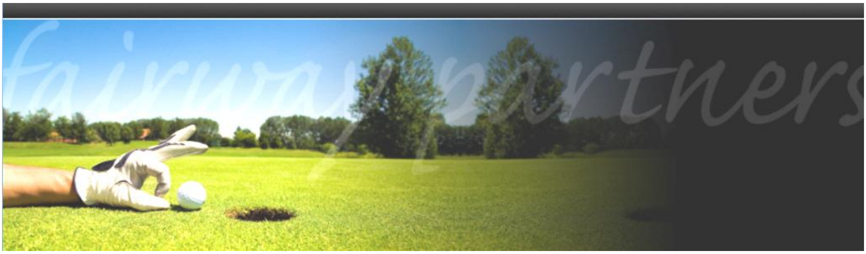


**Q3 2013**

# INSTITUTIONAL ASSET MANAGEMENT
# MARKET OVERVIEW

FAIRWAY PARTNERS

# Contents

# Overview

The last quarter has been one of conservative optimism, with positive growth being seen in some areas. While much of the news over the last quarter has been dominated by headlines of deficits, recent economic data has suggested that the Eurozone woes have begun to subside in recent months, with the recession technically having come to an end in the $2^{nd}$ quarter of 2013. For now at least, it would also appear that inflation levels also cooled from 1.6% in July to 1.3% in August. So, a few reasons to be cheerful!

However, it appears UK pensions funds are still adopting a somewhat cautious approach to the market, particularly in light of the significant losses some have suffered since the beginning of 2006.

These losses have continued from last year, with UBS reporting a 3.3% fall in UK pension fund assets, Goldman's a 13.2% decline and Alliance Bernstein a loss in AUM of 33.4%.

The reasons behind this are twofold: firstly, a fall in bond yields has increased pension scheme liabilities, to the extent that they more than offset the increase in pension scheme asset values. Secondly, falling confidence by UK clients has led to withdrawal from the managers and others have been victim to a series of unfortunate bets on financial stocks in 2008. This was particularly the case with Alliance Bernstein, who was the biggest shareholder in Lehman Brothers when the US bank went under.

The emergence of the DC pension fund appears to be rejuvenating the industry with many of the key players making appointments and launching platforms in the space. In the case of Alliance Bernstein, the launch of their DC platform 10 months ago has seem them add seven new mandates.

As asset managers and insurers look to ramp up their investment into the DC market, so they have been hiring and promoting individuals in this space. The most notable promotions and appointment in the space over the quarter has seen Simon Chinnery promoted to Head of the DC at JPMorgan Asset Management and Emma Douglas at LGIM, where she joins from Mercer.

The quarter also saw the emergence of trade finance as a new asset class through the Lighthouse deal by BNP Paribas, which saw them completing their first securitization of commodity trade finance loans in August. This move represents a new bridge between the banking and asset management world, while still enabling banks to manage their balance sheet exposure.

# In the News

**LGIM remains leading UK pension manager with AUM up 9%**

Legal & General Investment Management (LGIM) remains the single largest manager of UK pension assets, ahead of Insight Investment and Blackrock, according to IPE's annual survey of UK institutional managers.

Between the three of them, they accounted for over €1trn of the €2.5trn of UK institutional assets managed by the 100 largest companies.

who after dropping out of the top 25 after peaking at eighth in 2006, have now dropped by 33.4%.

**UK pension schemes add to EM positions**

The £10bn Mineworks' Pension Scheme is looking to increase its investments in emerging market debt assets, according to a recent annual report. The pension fund, which is one of two principal schemes that pays retirement benefits to former workers in the UK's once-nationalised coal industry, is exploring fresh investment in the sector as part of a wider review of its bond portfolio.

BT's £39bn pension fund currently stands at the largest in the UK, and it has recently reviewed its investment strategy with Stefan Dunatov, the chief investment officer at the Mineworkers Fund saying: 'There is a good case to increase the share of return seeking assets exposed to emerging markets over the next several years.'

However, according to Sunil Krishman, head of market strategy, the plan is even more sophisticated than this: 'Simply expecting faster GDP growth in emerging markets versus developed markets is not a sound basis for making additional allocations. Our approach was to think specifically about where consequences of this economic theme might change investment fundamentals, and then assess whether valuations currently reflect these dynamics.'

The fund currently has 4.4% of its assets (roughly £1.7bn) invested in emerging market domiciled securities, although it says the sensitivity of developed market issuers to the emerging market world meant the effective exposure was higher.

The fund currently has 24.8% of its assets in fixed income and cash, 21.7% in inflation linked assets, 17.8% overseas equities, 12.2% alternatives, 10.5% property, 7.3% absolute return and 5.7% UK equities.

**Schemes more open to exploring construction risk**

Infrastructure debt investment in projects with construction risk such as private finance initiatives and public-private partnerships are gaining traction among pension funds, despite initial scepticism.

At present, public and private schemes hold just 1.2% of their assets in infrastructure, according to the NAPF 2012 annual survey, and investment has remained at a similarly low level.

However, recent reports by the investment consulting firm Redington show that while moving schemes to infrastructure debt investment with construction risk has taken longer than expected, this is now starting to change.

Speaking regarding the shift, Pete Drewienkiewicz, head of manager research at Redington said while some pension funds clients had been wary of construction risk in the past, ‘it certainly seems that now we are seeing ways to mitigate that; a real move towards fixed price contracts for construction firms with penalties for overrunning and penalties for extra costs.’

**Cambridgeshire diversified fixed income to up yield**

Cambridgeshire Pension Fund outperformed in 2012/13 after a restructure of its fixed income investments saw it buy European loans to increase yield and protect itself from rising interest rates.

