

VISION CAPITAL

The Pensions Revolution

Presentation to

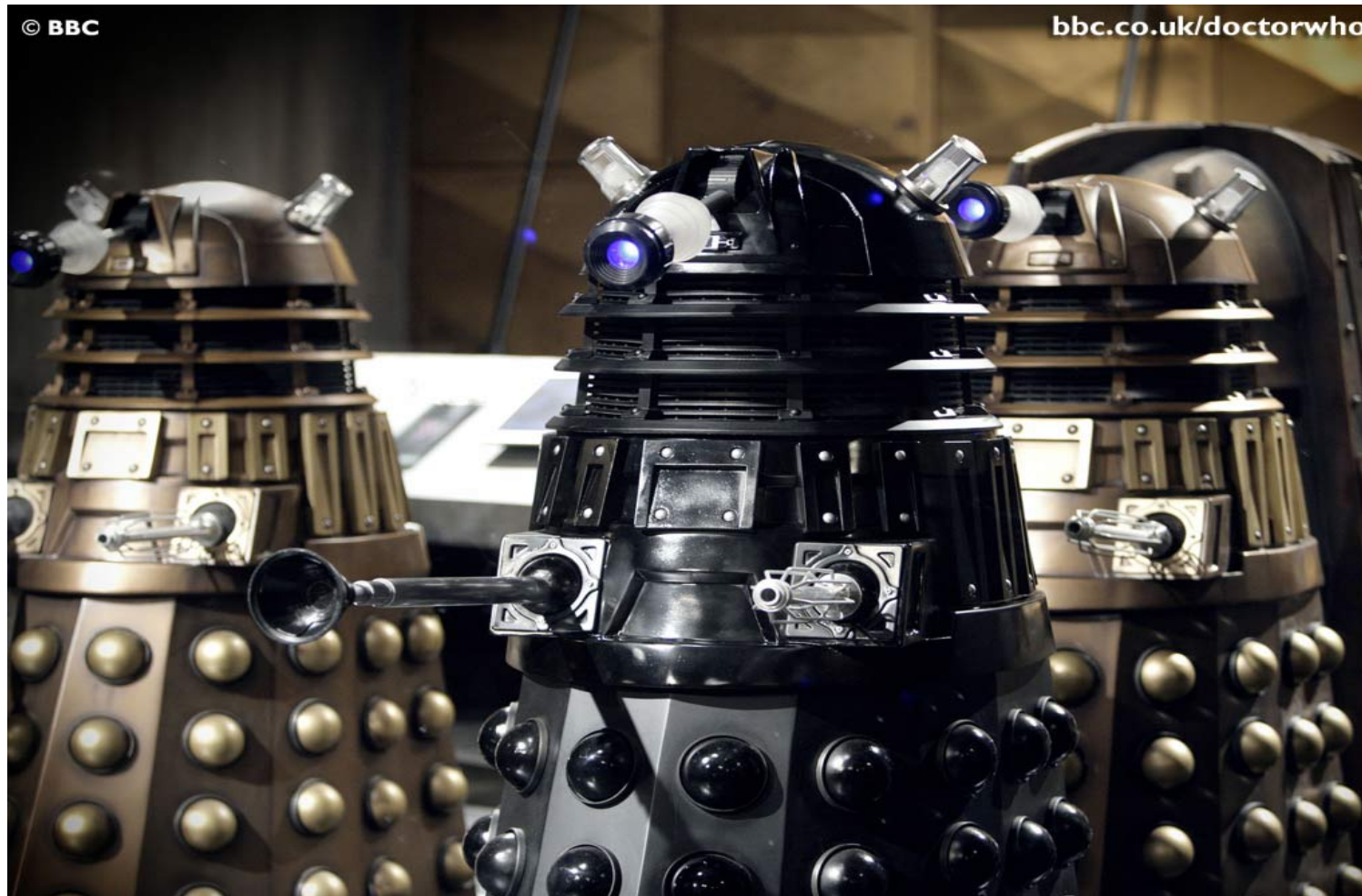
AIMSE Conference

by

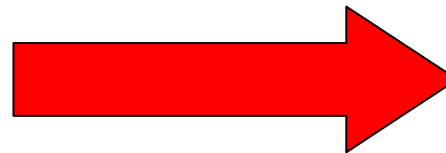
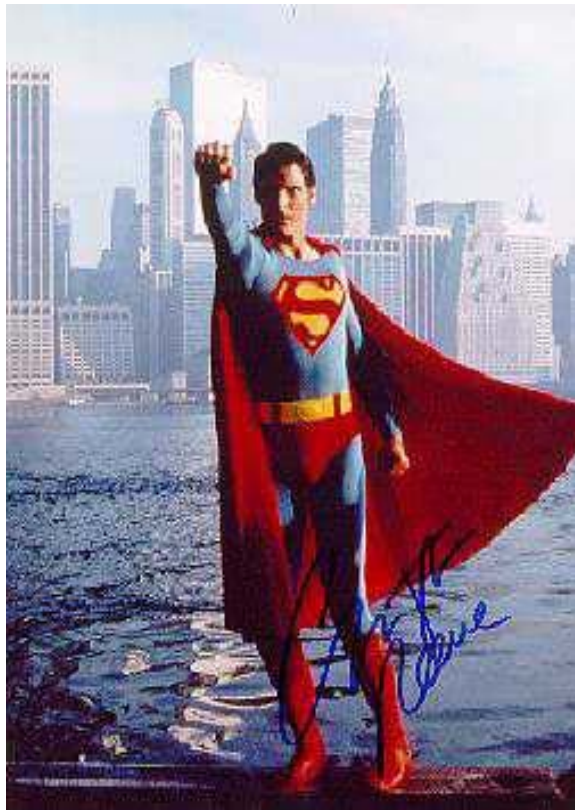
Richard Tray

February 27th 2007

Obey our message !



Actively managed equities: Going, going....

