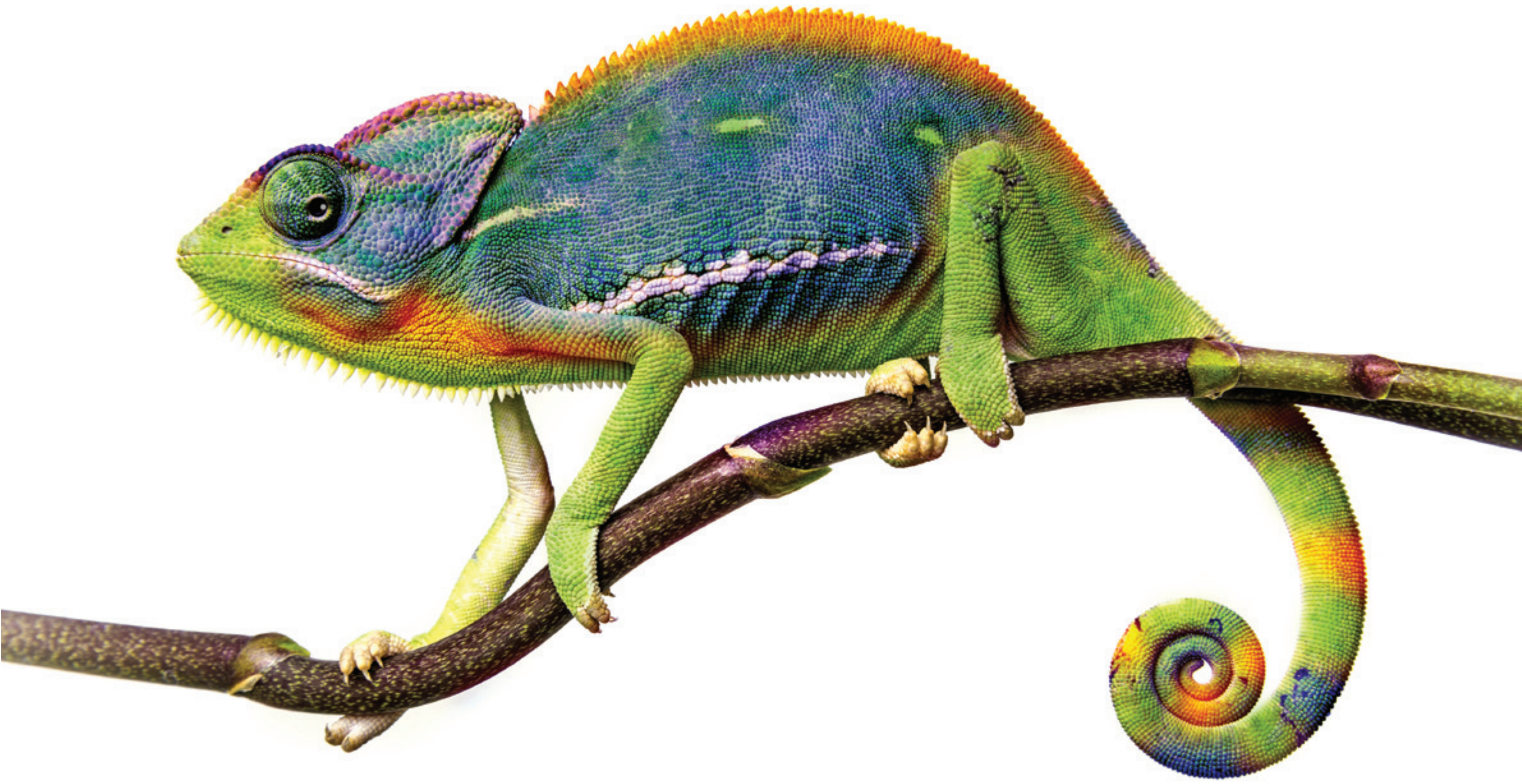
Are alternatives for everyone?

Attitudes to the role of alternatives in pension scheme investment portfolios

Research report

November 2014



Aberdeen

Foreword

Pension schemes are investing in an increasingly wide range of asset classes and strategies in their drive to manage risk and achieve returns, a task that remains profoundly challenging despite, and perhaps partly because of, the array of options available.

Everyone who took part in this research recognised the importance of looking beyond traditional tools and techniques and at the same time acknowledged some of the potential difficulties associated with alternatives: the constraints of investing in illiquid asset classes, and the dynamic nature of alpha-driven strategies and their more complex due diligence requirements being just two examples.

In asking the question: "are alternatives for everyone?" it was clear that an allocation to alternatives is not an automatic solution for portfolio diversification, risk hedging or greater returns but that a portfolio without this dimension was considered less likely to succeed in achieving superior risk-adjusted returns.

There is no question that the traditional relationship between asset classes has changed and the introduction of alternatives into pension portfolios represents an inevitable evolution.

Aberdeen has a significant commitment to alternative investment and believes it is important to help make this evolution as simple and straightforward as possible. Our dedicated alternatives business manages £11.1 billion in alternatives across multi-manager portfolios of hedge funds, private equity funds and property funds, plus direct investments in infrastructure. In addition to sharing insights into how pension managers and trustees are rising to some of the challenges presented by these investment options, this report provides an overview of the alternatives landscape, and the perceived pros and cons of investing in alternatives.

Investment in alternatives by pension funds has increased to18% globally. 15 years ago it was 5%[A]. The long-term outlook for alternatives is one of further growth with predictions that by 2020, the adoption of alternative strategies will represent 35% of assets managed by the industry[B]. The separation between alpha and beta will accelerate and in some parts of the world alternatives will move into the mainstream to the extent that the term 'alternative' no longer applies.

The sooner investors are empowered to better understand this landscape, the better placed they will be to take advantage of these opportunities, and in turn, satisfy the needs of their scheme sponsors and members.