Following a review of its bond portfolio in 2011, Cambridgeshire began to sell its gilt holdings to fund the loans as well as an absolute return bond strategy, delivering a return of 15.5% for the year. This outperformed the benchmark return of 13.6%, and was attributed to fund’s global equity and bond managers who ‘achieved returns well ahead of their respective benchmarks.

Mark Nicholl, partner at Lane Clark and Peacock, said the use of active fixed income management is expected to continue. ‘[Schemes] are very unsure about economic data coming out. In that sort of environment, it is a good idea to diversify and give the managers the ability to switch between assets.’

The scheme made the fixed income changes because it felt a passive approach could not offer the ability to access different asset types such as government, corporate, and high yield bonds, and loans. It will review this approach in September.

## Investors advance into multi-asset funds

Multi-strategy funds topped the wish list of investors in June with €1.6bn pouring into the sector, according to data provider Morningstar, with these strong flows helping to bring net year-to-date inflows into alternative multi-strategy funds to €6.5bn. Of the funds in the sector, F&C Asset Management funds proved to be the best of five top-performing funds in the 3 years to July 31st.

The three top-performing F&C funds are primarily tailored to institutional investors to help them hedge their inflation-linked liabilities, while still allowing them to benefit from returns in the UK equity market. The £175.5m F&C Overseas Equity Linked UK Inflation fund has returned a cumulative 68.6% over 3 years, gross of fees, according to FE Analytics.

## South Yorkshire bucks trend with equity allocation

South Yorkshire Pension Authority has increased its allocation to equities over the past three years, concluding that stock selection within its equity portfolios helped it produce positive returns against the benchmark.

The £5.3bn South Yorkshire Pension Authority had 60.3% of its portfolio allocated to equities at the end of the 2012/2013 financial year, compared with 57.3% in the previous year and 56.8% in 2010/11.

The annual report of the fund highlighted how its cautious approach of its long-term investments helped it to ride out uncertain markets, stating

‘Stock selection across the equity portfolios and also in property helped the fund produce a positive return against the benchmark.’

**Aviva raises €425m in infrastructure push**

Aviva Investors has raised its stake in the rapidly expanding infrastructure fund sector by 30% with €425m worth of commitments to buy bank debt and invest selectively in primary lending to projects.

They already manage £1.2bn in its Return Enhancing and Liability Matching Strategy, which covers a range of real estate and infrastructure funds.

According to the data provider Preqin, European infrastructure funds raised $11.1bn in the first half of the year as more pension funds and insurers invest in the sector.

Aviva Investors will invest its latest fund in performing, senior loans secured on assets primarily in western Europe, focusing on countries with an investment grade-rating. The portfolio of assets could include transmission and distribution, transportation, renewable energy and social infrastructure projects.

**Alternative managers soak up pension assets**

Assets of the top 100 alternative investment managers globally hit $3.1trn in 2012, according to a recent report by Towers Watson, with their Global Alternatives Survey showing that the total AuM of global alternative assets surpassed $5trn last year.

Of the top 100 alternative investment managers, real estate managers have the biggest share of assets (34% and more than $1trn) followed by direct private equity fund managers (23% and $717bn). Direct hedge funds make up 20%, private equity fund of funds 10%, fund of hedge funds 6%, infrastructure 4% and commodities 4%.

Pension fund allocations to alternative assets now account for 19% of all pension fund assets, with them making up more than 36% of assets in the Top 100 alternative managers. Wealth manager assets comprise 19%, insurance companies 9% and sovereign wealth funds 6%.

Speaking on the report, Craig Baker, global head of investment research at Towers Watson said: 'Pension funds have always been and will remain a very large investor group for top alternatives managers, but the demand from non-pension fund investors, such as insurers, endowments & foundations and sovereign wealth funds, is only going to increase in the future.'

**Gilt yields hit 3% mark as BoE silence disappoints**

September saw the benchmark ten-year gilt yields hit a fresh two-year high of over 3% after the Bank of England (BofE) opted not to release further 'forward guidance'.

With investors continuing to bring forward their rate rise expectations in spite of the Bank's reassurance that rates will remain low for several years yet, some had expected the BofE to issue a statement alongside the policy decision on September 5$^{th}$. However, the decision, which saw the Bank keep quantative easing on hold, having the effect of pushing the yield on 10 year gilts to a two year high of just over 3%, up from 2.88%.

# Defined Benefit

**John Lewis Partnership**

John Lewis Partnership has seen an £87m increase in its defined benefit (DB) scheme deficit despite pumping in more than £50m.

Since the end of January, the scheme has seen its deficit rise from £822m to £909m. This is despite the partnership aiding the scheme with £57m of contributions. The scheme saw liabilities increase by £177m to just short of £4bn.

The scheme's valuation factors all pushed up liabilities, as the discount rate fell five basis points to 4.55% and expected inflation for both the retail and consumer prices index and increases in pensions payments all rose by ten basis points. The partnership also said the extensive review into its pensions arrangements will continue into next year, as it discusses the benefit with partners.

**Go-Ahead to close DB bus scheme as deficit doubles**

Go-Ahead, the bus, coach and rail company has triggered a 60-day consultation on closing its defined benefit (DB) scheme to future accrual, as shown in its final report in September.

The plan was developed after its deficit more than doubled from 2012 as liability increases outstripped strong returns from assets. The deficit now stands at £47.7m, up from £22.8m as liabilities rose £58.6m to £617.3 against the £33.7m increase in assets to £569.6m.

The schemes deficit has been fluctuating since 2010, when it posted a deficit of £96.9m before it hit its lowest point in 2012 of £22.8m.

