



2010 Global Pension Asset Study

Towers Watson

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2010 Global Pension Asset Study

Executive Summary

Global Pension Asset Study 2010

Survey Coverage

- The study covers 13 pension markets (P13), where pension assets are estimated to total USD 23,290 bn and account for 70% of the GDP of these economies. Brazil and South Africa are included for the first time, increasing the study's coverage to all continents. Historical figures have been amended to reflect their inclusion.
- We analyse 7 countries in greater depth by excluding the 6 smallest markets (Brazil, France, Germany, Ireland, Hong Kong and South Africa) and use the shorthand 'P7' to denote them. P7 assets are over 94% of the P13.
- The analysis is divided into 4 sections:
 - Asset size, including growth statistics, comparison of asset size with GDP and liabilities (P13)
 - Asset allocation (P7)
 - DB and DC share of pension assets (P7)
 - Public and Private sector share of pension assets (P7)

P13



Australia



Brazil



Canada



France



Germany



HK



Ireland



Japan



Netherlands



South Africa



Switzerland



UK



US

P7



Australia



Canada



Japan



Netherlands



Switzerland



UK



US

Global Pension Asset Study 2010

Key Findings

Pension assets estimates at the end of 2009

- At the end of 2009 pension assets for the 13 markets in the study were estimated at USD 23,290 bn, representing a 15% rise compared to the 2008 year-end value.
- Global pension assets are still below their 2007 levels. In terms of the pension assets to GDP ratio, it is back to 2003 levels.
- In 2009 pension assets rose in all markets in the study in US dollar terms.
- The largest pension markets are the US, Japan and the UK. However, during the last 10 years, all three have seen their share of global pension assets decline due to slower growth rates relative to other countries.
- In 2009 two new countries were added to the study, Brazil and South Africa. Their pension assets have grown very rapidly in recent years and they now rank among the world's top pension markets.
- The main issues that the largest pension fund markets faced during the financial crisis include: liquidity; the management of credit/collateral risk; asset manager underperformance; and new challenges in strategic asset allocation.

Global Pension Asset Study 2010

Key Findings

DB/DC Allocation estimates at the end of 2009

- During the last 10 years DC assets have grown at a rate of 6.4% p.a. while DB assets have grown at a much slower pace of 1.6% p.a.
- Currently DC assets represent 42% of total pension assets compared to 40% in 2004 and 32% in 1999. This shows an established trend towards the provision of DC pensions.
- The markets with larger proportions of DC assets are Australia, Switzerland and the US, while Japan remains essentially 100% DB. The Netherlands, also historically only DB, is now showing strong signs of a shift to DC.
- Canada is the only country in the study where DC assets have fallen compared to DB over the last 10 years.

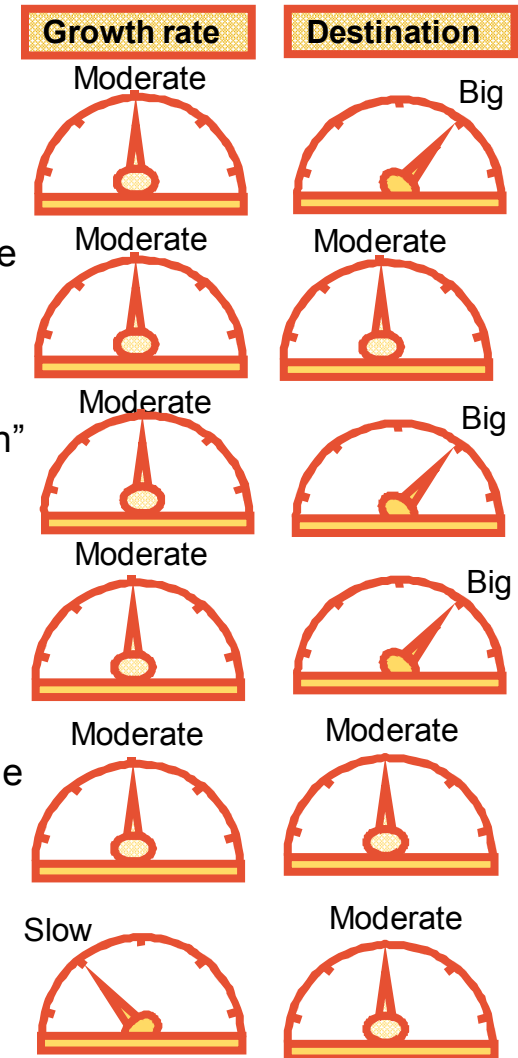
Asset Allocation estimates at the end of 2009

- At the end of 2009 the average global asset allocation of the 7 largest markets was 54.4% equities, 26.9% bonds, 1.3% cash and 17.4% other assets (includes property and other alternatives).
- The largest allocations to “risky” assets occur in the US, the UK and Australia. More conservative investment strategies – more bonds and less equities – occur in the Netherlands, Switzerland and Japan.
- During 2009 allocation to equities grew significantly in the seven largest pensions markets, resulting in a sizeable shift from 48.0% invested in equities in 2008 to 54.4% in 2009, largely as a result of the good performance of stock markets.
- Diversification into alternative assets continued in 2009.

The 'six faces of change'

Six medium-term factors growing in influence on pension fund development

1. **Improvements in governance**
Improved recognition of return on governance feeds through in increased attention and growing focus on risk management; more talent attracted to Chief Investment Officer role at funds.
2. **Product proliferation**
Product specialisation leads to major proliferation, with risk, style and scope of mandates all getting broader; increasing requirement for transparency in the wake of the financial crisis.
3. **Pension design, towards a DC model**
DC becomes the dominant global model with its attendant "individualisation" with risk transfer and new ownership versus control tension.
4. **Organisation change**
Organisations address change in terms of scaling, specialisation, HR with expansion globally and in adjacent spaces putting leadership and survival on the line.
5. **Pressure for talent**
Strong competition for talent, particularly on the leadership level, despite the reduced short-term demands as a result of the financial crisis.
6. **New food chain**
A more effective "food chain" will emerge, where expense on various activities has a better value proposition than exists today. In light of the poor performance of a range of products, funds are better positioned today to secure a more favourable fee deal.

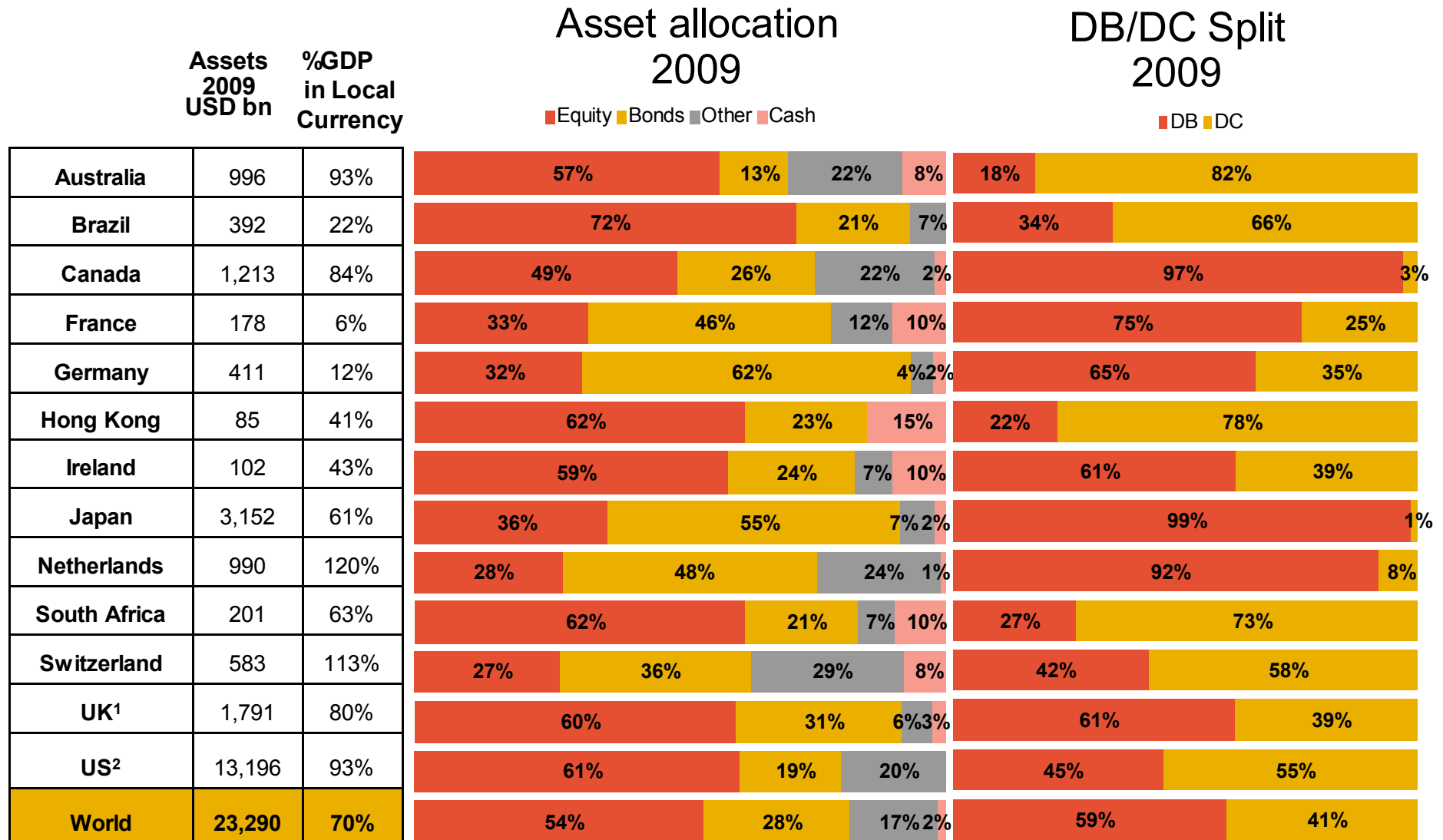


The current pension fund watch list

Commentary on current issue		Watch out in 2010 for...
Solvency	Significant deterioration in solvency, raising probability of plan defaults and producing pressures for revised strategies	Correction plans, based on contributions, contingent assets, investments
Risk management	Expanded and more expansive view of risk, identifying greater allowance for extreme events and the softer elements of risk with respect to credit and liquidity	Increased attention to risk and risk management processes
Risk budget and strategy	Consideration of diversification in the context of increased correlations and volatility, with associated review of rebalancing and drifting strategies	Greater focus on hedging strategies
Benefits, stakeholders	Reviews of future service pension commitments in the context of changing risk tolerances	Closures of DB plans to future service accrual, alongside switches to DC
Manager underperformance	Multiple manager styles have had difficulties meeting benchmarks given stressed markets and portfolios whipsawed by enforced liquidity	Active managers under pressure to perform better
DC risk management	Greater attention given to meeting plan participants' expectations, particularly with respect to retirement planning	Focus on risk exposure in investment defaults and design of lifecycle strategies

Global Pension Asset Study 2010

Key Findings - Figures



Source: Towers Watson and various secondary sources
Assets/GDP ratio for the world is calculated in USD terms

¹ Excludes Personal and Stakeholder DC assets

² Includes IRAs



2010 Global Pension Asset Study

1. Asset size

Asset size and growth statistics
Comparison of asset size with GDP and liabilities

Global pension assets

Evolution 1999-2009 – USD Billion

- Global pension assets to the end of 2009 were USD 23,290 bn, up more than USD 3 trn from 2008. This is a 15.1% growth in assets compared to the previous year, but not sufficient to recover the losses from 2008's financial crisis, when assets fell 21.3%.
- This growth is largely explained by the good performance of markets around the world and the high exposure of pension funds to equities.
- The largest value of pension assets are held by the US and Japan, together accounting for more than 70% of total assets, though their share has been decreasing in recent years.
- The smallest markets in descending order are Brazil, South Africa, France, Ireland and Hong Kong.