Andrew McCaffery
Global Head of Alternatives
Aberdeen Asset Management

[A] Towers Watson: Global Alternatives Survey 2014
[B] PwC, Asset Management 2020: A Brave New World

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Executive summary

We talked to senior investment decision-makers with responsibility for managing or influencing institutional investment portfolios about their approach to investing in alternatives, surveying more than 100 professionals from a cross-section of industries, including pension funds, not-for-profit endowments, and insurance companies[C].

Our research focused on the core alternative asset classes of hedge funds, private equity, property, infrastructure and the use of completion strategies, while recognising that the term alternatives embraces a wider mix of asset classes and strategies. It found that:

- Among defined benefit (DB) schemes, the key drivers for allocating to alternatives are diversification and returns, specifically: seeking returns uncorrelated with equities and accessing alternative risk premia.
- Alternatives were widely perceived to offer equity-like, but less volatile, returns.
- 82% of schemes already had exposure to property and the remaining 18% expected to introduce property within the next two to three years: this asset class has delivered well for them and scheme managers were optimistic about its future role.
- The fastest growing asset class is infrastructure: many of the schemes in our survey already have allocations to infrastructure and a further 31% expect to make some investment in this over the next two to three years, demonstrating a significant increase in penetration within DB portfolios.
- The appetite for hedge funds is varied; although 53% of the DB schemes in our survey have an allocation to hedge funds in one form or another, there is no clear evidence how other schemes will adopt hedge fund strategies in the near future – only 12% indicated a likelihood to do so within this time frame.
- Private equity is included within 47% of all DB schemes in our survey but further penetration is not likely to increase significantly over the next few years: only 15% of schemes indicated they would make an allocation.
- The mix of assets is a function of scheme maturity: as schemes de-risk toward fully funded status there is still a place for alternatives, albeit at the more liquid end of the spectrum which is perceived as lower risk.
- Most defined contribution (DC) default schemes currently include property (55%) but hedge funds and private equity are not, as yet, represented to the same extent (20% and 15% respectively). DC schemes indicate they are unlikely to increase their exposure in the near future.
- As with DB schemes, infrastructure is the main growth area within DC default funds: although only 15% of DC schemes in our survey currently have a weighting to infrastructure within their default funds, it is envisaged that this level could more than double over the next two to three years to 40%.
- 24% of DC schemes offer an alternatives fund to members and a further 33% indicated that they may do so in the future.
- Cost, complexity and transparency are major inhibitors to investment in alternatives across both DB and DC schemes. However, there is a large appetite among pension managers and trustees for more support and information to simplify, clarify and explain the options available.
- 74% of DB schemes in our survey said their investment advisers were integral to the alternatives strategies they adopt.
- The term 'alternative' has become a grey area: it includes hedge funds, private equity and infrastructure – and much more (smart beta, alternative credit, private debt, unlisted equities, re-insurance, commodities/collectables). Property is regarded by most as mainstream.

[C] We also surveyed wealth managers and financial advisers to gauge their experience of the role of alternatives and the appetite among their clients for such strategies. The views of wealth managers, financial advisers and insurance investment managers are covered in separate reports.

Rethinking risk and return

Alpha-driven strategies and real assets continue to gain ground with investors for their ability to help achieve both return and diversification goals. In a world where bonds cannot be relied upon to diversify stocks, and the long-term correlation between these two core asset classes shows no sign of abating, it is hardly surprising that investors are being compelled to re-think how best to manage risk and achieve returns.

While the definition of alternatives may differ from one investor to another, common to the use of such strategies is the recognition that they have different characteristics from more traditional options and consequently offer strong diversification possibilities.

As a means of kick-starting the discussion, we asked respondents which three words came to mind when they thought of the term alternatives.

Low gilt and corporate bond yields driving search for returns

Managers and trustees of DB schemes in our research revealed that they continue to face considerable challenges in managing deficits, a sentiment which is reflected in the market at large. The fall in long-dated gilt and high quality corporate bond yields has hurt funding. In August 2014 alone, yields fell approximately 30 basis points, which led to a 5% jump in liability values among the UK's largest 350 companies. Pension deficits reportedly increased by £17bn to £90bn, representing a fall in the funding ratio to 87% at 31 August compared to 89% as at 31 July 2014[D].

The Bank of England's continued commitment to quantitative easing is believed to spell prolonged agony for UK pension schemes: the more the Bank prints new money to buy gilts, the less attractive the return prospects on those 'matching' gilts becomes and the more pension deficits grow. In their efforts to plug the gap, allocations to alternatives are rising.

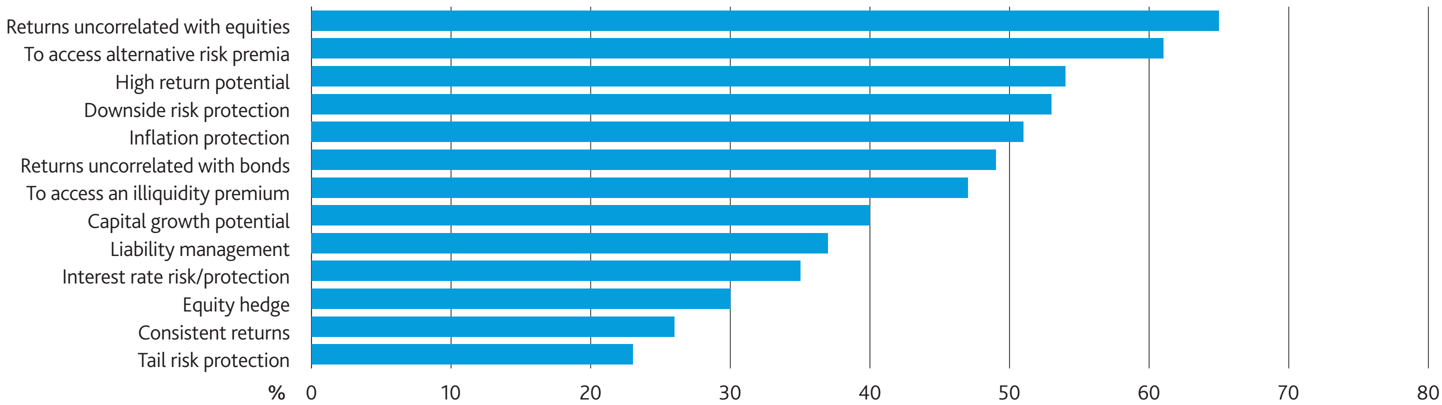
Equity-like, but less volatile, returns

Alternatives are predominantly part of the return-seeking portfolio: by implication a proportion that will diminish as DB schemes get closer to their end goals. Asked about their objectives for allocating to these asset classes, respondents cited diversification as the single most important reason. Pension investment managers are seeking cash flow generation to pay benefits over the long term – diversification of risk in their search for equity-like, but less volatile, returns.

