For use with professional clients/qualified investors only

DB pension schemes adapting to change as paths for global retirement diverge, BlackRock study finds

New York/London – 9 April 2018 – As the world's defined-benefit pension funds travel toward two very different futures, a new study by BlackRock marks their progress. The study compares the changes underway at corporate DB plans, which are winding down, with the evolution of public and other non-corporate plans, which are seeking to strengthen themselves for the long run.

Common challenges, diverging paths, a study based on a survey of 300 senior executives at corporate and non-corporate pension plans as well as interviews with prominent CIOs, finds a common emphasis on evolving governance and investment policies in response to the economic, financial and demographic challenges both groups face. At the same time, the research highlights contrasting areas of focus. On the corporate side, de-risking, possible endgames, and cross-border coordination at multinationals top the agenda. On the non-corporate side, enhancing the ability to invest in private assets is a major focus.

Edwin Conway, Global Head of BlackRock's Institutional Client Business, commented: "Pension leaders today are on the front lines of a historic and urgent transition in how societies provide for retirement. Managing this changing environment, seeking efficient and higher-yielding investment styles and tackling challenges stemming from new regulatory and governance regimes will be key for both corporate and public pension schemes. While in many areas their paths are diverging, they both play a crucial role in reshaping global retirement."

Common challenges for governance and risk

Over the last three years there has been a heightened emphasis on governance and investment policy among both corporate and non-corporate pension plans, with concerns about managing risk and being appropriately rewarded for it top of mind for many. Nearly three quarters (74%) say they created or revised a risk appetite statement in the period, and 72% say they created or revised an investment belief statement. Around 70% enhanced risk analytics, while 69% sharpened scrutiny of investment fees.

By far the biggest barrier to changing governance and investment policy, for both corporate and non-corporate plans, is a lack of financial resources, cited by 65% of participants.

Derisking, coordination and the endgame for corporates

The survey revealed that nearly three out of four (73%) corporate DB plans have a de-risking strategy in place, with the proportion rising to four out of five in the U.S. and nine out of ten in the UK. However, the largest plans ($25 billion-plus in AUM) are more than twice as likely to have a de-risking plan as the smallest ones (less than $10 billion in AUM).

More than half of the corporate plans that are de-risking, expect their endgame will entail immunization—that is, getting the plan to the point where it is self-sustaining—and runoff on the balance sheet. Risk transfer deals are seen as a partial solution. Many CIOs point out that the potential appetite for risk transfer deals far exceeds the current capacity of insurers to take them on, and that demand for hedging instruments themselves may well outstrip supply as more funds move into runoff mode.

The survey also found that 78% of corporate plans globally have already taken steps towards cross border coordination of DB plans. Of those, two in five (39%) have employed common investment strategies or managers, while an additional 26% have adopted common strategic asset allocation for some or all plans. Only about a tenth (11%) of the participants say they have actually consolidated assets and one fifth (22%) of corporate plans do not expect to see any cross border coordination.

Consolidation pressures on smaller non-corporate plans is likely to increase. Only a small number of the noncorporate plans have completed a consolidation, and fewer than a fifth are currently consolidating or have plans to do so. At the same time, large funds are doing more than small ones to strengthen their organisations and add the resources needed in a more challenging climate. Larger schemes (those with $25 billion-plus in AUM) are more likely to have strengthened governance by revising the respective roles of board and staff. Particularly striking is the difference in staffing trends, with nearly three quarters of the large schemes saying they added staff but fewer than half of the smallest ones (those with AUM between $1 billion and $10 billion) having done so.

So while high-profile consolidations such as those in the UK may currently be more the exception than the rule, they might bode further activity.

A path to investment efficiency and increased private markets exposure

Pension plans are big users of index-based strategies. The majority of those surveyed say that 40% or more of their equities are managed through index funds. At the same time, more than a quarter manage 40% or more of their fixed income in index mandates and nearly three fifths of participants expect to increase in index-based equity or fixed income.

Almost three quarters (74%) of those surveyed use factor-based investment strategies. higher than the 61% who say they use factors to help understand portfolio risk and return, which was the biggest use of factors cited in a 2016 BlackRock-EIU survey on the topic. Majorities of both corporate and non-corporate participants expect to increase investments in factor-based strategies, with the non-corporates expressing the strongest interest. Among both corporate and non-corporate plans, factor use is heavier among the largest plans and mid-size plans are likeliest to increase allocations.

Edwin Conway continued, “Both types of pension schemes continue to seek alpha, but with more selectivity and attention to where such strategies are best rewarded. It is not surprising to see the number of pension plans investing in factor-based strategies, given the variety available, but we expect to see further growth in the number of plans that are using factors to inform their asset allocation decisions. Factors can be an important tool for pension plans in understanding their risk and return. The insight can be invaluable in determining which strategies are efficiently targeting plan goals, and which could be replaced by lower-cost, better-diversifying strategies.”