The company issued a statement saying: ‘The group commenced a formal 60-day consultation process with existing members and their representatives to close the DB section to future accrual and to offer members the opportunity to join the defined contribution section instead. The group is still considering the feedback it had received during the consultation period before reaching a final decision.’

**Johnson mergers DB schemes to cut costs and enhance returns**

Johnson Service Group (JSG) will merge its existing three DB schemes into one, as it seeks to cut operating costs.

The three schemes showed an aggregate deficit of £6.9m at the end of June 2013, down from £12.9m at the end of 2012 in part due to better than expected returns and constrained liability increases. They have now instead created the Johnson Group Defined Benefit Plan (JGDBP), and they will begin to transfer members of the over before winding up the three new schemes.

Speaking of the merger, the firm said: ‘The current agreements reached with the trustees of the three original DB schemes require additional contributions of £2m in 2013. The final stage of establishing the new DB plan will be to undertake an actuarial valuation and this will be as at 30th September 2013. Until such valuation is finalised this level of additional contributions will continue.’

**Secro pays £17m to fund deficit, close defined benefit pension fund**

The outsourcing giant Serco has paid nearly £17m (€19.8m) to fund a deficit of a pension fund acquired alongside an IT company last year, allowing the DB fund to be closed.

In its bi-annual report, Serco made special pension contributions of £19.2m before the end of June, £16.8m of which related to its intention to fund the deficit within the Vertex DB fund.

Serco acquired the public sector division of Vertex in a £56m cash deal last year.

At the end of June, Serco was managing pension assets of £1.4bn, split between non-contract specific funds and those that were tied to specific and time-limited outsourcing contracts. The contract specific schemes had assets of £213m, reporting a small deficit of £12.1m in June after a 'franchise adjustment' of £62.3m.

The company's own Serco Pension and Life Assurance Scheme (SPLAS) remained in surplus, albeit down to £34.2m instead of the nearly £70m surplus at the end of December last year.

**TPR updates trustee toolkit on DB wind-ups in insolvency**

The Pensions Regulator (TPR) has released a new module on its trustee toolkit on DB pension scheme closures to determine whether the employer is insolvent. It is designed to offer a step-by-step guide on each stage of the wind-up process, the downloadable module features help from trustees and professional advisors.

**Guinness Peat doubles scheme contributions as TFR probe continues**

The Guinness Peat Group (GPG) has agreed to double payments to its main scheme as The Pensions Regulator (TPF) continues to investigate whether to force the company to increase contributions. In its bi-annual results, the firm revealed that it would raise annual deficit recovery contributions to the Coats UK Pension Plan to £14m.

The watchdog is currently investigating whether to impose a financial support director (FSD) or contribution notice (CN) on the investment vehicle. This would have the effect of compelling GPG to provide more financial support for the Coats scheme, which has a £100m deficit on an IAS19 basis, and the smaller Brunel and Staveley schemes.

The contribution schedule agreed between the GPG and the schemes' trustees replaces 10 year recovery plan put in place in 2009.

**BBC scheme cut £750m off its funding deficit**

The BBC Pension Scheme has chipped an estimated £750m off its funding shortfall by reducing its allocation to equities over the last 10 years and increasing its employer contributions.

A spokesperson for the BBC said they estimate the scheme's deficit could have been £750m higher if they had not sought to diversify its investments. The last valuation in April 2010 revealed a shortfall of £1.13bn.

The £10.3bn BBC fund had 38% of its portfolio allocated to equities at the end of the 2012/2013 financial year according to its annual report.

This is compared with 45% during the previous year and 48.4% in 2010/2011.

**AXA ups benefit in final deal on DB scheme closure**

AXA has confirmed it will close its UK defined benefit scheme from next month following a review, with current members receiving additional pension payments under the final agreement.

The plans to review the £3.3bn DB section of the AXA Group Pension Scheme were announced in March, due to higher national insurance costs resulting from the abolition of contracting out as a factor in its decision.

As part of its discussions, the company has agreed to provide an additional benefit of 5% of pensionable salary each year for three years to all current members of the DB scheme.

The government’s decision to bring an end contracting out at the end of 2016 is likely to have a substantial impact on the industry, with the change typically adding around 2.5% of the DB members’ salaries to employers’ national insurance bill, according to Aon Hewitt.

**BP agrees £1.4bn of new pension contributions**

Oil giant BP has agreed to pay an extra £1.4bn into its UK pension fund after it revealed a deficit. According to reports the trustees are also planning on moving as much as £10bn into low risk fixed income investments.

The first of the instalments was made in December 2012, when BP’s corporate accounts disclosed a payment of £254m – over and above regular annual payments that BP makes to meet the scheme’s costs, amounting to £307m in 2012.

In a recent newsletter, the fund’s chairman Sir Ian Prosser wrote: ‘As the Company’s contributions and our investment returns strengthen the fund’s financial position, we aim to reduce the impact of stock market fluctuations on the Fund’s financial health.’

At present, there are no timescales for the move, but it seems likely that it will take several years. As it stands, approximately 78% of the funds £17bn (£13.3bn) is invested in return- seeking assets.

Over the longer term, they are looking to reduce this by 20%, with the remaining 80% of the money in liability matching assets.

**Santander deficit up 400% in the first six months of 2013**

Santander’s combined DB deficit has increased more than five-fold in the first half of the year, shown in its interim results.

The UK arm of the Spanish banking group operates three DB schemes, one of which is unfunded. Of the two funded schemes, one of them reported a surplus of £203m. But by the end of 2012, the surplus was down by £51m, and the second funded scheme saw its deficit increase from £266m to £416m (56%).

**DB closures to cope with contracting-out an option for one in six schemes**

One in six DB sponsors are considering closing their schemes as one of a range of options when contracting out ends, according to Aon Hewitt.