Alternatives are predominantly part of the return-seeking portfolio: by implication a proportion that will diminish as DB schemes get closer to their end goals

[D] FTSE350 pension deficits, Mercer Pensions Risk Survey, 2014

1. Objectives for allocating to alternatives



Q Expert industry opinion suggests that alternative assets are expected to grow by 9.3% a year between now and 2020. What are/would be your objectives for allocating AUM to these asset classes?

"We try to find genuine diversifiers, which explains our allocation to insurance linked securities, for example."

Chetan Ghosh, Chief Investment Officer, Centrica Pension Schemes

"We are generally looking for something that is going to deliver cash plus approximately 5% and the level of volatility will be somewhere in the region of 8%, i.e. something that is maybe two-thirds of equity volatility and perhaps 1% per annum or so less return than we would expect from an equity portfolio."

Chris Wood, Chairman of the Trustees, Michelin Pensions Trust Limited

"Quite simply, something which would give the required return but at an acceptable level of risk."

Jackie Broughton, Pensions Manager, Hoover Ltd

While alternatives are seen predominantly as return seeking assets in the portfolio it was interesting to note that of our respondents, nearly 40% see a role for alternatives in liability management. This is simply one method of accessing cash flow generating assets like long lease property or inflation linked infrastructure projects post construction as an alternative to gilts.

Basel III forcing a reduction in funding volatility and increased use of alternatives

For banks, building societies and other financial companies, Basel III capital adequacy regulations (which as of last year required scheme deficits to be factored into calculations of the capital base) have prompted schemes to reduce their exposure to return-seeking assets and compelled some to consider buyouts and buy-ins in order to move liabilities off their balance sheets.

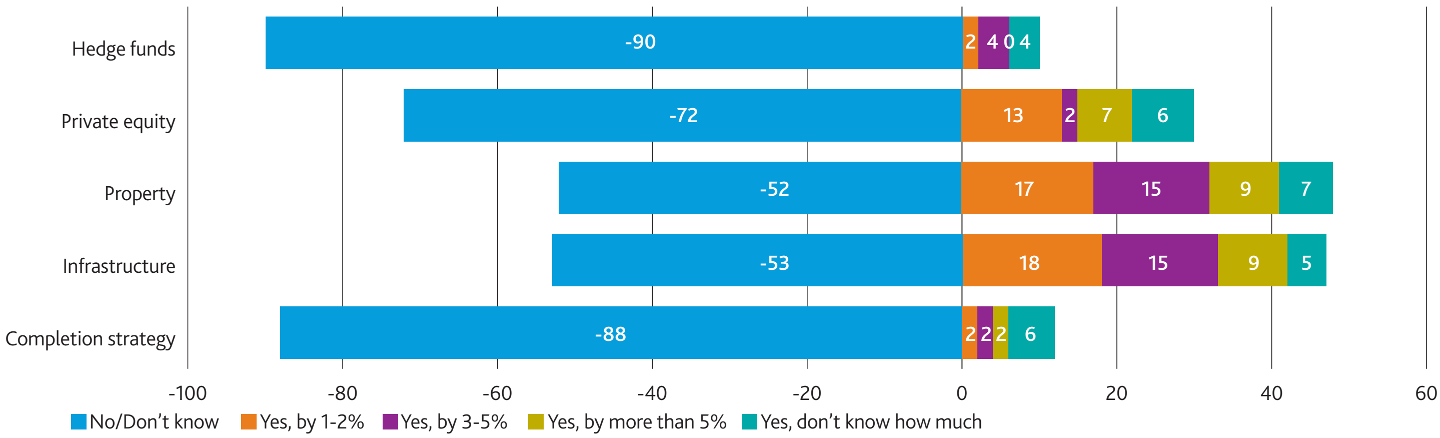
"The main objective was diversification without giving up too much in the way of returns. We are trying to generate equity-like returns from the return seeking portfolio but with reduced volatility that we may experience if we were, say, 100% in equities."

Matt Fuller, Pensions Investment Manager, Kingfisher Pension Scheme

Getting real: growth in allocations to property and infrastructure

At least 40% of the pension schemes we surveyed indicated that they intend to increase their allocations to property and/or infrastructure over the next two to three years. This corroborates the wider market view that these two asset classes will show the strongest growth within the alternatives space.

2. Planned increase in allocation to alternatives within DB portfolios



Q Do you intend to increase your allocation to the following within your portfolio over the next 2 -3 years?

Professor Amin Rajan, Chief Executive of asset management consultancy CREATE-Research, says: "Pension funds remain the most important source of capital for alternative asset managers, accounting for $1.3trn of the money invested in the largest 100 fund houses." He suggests that more than a quarter of European pension schemes are currently cash flow negative, a number that is likely to double in the next five years as the largest generation of post war baby boomers reaches retirement. This is pushing pension funds around the world towards alternative funds that occupy the 'sweet spot' between volatile equities and overvalued bonds, which Mr Rajan suggests offer equity-like returns with bond-like features: "Ageing demographics are driving ever more pension plans into the off phase, where their needs extend well beyond getting shoot-the-lights-out returns. Hedge funds and private equity are seen as providing low volatility absolute returns, and property and infrastructure are seen as delivering regular income and inflation protection."

As expected, our research showed that DB pension scheme allocations to property are the norm, to the extent that for some it is barely considered alternative. In addition to the diversification benefits, which are well established, the long-term leasing and financing structures implicit in property investments make them attractive for their predictable, stable cash returns. Consistency of cash yields was cited as a prime driver for investing in property.