Market	Total assets (USD billion)	Total assets (USD billion)
	Year-end 1999	Year-end 2009e
Australia	271	996
Brazil	70	392
Canada	652	1,213
France	70	178
Germany	188	411
Hong Kong	23	85
Ireland	49	102
Japan	2,630	3,152
Netherlands	400	990
South Africa	76	201
Switzerland	310	583
UK ¹	1,385	1,791
US ²	10,195	13,196
Total (USD)	16,318	23,290

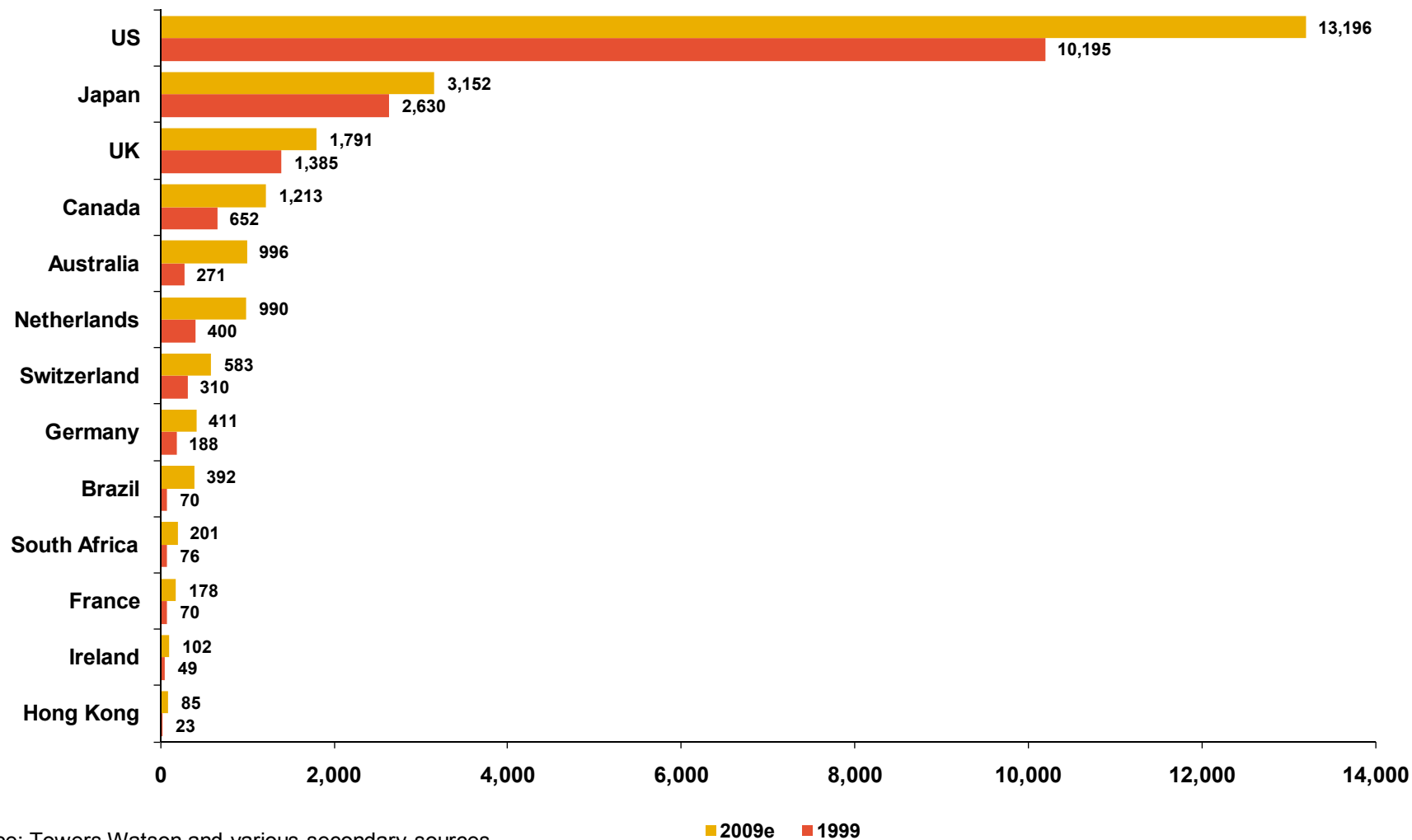
Source: Towers Watson and various secondary sources

¹Excludes Personal and Stakeholder DC assets

²Includes IRAs

Global pension assets

Evolution 1999-2009 – USD Billion
















Source: Towers Watson and various secondary sources

Global pension assets

Relative weights of each market

- During the past decade, pension fund assets in the US, Japan and the UK have decreased relative to other economies in the P13.
- Despite slower growth, the US, Japan and the UK remained the three largest pension markets in the world.
- Brazil is the fastest growing market of the group, followed by Hong Kong and Australia, which is now claiming the fifth place in the P13.

Country	End 1999	End 2009e
Australia	1.7%	 4.3%
Brazil	0.4%	 1.7%
Canada	4.0%	 5.2%
France	0.4%	 0.8%
Germany	1.2%	 1.8%
Hong Kong	0.1%	 0.4%
Ireland	0.3%	 0.4%
Japan	16.1%	 13.5%
Netherlands	2.5%	 4.2%
South Africa	0.5%	 0.9%
Switzerland	1.9%	 2.5%
UK ¹	8.5%	 7.7%
US ²	62.5%	 56.7%
P13	100%	100%

Source: Towers Watson and various secondary sources

¹Excludes Personal and Stakeholder DC assets

²Includes IRAs

Global pension assets growth rates

Compound Annual Growth Rates – Local Currency – 2009e

- Annual growth rates are significantly different when comparing 2008/09 rates to those of 2007/2008. The markets' recovery in 2009 following the world financial crisis is evident. While in 2008 most of the markets suffered heavy losses, in 2009 they performed positively.
- On average, global pension assets, measured in local currency, grew by 15.6% over the last year, compared to the 10.6% fall of 2008.
- Japan's poor results in 2008 were not reversed in 2009, as pension assets there still show a negative CAGR in the last 5 years and very modest growth in the last 10 years.
- 5-year growth rates now range from – 0.9% in Japan to 19.2% in Brazil, the fastest growing market in the study.

Market	1-year (31/12/07 - 31/12/08) Actual	Growth rates to 2009e (Local Currency)		
		1-year (31/12/08 - 31/12/09)	5-year (31/12/04- 31/12/09) CAGR	10-year (31/12/99- 31/12/09) CAGR
Australia	-17.2%	8.5%	9.4%	10.4%
Brazil	-3.8%	54.3%	19.2%	18.3%
Canada	1.5%	12.7%	8.0%	3.1%
France	-6.0%	13.8%	2.6%	5.9%
Germany	1.1%	6.8%	6.7%	4.3%
Hong Kong	-8.7%	23.3%	12.9%	14.0%
Ireland	-26.7%	12.2%	2.7%	3.8%
Japan	-12.0%	6.1%	-0.9%	0.8%
Netherlands	-16.0%	14.2%	4.9%	5.6%
South Africa	0.5%	12.1%	13.0%	12.3%
Switzerland	-11.6%	12.8%	0.2%	2.0%
UK ¹	-26.5%	13.6%	4.3%	2.8%
US ²	-23.3%	12.2%	2.5%	2.6%
Average	-10.6%	15.6%	6.6%	6.6%

Source: Towers Watson and various secondary sources

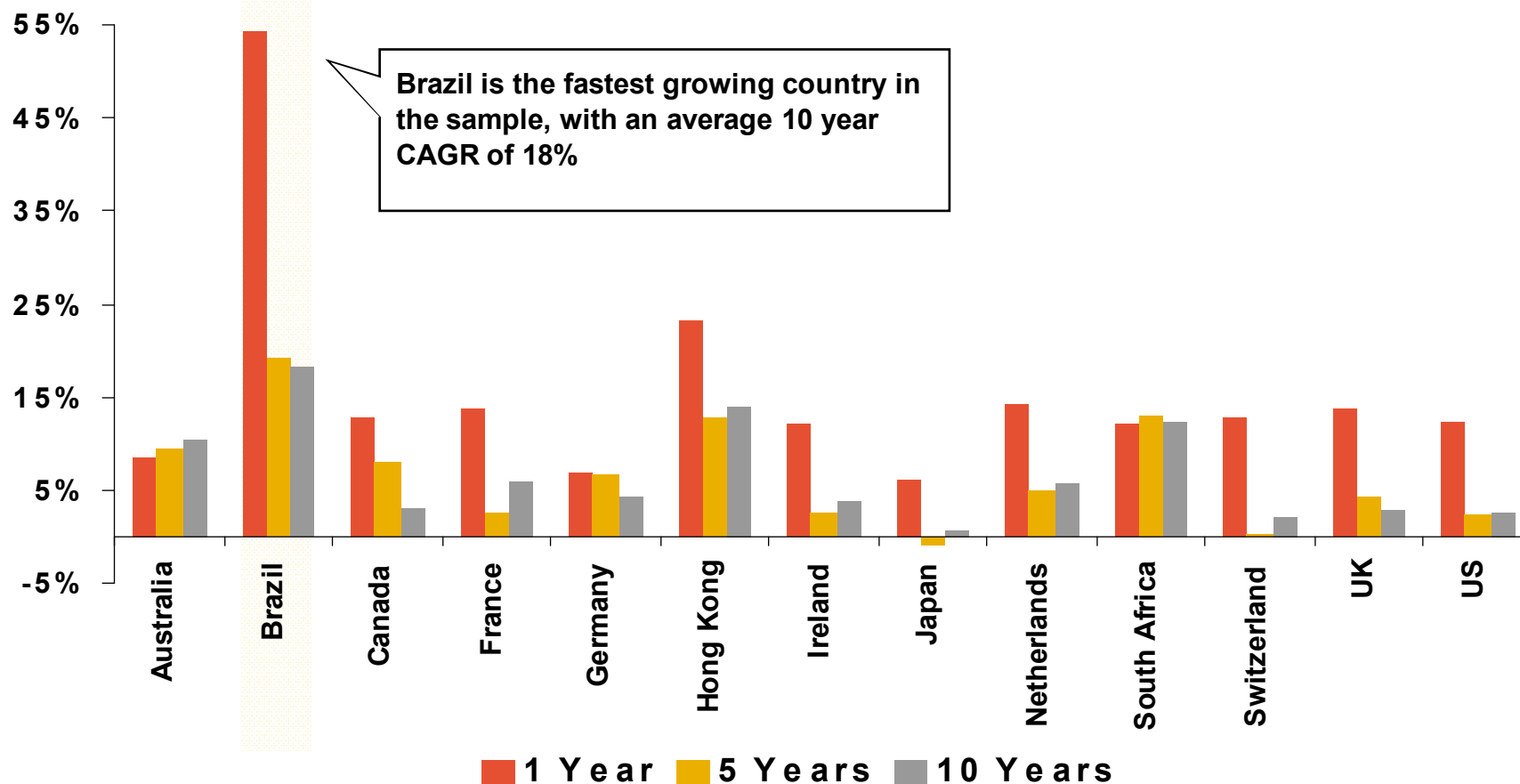
¹ Excludes Personal and Stakeholder DC assets

² Includes IRAs

Global pension assets growth rates

Compound Annual Growth Rates – Local Currency

2009e CAGR – Local Currency



Source: Tower Watson and various secondary sources

Global pension assets growth rates

Compound Annual Growth Rates – USD

- In 2008 global pension funds assets decreased on average by 21.3%, however during 2009 they rose by 15.1%.
- This growth occurred in all the markets in the study, especially in Brazil, South Africa and Australia where pension assets grew by 108%, 43% and 40% respectively.
- In 2009 Japan had the lowest growth rate of 4%. This is in contrast to 2008 when it was the best performer having grown assets by 9% in USD terms, thanks to a significant currency appreciation.
- The most rapidly growing pension asset markets during the last 10 years are Brazil, Australia and Hong Kong respectively, while Japan, UK and the US have the lowest 10-year growth rates.