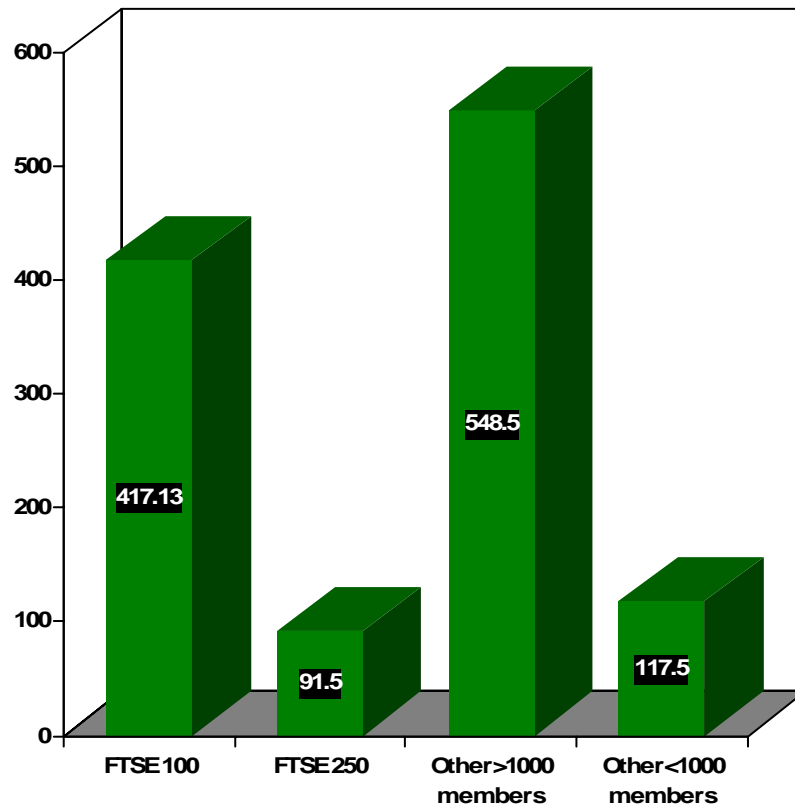


Long only
Equity Fund
Manager

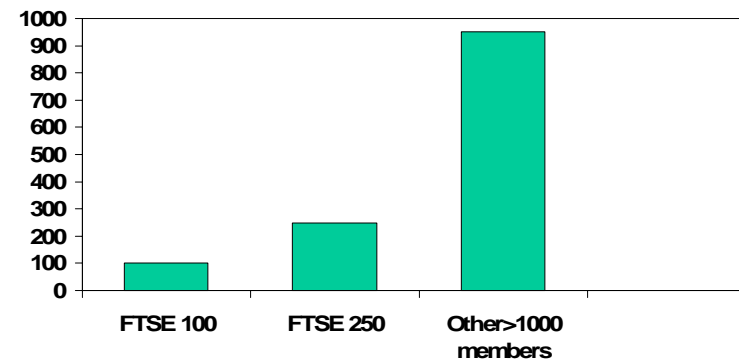


DB Pensions Market is > £1 Trillion