"The property fund in which we invest aims to buy properties that are on extremely long leases – over 20 years – which are let to very high quality tenants with an emphasis towards public sector and where the rents go up each year in line with inflation, potentially capped at 4 or 5% per annum. We view this very much as an alternative to investing in index-linked gilts. The objective is to get an inflation-linked stream of cash flows over the longer term."

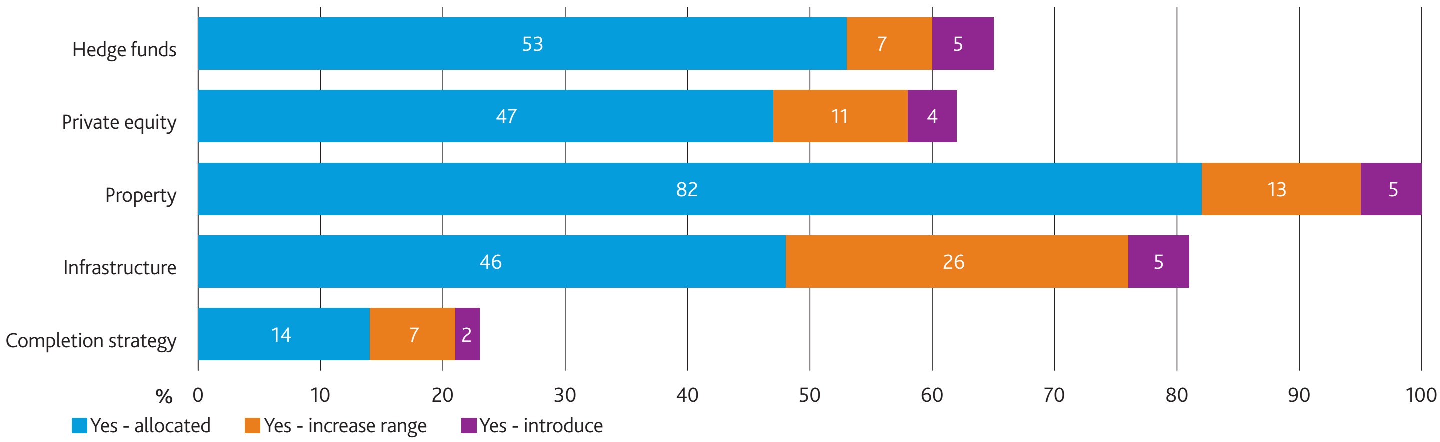
Chris Wood, Chairman of the Trustees, Michelin Pensions Trust Limited

Increased allocations are most likely to be directed toward property and infrastructure over the next 2-3 years

"Ageing demographics are driving ever more pension plans into the off phase, where their needs extend well beyond getting shoot-the-lights-out returns. Hedge funds and private equity are seen as providing low volatility absolute returns, and property and infrastructure are seen as delivering regular income and inflation protection."

Professor Amin Rajan, CEO, CREATE-Research

3. Current and planned allocation to alternatives within DB portfolios



Q Do you currently have allocations to hedge funds, private equity, property, infrastructure, completion strategy?

Do you intend to increase the range of alternatives within your portfolio over the next 2 -3 years?

Infrastructure
Many of the schemes surveyed have allocations to infrastructure and a further 31% expect to make some investment in this asset class over the next two to three years, demonstrating a significant increase in penetration within DB portfolios. Investment in large-scale projects that will generate predictable cash flows, such as hospitals and schools, can potentially deliver the stable, long-term returns desired, but the illiquid nature of these assets can be a concern. There are other perceived risks too; major infrastructure projects are often politically controversial, which creates uncertainty – the high-speed rail route (HS2) is one such example, and may contain significant construction risk. Other concerns include counterparty credit, regulatory change and transaction structures that demand potentially onerous due diligence requirements and monitoring.

Industry commentators have noted that nonetheless, infrastructure risks are different from those which investors face elsewhere in their portfolios and illiquidity, which may be acceptable to schemes with long time horizons, can be well rewarded. Average spreads have been substantially above comparable rated public corporate bonds and while corporate bonds are likely to be in short supply, the potential amount of infrastructure debt is enormous.

In light of these challenges and concerns, access to opportunities in infrastructure by means of third party managers is realistically the only option for all but the very largest UK pension schemes. The Pensions Infrastructure Platform (PIP), which could potentially invest up to £2 billion in British infrastructure projects over the coming years, offers one such route for pension schemes. According to Joanne Segars, Chief Executive of the National Association of Pension Funds (NAPF), its

The long-term leasing and financing structures implicit in property investments make them attractive for their predictable, stable cash returns

"We have an explicit traditional property allocation, which also offers the benefits of capital appreciation, as well as income and cash flow."

Chetan Ghosh, CIO, Centrica Pension Schemes

first fund, the PPP Equity PIP LP, launched in February this year and managed by Dalmore Capital, "is a major milestone for the PIP and fantastic news for all UK pension schemes that have an interest in infrastructure investment. Investments will be targeted at meeting the PIP's original aim to make infrastructure work for pension funds, offering investors low-risk, long-term investments providing inflation-linked cash flows, at a reasonable cost."

PIP operates on the basis that several large pension schemes contribute an initial investment (in the case of the first fund managed by Dalmore Capital: £260m) which allows the fund to hold a first close and start investing before smaller schemes join in on the same fee terms.

Although the UK Government is keen to promote investment in UK infrastructure by UK pension schemes, there has been some criticism that it has not done enough to support the PIP initiative. At the NAPF annual conference in October 2014, Joanne Segars re-iterated a demand for government to "do its bit" on unlocking infrastructure and to make it easier for pension schemes to benefit from the long-term investment opportunities that these projects offer. The NAPF has also called for the creation of a Minister for Infrastructure, to help increase the volume and quality of deals coming to market, suggesting that the government should develop a clear pipeline of suitable assets with appropriate structures and investment characteristics, and make them available to long-term investors.

In our research, infrastructure was perceived as attractive for its potential to deliver long-term cash flows and as an alternative to gilts.