Market	1-year (31/12/07- 31/12/08) Actual	Growth rates to 2009e (USD)		
		1-year (31/12/08- 31/12/09)	5-year (31/12/04- 31/12/09) CARG	10-year (31/12/99- 31/12/09) CARG
Australia	-34.7%	40.3%	12.5%	13.9%
Brazil	-27.4%	108.3%	29.9%	18.8%
Canada	-10.2%	31.2%	11.0%	6.4%
France	-9.9%	15.7%	3.6%	9.8%
Germany	-3.2%	8.6%	7.7%	8.1%
Hong Kong	-8.0%	23.2%	12.9%	14.0%
Ireland	-29.8%	14.0%	3.7%	7.6%
Japan	9.4%	4.0%	1.3%	1.8%
Netherlands	-19.5%	16.2%	6.0%	9.5%
South Africa	-28.0%	42.9%	7.0%	10.3%
Switzerland	-5.6%	14.7%	1.9%	6.5%
UK ¹	-46.7%	25.0%	0.4%	2.6%
US ²	-23.3%	12.2%	2.5%	2.6%
World	-21.3%	15.1%	3.3%	3.6%

Source: Towers Watson and various secondary sources

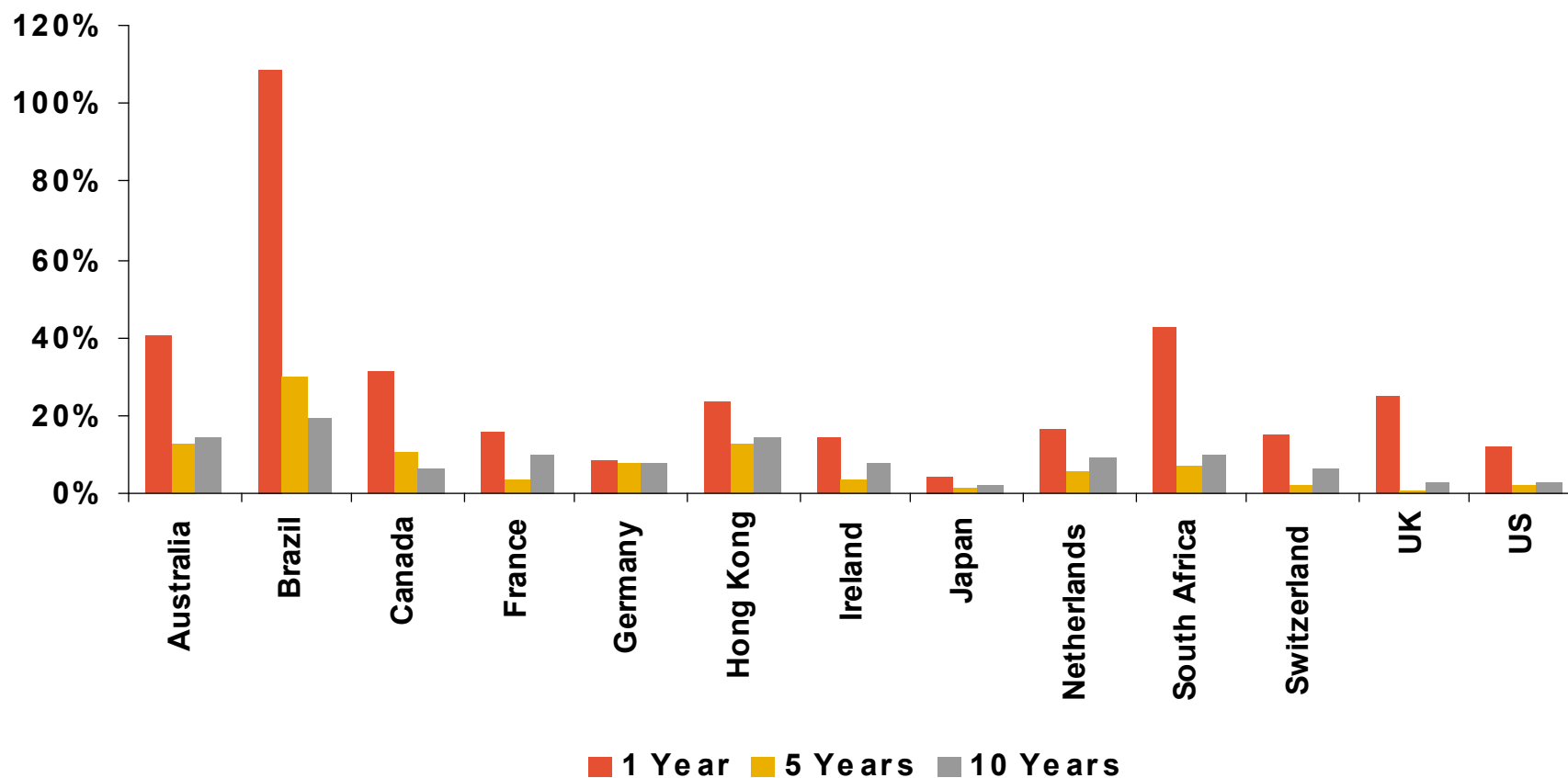
¹Excludes Personal and Stakeholder DC assets

²Includes IRAs

Global pension assets growth rates

Compound Annual Growth Rates – USD

2009e CAGR - USD



Source: Towers Watson and various secondary sources

Global pension assets growth rates

Currency impact on USD Compound Annual Growth Rates

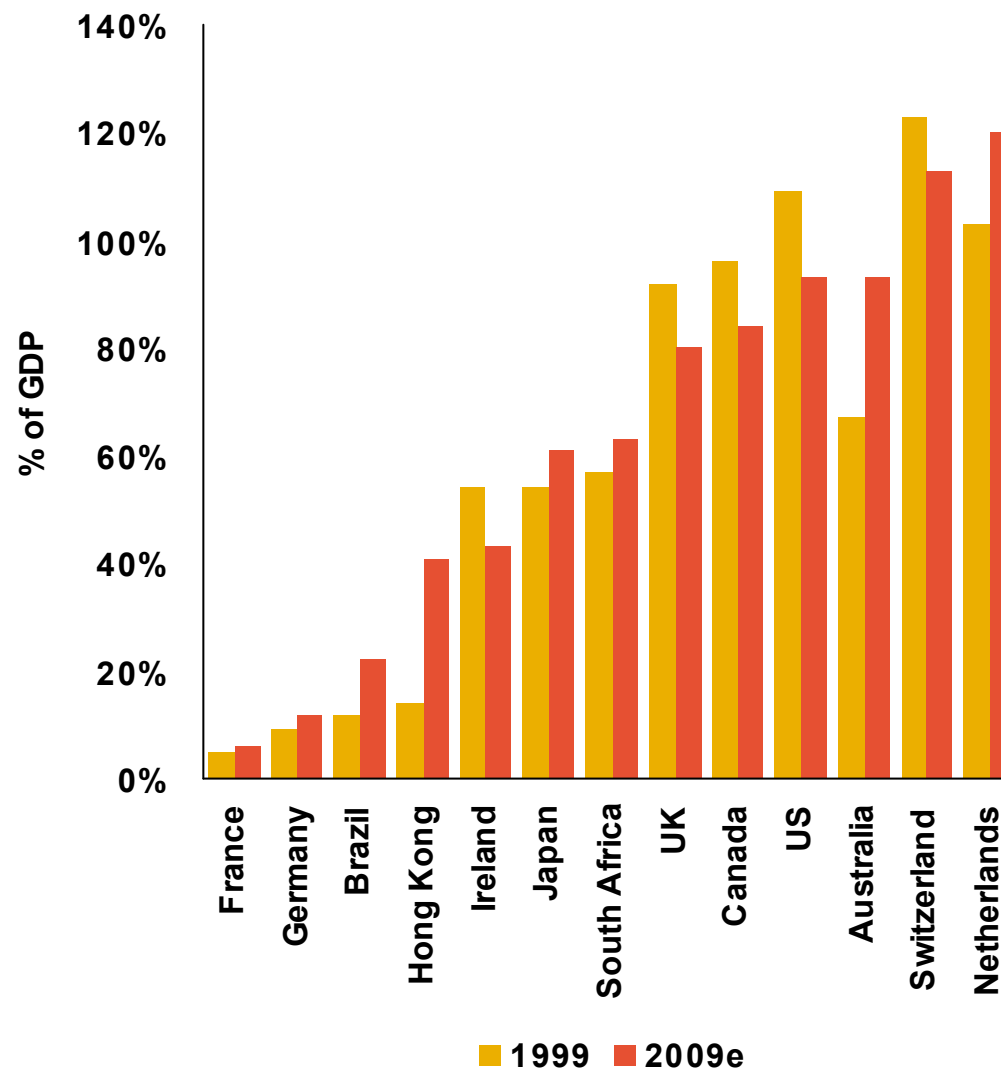
- During 2009 the Brazilian real, the Australian dollar and the South African rand were the three currencies that appreciated most against the US dollar, between 27.4% and 35.0%, thus making growth rates in USD appear much larger.
- Other currencies that appreciated against the USD were the Canadian dollar (16.5%) and the British pound (10.0%). The Euro had a moderate appreciation of only 1.7% during 2009.
- Only the Hong Kong dollar (-0.1%) and the Japanese yen (-2.0%) depreciated against the USD in 2009.
- Over longer periods, almost all countries show larger growth rates in USD. During the last 10 years the Swiss franc had the biggest appreciation (4.4%), while in the last 5 years the Brazilian real appreciated 8.9%.
- The only countries where the effect of currency movements were negative in the last 5 and 10 years were South Africa (-5.3% and -1.8% respectively) and the UK (-3.7% and -0.1% respectively).