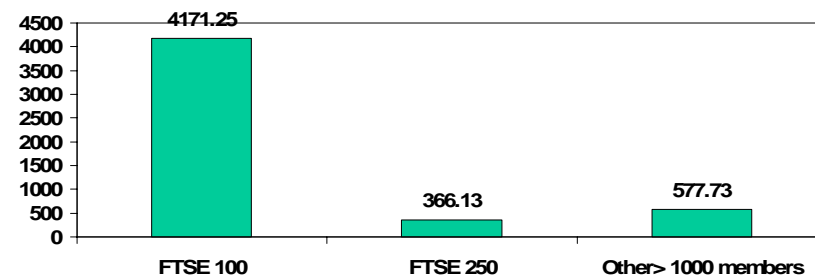
DB Pension Liabilities (£bn)



Number of DB Schemes



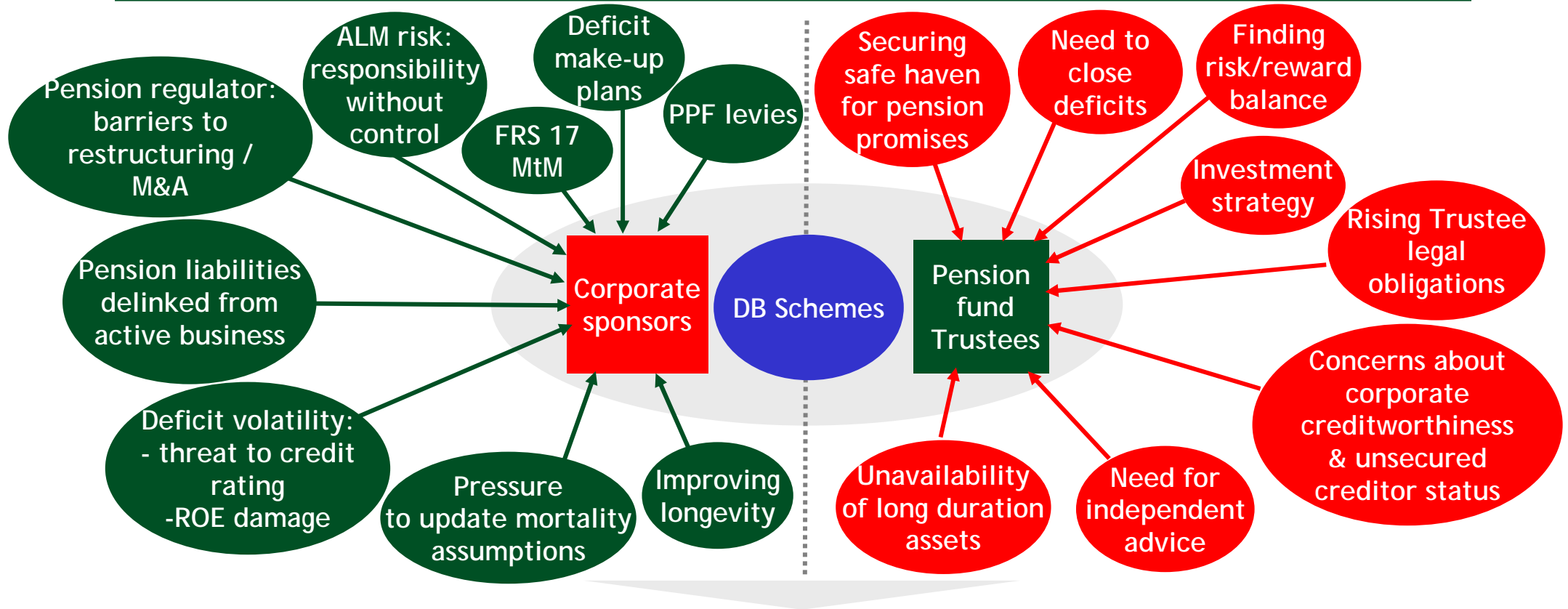
Average Scheme Liability (£MM)