Factfile	
The Pensions Infrastructure Platform	**PPP Equity PIP LP Fund**
PiP will be a not-for-profit infrastructure investment manager aligned to the long-term interests of the UK pension funds who will be its main investors. It is the first time UK pension funds have combined to create such a financial entity in the UK.	Founding Investors for the first close phase of the PPP Equity PIP LP Fund (managed by Dalmore Capital) include: • British Airways Pensions • Pension Protection Fund • Railways Pension Scheme • Strathclyde Pension Fund • West Midlands Pension Fund
Key features:	**Sectors:**
• Target size of £2bn • Low fees, c50bps • Low risk, the PIP is expected to invest at the low-risk end of the infrastructure asset spectrum • Long-term inflation linked cash flows	• Healthcare • Education • Ministry of Defence accommodation • Emergency services

"Infrastructure forms part of a collection of investments that we have mainly utilised to give us long-dated cash flows that can be used to make our benefit payments. We are getting better investment yields than gilts so for us it is a substitute for gilts in our liability matching programme. We are not just investing in infrastructure for this purpose; we have also invested in social housing, ground rent and commercial leases. These are all in that 'gilt substitute' part of our portfolio, aiming to do what gilts do, which is generate long-term income and benefit, but not so prohibitively."

Chetan Ghosh, Chief Investment Officer, Centrica Pension Schemes

Among our respondents, exposure to infrastructure was most commonly through a pooled fund. Some pension schemes we surveyed, including the funds within the local government pension scheme (LGPS), had a minimal weighting and were wary of the costs and time horizons:

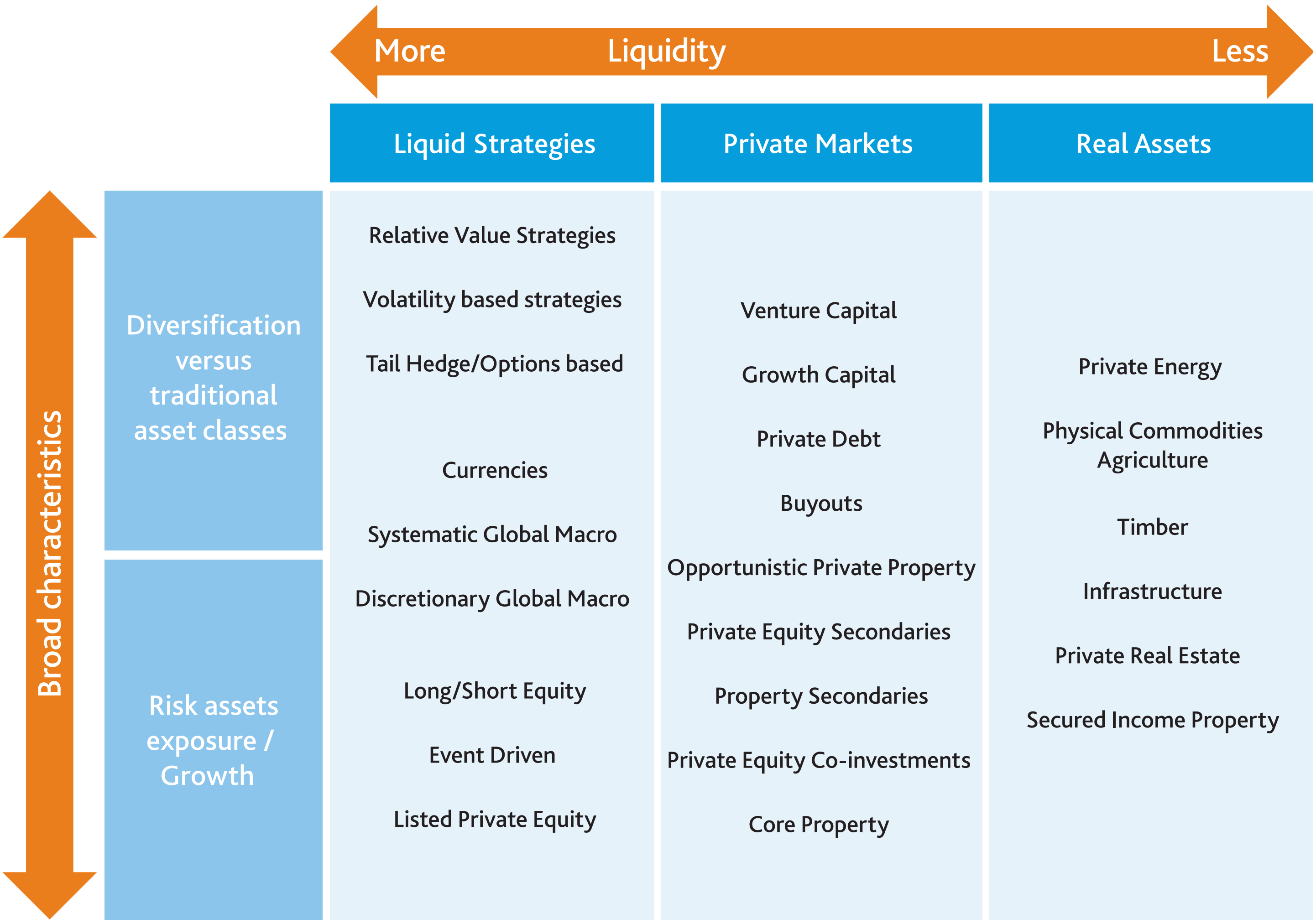
"We have a very small (£15m) commitment to a global infrastructure fund. There are a lot of managers chasing this and we are hesitant about it because of prices being pushed out. I think there is still a place for infrastructure within our fund, it is just a question of how we go about it, perhaps not the traditional way."

Laura Goodchild, Principal Pensions Officer, North East Scotland Pension Fund

"Infrastructure is possibly too long term a commitment for us at this point in time, with changes to the fund, the benefit structure and the cash flow positions, having our money tied up for 20 years or so is seen as too risky."