In a survey of 91 respondents, the consultancy found a third of organisations were already planning ways to respond to contracting out, and a after half of these were looking to closing future accrual as a result of the increased costs.

The majority of closures are expected before the contracting our deadline of April 2016 as finance directors are hit with ‘difficult results’ from 2013 and 2014 valuations.

**Deficits down with FTSE rise**

DB s179 deficits continue to fall despite a drop in gilt yields, recent research from the Pension Protection Fund reported. The monthly PPF 7800 index found deficit levels have fallen another £18.6bn over the month of July as a rise in equity values outstripped liability increases.

The total deficit of the 6,316 pension schemes at the end of July was £115.7bn, down from £134.3bn in June. Asset values rose £29.6bn to £1,131bn as liabilities also rose £11bn to £1,246.9bn. This resulted in 124 schemes moving from deficit to surplus.

**Pendragon slashes deficit 79% after discount rate rise**

Pendragon has seen its DB deficit fall £23.5m in the first six months of 2013. As announced on the Stock Exchange, the owners of Evans Halshaw and Stratstone reported a December 2012 scheme deficit of £29.8m. However, after the discount rate used to calculate liabilities on an IAS19 basis rose by 40 basis points to 4.75%, the deficit fell to £6.3m by June 2013.

After the rise the company merged its six DB schemes into one at the cost of £0.4m.

**Lloyds £1.8bn asset rise wipes out scheme deficit**

Interim results in August shows that Lloyds Banking Group (LBG) had seen its DB schemes move to a surplus after a substantial gain in assets in the first half of 2013.

The actuarial valuation of assets in the bank's principal schemes has risen from £30.3bn to £32.2bn since the start of the year. Its liabilities also rose by just under £600m to £31.9bn. On an IAS19 basis, the scheme benefited from a 30 basis point rise in the discount rate as it went to 4.9% although inflation assumptions also rose. In March the group reported some schemes would uprate liabilities by the CPI rather than RPI, reducing liabilities.

**Diageo cuts deficit in half with £400m contribution**

Diegeo has seen the deficit in his UK and Ireland DB schemes fall from £1.1bn to £552m to the year ending in June, with this primarily due to the one off payment of £400m into its UK scheme.

The company made total cash contributions of £531m to its DB schemes over the year up from £133m in the previous 12 months. It is looking to commit £230m for the year ending 30$^{th}$ June 2014.

**UBS 'freezes' defined benefit pension fund in UK**

UBS has closed its UK pension fund to future accrual, according to the company's quarterly report for the 3 months to June. It appears the closure is part of the bank's drive to comply with incoming Basel III requirements, as the only mention of the career average scheme's 'freeze' – previously closed to new entrants – was made in a section of the quarterly report dedicated to the common equity tier 1 (CET1) capital requirements.

**ECJ ruling lets employers reclaim VAT on investment costs**

Sponsors of DB schemes will be able to reclaim VAT paid on investment management costs after a European Court of Justice (ECJ) ruling.

The decision from Europe's highest court came last week after Dutch firm PPG Holdings BV challenged the Netherlands tax authority. PPG is sponsor to a DB scheme and paid all administration and management costs. The rationale behind their argument was that the costs of the scheme were business costs as it must provide a pension, and thus should be VAT exempt.

The decision goes against the current policy of HMRC of only allowing the day to day management fees to be VAT recovered by employers. PPG should be able to recover the VAT it paid, providing it did not pass these costs onto the pension fund.

Speaking of the ruling, Pinsent Mason partner Darren Mellor-Clark said: 'HMRC will try and resist this quite strongly. This is completely contrary to its historic position of allowing employers to recover the administration and leaving investment management costs for the trustees.'

The PPG case came after the ECJ ruled against the National Association of Pension Funds (NAPF) and Wheels Common Investment Fund (WCIF) over whether a DB scheme should be exempt from VAT payments on investment management.

The court ruled that pension funds should not be treated the same as other investment vehicles which are exempt from VAT, as this is the vehicle for fulfilling employer responsibilities.

# Buy-ins / Buy-outs

**Pension Insurance Corporation**

The £8bn UK buy out provider, Pension Insurance Corporation, has recently backed a £70m social housing project near Manchester, acquiring all bonds issues by a Private Finance Initiative (PFI).

It has been launched by Salford City Council, and will see nearly 1,300 houses refurbished. The £72m in financing also pays for maintenance over the next 30 years.

Mark Gull, co-head of asset liability management said of the deal: 'As we continue to see an increasing flow of assets into our portfolio, growing significantly over the past 12 months, we are keen to continue sourcing long-dated, stable cashflows, which provide a decent return above risk-free yields. This transaction matches those criteria.'

The deal is not the first time PIC has invested in housing debt. Only last September did it acquire a £50m AA2 rated bond issued by housing association Raglan.

**InterContinental Hotels agrees £440m all risk buy-out with Rothesay**

InterContinental Hotels Group (IHG) has agreed a £440m all-risk buy-out for its UK pension plan with Rothesay Life as it seeks to secure improved benefits for members.

The £440m deal will see the approximate 3,000 members of the InterContinental Hotels UK Pension Plan (IHUKPP) which is comprised of 1,100 pensioners and 1,800 deferred members, transfer from the group to the insurer.

Negotiations for the deal started on June 10th when providers submitted proposals to IHG and the trustee based on market conditions at the time. Rothesay was selected on July 22nd after which the scheme and providers completed an accelerated data cleanse to protect the market conditions.  The deal was finalised on August 15th.

The trustee of the scheme was advised by Mercer, Hymans Robertson and Allen &Ovary with IHG supporting PwC and Freshfields.

