


The Actuarial Profession
making financial sense of the future

Equity Debate
Andy McKinnell, Aon Hewitt



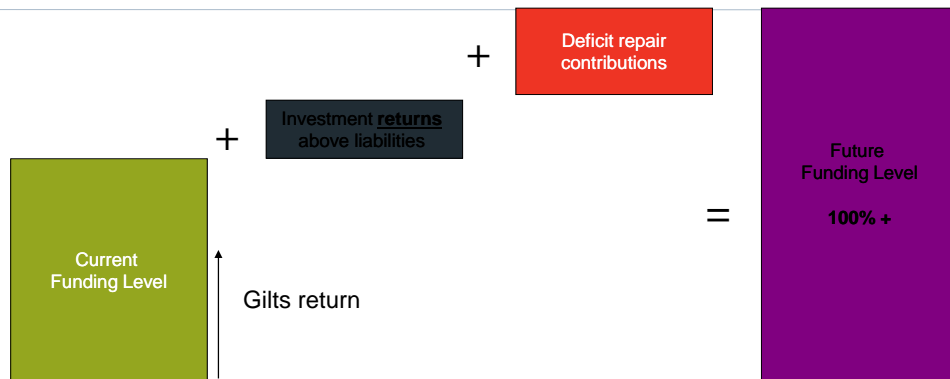
“This House believes that in DB pension investments we should not be bound by Bonds and that there is an opportunity for Equity.”

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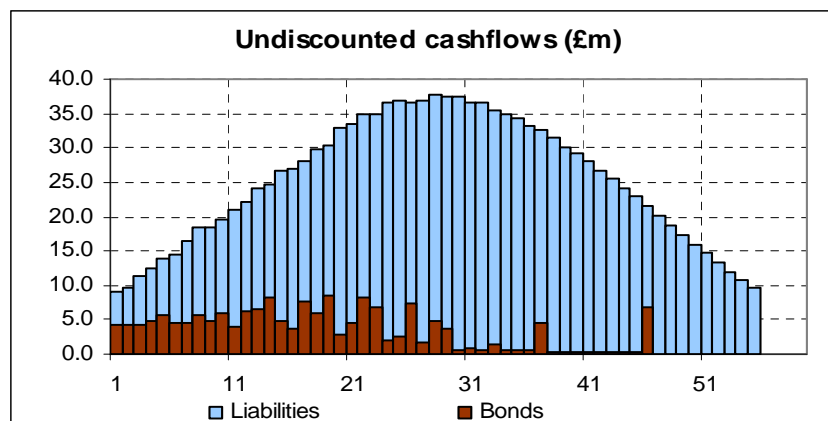
Can't live with them, can't live without them!

- If we could afford to rely on bonds we would
- Why has the focus been on bonds
- The case for equities

Funding



Why invest in bonds (1) – Matching?



Why invest in bonds (2) – Risk free?

Portugal troubles place Spain in the line of fire

News analysis
Portugal's problems are not just a domestic issue. The country's debt crisis is a real threat to the stability of the Eurozone. Spain is in the line of fire. The country's debt crisis is a real threat to the stability of the Eurozone. Spain is in the line of fire. The country's debt crisis is a real threat to the stability of the Eurozone. Spain is in the line of fire.

Portugal edges closer to bail-out

Investors' yields higher
Portugal's debt crisis is a real threat to the stability of the Eurozone. Spain is in the line of fire. The country's debt crisis is a real threat to the stability of the Eurozone. Spain is in the line of fire.

Spain discounts from Portugal's crisis

Investors' yields higher
Spain's debt crisis is a real threat to the stability of the Eurozone. Portugal's crisis is a real threat to the stability of the Eurozone. Spain is in the line of fire.

Default outlook

Investors' yields higher
Portugal's debt crisis is a real threat to the stability of the Eurozone. Spain is in the line of fire. The country's debt crisis is a real threat to the stability of the Eurozone. Spain is in the line of fire.