1300 schemes have an estimated £1057bn of liabilities

Source: Watson Wyatt, The Pensions Regulator

Corporates and Trustees face growing pressures on Defined Benefit pensions



- Corporates want to jettison legacy pension liabilities
- Trustees want to immunise themselves from sponsor risk exposure
- Current reliance on link to former employer unsustainable

Pension funds aim to switch holdings

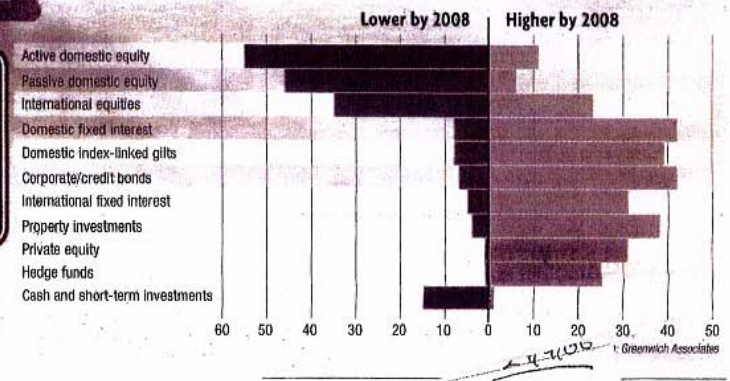
Industry in turmoil is now likely to favour alternative investments, says a new report
 by Steve Johnson



Pension deficit could top £100bn

The deficit in final-salary pension plans of top UK companies could be more than £100bn, about £60bn more than current figures because companies underestimate human lifespans, a report says. Companies do not fully appreciate future improvements in longevity, under-estimating life expectancy by between two

Intention of pension funds to move out of equities into bonds and alternatives over next couple of years
 UK corporate pension plans expectations for future asset mix of survey (% of future respondents)



Fixed income winner to target institutions
 European Credit Management chiefs tell Pauline Skypala they aim to help credit become a core asset class in the UK as it is in the US

Royal Mail to close final salary pension
 Ministers back state-owned postal operator's plan

UNIVERSITY FUND Cambridge to appoint financier
 By Kate Burgess
 other universities, including Cambridge mathematics Buffini man



THE LAST WORD BARRY RILEY

DB risk transfers in the pipeline

The first such deal has yet to be announced, but necessity may spur on a number of deals in negotiation

