



## Punter Southall

TRANSACTION SERVICES

Wednesday 28<sup>th</sup> September

### DB pensions schemes no longer a Poisoned Chalice for investors says Punter Southall

Defined benefit pension schemes no longer present the obstacle to private equity deals that they have over the last 15 years, according to a new report from Punter Southall Transaction Services.

PSTS, the specialist transactions consulting division within the leading actuarial firm Punter Southall, today launched a [white paper](#) which asks whether widespread investor fear now presents a golden opportunity to those investors who fully understand the existing defined benefit pension scheme environment.

Experience for pension schemes has been a true “Pensions Apocalypse” with deficits continually increasing despite ever greater deficit correction payments. Frustrated with the constant stream of bad news, the majority of investors perceive an investment in a company with a defined benefit pension scheme to be a “Poisoned Chalice”.

Today’s report details the four key obstacles (or horsemen of the Pension Apocalypse) that have faced defined benefit pension funds over the last 15 years, and identifies how each of these might now present an opportunity for investors.

**Richard Jones, Managing Director of Punter Southall Transaction Services,** comments:

“The four horsemen, detailed in the report, are clearly on the wane and much less likely to be negative factors going forward. Indeed there is room for significant optimism that they could start to drive improvements in the funding position of pension schemes. For even the most risk averse, innovative solutions now exist to mitigate any perceived risk. Pension schemes should therefore no longer be viewed as a “Poisoned Chalice” and those of an optimistic bent have reason enough to start considering them a “Golden Opportunity”.

#### Famine

**Obstacle:** Equities remain the most important asset for a defined benefit scheme. The first decade of this century saw the worst equity performance relative to bonds since the 1930s.

**Opportunity:** Market conditions are currently much more favourable for equity investment going forward such that it is not an unreasonable expectation that equities will out-perform bonds significantly in the future as they have done for most historical periods. For the short-term investor any significant volatility in the equity markets is muted. It is unlikely that the valuation of the pension scheme will be crystallised when equity markets are severely depressed, principally due to the correlation between equity market conditions and merger and acquisition activity.

#### War

**Obstacle:** Successive governmental intervention has increased the security of the defined benefit pension scheme. The consequence being that a ‘best endeavours’ undertaking has now become an inescapable legal obligation.

**Opportunity:** Pension schemes now have such a degree of protection that it is almost impossible to see where the Government could tighten the existing regulations further. Government has begun to recognise that excessive regulation has strangled pension schemes and their sponsors and have made some concessions to redress the balance such as the recent change from RPI to CPI indexation.

## **Pestilence**

**Obstacle:** Most funding measures are driven by bond yields. Since 1997 the real yield on government bonds has steadily fallen from 3.5% per annum to the current low of 0.5% per annum.

**Opportunity:** Continued falls in real yields. The real yield of index linked government bonds has fallen to a record low of around 0.5% per annum. There is nowhere further downwards for the real yield to go.

## **Death**

**Obstacle:** Or more accurately, lack of it. Longevity has improved over the last 15 years and has impacted pension scheme liabilities by around 30% through more accurate experience and allowances for future improvements.

**Opportunity:** Mortality modelling and forecasting has improved dramatically and pension scheme liabilities now fully reflect current observations and future expectations. The potential risk in mortality estimation is now evenly balanced and the potential for negative consequences is much reduced.

## **ENDS**

### **Notes to Editors**

Punter Southall Transaction Services (PSTS) is the specialist transactions consulting division within the leading actuarial firm Punter Southall Group. PSTS provides advice to over one quarter of London-based private equity firms and also advises investment companies and other corporate entities on the acquisition and disposal of defined benefit pension schemes as well as the ongoing management of pension liabilities.

### **History**

A dedicated pensions transaction team was established at Punter Southall in 1998 to build on the firm's already well established reputation in this area and in 2003 this was branded as Punter Southall Transaction Services. There are currently 14 full-time individuals working in the team, most of whom are Fellows of the Institute of Actuaries. The team has gained valuable experience from a broad spectrum of transaction situations encompassing a wide range of pension and employee benefit arrangements from small defined contribution plans and employee share arrangements through to multi-million pound defined benefit pension schemes.

### **Award winning**

Private Equity News Awards for Excellence in Advisory Services Europe 2008 - Pensions due diligence firm of the year  
Private Equity News Awards for Excellence in Advisory Services Europe 2010 - Highly commended pensions due diligence firm of the year  
ICFM Top Tier Firm 2011  
Dealmakers Actuarial advisory firm of the year 2011  
Finance Monthly 2011 - Top 100 firm  
ACQ Awards 2011 - Actuarial Advisory firm of the year UK & Ireland  
ACQ Awards 2010 - Pensions and Actuarial Due Diligence Provider of the Year - UK  
ACQ Awards 2009 - Pensions and Actuarial Due Diligence Provider of the Year - UK

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