**Partnership brings in £12.5m of bulk annuity business in H1**

August saw the announcement that over the first half of 2013, Partnership won £12.5m of bulk annuity business, completing four deals.

The bulk annuity deals are just a fraction of the £631m of new business written in H1, which floated on the stock exchange in June.

Speaking of the announcement, chief executive Steve Groves said: ‘We have continued to invest in development of our defined benefit de-risking proposition in the first half of 2013, and we have now completed a number of buy-in and buyout transactions, proving the benefits of our unique proposition for pensioners, trustees and sponsoring companies.’

**L&G results show ten-fold growth in bulk annuity business**

Legal & General interim results show growth across its bulk annuities, workplace savings and investment management businesses.

Its bulk annuities sales in H1 of 2013 hit £670m, ten times what was done in the same period last year.

The insurer wrote 45 new bulk annuity policies up to the end of June compared with 28 last year, including the largest longevity swap with BAE worth £3.2bn. 70% of the liabilities were re-insured with Hannover Re.

August also saw L&G completing the purchase of Lucida for £150m, adding a further £1.4bn in annuity assets to the insurer.

L&G Investment Management (LGIM) also saw a positive first half of 2013 with its operating profit contribution to the group up to £135m from £119m in H1 2012.

Its total AUM rose to £433m from £406bn at the end of 2012. Its net inflows for H1 of 2013 hit £8bn compared with 2012's £4bn. Half of this comes from their LDI portfolio.

# Corporate News

**Capita drops Blackrock funds over investment concerns**

Capita Group has dropped BlackRock's Japanese and European equity funds for its DC trust scheme after a 'loss of confidence' in the manager's investment process according to an official statement by the business.

The Japanese equity mandate has been handed to Baillie Gifford. The European equity allocation will be fully invested with Lazard, which was previously used alongside BlackRock.

This is yet another piece of disappointing news for the firm. Q2 results showed substantial outflows over the quarter from its active and passive offerings for institutional clients.

**Alexander Forbes purchase boosts JLT revenue by 11%**

JLT has boosted its revenue in the UK and Ireland by 17% through the acquisition of Alexander Forbes Consultants & Actuaries.

In the first half of 2013, revenue was £81.3m, 17% higher than the first six months of 2012. Trading profit was £12.9m, up from £11.7m in 2012.

Overall the company's combined employee benefits and insurance revenue was up 10% to £487m, with an organic revenue growth of 7%.

**Invesco Perpetual launches first multi asset fund**

Invesco Perpetual has entered the multi asset space with the launch of the Invesco Perpetual Global Targeted Returns Fund.

Speaking of the launch, Invesco Perpetual's head of multi asset investment David Millar said: 'We fundamentally believe that if you search for good ideas then you end up with a portfolio you can truly believe in. We are taking an unconstrained approach to gaining diversification across asset classes and geography and bringing it together into a risk managed portfolio.'

This is the first fund launched by Invesco's multi asset team led by Millar. The team was formed earlier in the year and includes fund managers Dave Jubb and Richard Batty. They are joined by product director Georgina Taylor and risk manager Gwilym Satchell.

**Scottish Widows drops £1.2bn mandate**

Scottish Widows Investment Partnership, the fund manager owned by insurer Scottish Widows, has lost a £1.2bn mandate from its parent company.

The plan has been in the mix for a long time, and will move clients bonds from actively managed funds into low-cost, passively managed alternatives.

The move means that less than3% of the insurer's pensions money is now invested in Swip funds.

**Aon Hewitt takes Lookers contracts from four rival firms**

Automotive retailer Lookers has merged the outsourced services it buys in for its DB schemes, and has appointed Aon Hewitt ahead of four other firms.

The deal will see Aon Hewitt providing all services for both schemes covered by the automotive retailer – the Lookers Pension Plan (LPP) and the Dutton-Forshaw Group Pension Plan (DFGPP), and will see them providing services including actuarial advice, investment consulting and pensions administration.

For the LPP, which is based in Manchester, Aon Hewitt takes over from Mercer, for actuarial advice and administration, and Barnett Waddingham, for investment consulting.

The DFGPP, in Birmingham, used KPMG for actuarial advice, Equinti for administration and Barnett Waddingham for investment consulting. Between them the two schemes have nearly 5,000 members and combined assets of £140m.

**UK Power Networks hires Cardano for £2.7bn investment advisory**

The trustees of the £2.7bn UK Power Networks Group (UKPN) of the Electricity Supply Pension Scheme (ESPS) have hired Cardano as their investment advisor.

The appointment means that Cardano now advises on around 30% of the £30bn ESPS assets.

**Servier Labs appoints Aon Hewitt for scheme services**

The end of July saw the appointment of Aon Hewitt by Servier Laboratories to provide a full range of services to its pension scheme. They have previously hired Aon Hewitt to work in collaboration elsewhere in Europe, including Austria, France and Latvia.

Speaking regarding the appointment Servier Laboratories chief executive officer Mike Sumpter said: 'Aon Hewitt has a good understanding of our organisation.'

At present, the scheme totals around 1,000 members, with Servier's £60m hybrid scheme having a legacy DB arrangement and on-going DC benefits.

**P-Solve records most profitable year**

P-Solve have gone from suffering a loss of over £33,000 in 2011 to its highest ever profit of £5.3m last year.

The firm, which is owned by actuarial group Punter Southall and primarily focuses on advising and managing the money of UK pension schemes, has begun to expand into other markets in recent years.

Recently, the firm has also expanded into advising new DC schemes, as well as insurance companies on their investments. This has primarily been done through its 2011 acquisition of insurance specialist consultancy, Meridian.

**PPF levy increases 10% for 2014/15**

The Pension Protection Fund (PPF) has confirmed it will increase its levy for 2014/2015 by 10% to £695m, with the lifeboat fund having issued warnings in June that the levy would have to increase to account for the risk posed by historically high deficits.