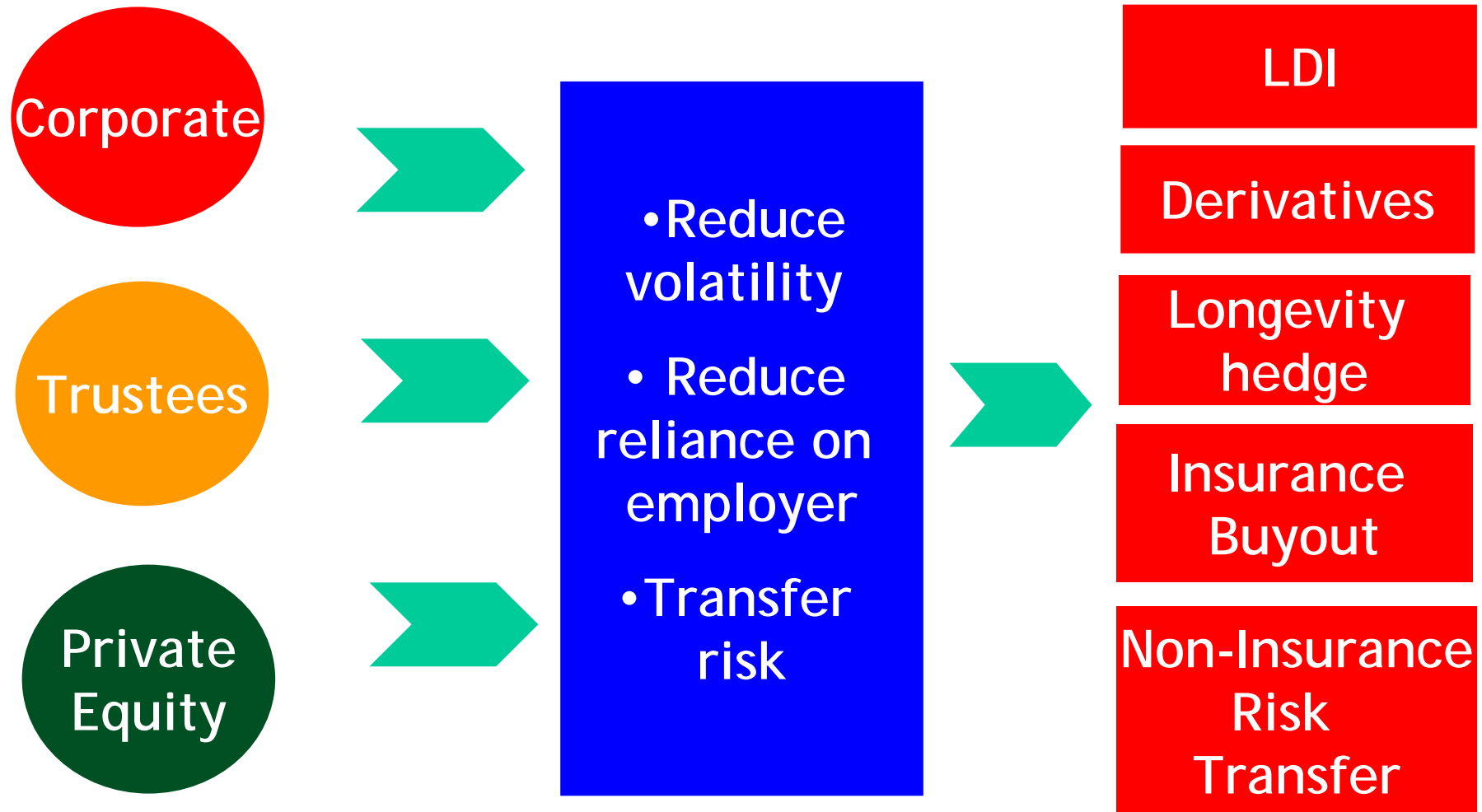
CAPITAL MARKETS & COMMODITIES

Love affair with passive strategies continues
 By Phil Davis
 Published: June 5 2006 03:00 | Last updated: June 5 2006 03:00

Death rates spark the birth of a new market

Financial engineers are designing derivatives for the growing area of 'longevity risk', write Gillian Tett, Joanna Chung and David Wighton

Implications of Owner and Trustee goals



Corporate gameplan: grow to match or grow to exit



- Widening gap between corporate sponsors and fund Trustees :
 - Particular challenges for mature corporates post-downsizing
 - Corporates cannot afford to think long-term



- Essential need:
 - Affordable risk transfers

Self-managed approaches

LDI



- Duration matching with bonds
- Equity weighting sharply down
- Risky assets diversified (Alternatives)
- More passive cash / derivative equity

Derivatives



- Swaps more efficient for matching
- Move into higher return floating rate credit assets including Leveraged Loans & Structured Credit