Market	Currency effects at 2009		
	Variation in FX (LC/USD) rates		
	1-year (31/12/08- 31/12/09)	5-year (31/12/04- 31/12/09)CARG	10-year (31/12/99- 31/12/09)CARG
Australia	29.3%	2.8%	3.2%
Brazil	35.0%	8.9%	0.4%
Canada	16.5%	2.8%	3.2%
France	1.7%	1.0%	3.6%
Germany	1.7%	1.0%	3.6%
Hong Kong	-0.1%	0.1%	0.0%
Ireland	1.7%	1.0%	3.6%
Japan	-2.0%	2.3%	1.0%
Netherlands	1.7%	1.0%	3.6%
South Africa	27.4%	-5.3%	-1.8%
Switzerland	1.7%	1.7%	4.4%
UK	10.0%	-3.7%	-0.1%

Source: Towers Watson and various secondary sources

Global Pension Assets vs. GDP in Local Currency

Market	Pension assets as % of GDP		
	1999	2009e	Change
Australia	67%	93%	26%
Brazil	12%	22%	11%
Canada	96%	84%	-12%
France	5%	6%	1%
Germany	9%	12%	3%
Hong Kong	14%	41%	27%
Ireland	54%	43%	-11%
Japan	54%	61%	7%
Netherlands	103%	120%	17%
South Africa	57%	63%	6%
Switzerland	123%	113%	-10%
UK ¹	92%	80%	-12%
US ²	109%	93%	-16%
World³	76%	70%	-6%



Source: Towers Watson and various secondary sources

GDP values in Local Currency from IMF

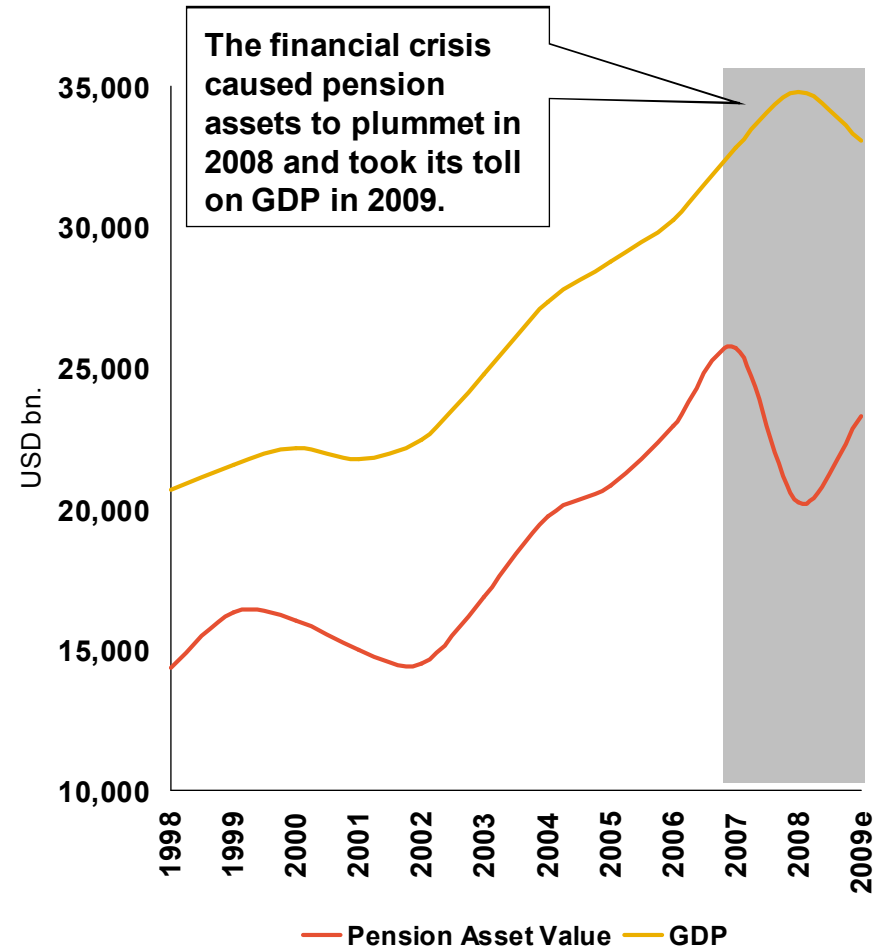
¹Excludes Personal and Stakeholder DC assets

²Includes IRAs

³ World pension assets and GDP in USD

Global Pension Assets vs. GDP

- The average ratio of pension assets to GDP of the P13 increased from 58% in 2008 to 70% in 2009 - still down from its peak of 78% reached in 2007.
- The recovery is explained by two factors: rebounding of stock markets and a decline in GDP in all countries, except South Africa. While pension assets increased by 15%, the P13's GDP¹ decreased by 5%.
- The Netherlands has the largest proportion of pension assets to GDP (120%) followed by Switzerland (113%) and Australia (93%).
- Countries with the lowest ratios are France (6%) and Germany (12%).
- During the last 10 years, the pension assets to GDP ratio improved the most in Hong Kong (27%), Australia (26%) and the Netherlands (17%), while the biggest deterioration occurred in the US (-16%), Canada (-12%) and UK (-12%).

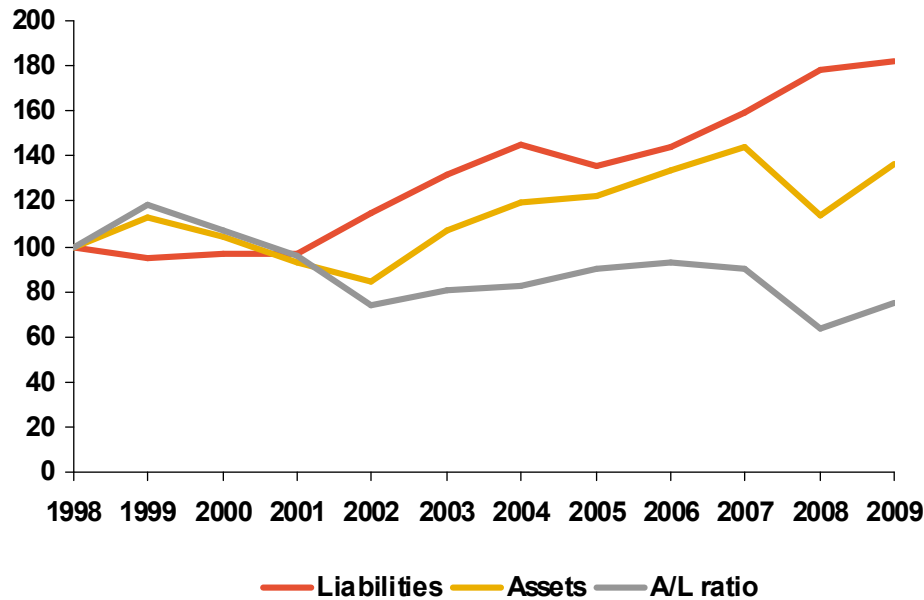


Source: Towers Watson, the IMF and various secondary sources

¹ World GDP measured in USD and country GDP in Local Currency

DB asset/liability indicator – global basis

Index change from 31 December 1998



Source: Towers Watson and various secondary sources

DB assets only within asset totals

UK assets exclude Personal and Stakeholder assets

US assets include IRAs

Brazil and South Africa are not considered in the analysis

Mortality changes are not incorporated in these figures

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Year end	Liability increases relative to end 1998	Asset increases relative to end 1998	Asset liability indicator - cumulative change relative to end 1998	Asset liability indicator - change in year
1999	-5.1%	12.5%	18.5%	18.5%
2000	-2.9%	3.9%	6.9%	-9.7%
2001	-3.6%	-7.4%	-4.0%	-10.2%
2002	15.0%	-15.2%	-26.3%	-23.2%
2003	31.7%	6.7%	-19.0%	9.9%
2004	45.0%	19.0%	-18.0%	1.3%
2005	35.6%	22.5%	-9.6%	10.2%
2006	43.6%	33.7%	-6.9%	3.0%
2007	59.1%	43.7%	-9.7%	-3.0%
2008	78.2%	21.5%	-31.8%	-24.5%
2009	81.6%	36.5%	-24.9%	10.2%

- Global pension fund balance sheets recovered significantly during 2009.
- The global asset/liability ratio is still down by 25% from its 1998 level.
- At an individual market level, asset/liability levels went up in 2009 in all markets. In several markets they are still lower than in 1998, the worst situation being the UK (-43%).

Methodology for this section

- In this survey we seek to provide estimates of pension fund assets (i.e. assets whose official primary purpose is to provide pension income). This data is comprised of:
 - Hard data typically as of year-end 2008, collected by Towers Watson and from various secondary sources.
 - Estimates as at year-end 2009 based on index movements.
- Before 2006 we focused only on 'institutional pension fund assets', primarily 2nd pillar assets (occupational pensions). Since 2006, the survey has been slightly widened, incorporating DC assets (IRAs) within US' total pension assets. The objective was to better capture retirement assets around the globe and expand the survey into the 3rd pillar (individual savings) universe, which is primarily being used for pensions purposes in many countries. Furthermore, this innovation enables us to estimate the global split between DB and DC assets.
- UK assets exclude Personal and Stakeholder assets.

Comparison with GDP

- This section compares total pension fund assets within each market to GDP sourced from the IMF

Comparison with liabilities

- This section compares the evolution of *defined benefit* assets to the evolution of liabilities within each country
- Defined benefit assets are updated with capital contributions to the latest date for which we can obtain hard data for assets (typically year-end 2008). From that date onwards, defined benefit assets are simply updated for asset movements obtained using index estimates.
- We do not use hard figures for liabilities for any period and simply account for the change in liabilities that will result from changes in the corresponding government bond yields
- The asset/liability ratio for each market may change from year to year as prior DB asset totals and DB/DC splits are restated.