Pension Fund Manager

By accessing different alpha sources from traditional asset classes many alternatives offer growth and diversification potential



> "For us [infrastructure] is a substitute for gilts in our liability matching programme."
>
> Chetan Ghosh, CIO, Centrica Pension Schemes

Liquid and illiquid: balancing the blend

Respondents interviewed for this research were clearly focused on their investment objectives, drawing on a wide range of asset classes and strategies in order to achieve their goals.

Hedge funds and alpha-driven strategies
Hedge funds were widely regarded as a good way of diversifying equity risk, but a concern among some schemes regarding fees and performance are causing them to look elsewhere or differently at the offering.

Our respondents' exposure to hedge funds is typically via a fund of funds, which is seen as a simpler, more accessible means of gaining access than through individual strategies. It is also easier for pension schemes to manage from a governance perspective.

"We are seeing increased investor sophistication in how hedge fund and other liquid alternative strategies are being used in portfolios and how customisation is becoming more important. By introducing these strategies into portfolios it is possible to improve compounding, reduce volatility and improve overall risk-adjusted returns.

In our view, it is worth considering these more liquid alternative strategies as tools to build bespoke or customised portfolios that are complementary to a client's wider portfolio. Return profiles and drivers can vary considerably across different strategies, which means that active monitoring and management of an allocation is very important. Increased focus on liquidity, transparency and fees is forcing providers to up their game, and we believe that this will lead to better outcomes for investors over time."

Christian Howells, Head of Investment Specialists for Aberdeen's Alternatives business

Q Do you intend to increase the range of alternatives within your portfolio over the next 2 -3 years?

For the respondents in this research who do use stand-alone hedge fund strategies, the fact that these may or may not be deemed 'alternative' is of little importance. These investors use a wide universe of liquid and illiquid asset classes and strategies which extend to, for example, non-conventional bond strategies, smart beta, alternative credit and private debt.

Private equity

47% of DB schemes in our survey had an allocation to private equity. The majority reported that their investment in private equity had met or exceeded expectations but the weighting is not likely to increase significantly over the next few years: only 15% of schemes indicated they would so increase allocations.

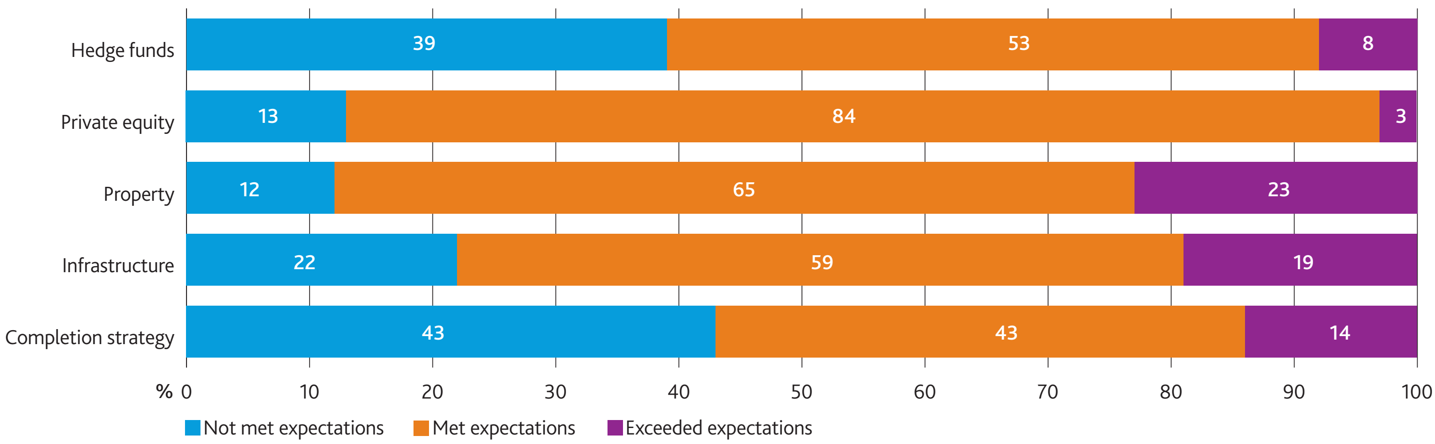
Scheme managers and trustees are particularly wary of the illiquid nature of such investments and the time horizons involved, with respondents citing "nervousness" with respect to direct private partnerships. Others acknowledge that a good way of gaining access to such opportunities is by means of a fund of funds.

"To source our own private equity investments from initial set-up all the way through, would be beyond our fully funded target timeframe."

Matt Fuller, Pensions Investment Manager, Kingfisher Pension Scheme

Property and infrastructure have best met or exceeded performance expectations

4. Alternative asset classes have generally performed satisfactorily

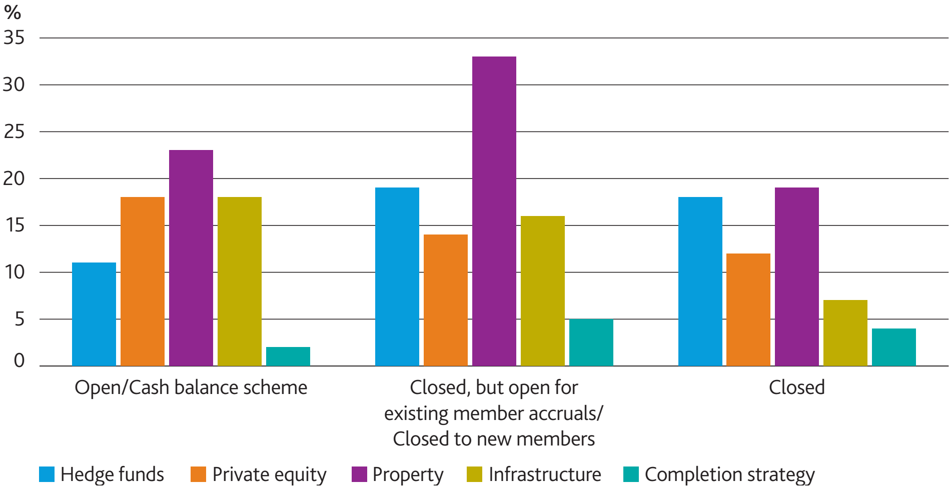


Q Over the period invested, how satisfied are you with the performance of: hedge funds; private equity; property; infrastructure; completion strategy?