Longevity
hedge



- No market yet
- Credit + Hedge = perfect liability match

Risk transfer approaches

Insurance Buyout



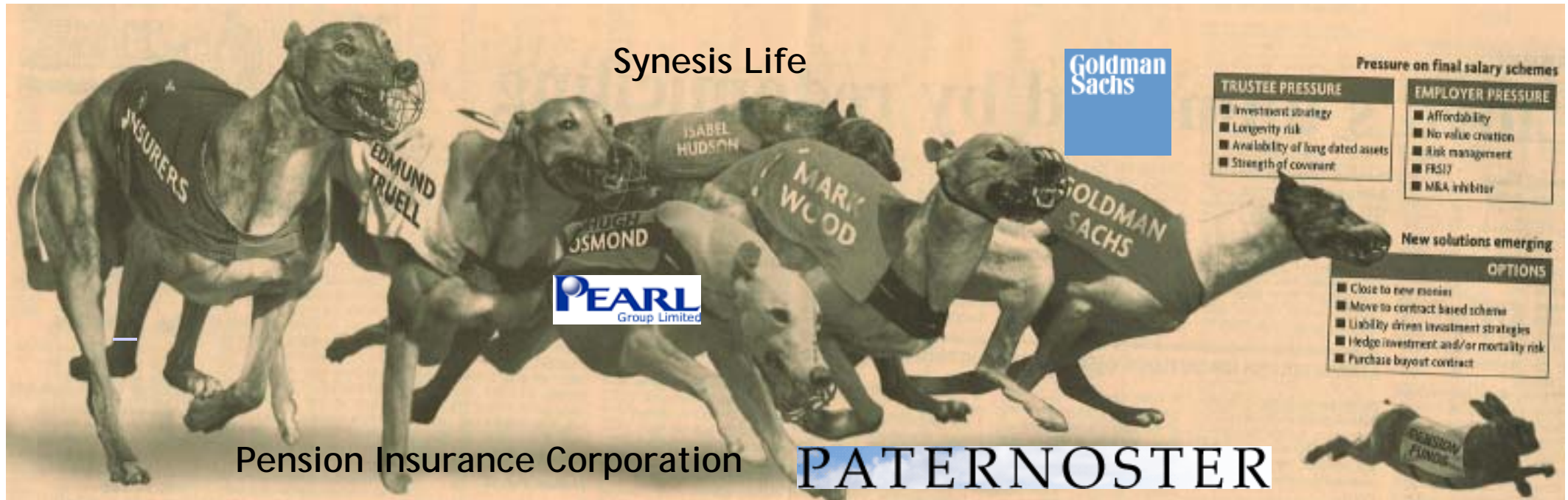
- Insurance regulation implies fixed income strategy
- Pru / L&G like Gilts & Index-linked
- New entrants like floating rate credit
- Limited scope for upside assets

Non-Insurance Risk Transfer



- Unconstrained asset allocation
- Aim for high investment returns
- Equity part of diversified MAC portfolio
- Sceptical on active equity mgt
- Bonds often seen as too low return

Insurance competitors



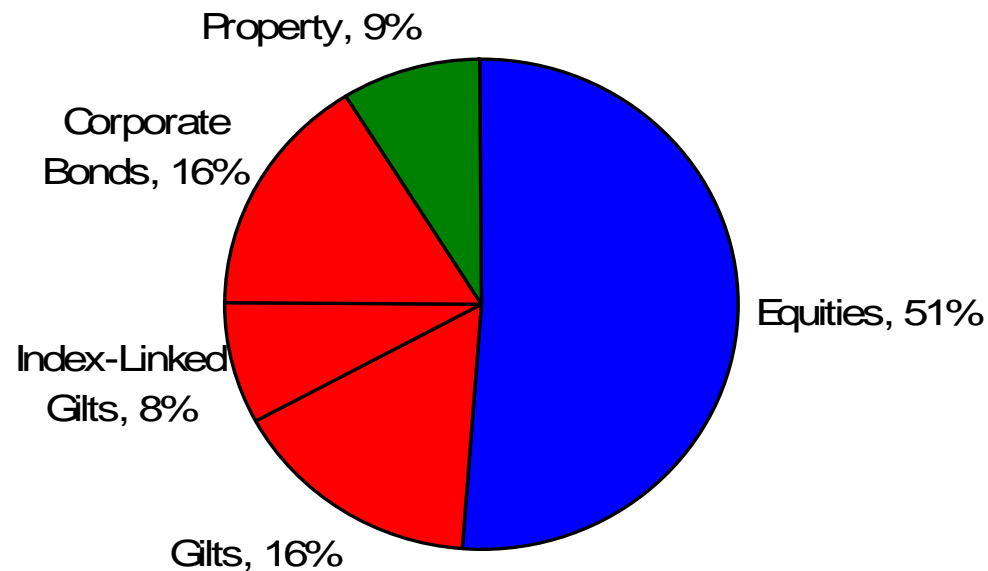
Source: FT



Lucida (Cerberus)