The PPF chief executive Alan Rubenstein highlighted that the organisation had yet to take into consideration the possible effects of regulatory changes, stating: 'I want to make it clear that this increase is not a reaction to individual events, such as large single claims. Nor have we made any allowance for the possible impact of the proposed changes to the PPF compensation cap.

The PPF highlighted that while the overall levy will increase by approximately 10%, individual levy bills will vary, with a greater average increase, reflecting changes in individual risk and the smaller universe of eligible schemes.

**Goldmans put majority stake in Rothesay up for sale**

Goldmans has put a majority stake of its UK bulk annuity insurance business up for sale. The news that they are expecting to sell the over the next 12 months comes after fellow banks Credit Suisse, UBS and Nomura have all quit the longevity swap market.

**Regulators approve Royal London/Co-op asset management deal**

Royal London Group has received regulatory approval for its acquisition of Co-operative Banking Group's asset management and life insurance businesses.

A £219 deal for the Co-operative Asset Management and Co-operative Society (CIS) was announced in March, following two years of exclusive talks between the businesses.

CIS must now convert from an industrial and provident society to a limited company, RL (CIS). It will subsequently be known as Royal London (CIS) following its transfer to the mutual.

Co-operative Banking Group chief executive Niall Booker added: ‘The transfer of ownership of our life assurance and asset management businesses to Royal London will ensure the continued protection of our policy holders, within a strong, mutual business with the necessary scale and focus on the long-term savings sector.’

**Scheme grabs chance to hedge inflation risk**

Marsh & McLennan Companies UK Pension Fund has increased its interest and inflation rate hedge for its DB scheme, to help protect its funding position against fluctuations on rates.

The fund's annual report stated: 'Over the course of the past year we have taken a number of steps to ensure that the risk of a substantial worsening of the funding position is reduced if the investments go down in value.'

According to the report, the £4.2bn scheme has a target allocation of 54% to growth assets and 47% to risk reducing assets. MMC has also reduced its 'overweight exposure' to UK equities and is looking at diversifying the assets in its DB scheme.

Simeon Willis, principal consultant at KPMG, agreed schemes have more recently been increasing their interest rate hedge as bond rates have improved.

'Bond levels in the market are more attractive than they were', Willis said. 'People accept that we are in a low interest rate environment and are coming to terms with the fact that if they don't hedge now, they are unlikely to improve returns over the next two to three years.'

**YMCA launches derisking strategy to improve funding level**

YMCA Pension Plan has launched a derisking strategy to match ‘more closely’ its allocation approach and liability profile and has appointed a ‘delegated manager’ to oversee nearly all of its portfolio.

It appears this is a common trend, with research by Russell Investments finding that 78% of institutional investors will increase the amount which they delegate by over the next 12 months.  The most recent of these is the £75m YCMA plan, which is now fully closed, who decided its previous strategy was not performing adequately and has opted to delegate the management of its new approach to Mercer.

Mercer, which was already investment advisor to YMCA’s multi-employer plan, will look after the majority of the scheme’s assets. The 3% which will not be overseen by them will be looked after by Schroders.

One reason for the increase in fiduciary management amongst smaller schemes is the lack of resources they have available to them, said Marcelo Dellavadova, business development manager at MN Services.

‘Ultimately, the decision [to implement fiduciary management] comes down to funding level’, Dellavadova said. ‘Trustees are asking questions around how we get back into full funding and what resources we will need and what that investment strategy would look like and the answers are instigating the move into delegation’, he continued.

**Avery Dennison scheme appoints SEI as fiduciary manager**

The Avery Dennison UK Pension Plan has appointed SEI to act as fiduciary manager, putting in place a dynamic de-risking strategy.

The mandate will see them design and implement the de-risking strategy, monitor funding levels, provide strategic investment consulting, and manage the fund's investment strategy.

SEI were selected ahead of four other firms who also pitched for the business of the £90m scheme following a rigorous selection process.

Avery Dennison trustee director Paul Newman said: 'We decided to appoint a fiduciary manager because we were keen to find a solution that would give us the best chance of both fixing and protecting our fund level.'

**SEI secures £2.8bn in new assets**

SEI have won more than £1bn of new business in the UK in the first six months of the year, and have secured £2.8bn in new institutional assets globally.

SEI EMEA institutional group managing director Patrick Disney said this was a result of growth in the fiduciary management market and schemes' desires to appoint providers who are specialists in funding level management.

He said: 'We are also seeing increasing appetite for our strategic consulting and investment management services along larger schemes looking to extend their current team, where we are able to offer customises investment and risk management strategies.'

The manager has also won mandates from Metroline and the University of Cambridge's DC master trust this year.

**Goldmans targets 10% fiduciary market share**

Goldman Sachs has announced its intention to increase its share of fiduciary asset under management to 10% of the US and UK total.

Head of GSAM's international global portfolio solutions team, which manages over $20bn of client assets, Katie Koch highlighted that the UK is a particularly important growth region for the US fund house.

The 2012 KPMG report estimated that fiduciary AUM in the UK jumped 40% to over £23bn, accounting for roughly 2.4% of pension scheme assets. Another £30bn is fiduciary managers on a partly delegated basis.

Ms Koch is hopeful about the future of UK fiduciary, believing the market will continue to grow at a compound annual growth rate of 16%.

**JLT fiduciary management platform attracts £1.75bn in first year**

JLT's fiduciary management offering has secured £1.75bn of AUM across more than 60 mandates in its first year. The service was launched in June 2012, and has signed up schemes ranging in size from less than £2m to £300m of assets.

