

Growth Plan Employer Forum

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Current Investment Environment- Market Returns over the 12 Months Ended 31 May 2009

| Equities % | Gilts % | Corporate Bonds % | Property % | Hedge Funds % | Cash % |
|---------------|------------|-------------------------|---------------|---------------------|-----------|
| -19.1 | +11.1 | -2.3% | -26.5 | -16.4 | +3.8 |

7 Sep '08: US Government bails out Fannie Mae and Freddie Mac, the mortgage financiers. Agreeing to inject up to **US\$100bn** per company



15 Sep '08: Bank of America buys Merrill Lynch in **US\$50bn** emergency acquisition



17 Mar '08: Bear Stearns collapses sold to JPMorgan for **US\$20bn** per share



Jul '08: Alliance & Leicester, was bought by Spanish bank Banco Santander.

14 Sep '08: Lehman, the 158 year-old investment bank files for bankruptcy after failing to attract Fed help, or a buyer

18 Sep '08: Lloyds **US\$22bn** Rescue take over of HBOS. Government waives antitrust provision to allow merger



21 Sep '08: Governments of the Netherlands, Belgium and Luxembourg agree to a partial nationalisation deal worth **US\$15.5bn** to stabilise Fortis. Subsequently, Fortis' operations in Belgium and Luxembourg were purchased by BNP Paribas for **US\$20.1bn**



17 Jul '07: Two Bear Stearns hedge funds investing in sub-prime investment collapse



2 Apr '07: Bankruptcy filing of New Century Financial, one of the biggest sub-prime lenders in the US



16 Aug '07: Countrywide Financial, the largest mortgage in the US run into liquidity problems. Fed responded by a **50 bps** cut of the discount rate



10 Mar '08: Further **US\$236bn** Boost from Treasury security loans and cash loans to banks in Europe



7 Mar '08: **US\$20bn** Cash loan Fed intervention to banks and bond market dealers

14-17 Sep '07: Northern Rock experienced a bank run until a government blanket guarantee was issued on 17 Sep 07.

30 Sep '08: Dexia Partly Nationalised by Governments of Belgium, Luxemburg and the Netherlands in a deal worth **US\$9bn**



8 Oct '08: UK Government announces a scheme to provide **£400bn** of support to the banking sector including a capital injection and guarantees for banks' borrowings. Co-ordinated **50bps** benchmark rates cuts by all major central banks. Nationalisation of all three major Icelandic banks

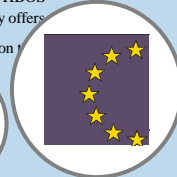


13 Oct '08: European Governments unveil **€1.85tn** co-ordinated plan to recapitalise banks and guarantee banks' borrowing. UK Government announces **£37bn** investments in RBS, HBOS and Lloyds TSB. UAE Ministry offers **US\$19bn** liquidity injection to banks

16 Oct '08: UBS agrees "bad bank" deal with the central bank to take **US\$60bn** in toxic assets off its balance sheet in addition to a **SFr6bn** capital injection



14 Oct '08: US government guarantees new debt issued by banks for 3 years and announces plans to inject **US\$250bn** in banks



Current Investment Environment

- The financial crisis prompted by the unwinding of US subprime mortgages lead to the following:
 - A loss of confidence in bank balance sheets and the “credit crunch”.
 - A sell-off in equity markets by those suffering losses e.g. Hedge funds.
 - Falls in commercial property market valuations as credit dried up
 - Some money market funds producing negative returns
 - A flight to safety i.e. Equities sold off and government bonds purchased

Current investment Environment – What Did The Trust Do?

- The Trust's initial response to the financial crisis was to review the security of the assets under its management including:
 - A review of the global custodian including commingling of assets, monitoring of sub-custodians and cash at risk
 - Exposure to counterparties and use of derivatives
 - Suspension of the securities lending programme
 - Quarterly review of hedge fund exposure
 - Ensuring that portfolios are sufficiently diversified.

Current Investment Environment – What's Happened Since?

- In Europe and the US, governments have been supporting the financial system e.g. Nationalisations, interest rate cuts and quantitative easing.
- There are concerns about large budget deficits run by the UK and US governments
- Credit markets appears to be returning to pre-crisis levels
- Economies in the developed world (in particular) have moved into recession.
- Since March 2009 equity markets have rallied but it is not clear whether this can be sustained.
- Many commentators believe that crisis has led to unique investment opportunities given the mispricing of assets.

Growth Plan s1 & s2 Strategy : Benchmark Allocation as at 30 September 2008

| | Allocation % | |
|----------------------------------|--------------|------------------|
| <i>UK Equities</i> | 20.0 | Equity Split |
| <i>Overseas Equities</i> | 30.0 | |
| Total Equities | 50.0 | |
| <i>Fixed Interest</i> | 0.0 | Non-Equity Split |
| <i>Index Linked</i> | 0.0 | |
| <i>Property</i> | 7.5 | |
| <i>Insurance Policy – buy-in</i> | 42.5 | |
| Total Non Equities | 50.0 | |

Strategy Review: Possible Ways Forward

- Reduce the exposure to property over time in order to provide liquidity.
- Diversify away from equities in order to provide growth.
- Reducing equity exposure if funding position improves faster than expected
- Take opportunities for further buy outs (buy-ins) should they arise.

Growth Plan s3 Strategy

| | Benchmark % |
|---------------------------|------------------------|
| <i>Money Market Funds</i> | <i>100.0</i> |

Growth Plan s4 Strategy

| | Target |
|------------------------------|---------------|
| | % |
| Managed Fund | |
| Global Equity Fund | 65.0 |
| Fixed Income Fund | 27.5 |
| Property Fund | 7.5 |
| Total | 100.0 |
| | |
| Pre-Retirement Fund | |
| Fixed Income Fund | 18.5 |
| Long Dated Fixed Income Fund | 18.5 |
| Index Linked Fund | 38.0 |
| Money Market Fund | 25.0 |
| Total | 100.0 |

What's Next?

The Committee has worked with its consultants and identified two broad themes for consideration by the Board:

- 1. A Review of our Governance Model**
- 2. Reviewing The Trust Fund Structures**

What's Next? – Revised Fund Structure

Possible way forward:

| Liability Focused Themes | Liquid Growth Themes | Illiquid Growth Themes | Liability Driven Investment Solutions |
|-----------------------------------|---|--|--|
| FIF ILF Long Dated Gilts | Blend of equities, tactical active management, absolute return funds and fund of hedge funds. Passive equities | Property, Infrastructure, Credit opportunities | Pooled LDI products i.e. Fixed income and swaps portfolios |

What's Next? – Revised Fund Structure

- Where possible the themes can be combined to provide the strategic allocations schemes require.
- At the same time the governance structure should be flexible enough to provide:
 - Bespoke approaches when required
 - Room to exploit new ideas
 - The ability to make tactical changes to exploit the views held on the forecasts for capital markets.

Questions & Discussion

