

JLT Pension Capital Strategies: FTSE 100 Pension Scheme Equity Allocation Linked to Share Price Weakness

London, 14 August 2011: Research from JLT Pension Capital Strategies Limited (PCS), which specialises in corporate consulting and pension scheme de-risking, has revealed that at 30 June 2011 the total deficit of FTSE 100 defined benefit (DB) pension schemes stood at £35 billion, a £39 billion improvement on the position 12 months previously, but has since risen by £30 billion to £65 billion (as at close of markets on 10 August 2011) following market turbulence. This figure comes despite the deficit contribution injections by FTSE 100 companies of £10.8 billion.

The report from PCS examines various aspects of the risks DB pension schemes pose to their sponsoring employers. One of these is the impact that equity exposure in the pension scheme has on share price performance. There is significant recent evidence to suggest that equity exposure in FTSE 100 pension schemes is weighing on investors' minds and that higher exposures are causing a drag on share prices. Whilst the Index fell 16 per cent between 30 June and 10 August, companies with high equity exposure within their pension schemes fell by an average of 26 per cent.

PCS has ranked companies by their relative exposure to pension scheme equity allocations and the table below shows the fall in Company share price from 30 June 2011 to 10 August 2011 of those companies most exposed to the equity allocations in their pension scheme, ranked in order of the greatest risk.

Equity Risk Ranking	Company	Share price fall from 30 June to 10 August
1	IAG	30%
2	BT	18%
3	BAE Systems	22%
4	Royal Bank of Scotland	37%
5	Lloyds Banking Group	37%
6	GKN	23%
7	Smiths Group	21%
8	RSA	19%

9	National Grid	7%
10	ITV	20%
Average over this group weighted by market capitalisation		26%
FTSE 100		16%

IAG, which had £6.7bn of exposure to pension scheme equities at 31 December 2010 (compared to a market capitalisation of £4.7bn at 30 June) lost nearly a third of its share price (30 per cent) during the recent market volatility.*

Charles Cowling, Managing Director, JLT Pension Capital Strategies said:

“It is becoming increasingly evident that the asset allocation of the UK’s largest companies’ pension schemes is affecting the attitude and actions of investors and analysts. Whilst clearly not the single, driving factor in recent share price falls, it appears that pension scheme equity allocations are viewed as an added risk factor for investors and are contributing to share price weakness. As deficits have rocketed in recent weeks, so too have investors taken heed of the potential drag that a large, risky pension scheme could have if equity markets continue to be unstable.

“FTSE 100 companies have been making gallant efforts to reduce the deficits of their pension schemes and their exposure to equities over the last few years. This has seen a flight into bonds and significant closing down of DB pension schemes to new and existing employees. We envisage that the large majority of DB pension schemes will be closed to all employees within the next 2 years and the flight into bonds will continue so that within 5 years the large majority of pension schemes will be predominantly invested in bonds.”

The PCS report, *The FTSE 100 and Their Pension Disclosures*, explores the pension disclosures of the FTSE 100 companies, as well as the steps being taken to address pension scheme deficits.

* International Airlines Group (IAG) was formed by the January 2011 merger between British Airways and Iberia. We have used the pension details disclosed by British Airways in their 31 December 2010 accounts. The equity market value used is for International Airlines Group as at 30 June 2011.

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Notes to Editors:**About JLT Pension Capital Strategies**

JLT Pension Capital Strategies (PCS) was established in 2006 to help companies to manage their Defined Benefit pension obligations, offering advice on managing scheme assets and liabilities, on communication with trustees and on finding the right funding solutions.

A subsidiary of the Jardine Lloyd Thompson Group, PCS can draw upon skills and experience in the areas of corporate finance, tax, capital markets, asset management, actuarial and general pension regulation and practice to provide strategic advice and practical answers.

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