JLT Director Paul Francis said: 'We have seen a period where there has been a process of extending this to existing clients to achieve a critical mass but moving forward we have a good pipeline internally and externally and there will be more competitive exercises.'

**Fiduciary management of pension funds hits record**

The latest survey from Aon Hewitt shows that of 275 UK DB schemes, representing £130m of AUM and 13% of the total UK DB market,  36% of respondents said they had a fiduciary management in place, compared with 20% in 2012 and 18% in 2011.

Dan Melley, UK head of fiduciary management at Mercer, said the firm’s business has grown by about 31% in terms of assets in the UK over the year to June and Chris Ford, head of investment for EMEA at Towers Watson, said about 2/3 of new business last year had been from fiduciary clients.

**LGIM revamps active equities**

LGIM is revamping its active equities business with the intention of creating more products for DC pension funds, retail and private wealth clients.

LGIM chief executive Mark Zinkula said the unit was moving away from ‘index plus’ strategies that compete with the firm’s passive index strategies and had closed a number of hedge fund products.

Last September, the firm hired Lance Philips from Standard Life Investments to run its active equities. In July, the firm also announced new fund managers for four of its unit trusts.

**DC members suffer as FTSE employers plug deficits**

Barnett Waddingham’s annual *Impact of Pension Schemes on UK Business* report has shown that FTSE350 business paid on average £4,000 per employee to cover DB deficits in 2012. This is up 11% from 2011, and is far more than the average £2,600 paid into the average DC pot.

The research also revealed that just over one in five firms paid more in deficit contributions than they spent on pension provision for current staff. Barnett Waddingham’s head of corporate consulting Nick Griggs said the research showed a ‘double whammy’ effect on current employees in DC schemes.

He explained: ‘DB scheme deficits are consuming large amounts of company cash, which is limiting employer DC contribution levels and reducing investment returns on DC assets through reduced dividend payments. The cost of future pension contributions earned by employees will need to increase significantly. For businesses with a fixed pension budget this increase is reliant on deficit contributions reducing.’

# People Moves

**Affiliated Managers Group**

**Jenny Segal** has been appointed head of European distribution. She joins the firm from Neuberger Berman in November and she will lead AMG's European distribution team. She was previously head of institutional and hedge fund business at Old Mutual Asset Managers.

**Alliance Trust Investments**

**Kenny Watson** and **Dan Daldry** have joined the fixed income team. Watson will focus on credit and high yield, while Daldry will provide financial credit analysis. Watson joins from Ignis Asset Management, where he has spent the last 15 years. Daldry leaves SWIP, where he was a manager on the Absolute Return Bond fund.

**Aon Hewitt**

Aon Hewitt has named **Stuart McKinnon** as a new principal consultant in its global investment consulting practise.

Stuart will be based in London and joins Aon Hewitt from LCP, where he had been a partner for the last five years. Before moving to LCP, he was co-head of Close Wealth Management's investment team.

UK head of investment consulting **John Rushen** said of the move: 'We are very glad that Stuart McKinnon has joined the team at Aon Hewitt. He brings considerable and wide experience, and is already making a positive impact with his strong client focus and creative approach.'

**Aviva Investors**

**Katrin Bostrom** will be joining the business as managing director and head of the Nordic region. She joins from Axa Investment Managers, where she was head of Nordic sales. Prior to this she was head of sales and business development at Morgan Stanley Investment Management, based in Stockholm.

**AXA Investment Management**

**Jonathan Crowther** has joined the firm as head of LDI, from LGIM. He replaces **Shalin Bhagwan.**

**Baring Asset Management**

Baring Asset Management has appointed **Peter Curry** as an assistant director in its international institutional sales team. He joins from Nomura Asset Management where he was a business development director responsible for institutional sales in the UK, Ireland and the Netherlands.

**BNP Paribas Investment Partners**

**Roger Haworth-Price,** the head of institutional business development for BNP Paribas Investment Partners has left after two years with the firm. It has not yet been reported where Roger will be joining.

Close Brothers Asset Management

Edward Colman and **Chris Law** have joined from Merrill Lynch Portfolio Managers where they managed multi-asset portfolios for high net worth individuals, trusts and charities.

**Fidelity Worldwide Investment**

**Rob Marsden** has been appointed as investment director for the fixed income team. He joins the business from Coal Pension Trustees, where he was a senior investment manager.

Prior to this, he worked as head of fixed income manager research and senior portfolio manager at Mercer Investment Consulting.

**Franklin Templeton**

**Toby Hayes** has been hired as a portfolio manager in its multi strategies group. He joins from Pacific Real Estate Capital Partners.

**Goldman Sachs Asset Management**

GSAM has appointed **Kathleen Hughes** as head of European institutional replacing **Paul Craven**.

In addition to her new position, Hughes will also continue her role as global head of liquidity sales.

Craven retires from the business after six years with the firm, and will now devote his time to promoting behaviour economics in business and more charitable work.

**iShares**

**Tom Fekete** has been appointed as head of product development for EMEA. He joins from Barclays Wealth, where he is EMEA head of investment products and global head of foreign exchange advisory.

**L & G**

Legal and General has appointed **Kunal Sood** as a sales director to support the growth of its bulk purchase annuity and longevity insurance de-risking team.

Since the beginning of 2013, the company has revealed more than £5bn of pensions insurance de-risking transactions, including £1.4bn of liabilities with the purchase of Lucida.

Kunal joins from Credit Suisse where he was a VP in the longevity markets and portfolio management groups, structuring solutions for capital market counterparts. He previously worked at UBS Investment Bank where he previously structured securitised credit and interest rate products.

**LGIM**

Legal and General Investment Management has appointed **Justin Onuekwusi** as a fund manager, leading the management of its multi-index range launched earlier this month.