Pimco stirs up debate over US Treasury bonds

News analysis
Pimco's move to sell US Treasury bonds is a real threat to the stability of the Eurozone. Spain is in the line of fire. The country's debt crisis is a real threat to the stability of the Eurozone. Spain is in the line of fire.

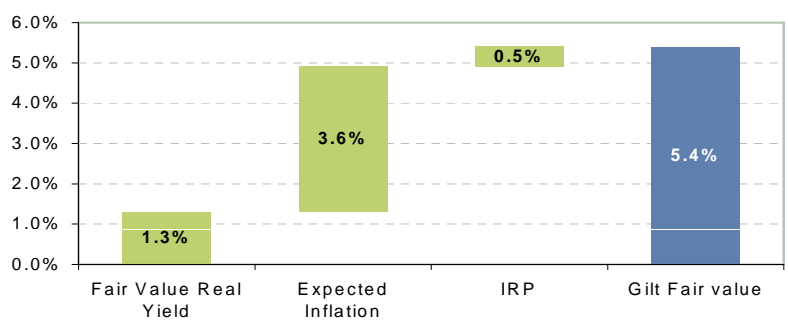
US bond yields have risen on recovery hopes

Investors' yields higher
US bond yields have risen on recovery hopes. The country's debt crisis is a real threat to the stability of the Eurozone. Spain is in the line of fire.

FT – 25 March

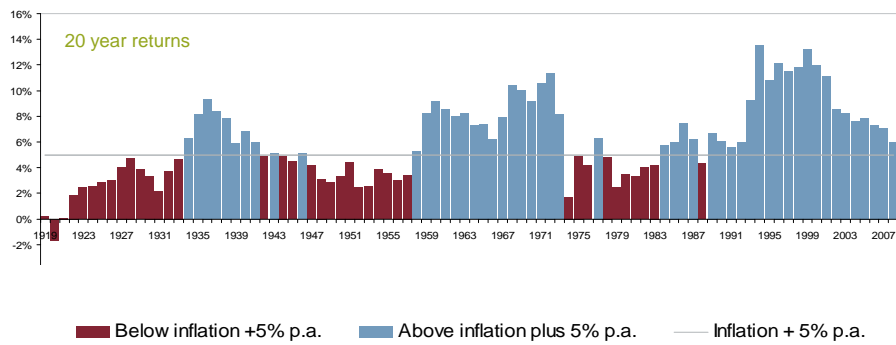
Aon Hewitt fixed income gilt yield fair value

Components of Aon Hewitt Fair Value Gilt Yield



Equities will be around for a while

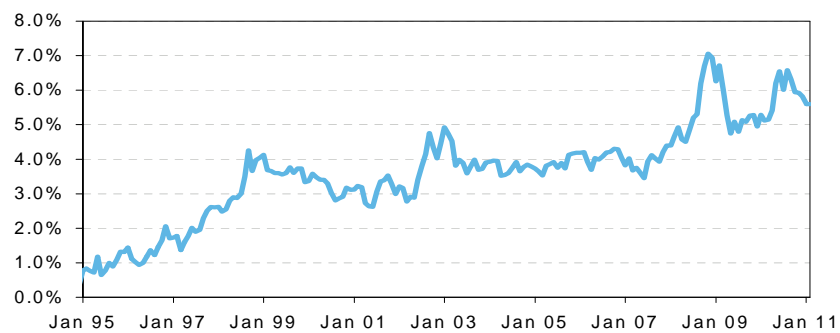
Performance of UK equity investments compared to UK inflation (RPI) + 5% p.a. (1900 - 2008)



Source: Schroders chart from Dimson, Marsh, Staunton: Credit Suisse Global Investment Return Sourcebook. UK Equities and RPI

Equity Risk Premium

UK Equity Risk Premium (15+ year gilt)



Not just the FTSE 100....

- Wider horizons
 - Emerging markets
 - Private equity markets/infrastructure
- Equity toolbox
 - Pure equity
 - Long/short hedge funds
 - Equity caps/collars/options

Can live with them, can't live without them!

- If we could afford to rely on bonds we would
- Not all bonds will do what you want
- Equities will remain key generator of return