



AHEAD OF THE CURVE

Ahead of the Curve covers developments that may impact the behavior and portfolio positioning of institutional investors. Take a closer look at events in the ever-changing regulatory, legislative and investment markets to determine how they may impact you.

Irish Plans Focus on Risk

Pension plans in Ireland are increasingly turning to active management or alpha strategies to manage their risks, according to a recent survey by Mercer Investment Consulting. More than two-thirds of Irish defined benefit plans are falling short of their long-term fully funded status, despite strong equity returns over the past three years.

Many pension plans, as a result, are turning to risk diversification or risk management strategies. Nearly half of plans said a key priority was better matching assets to liabilities

or increasing allocations to bonds. Accordingly, they're moving from a market peer group approach to a liability-driven one, the report finds.

Other priorities are cutting equity allocations and boosting alternative allocations. Almost 30% of respondents said they planned to cut equity allocations in the short to medium term. Some 66% of respondents said the major barrier to increasing allocations to alternative investments was lack of knowledge. For more information, go to mercer.com.

Dutch Focus on Asset Liability Management



rates and slumping equity markets, pension plans in the Netherlands are managing risks in different ways. Larger plans generally are taking a more active financial position in the markets to manage their funding liabilities, whereas smaller plans are more likely to adjust their contributions. The implications of these findings are significant. What will happen to plans, for instance, as the rate of active

Dutch pension plans are rethinking their investment strategies to place a greater focus on asset liability management, according to De Nederlandsche Bank in Amsterdam. In response to lower interest

membership falls? That's likely to make it more difficult to plug the funding hole by boosting contributions.

For a copy of the working paper, go to dnb.nl/dnb/homepage.jsp.

New Regulation Spurs DC Plan Changes

Nearly three out of 10 U.S. firms say their decisions regarding defined contribution plans have been affected by the Pension Protection Act of 2006, according to a survey by Financial Executives International and Baruch College's Zicklin School of Business.

For firms likely to make changes to their DC plans, more than a third say they will add automatic features, and about a fifth say they will offer investment advice. The survey polled chief financial officers at 171 public and private companies. Overall, 89% of respondents offer 401(k) plans. For more information, go to baruch.cuny.edu/cfosurvey.



Can Elephants Dance?

Over time, emerging managers achieved a performance edge over their larger brethren, according to recent research from Northern Trust Global Advisors (NTGA). Roughly 40% of the core U.S. equity managers in the top-performing quartile were firms with less than \$2 billion under management, NTGA found. The research examines some of the reasons why and the implications of allocating assets to these smaller firms.

The research is available online at northerntrust.com/pointofview. It also is scheduled for publication in the Spring 2007 issue of the *Journal of Investing*.

CFOs Adjust to Pension Regulations

Most U.S. chief financial officers recently polled say they support accounting proposals that disclose pension assets on corporate balance sheets.

That's despite the fact that more than half of them believe the disclosure could damage their company's stock prices, according to a survey by *CFO Magazine*. Overall, CFOs supported efforts by regulators such as the U.S. Securities and Exchange Commission. The majority of survey respondents, for example, say they've seen some benefits of the Sarbanes-Oxley Act, with some



improvement in their business processes. For more information, go to cfo.com.

Community Foundations Expand Alternative Exposure



Community foundations in the United States continued to expand investment exposure to alternative asset classes in 2005, according to a recent report by the Council on Foundations.

Allocations to alternative investments rose to an average of 8.6% in 2005, compared with 6.8% in 2004 and 4.7% in 2003, the survey finds. Equity exposure, meanwhile, fell to 64.3% for community foundations, from 65.7% in 2004. Fixed-income allocations stayed at roughly 24%. Results are based on responses

from 165 foundations representing more than half of community foundations with assets of more than \$25 million.

Community foundations invest with a long-term horizon and are subject to regular market valuation, the report says. The median 15-year annualized return was 9.7%; while individual participant returns ranged from 7.3% to 11.7%. For a copy of the report, go to cof.org.