He joins from Aviva Investors where he was a lead manager on a range of Aviva Investors's risk targeting multi asset funds, as well as acting as co-fund manager on a number of unit-linked life and pension funds. He will be working closely with Martin Dietz and Bruce White.

Prior to Aviva, he was a fund research analyst at Merrill lynch and was an investment consultant at Aon Hewitt. He will report to John Roe, who said of the move: 'Justin's extensive experience in managing multi-asset risk targeted funds will be a great complete to our team's capability.'

**LGIM**

**Emma Douglas** is allegedly set to join LGIM in the newly created role of Head of DC. She is currently a DC expert and partner at Mercer, and has held previous roles as head of DC at Blackrock.

**Mercer**

**Deb Clarke** has been promoted internally at Mercer to the global head of investment research. She joined the firm in 2005, and will be moving from her present role of global leader of Mercer's equity boutique.

Clarke has been promoted in light of the departure of **Divyesh Hindocha** this month.

**MN Services**

MN Services, the fiduciary manager with a large offering in the Netherlands, has appointed **Donny Hay** as its head of clients for the UK. As part of his role, Hay will be responsible for existing clients and developing MN's fiduciary management business in the UK market.

**NAPF**

The National Association of Pension Funds (NAPF) has appointed **Robert Brown** of Towers Watson of its DB council, and **Lesley Williams** of Whitbread will become chair of its DC council.

Browns and Williams bring 38 years experience with them to the role and will take up their positions at the NAPF AGM on 18th October.

As well as being chairman of the Advisory Panel of the Institute of Quantative Investment Research, Brown is also a member of the Securities Institute and an affiliate member of the Institute of Actuaries.

Whitman is currently group pensions director at Whitbread, and previously held positions at Gateway Foodmarkets, Abbey National, the Pearl Group and the Henderson Group.

**Punter Southall Transaction Services**

Punter Southall has appointed **Sankar Mahalingham** into the newly created principal position, joining from RSA Insurance where he was head of group pensions. Prior to this, he worked at Towers Watson as a corporate advisor, scheme actuary and investment consultant.

PSTS managing director **Richard Jones** said of the appointment: 'Sankar is a very experienced professional and his range of different experiences in pensions will add to our consulting capability and help our growth strategy. In particular, his recent in- house role will enable us to understand directly the issues facing our clients in their day to day working lives.'

**Russell Investments**

**Mike Clark** has been appointed as director of responsible investment at Russell. He currently chairs the Russell Sustainability Council, and in his new role he will be responsible for leading on Russell's global responsible investment capabilities and promoting sustainable practise.

**Pascal Duval,** EMEA CEO for the business said: 'Russell Investments is committed to developing its responsible investment capabilities, in particular the continuing analysis of ESG factors into decision making. Mike has successfully led our Sustainability Council since its inception over three years ago when Russell became an UNPRI signatory. This appointment follows on from that on-going commitment'.

Clark joined Russell in 1995, and was most recently a director in the Pensions Solutions Group at Russell Investments.

**Russell Investments**

**Mirko Cardinale,** Aviva Investors' head of strategic asset allocation is to join Russell Investments as head of asset allocation for EMEA. In his current role he has responsibility for the management of the £337m AI Diversified Strategy Fund as well as the £72M Al Diversified Asset Fund.

Cardinale's role will now be taken over by **Shamik Dhar**, the current head of multi asset research, who will also continue his role as head of the research team.

Dhar has been with Aviva Investors for eight years, and joined following stints at the HM Treasury, Oxford Economic Forecasting and the Bank of England.

**Schroders**

**Rosalind Mann** has joined Schroders' UK strategic solutions team from Towers Watson, where she had been an investment consultant for almost five years. She will report to the head of UK strategic solutions **Mark Humphreys**, and will work with clients on the design and implementation of the Flight Path Swift strategy.

Humphreys said of the appointment: ‘This further expansion of the UK strategic solutions team is an illustration of the continuing growth of our solutions-led business.’

**Schroders**

November will see **Divyesh Hindocha** join Schroders as global head of product and defined contribution from Mercer, where he held the position of global director of consulting.

**Schroders**

**Pieter Dalderop** has joined as head of institutional clients for the Benelux, and will be based in Amsterdam. He has most recently spent the past four years as head of derivatives structuring at RBS in London. He previously worked in a similar role at Credit Suisse.

**Schroders**

**Ugo Montrucchio** has been appointed as portfolio manager in the multi asset investment and portfolio solutions team at Schroders. Based in London, he will be joining the firm in January 2014. He joins from Blackrock’s multi asset group, where he was a director and a lead portfolio manager for its diversified growth and risk parity strategies.

**Thesis Asset Management**

**Tom Low** has joined Thesis Asset Management as an investment manager. He moves from Barnett Waddingham Investments, where he was the head of client relations.

**T Rowe Price**

River & Mercantile partner and director **Nick Slater** has left the firm and will be joining T Rowe Price as head of consultant relations for EMEA from November.

Slater had been with River & Mercantile for 6 years, working as director of institutional clients closely with the chief executive **James Barham**. In his new role he will be responsible for dialogue with European investment consultants as well as building links with global consulting firms that have significant operations in the UK.

**UBS Global Asset Management**

**Nick Rider** has been hired by UBS Global Asset Management as institutional sales director for UK and Ireland. The scope of the role will see him developing new business with institutional investors.

Speaking of the appointment, **Ian Barnes**, head of UK and Ireland at UBS Global Asset Management said: 'Nick has an excellent track record of working with clients and will be an asset to the business. His appointment is an important step as we continue to build and diversify our business here in the UK.'

Rider joins from Partners Capital, where he spent the last six years in a number of roles.