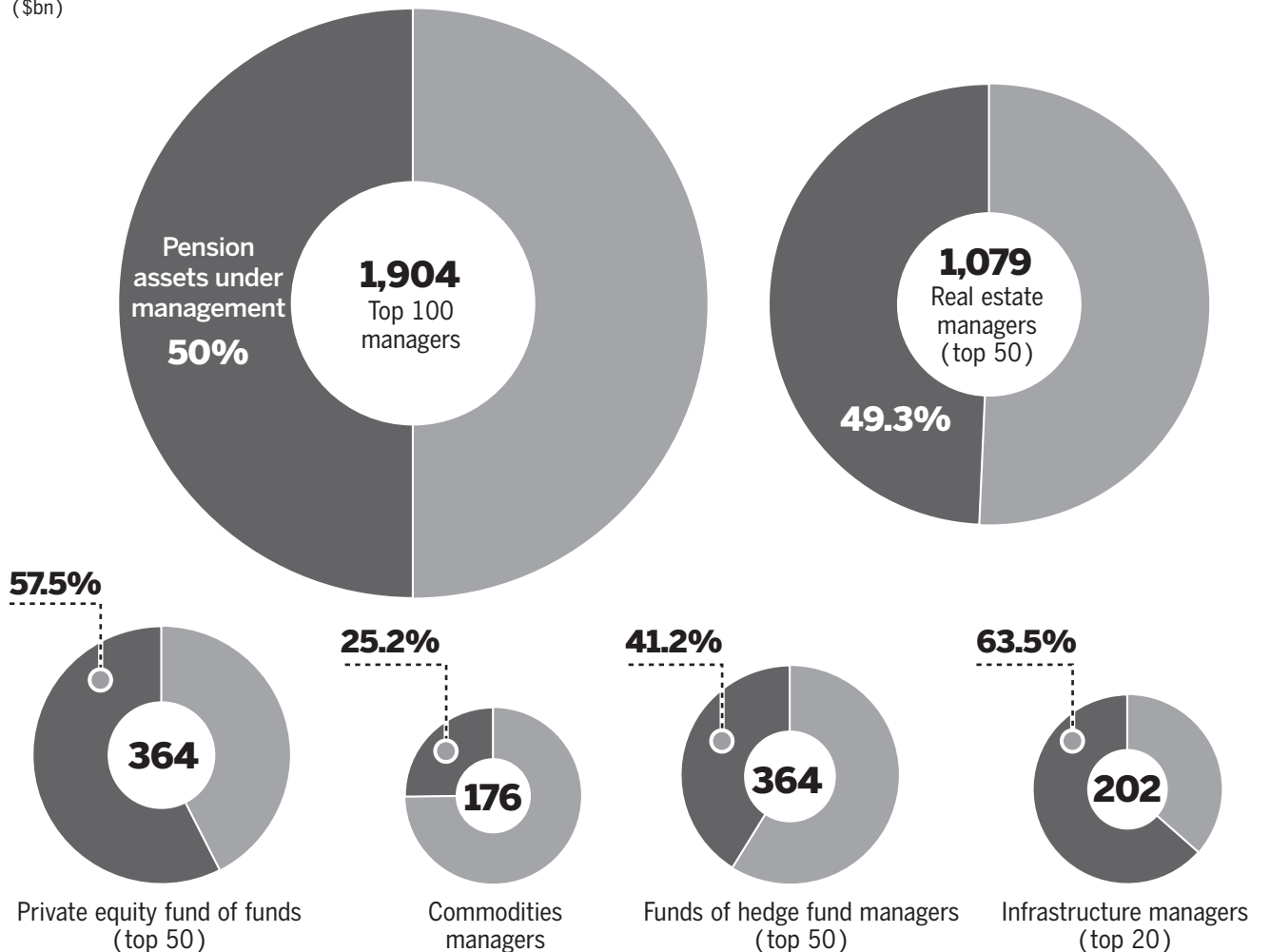
That was part of the argument in favour of funds of funds when institutional investors first turned to alternative investments, but big pension funds increasingly invest directly in hedge funds and private equity funds, with the use of funds of funds being

More data online

For the top 100 alternative investment managers plus the full Towers Watson report go to: www.ft.com/gas2011

The top alternative investment managers of pension fund assets

Total assets under management (\$bn)



Pension assets under management (\$bn)

	2007	2008	2009	2010
Top 100 managers	823.1	817.0	817.1	951.7
Real estate managers (top 50)	511.8	484.5	439.5	532.4
Funds of private equity fund managers (top 50)	139.0	177.6	186.7	209.4
Funds of hedge fund managers (top 50)	146.2	122.9	127.3	149.6
Infrastructure managers (top 20)	43.2*	74.7**	108.6	128.5
Commodities managers	15.6*	9.2**	28.4	44.3

Source: Towers Watson

*Top 10 only **Top 15 only

mainly in niche areas. Where allocations are likely to be less than \$50m, the funds of funds route makes more sense.

Among the top 100 managers in the survey, the share of fund of hedge fund managers is down from 13 per cent to 12 per cent, while that of private equity fund of fund managers has dropped from 21 per cent to 18 per cent.

Real estate managers are the dominant group by assets, both of the top 100 (accounting for 55 per cent of pension fund assets under management) and the full tally of respondents (50 per cent).

Commodity managers have the smallest share: 3 per cent of the top 100 and 4 per cent overall, but they are the fastest growing in terms of pension fund assets under management. The top 20 commodities managers saw a rise of 55 per cent, although their total assets more than dou-

bled, suggesting pension funds are being slower than other investors to pile into this sector.

Mr Baker says a "good slug" of the overall rise in pension fund assets under management by alternative investment managers is due to performance rather than inflows, but in commodities, he perceives a real change. He says the interest in commodities reflects concerns about inflation and "left tail risks", or the risk of shocks that are difficult to hedge against, such as wars.

Commenting on whether pension fund allocations to alternative investments are likely to continue rising, Mr Baker says it depends on the maturity or otherwise of a fund.

UK funds have an average allocation to alternative investments of 7 per cent, considerably lower than the 20 per cent plus of funds in Australia, Canada, Switzerland and the US.

Top 20 groups for pension fund assets in alternative investments

Parent company	Pension AUM (\$m)	Total AUM (\$m)	Pensions (as % of total AUM)
Macquarie Group	64,161.2	98,897.4	64.9
JP Morgan Chase	56,346.8	72,541.0	77.7
Prudential Financial	42,520.7	45,320.1	93.8
Morgan Stanley	36,382.5	85,776.4	42.4
CBRE Holding	31,200.0	41,700.0	74.8
Natix Global Asset Mgmt	30,806.4	55,535.2	55.5
ING Group	30,790.6	88,507.5	34.8
Deutsche Bank	29,178.1	60,912.2	47.9
Brookfield Asset Mgmt	27,829.7	85,713.0	32.5
Jones Lang LaSalle	24,556.0	43,023.0	57.1
Goldman Sachs	23,048.0	72,283.7	31.9
BlackRock	22,750.1	119,234.3	19.1
HarbourVest Partners	21,684.9	32,888.0	65.9
UBS	21,612.1	61,886.1	34.9
Principal Financial	20,495.2	35,437.7	57.8
Standard Life	19,781.7	24,381.0	81.1
Heitman	19,046.7	22,385.5	85.1
AMP Capital Investors	17,930.7	22,043.5	81.3
Credit Suisse	17,818.5	40,455.9	44.0
Pantheon Ventures	16,653.6	23,165.6	71.9

Source: Towers Watson

Figures compiled from individual entries for five asset classes so there is scope for misinterpretation or error