DB portfolios become more liquid as they de-risk

Weightings to certain asset classes and fund choices typically change depending on the scheme's horizon with a shift towards those which deliver greater liquidity and a lower risk profile as the time horizon shortens.

5. Exposure to alternatives, and the asset mix, varies by maturity of DB scheme



Q Do you currently have allocations to hedge funds, private equity, property, infrastructure, completion strategy?

"The scheme will attain opportunities to de-risk as and when funding levels improve, we can reallocate between equities and bonds quickly to lock in gains as we did earlier in 2014, by default the alternative asset piece will become a larger proportion of that return-seeking asset portfolio. However, we are also conscious that some of the funds will be starting to wind down and will therefore be returning cash to us on that basis. We can also start to wind down the other alternative asset exposures if the Trustees start to feel that we are overweight alternatives compared to equities."

Matt Fuller, Pensions Investment Manager, Kingfisher Pension Scheme

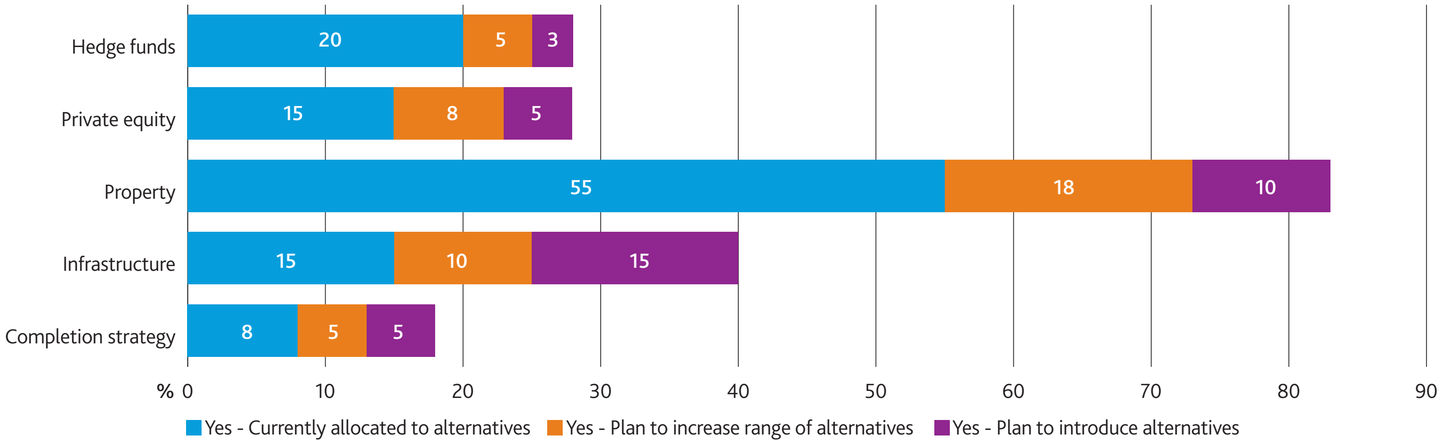
"I expect that we will still be in alternatives or diversified funds but they are likely to become more liquid as time goes on."

Chris Wood, Chairman of the Trustees, Michelin Pensions Trust Limited

Defined contribution schemes

The majority of the pension scheme respondents surveyed (80%) were responsible for managing both a DB and a DC scheme, typically trust-based schemes. Some companies operated more than one DC scheme. With the exception of allocations within Diversified Growth Funds, which were not the focus of this research, only property has any significant exposure within DC default funds and there is no indication that weightings to other alternative classes will increase significantly in the next two to three years.

6. Current and planned allocation to alternatives within DC default funds



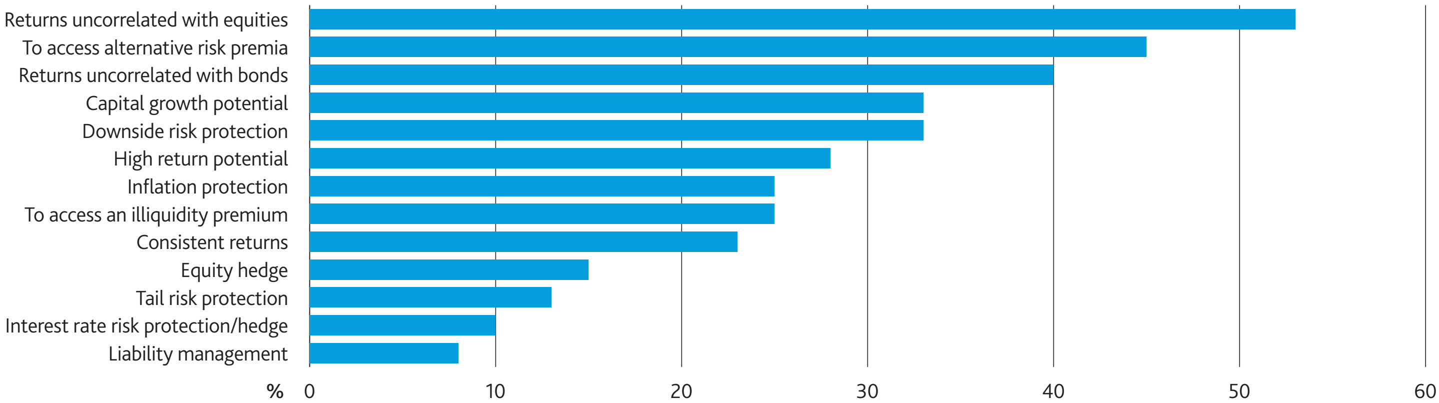
Q Do you currently have allocations to hedge funds, private equity, property, infrastructure within your DC default fund?

Do you intend to introduce each of these asset classes into your DC default fund over the next 2 -3 years?

Do you intend to increase the range of alternatives within your DC default fund over the next 2 -3 years?