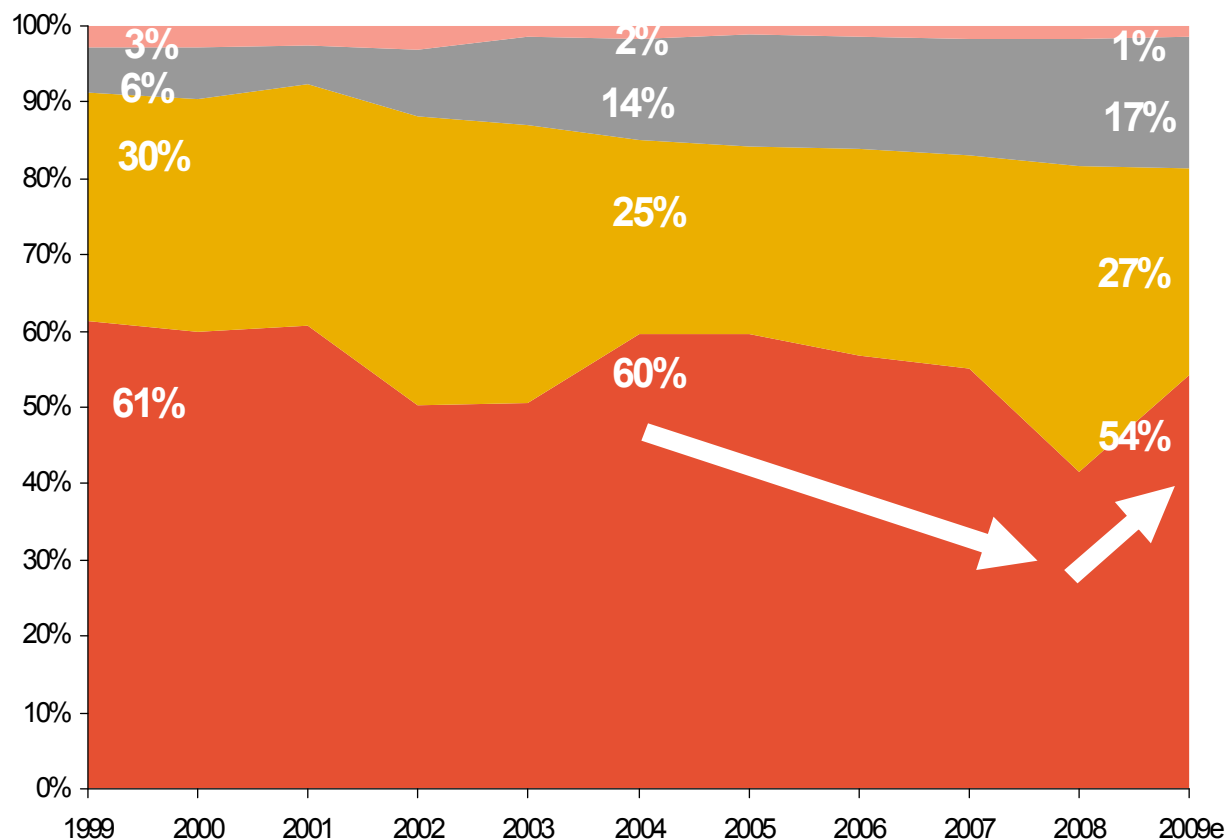
2010 Global Pension Asset Study

2. Asset Allocation (P7)

Pension assets allocation

Aggregate P7 asset allocation from 1999 to 2009

■ Equities ■ Bonds ■ Other ■ Cash

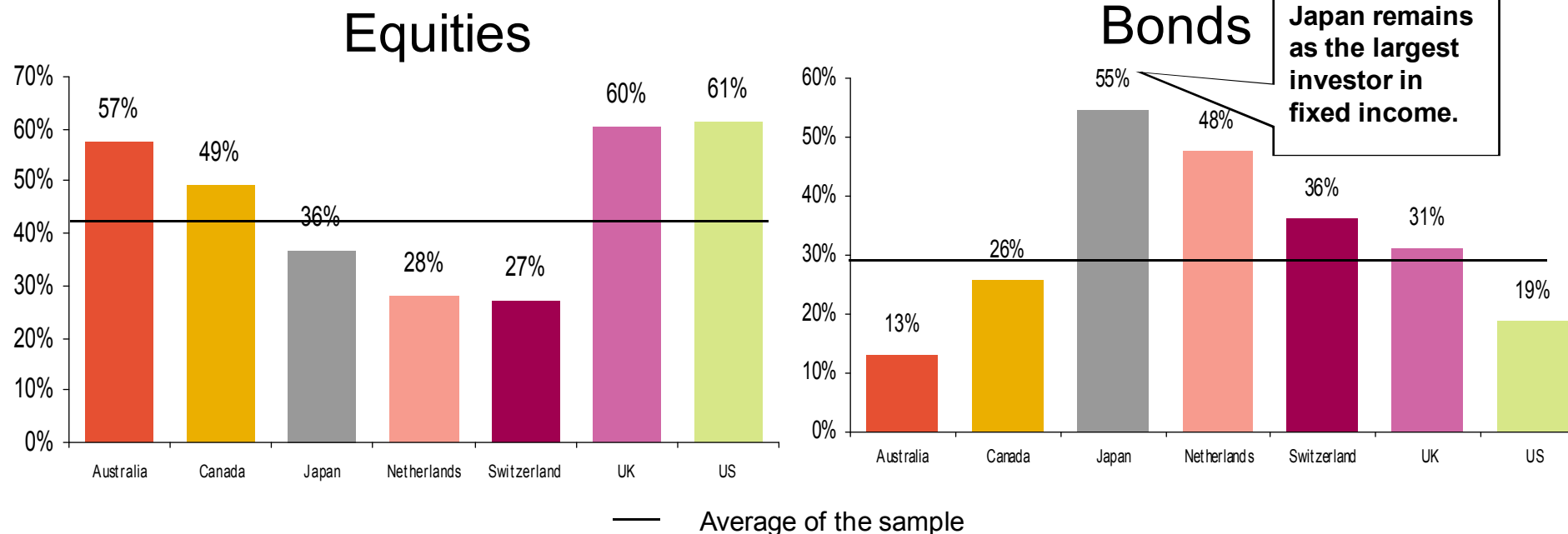


Source: Towers Watson and various secondary sources

- Bond allocations increased from 24.5% in 2005 to 32.1% in 2008. However in 2009 allocations fell back to 26.9%.
- Equity allocation increased in 2009 to 54.4% from 48.0% in 2008.
- Exposure to alternative assets continues to grow, extending a long-established trend and reflecting pension funds' growing appetite for diversification.

Pension assets allocation

Equities and Bonds in 2009

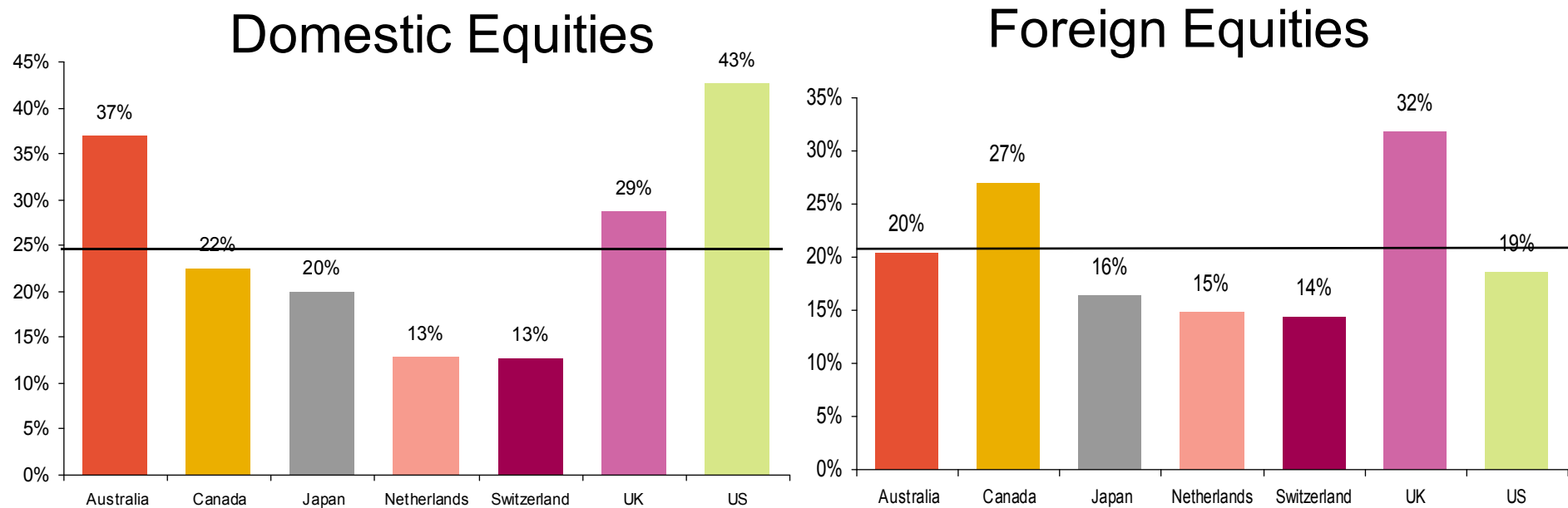


- Every market experienced a shift to greater exposure to equities and reduced exposed to bonds compared to the previous year.
- The US, UK, Australia and Canada continue to retain above average equity allocations. Japan, the Netherlands and Switzerland all have higher than average exposure to bonds.

Source: Towers Watson and various secondary sources

Pension assets allocation

Equities in 2009

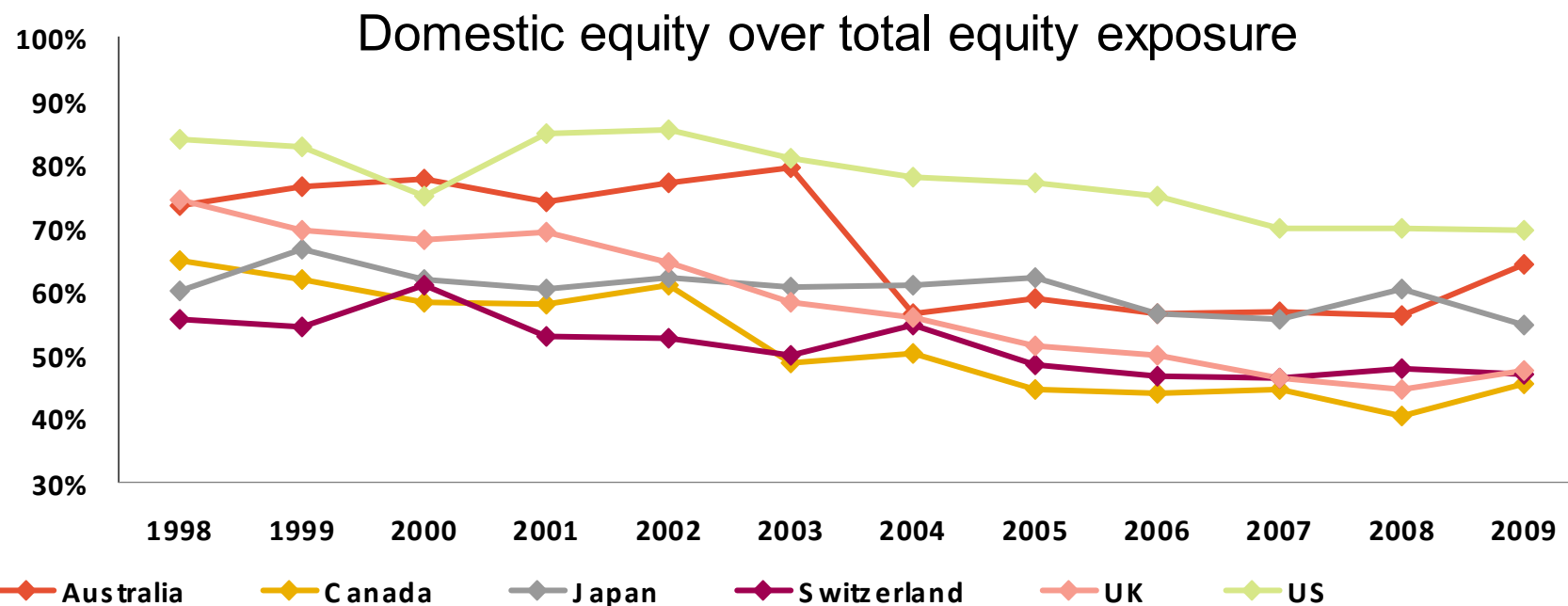


- All countries increased their allocation to domestic equities and most increased allocations to foreign equity, with the exception of Australia and Canada.
- Most countries have similar amounts of assets in domestic and foreign equities, with the exceptions of the Australia and the US, where domestic equities are predominant.

Source: Towers Watson and various secondary sources

Pension assets allocation

Domestic equity exposure



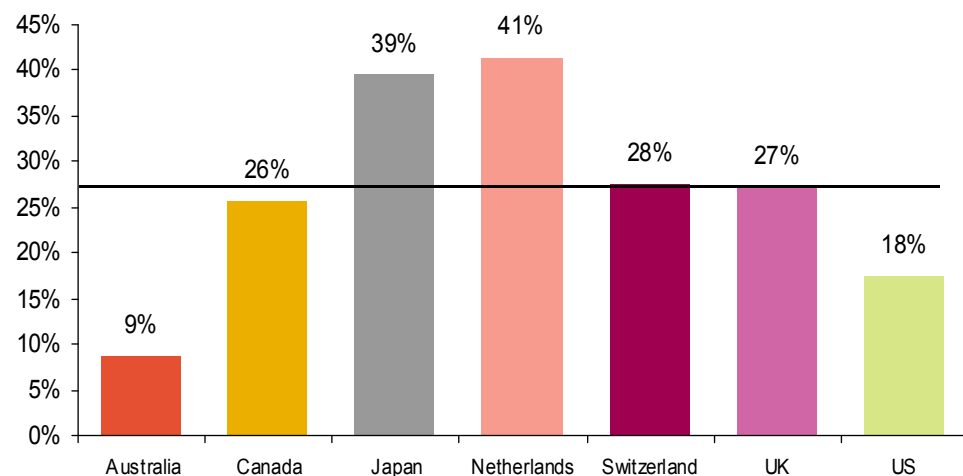
- Since 1998, domestic equity importance have been falling in most of the countries considered.
- The US pension market remains as the most dependent on domestic equities, with around 70% of total equities invested in domestic companies.