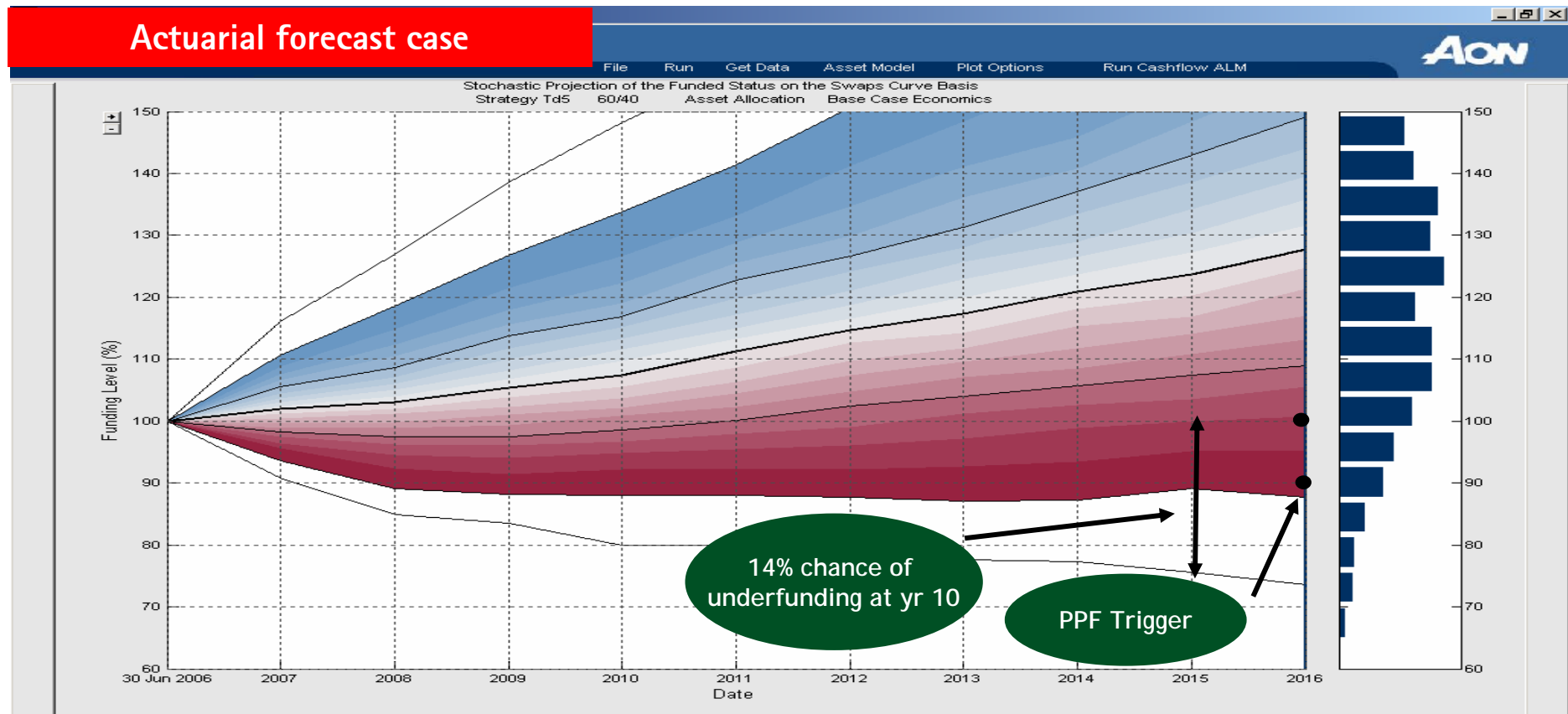


Traditional Pension Fund asset & liability management



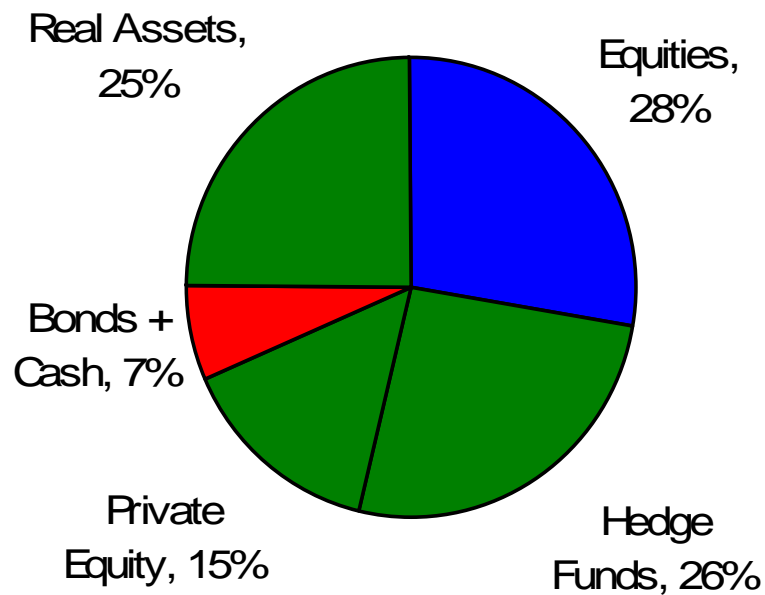
- Equity & bonds predominate
- Volatile asset portfolio
- No swaps means volatile liabilities with full exposure to falling interest rates and rising inflation

