

# DB Pension Update – Q2 2011

The second quarter of 2011 saw a shaking of the optimism which had pushed investment markets up at the start of the year, as sovereign debt concerns in the Eurozone and the US caused concern. At the time of writing, a downgrade of Portugal's debt rating has further increased market worries, while debate continues in the US over raising the national debt ceiling.

## “Sell in May and Go Away?”

- A traditional investing cliché suggests that investors should sell their equity positions in May, and return to the markets in September. Whatever the logic behind this view, it has been borne out thus far in 2011, as share prices hit highs in May and promptly suffered significant falls in value.
- Driven largely by Eurozone debt concerns and a slowdown in growth rates, the world market fell in May and June. Despite a late rally in June, at time of writing markets have fallen back following Portugal's downgrade, continued uncertainty over Greece, and worries that Italy may be the next to suffer 'contagion' from the debt crisis.

## Greek Bailout

- An emergency deal to avoid an immediate default on Greek debt falling due in the next months was reached just before quarter end, as the austerity terms on which further EU aid was conditional were passed by the Greek Parliament on 30th June.
- The deal will see EUR 8bn in financial support released immediately, with a decision on a further EUR 12bn having been postponed.

## Quantitative Easing Ends

- The end of June also saw the scheduled end of the second round of 'quantitative easing,' under which the Federal Reserve has spent \$600bn buying US bonds since late 2010.
- QE II has had a range of effects – from the fall in value of the Dollar to very low yields on US treasury bonds, and the increased attractions of equities and commodities as sources for returns which were not available on bonds.
- It remains unclear what the impact of the removal of Quantitative Easing will be, and how it will affect the broad range of asset classes which have felt its influence, both directly and indirectly.
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## Changes in Pension Scheme Liabilities:

### 1. Deferred Member:

John is 40 years old, married and has a deferred pension entitlement of €27,000 p.a with no increases. The transfer value of this pension is €138,000 - an **increase of 6.58%** on the previous quarter.

### 2. Pensioner:

Mary is 70 years old, and in receipt of a pension of €20,000 p.a, with a yearly increase of 2%. The cost of an annuity to cover this **increased by 1.20%** to €368,000 during the quarter.

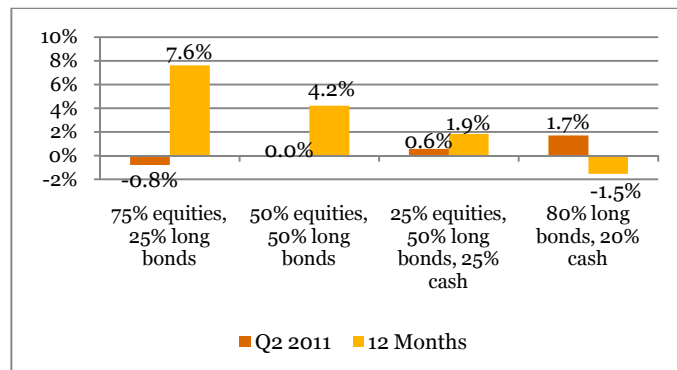


## Asset Class Performance

### Pension Strategies:

The chart to the right shows how a number of sample investment strategies from high risk to low risk might have performed during the Quarter and 12 months just ended.

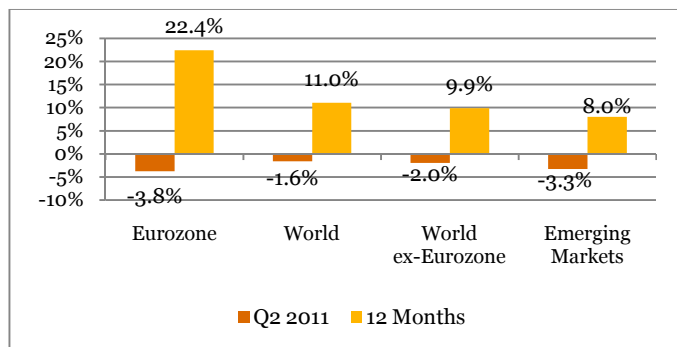
A comparison of these returns vs the sample change in scheme liabilities may give some idea as to how scheme funding levels will have changed over the last quarter and 12 months.



### Equities:

Slowing global growth, a fall in commodity prices and the ongoing financial difficulties of certain Eurozone countries contributed to falls in share prices around the world in May and June; despite a significant uplift at the very end of the quarter as measures were taken to avoid a default on Greek debt.

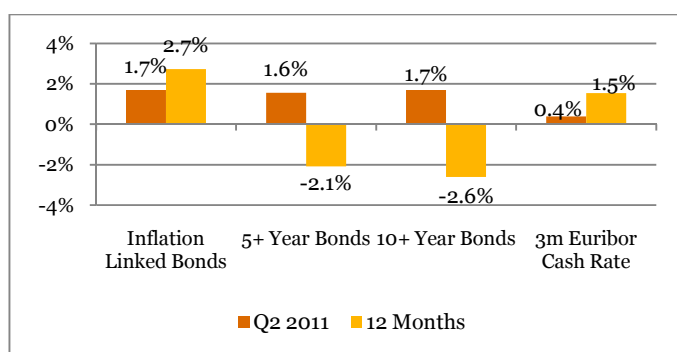
The Euro continued to strengthen against other currencies, further reducing the returns of foreign currency denominated assets.



### Bonds:

Quarter 2 of 2011 saw bond markets moving in the opposite direction to the first three months of the year, with positive returns coming from the performance of countries like Germany and France, where demand was driven by investors seeking lower risk investments.

By contrast, as the Eurozone debt crisis worsened in the periphery, Greece, Portugal and Ireland saw their bond yields hit record highs. Italian bond yields also rose, signalling concern that contagion will spread to Italy.



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