Source: Towers Watson and various secondary sources
 Note: Netherlands not considered

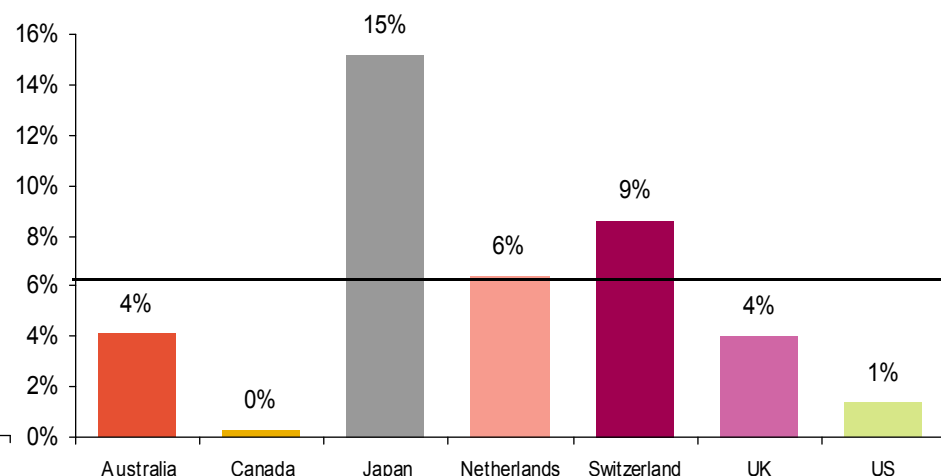
Pension assets allocation

Bonds in 2009

Domestic Bonds



Foreign Bonds



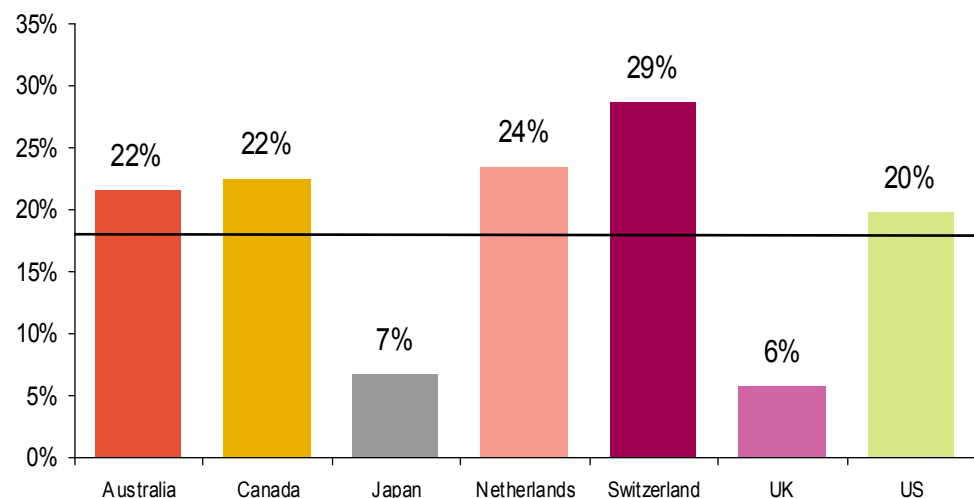
- Every market is less exposed to bonds than the previous year, both in domestic and foreign bonds.
- The exposure to foreign bonds is quite small when compared to investments in domestic bonds.

Source: Towers Watson and various secondary sources

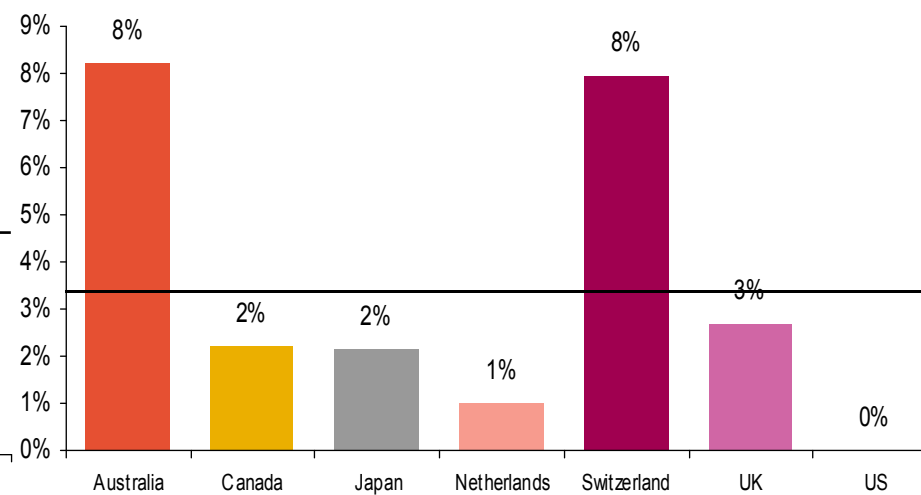
Pension assets allocation

Other assets and Cash in 2009

Other assets



Cash



— Average of the sample

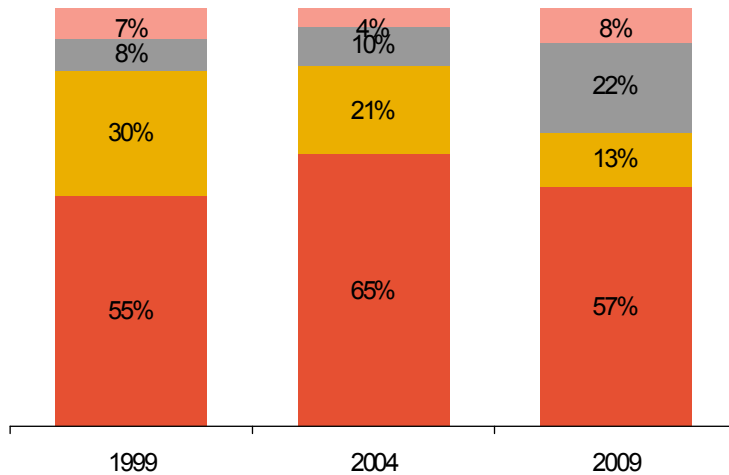
- Australia and Switzerland have by far the largest allocation to cash, while the other P7 countries have very little invested in cash.
- Switzerland and the Netherlands have the highest allocation to alternative assets, followed by Australia and Canada. In Switzerland's case, its allocation to alternative assets is 10% above the average, with this allocation dominated by property assets.