The DC default fund continues to be the subject of debate in terms of how it might be improved. Diversified growth and absolute return strategies in DC scheme design, and in particular, structured portfolios and strategies are likely to feature more prominently.

7. Objectives for allocating to alternatives within DC default funds



Q Expert industry opinion suggests that alternative assets are expected to grow by 9.3% a year between now and 2020.What are/would be your objectives for allocating AUM to these asset classes?

Beyond the default fund, 25% of DC schemes in our survey say that a specific alternatives fund is already available to members; there is no evidence of a strong intention on the part of providers/employers to increase their range of funds to include self-select alternatives.

LGPS attitudes to single platforms and CIVs

In May this year, the government consulted on two common investment vehicles (CIVs) across England and Wales: one for listed assets and another for alternative assets, which they purported could save £660m a year in investment costs. The government's consultation said its proposals on a single platform "are most effective when adopted by all 89 funds".

Hymans Robertson, which provided the cost-savings analysis to the government, suggested that too many CIVs would risk diluting the benefits of economies of scale while too few could lead to diseconomies of scale, particularly if size hampered access to well performing active managers. Hymans used FTSE indices to benchmark the performance of the active equity managers used by local government pension schemes. Investment consultancy bfinance suggested that if Hymans had used MSCI indices for regions outside the UK, the analysis would have shown that schemes had benefited from using active managers. Other industry experts have been concerned at the 'sweeping statement' that local government schemes should go passive and proposed that this needs more vigorous analysis, using different benchmarks.

Market reports[E] suggest that local authority schemes have largely rejected these proposals but did see the benefits of common vehicles to invest in alternatives. The NAPF has called for the postponement of local government reforms until after the next general election saying it was wrong to focus wholly on costs.

[E] Pensions Week, 14 July 2014, 'Local government schemes reject forced passive CIV proposals'

We asked local authority schemes about their attitudes to single platforms and CIVs with respect to their pension funds. 33% said it was not attractive and the remainder were divided in their opinion, which appears to support the wider market view. Those who expressed a negative view had concerns regarding loss of control and diversification, the burden of increased governance, and a need to retain accountability.

"Our view is that we… achieve economies of scale through… [our] investment structure. We like local ownership of that and a collective investment would have to show that it preserves local decision making and the value that we can achieve in comparison to what we have currently got in place. The pensions panel is very against being forced down the passive route."

Pension Fund Manager

"It would be putting all your eggs in one basket. That's fine if markets are going up but if markets go down and it is the day before your actuarial valuation date you're in trouble.

Would I want to commit to putting investments into a collective investment vehicle and having to manage additional committees? An extra custodian, an extra investment consultant, an extra performance measurement position? Probably not. I think there is an underestimation of the resources and the costs involved in trying to manage those additional relationships."

Laura Goodchild, Pensions Manager, North East Scotland Pension Fund

Views are mixed on the appeal of pooling funds to achieve greater cost efficiencies but respondents indicated that niche alternative funds could present a shared opportunity for LGPS.

"You might be able to achieve economies of scale in the more niche areas by smaller asset allocations working with other authorities."

Pension Fund Manager

"With infrastructure, we think the best way to get a good deal would be to invest side-by-side with others – that is where a CIV could really help. If CIVs come in through the route that they seem to be, then I think there will be pressure on us to get involved and that is certainly one way that I would see we could invest in new options and make asset allocations decisions quicker."

Geoff Reader, Head of Pensions, Bedfordshire Pension Fund

Looking ahead, how will the weighting of alternatives change among LGPS?

"If things remain the same – no drastic drop in membership and nothing weird and wonderful going on in the markets – I would perceive our alternative allocation to be at least the same if not maybe a little bit more."

Laura Goodchild, Principal Pensions Officer, North East Scotland Pension Fund

"The question is whether we should be looking at anything alternative that could be providing us with uncorrelated returns to reduce the overall risk of the portfolio."

Pension Fund Manager

"We have about a 20% weighting in the asset allocation at the moment and I could see that growing over time [in diversified growth funds]."

Geoff Reader, Head of Pensions, Bedfordshire Pension Fund

Conclusion: alternatives matter. Focus on outcome matters more

Are alternatives for everyone? Every investor aiming to achieve a well-diversified portfolio will consider asset classes that have different characteristics from more traditional strategies and a reduced correlation. An increasing number seeking to cash flow match their assets to their liabilities will also consider alternatives. In a persistently low-yield environment, they have no choice but to cast their nets far and wide in search of returns and in order to manage risk. Our research shows that the majority of pension managers and trustees from across the corporate and not-for-profit sectors are doing just this but would benefit from much more information, education and pragmatic support in order to make the complex alternatives landscape easier to understand, access and navigate. They are admirably open to ideas in their endeavours to steer towards successful outcomes. The rise of alternatives since the 2008 financial crisis is only the beginning of a long-term shift in investor behaviour. As investors continue to expand their use of alternatives, the less alternative and more mainstream they will become. Our research showed that whichever tools and techniques are selected, staying focused on investment objectives and goals was universally agreed as being most important.

Research method

This report is based on a research study among more than 100 senior investment professionals comprising an online survey that ran between 18 August and 20 October 2014, and 16 in-depth interviews undertaken by executives of Gabriel Research & Management Ltd. For reasons of client confidentiality, some comments are not attributed.

Acknowledgements

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Kingfisher plc: Matt Fuller, Pensions Investment Manager

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MetLife Insurance: Stuart Bell, Chief Executive Officer

Michelin Tyre plc: Chris Wood, Chairman of the Trustees

NAPF: Joanne Segars, Chief Executive

North East Scotland Pension Fund (LGPS):
Laura Goodchild, Pensions Manager

Nuffield Foundation: James Brooke Turner, Finance Director

Partnership Assurance Group: David Ramroop, Head of Investment

PIP Ltd: Mike Weston, Chief Executive Officer

West Sussex Pension Fund (LGPS):
Rachel Wood, Pension Fund Investment Strategist

The value of investments and the income from them can go down as well as up and your clients may get back less than the amount invested.

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