Traditional pension fund portfolio



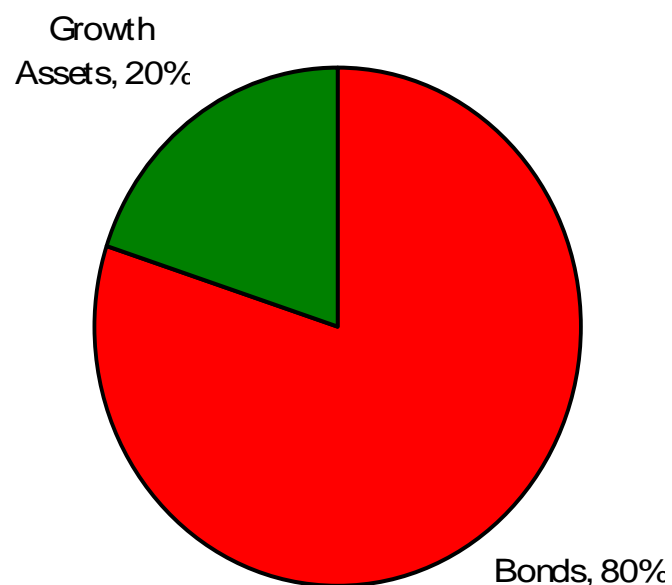
99% NAV Confidence Interval : Payouts only to pensioners: Lines at 99%, 95%, 75%, 50%, 25%, 5% and 1% probabilities

Yale Endowment asset allocation



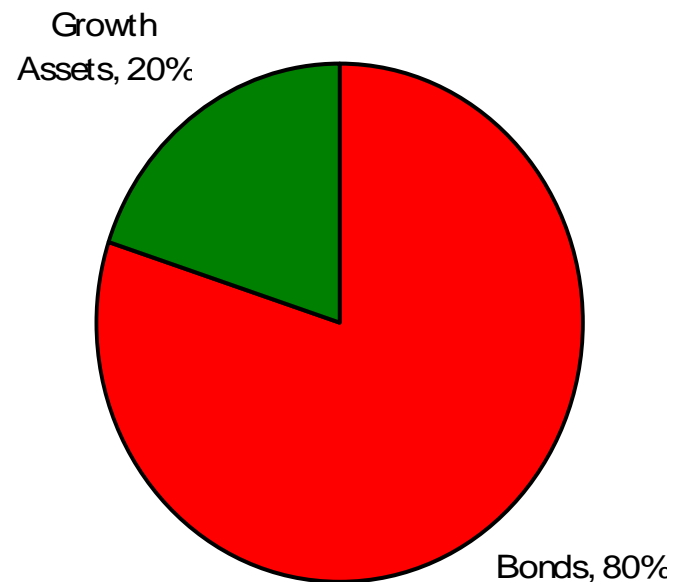
- Diversified MAC Portfolio
- Illiquid Alternative Assets dominate (66%)
- 16% p.a portfolio returns 1985-2005 (10x increase)
- Portfolio size: \$15.2bn

Telent (Marconi) pension fund asset allocation



- LDI matching bonds targets Gilts+75bp
- Growth portfolio (equities + alternatives) targets gilts + 400bp
- Inflation & interest rate swaps
- Pension fund + escrow targeted to grow to insurance buyout level by 2021

WH Smith pension fund asset allocation



- Trustees sold all cash equities in 2005
- 94% of scheme in LDI inflation & interest rate immunized low risk fixed income portfolio
- 6% of portfolio in long-dated FTSE call options to generate growth & eliminate pension deficit

Predicting the future

- Endgame is DB legacy risk transfer & massive reduction in actively managed equity allocation
- Pace of change influenced by
 - Volume of Private Equity M&A / Corporate Restructuring
 - Price of risk transfers v pension deficit levels
 - Attitude of Pensions Regulator to unregulated risk transfer
 - When/if liquid longevity risk market develops