Source: Towers Watson and various secondary sources

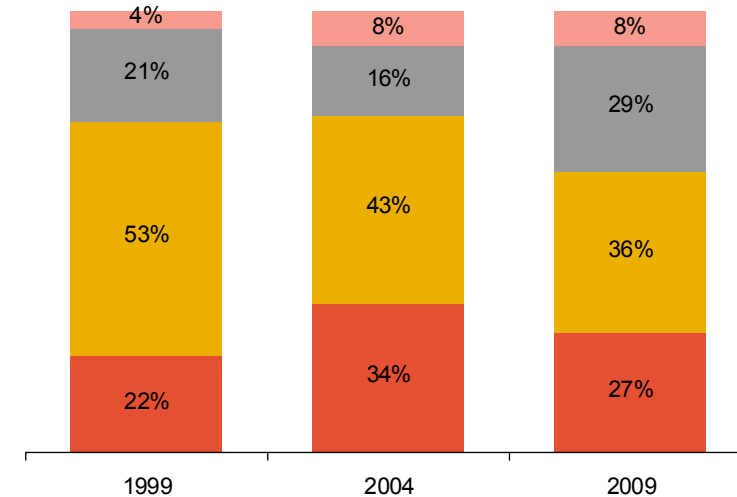
Pension assets allocation

Aggregate – end 1999 versus end 2004 versus end 2009

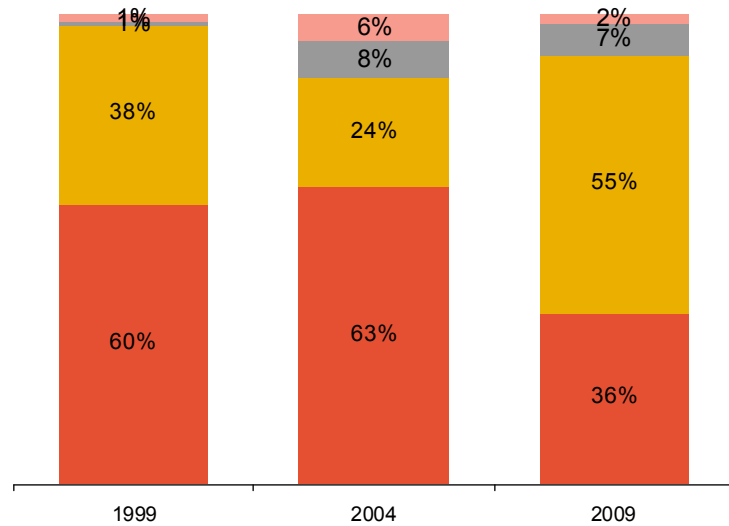
Australia



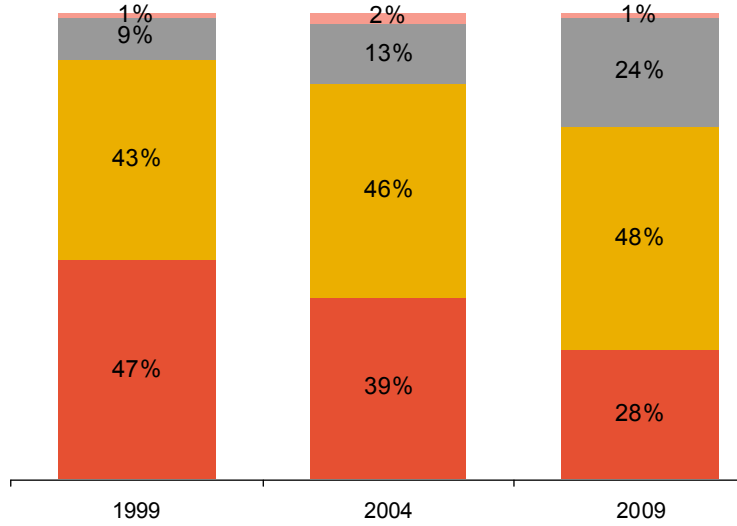
Switzerland



Japan



Netherlands

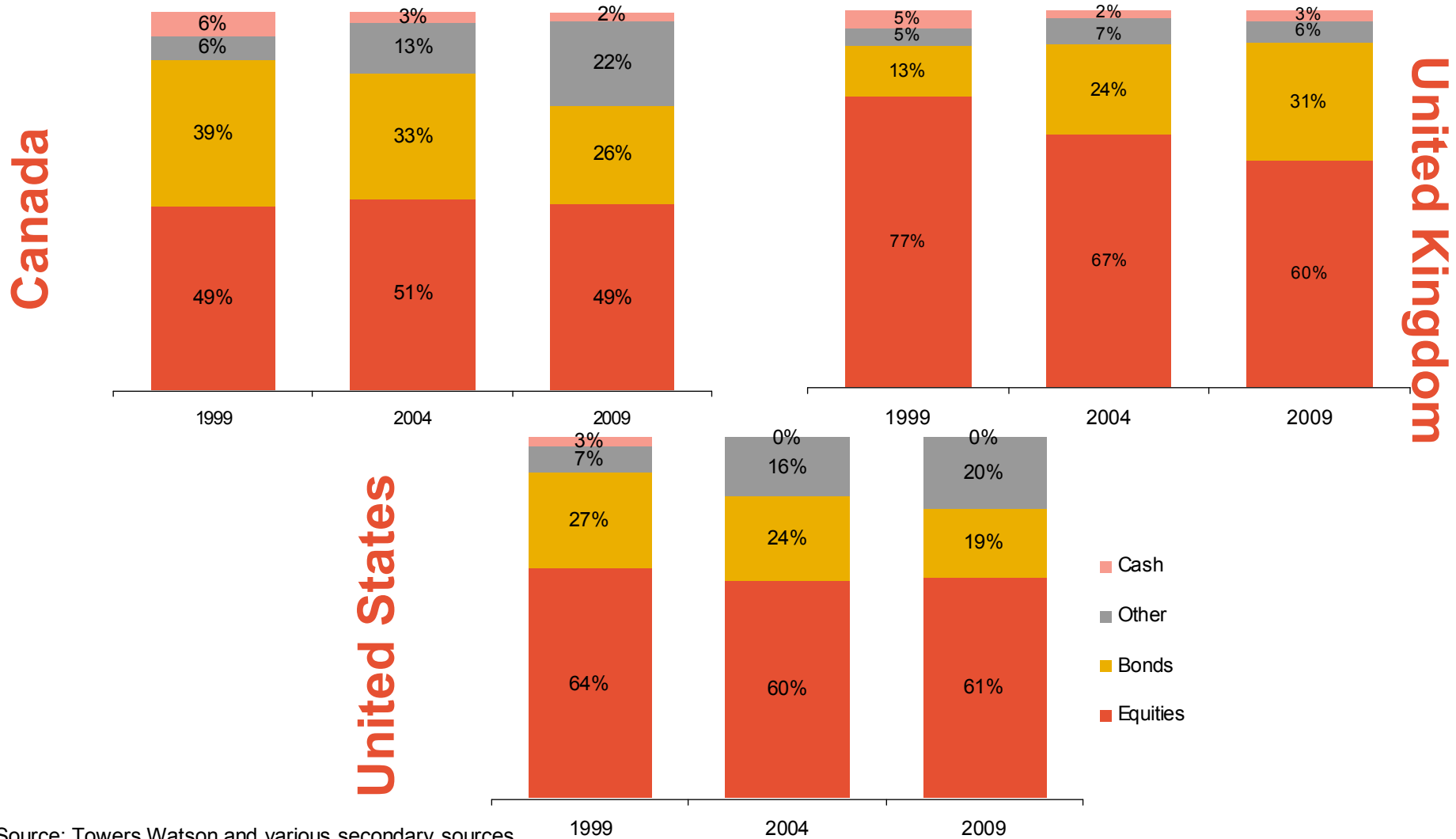


■ Cash
■ Other
■ Bonds
■ Equities

Source: Towers Watson and various secondary sources

Pension assets allocation

Aggregate – end 1999 versus end 2004 versus end 2009



Source: Towers Watson and various secondary sources

Pension assets allocation

Comments

- Currently, the UK and the US have the highest allocation to equities. However, in the UK it has decreased significantly from 77% in 1999 to 60% in 2009. Conversely, in the US it remains fairly constant - 64% in 1999 and 61% in 2009.
- In Japan and the Netherlands exposure to equities has fallen significantly in the past decade. In both markets, bonds are now the dominant asset.
- Regarding the bond allocations, there is no clear trend, as 4 markets (Australia, Canada, Switzerland and the US) show a decrease in their exposure, while the other 3 (Japan, the Netherlands and the UK) show the opposite trend. The most notable change occurred in the UK, where its bond exposure more than doubled in the last 10 years.
- Allocation to cash remains very small in most markets, with the highest proportion being 8% in Australia and Switzerland.
- Investment in alternative assets continues to grow in all countries, with the exception of Canada.



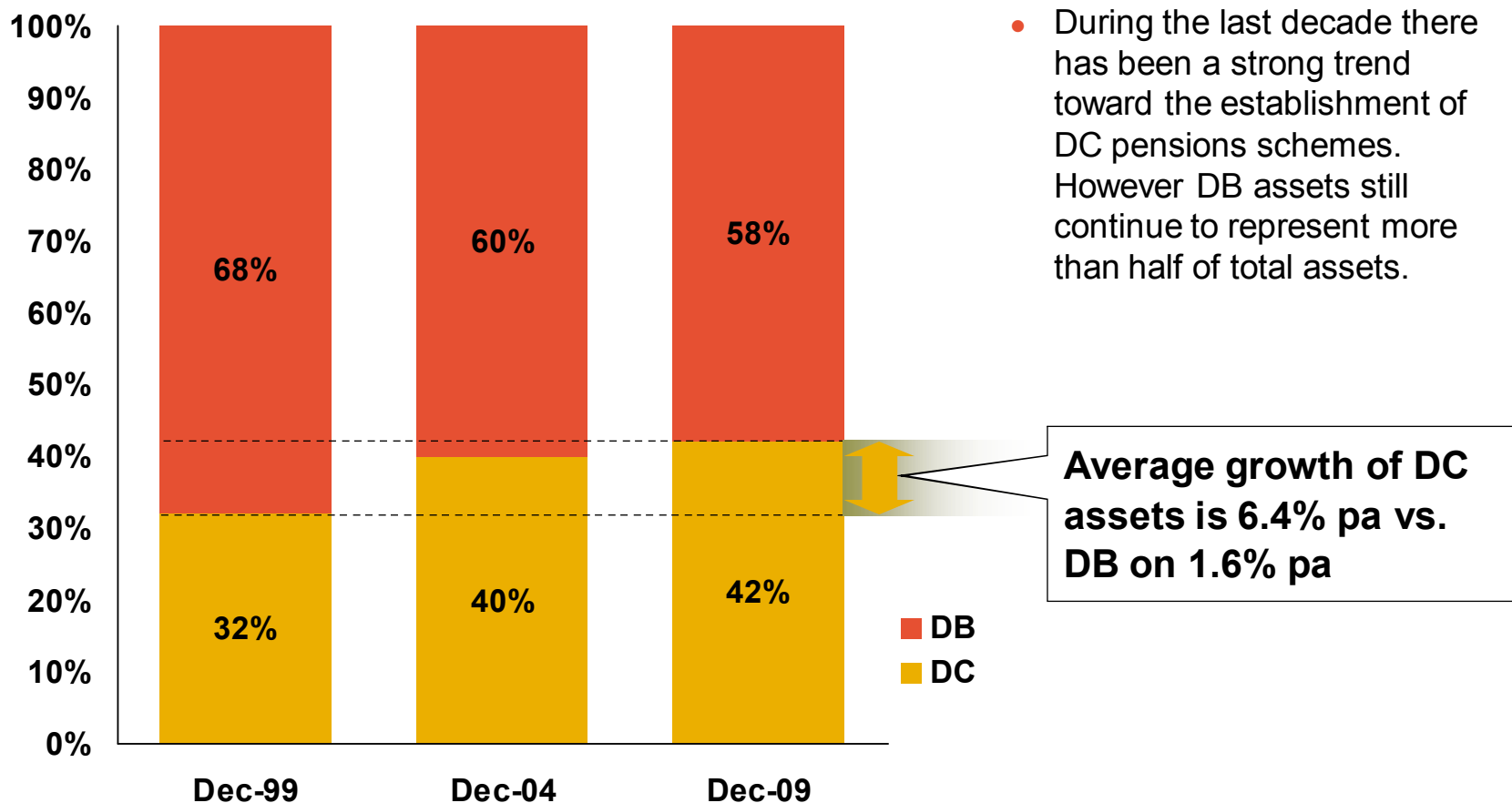
2010 Global Pension Asset Study

3. DB/DC allocations (P7)

DB/DC asset split

Change over the 10 years to the end of 2009

Defined contribution (DC) fund assets



Source: Towers Watson and various secondary sources

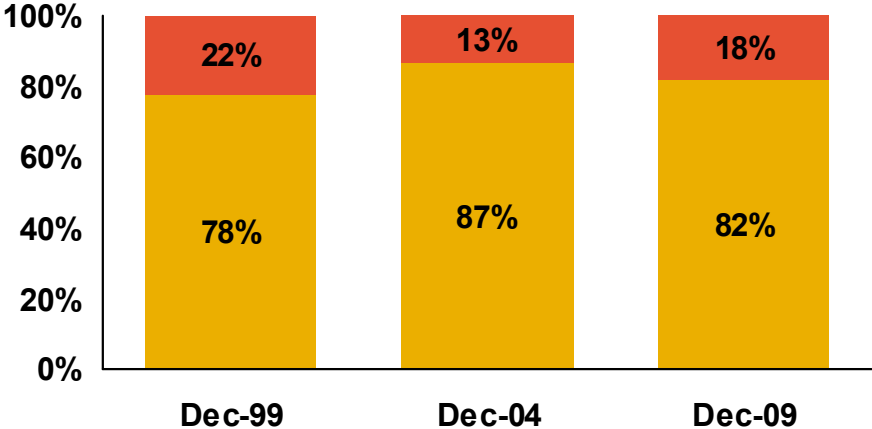
towerswatson.com

DB/DC asset split

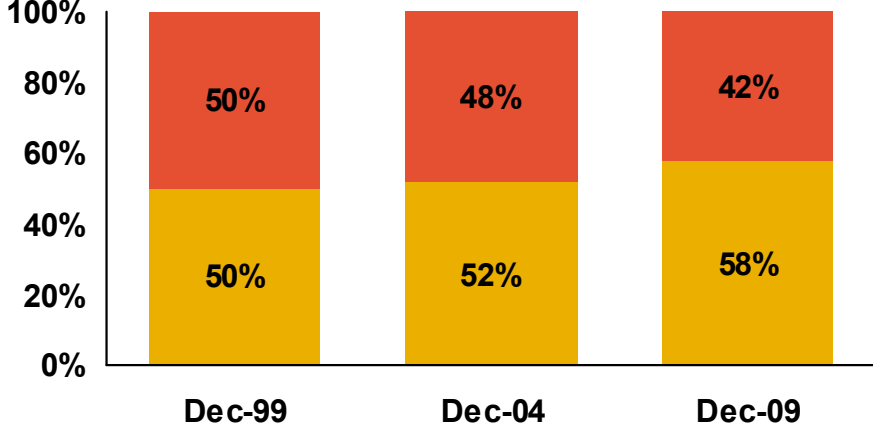
Change over the 10 years to the end of 2009

