



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.

Asia Is Most Promising Overseas Real Estate Market

More than half (59%) of real estate private equity investors expect property values in Asia to increase in 2008, according to a survey by Ernst & Young's Global Real Estate Center. Within the region, investors think China and India will offer the greatest risk-adjusted return potential.

The "Market Outlook: Trends in the Real Estate Private Equity Industry" survey found investors were more pessimistic about Europe, with 59% of respondents expecting property values to flatten or decline this year. In terms of the U.S. market, 47% of respondents expected property values to increase and 38% thought values would flatten or decline.

Real estate private equity is popular with institutional investors, with \$23 billion in capital raised during the first half of 2007; at that time, an additional 35 funds, seeking to raise another \$35 billion, were still open. A total of \$38 billion was raised during all of 2006. Tax-exempt institutional investors — including pension funds, endowments and foundations — accounted for 73% of the capital raised by funds of \$500 million or more and 55% of the capital for funds with less than \$500 million.

For more information and a copy of the report, go to ey.com/reaalestate.



PBGC Reforms Still Needed



Although U.S. passage of the Pension Protection Act of 2006 improved some of the flaws inherent in the Pension Benefit Guaranty Corp. (PBGC) program, additional reforms are still necessary, according to a working paper from the National Bureau of Economic Research.

In the paper, "Guaranteed Trouble: The Economic Effects of the Pension Benefit Guaranty Corp.," Jeffrey R. Brown, William G. Karnes Professor of Finance at the University of Illinois at Urbana-Champaign,

notes there were \$350 billion of underfunded liabilities in PBGC-insured plans. According to Brown, reform proposals can be divided into two categories: those that seek to insert market incentives into the PBGC and those that would eliminate the agency in favor of private insurance for pension plans. Market-incentive approaches include tightening funding rules and implementing risk-based pricing; permitting the PBGC to use private reinsurance to lay off some of its exposure; and allowing the agency to securitize its assets or revenue streams. If the PBGC was eliminated, the government could require companies to insure their pension plans with private insurers that would charge risk-adjusted premiums.

For more information, go to nber.org.

DOL Site Offers Compliance Assistance

The U.S. Department of Labor unveiled a new Web site to help employers comply with federal benefit laws under the Employee Retirement Income Security Act of 1974 (ERISA). The DOL's Employee Benefits Security Administration oversees the site.

The Web site, ERISA Fiduciary Advisor, serves as a resource for employers seeking detailed information on private sector retirement plans. The Advisor offers an overview of ERISA and basic fiduciary responsibilities, as well as a list of the most common compliance mistakes. The site also provides links to additional information to assist plan officials in strengthening their fiduciary oversight and compliance.

Pension plan officials can learn more at dol.gov/elaws/ERISAFiduciary.htm.



Governance Important to Performance

Best-practice governance by institutional investors involves more than clarity of mission, according to a new report. Entitled “Best-Practice Investment Management: Lessons for Asset Owners from the Oxford-Watson Wyatt Project on Governance,” the report says skilled professionals must carry out the mission by following an organized investment decision-making process.

Case studies show how principles of good governance were developed. The report notes that in each instance, governance is treated as an investment in long-term performance rather than a short-term cost taken from sponsor contributions or investment returns.

For a copy of the report, go to watsonwyatt.com/research/reports.asp.

Cloudy Future for U.K. DB Plans

Two-thirds of private-sector U.K. defined benefit plans have been discontinued, are closed to new members or are in the process of closing, according to new research. The report from the London-based Pensions Policy Institute (PPI) also finds there’s uncertainty surrounding the future of the remaining one-third of defined benefit plans.

According to the report, “The Changing Landscape for Private Sector Defined Benefit Pension Schemes,” it’s unclear whether sponsors of the open defined benefit plans remain committed to the plans. The report notes other factors, such as poor funded ratios, could prevent sponsors from closing plans.

The number of U.K. defined benefit plans has declined in recent years as sponsors grapple with multiple challenges, including longer life expectancies, lower returns and

increased regulation and legislation. The report finds sponsors have reacted to these challenges in a number of ways.

- Reducing deficits: Scheme sponsors have taken measures to increase assets and/or reduce liabilities.
- Changing investment strategy: Sponsors have attempted to reduce deficits, or stop their growth by changing their investment strategy.
- Reducing the risk and/or level of benefits: Many defined benefit plans have been closed to new members, predominantly replaced by defined contribution plans.
- Winding up or selling pension provision: Although still relatively uncommon, buy-outs of closed but fully funded plans are becoming a viable option for employers.

To download a copy of the PPI report, go to pensionspolicyinstitute.org.uk.

‘Trapped’ Surpluses a Concern for U.K. Sponsors

The improved funded status of many U.K. defined benefit plans has given rise to a new concern: trapped pension surpluses, or assets in excess of benefit obligations.

According to a survey conducted by PricewaterhouseCoopers LLP, “Pensions Survey: Tracking the Views of Key Decision Makers, Autumn 2007,” 53% of large companies (those with 5,000 or more U.K. employees) and 31% of smaller companies are worried about the prospect of trapped pension surpluses. The survey notes legislative and taxation hurdles have made it difficult for sponsors to recoup surplus pension assets.

Other key findings of the survey, which covered 193 companies, include:



- About 50% of employers have agreed to new plan funding outcomes with their trustees.
- More than a quarter (27%) of employers are considering buying out some or all of their pension liabilities, 11% within the next five years.

To download a copy of the report, go to ukmediacentre.pwc.com.