Finally, the BlackRock survey highlights the growing role that private assets are playing in the portfolios of public and other non-corporate plans as they take advantage of their long investment horizons. The trend of rising allocations to private equity and credit, real estate and infrastructure seen over the past five years is continuing, as these funds seek diversification and potential premiums for bearing illiquidity and complexity risks. The survey shows that many of the non-corporate plans have taken steps to facilitate these investments, with 70% adjusting guidelines to permit a new private asset class and 65% adding investment professionals to focus on private assets.

Media Contacts:

Melissa Garville
+1 (212) 8105528
melissa.garville@blackrock.com

Roland Leithaeuser
+44 (0) 2077432544
roland.leithaeuser@blackrock.com

About the survey
During October 2017, the EIU surveyed 300 senior executives at corporate and non-corporate pension plans of varying sizes, on behalf of BlackRock.

- 19% of plans had assets of $25 billion+,
- 48% had assets between $10 billion and $25 billion, and
- 33% had assets between $1 billion and $10 billion.

By plan type, the breakdown was:

- 50% Corporate defined benefit pension funds,
- 34% Public-sector defined benefit pension funds (i.e., government, state- or municipally-owned),
- 8% Professional/industry association/occupational defined benefit pension funds,
- 5% Non-profit defined benefit superannuation funds, and
- 4% For-profit defined benefit superannuation funds.

Geographically, plans were headquartered in:

- 52% in the Americas,
- 38% in Europe, and
- 10% in Asia Pacific.

About BlackRock
BlackRock helps investors build better financial futures. As a fiduciary to our clients, we provide the investment and technology solutions they need when planning for their most important goals. As of December 31, 2017, the firm manages approximately $6.288 trillion USD in assets on behalf of investors worldwide. For additional information on BlackRock, please visit www.blackrock.com.

circumstances. Before making any investment decision, you should therefore assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. This material is not a securities recommendation or an offer or solicitation with respect to the purchase or sale of any securities in any jurisdiction. This material has not been prepared specifically for Australian investors. It may contain references to dollar amounts which are not Australian and may contain financial information which is not prepared in accordance with Australian law or practices. This material is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. BIMAL is a part of the global BlackRock Group which comprises of financial product issuers and investment managers around the world. BIMAL is the issuer of financial products and acts as an investment manager in Australia.

In Hong Kong, this press release is issued by BlackRock Asset Management North Asia Limited. This press release and the BlackRock website mentioned herein have not been reviewed by the Securities and Futures Commission of Hong Kong.

In Singapore, this information is issued by BlackRock (Singapore) Limited (company registration number: 200010143N)

In Korea, this information is issued by BlackRock Investment (Korea) Limited. This material is for distribution to the Qualified Professional Investors (as defined in the Financial Investment Services and Capital Market Act and its sub-regulations) and for information or educational purposes only, and does not constitute investment advice or an offer or solicitation to purchase or sells in any securities or any investment strategies.

In Latin America and Iberia: this material is for educational purposes only and does not constitute investment advice nor an offer or solicitation to sell or a solicitation of an offer to buy any shares of any Fund (nor shall any such shares be offered or sold to any person) in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities law of that jurisdiction. If any funds are mentioned or inferred to in this material, it is possible that some or all of the funds have not been registered with the securities regulator of Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, Portugal, Spain, Uruguay or any other securities regulator in any Latin American country and thus might not be publicly offered within any such country. The securities regulators of such countries have not confirmed the accuracy of any information contained herein.

BlackRock México, S.A. de C.V., Asesor en Inversiones Independiente (“BlackRock México”) is a Mexican subsidiary of BlackRock, Inc., registered with the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, “CNBV”) as an independent investment advisor (asesor en inversiones independiente) under the registration number 30088-001-(14085)-20/04/2017, thus authorized to render Investment Advisory Services. The registration of BlackRock Mexico in the Investment Advisors Registry (Registro de Asesores en Inversiones) does not imply certification on the compliance by the investment advisors with the applicable laws and regulations or the accuracy or correctness of the information contained herein. Please note that the CNBV exclusively oversees the provision of securities portfolio management services when making investment decisions in the name and on behalf of third parties, as well as services consisting in providing individualized investment advice on Securities, and the analysis and issuance of individualized investment recommendations, thus it is not entitled to supervise or regulate any other services provided by investment advisers.

Investment involves risks. Past performance is not a guide to future performance and should not be the sole factor of consideration when selecting a product. All financial investments involve an element of risk. Therefore, the value of your investment and the income from it will vary and your initial investment amount cannot be guaranteed. Capital at risk. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock or any part thereof and no assurances are made as to their accuracy.