DB
DC

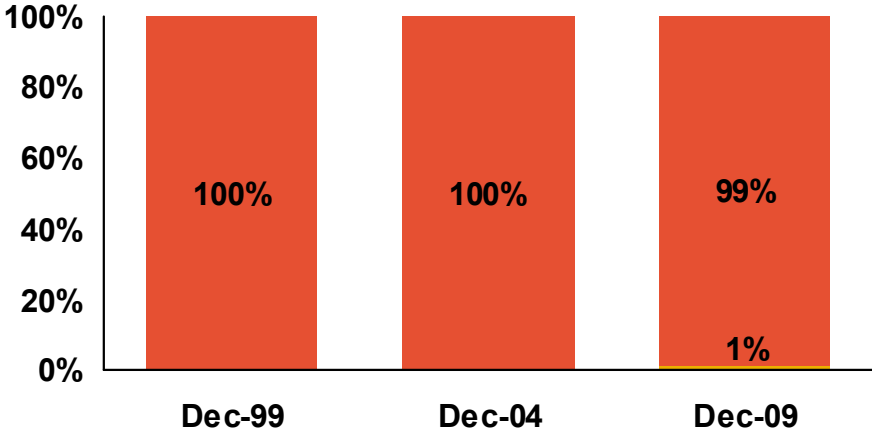
Australia



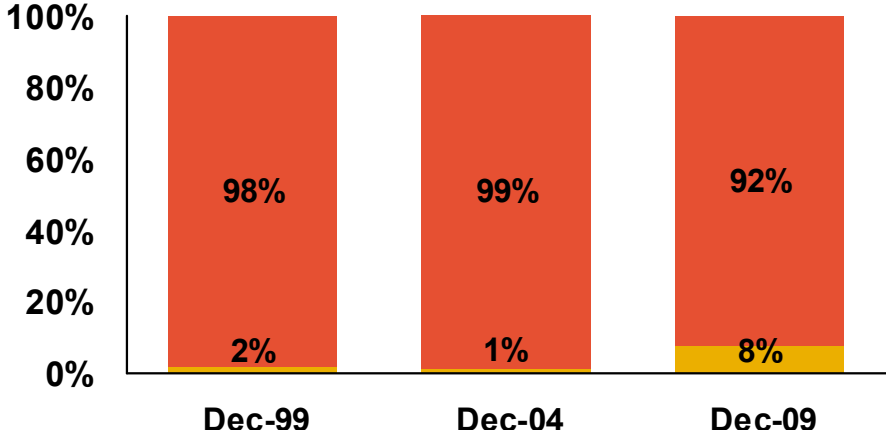
Switzerland



Japan



Netherlands



Source: Towers Watson and various secondary sources

towerswatson.com

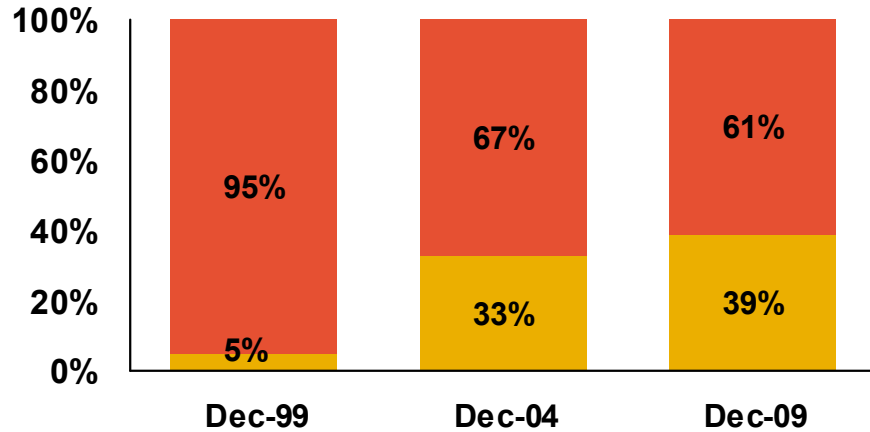
DB/DC asset split

Change over the 10 years to the end of 2009

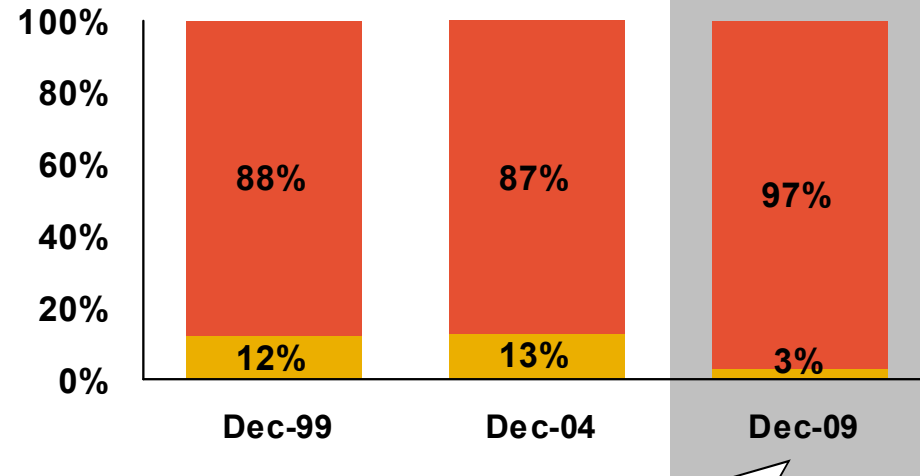
P7

DB
DC

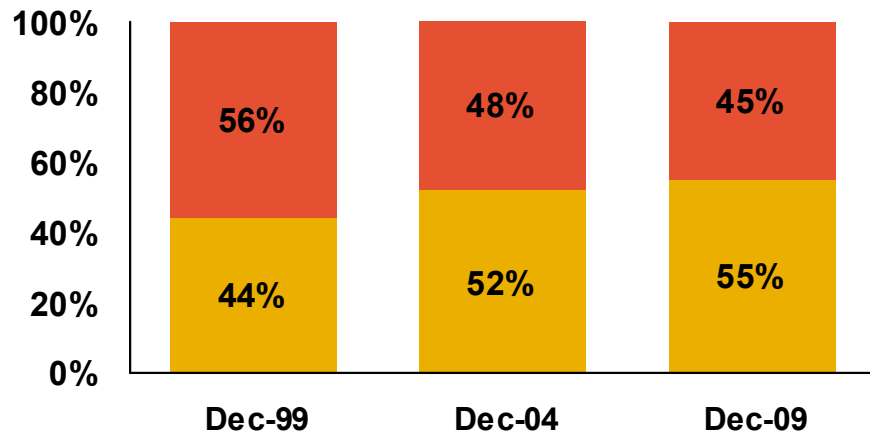
United Kingdom



Canada



United States



Canada is the only country in our sample where DC assets have fallen when compared to DB.

UK data does not include Personal and Stakeholder assets but includes insurance administrated vehicles. If the latter were excluded as well, proportion of DC assets would go down to 26%

US assets include IRAs

Source: Towers Watson and various secondary sources

towerswatson.com

DB/DC asset split

Change over the 10 years to the end of 2009

- During the last 5 years all the P7 countries, except for Canada and Australia, increased their DC assets. Over the last 10 years, only Canada has seen its DC assets fall relative to DB.
- DC assets continue to dominate in Australia - 78% in 1999, 87% in 2004 and 82% in 2009. Behind Australia in DC assets are Switzerland (58% in 2009, up from 52% in 2004), the US (55% in 2009, up from 52% in 2004) and the UK (39% in 2009, up from 33% in 2004).
- The countries with the lowest proportion of DC assets at the end of 2009 were Japan (1%), Canada (3%) and Netherlands (8%). Despite a low percentage in the Netherlands, this represented growth of 7% compared to the previous year. Canada is the only country where total DC assets decreased during the last five years when compared to DB.

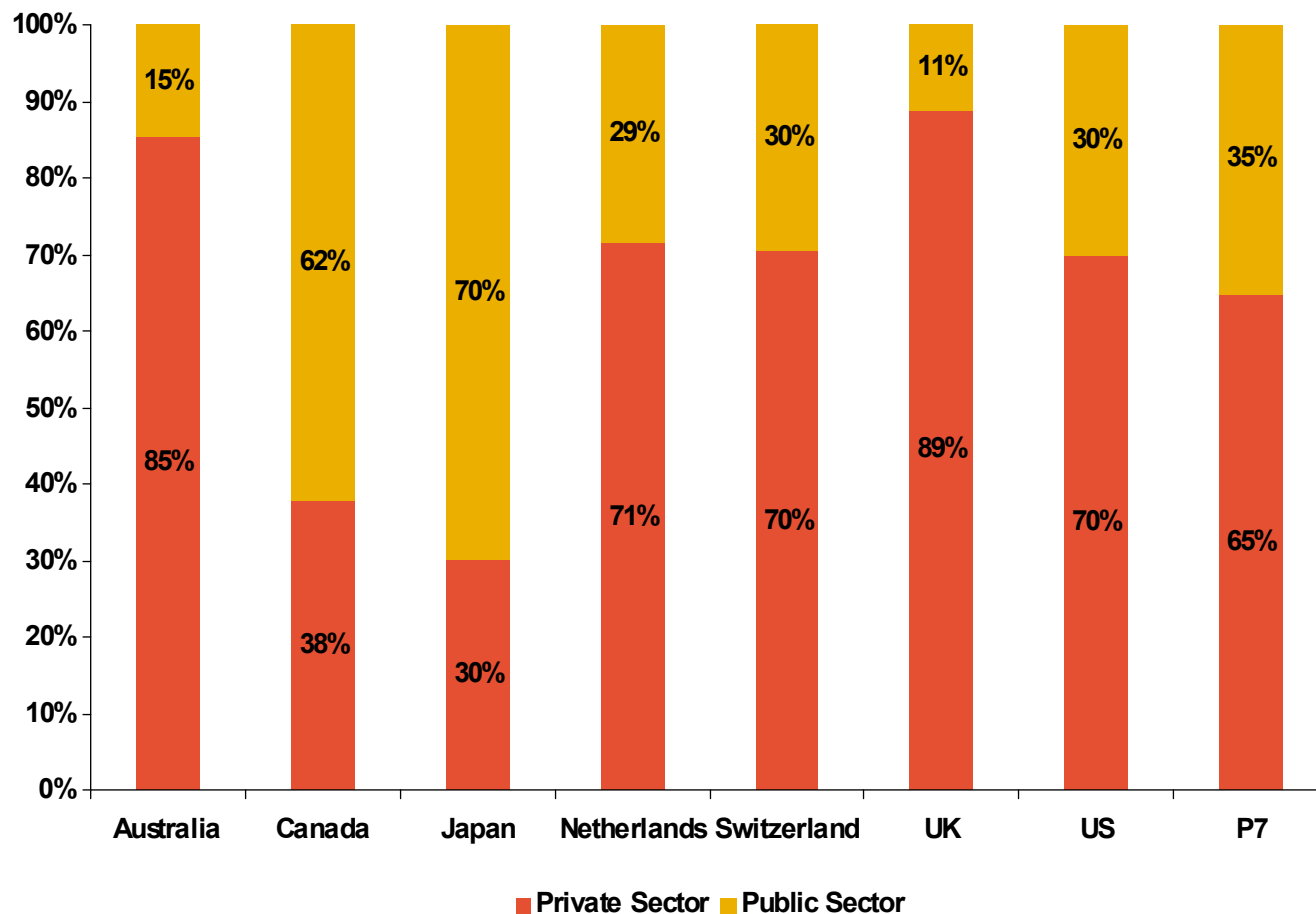


2010 Global Pension Asset Study

4. Public/Private sector allocations (P7)

Public vs Private sector

By Countries – Values at 2008



- 70% of pensions assets in Japan and 62% of Canadian assets are held by public sector.
- In the UK and Australia the private sector holds respectively 89% and 85% of total assets.

Source: Towers Watson and various secondary sources

Methodology cannot be stretched to provide an estimate for 2009

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