

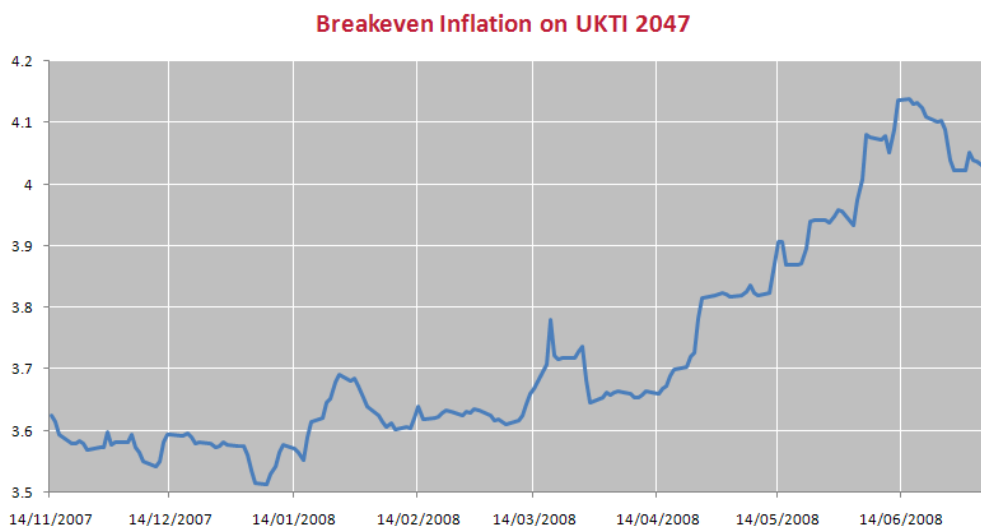
## Press release

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### PENSION SCHEMES FALL INTO DEFICIT

**London, 14<sup>th</sup> July 2008:** Redington Partners, the independent consultancy firm that advises pension schemes and insurance companies on investment strategies, calculates that, on an IAS19 accounting basis, the aggregated pension schemes of the FTSE 100 have lost **£30 billion** in the second quarter, falling from a surplus of **£21 billion** to a deficit of **£9 billion**.

The greatest contributor to this £30 billion loss has been increased liabilities due to falling long term interest rates and rising long term inflation expectations - breakeven inflation on the 2047 index-linked gilt exceeding 4% in May 2008, for example.



Source: Bloomberg

Robert Gardner, Partner and Co-Principal at Redington Partners said: “The current inflationary environment is causing real problems for pension funds. On one measure, every 0.01% increase in long term inflation expectations has added around £820 million to FTSE 100 liabilities. The rise in inflation expectations has defied last year’s conventional wisdom that 3.30% was a ceiling which would not be breached. In the past three months, rising inflation has added over £12.5 billion to the aggregated liabilities of the FTSE 100 pension schemes. This is a worryingly large number.”

Using another common risk measure (called “Value at Risk”), Redington estimates there is a 1 in 20 (or “reasonable worst case”) chance of FTSE 100 pension schemes between them losing more than **£5**

**billion** in a single day. To provide some context, the investment bank Goldman Sachs discloses in its most recent SEC filings that across its global trading books it runs a controlled 1-in-20 risk of losing around £92 million in a single day. A typical £6 billion pension scheme without meaningful protection against falling interest rates and rising inflation is likely to be running the same quantum of daily risk but without Goldman Sachs's controls or risk management framework.

Dawid Konotey-Ahulu, Partner and Co-Principal at Redington Partners, added: "Given that there are more than 15 corporates with UK pension scheme liabilities greater than £6 billion, one might argue that (through their pension schemes) those UK corporate sponsors are running a combined level of risk more commonly associated with the collective trading books of the City and Wall Street".

He said: "Falling long term interest rates, rising inflation expectations and the need for stronger longevity assumptions are proving a lethal combination of risks for pension liabilities. The outlook for most assets is just as precarious. All in all, this is treacherous terrain for defined benefit pension funds and risk mitigation has never been more important. It is vital to measure potential future losses within the pension fund."

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**Notes to editors:**

**About Redington Partners LLP**

Founded in 2006, Redington Partners was established by two investment bankers, Dawid Konotey-Ahulu and Robert Gardner, to offer pension schemes and corporate sponsors clear and independent advice on investment strategy. The firm's aim is straightforward – to help clients implement an investment strategy with the greatest return on the scheme's assets in return for taking the lowest risk. Their approach is to blend investment banking technology with actuarial consulting to help trustees understand the risks they are running with respect to interest rates, inflation, equity, credit, property and longevity (among others). The ultimate aim is to achieve solvency on an economic basis within a significantly reduced timeframe.

Konotey-Ahulu and Gardner spent several years advising on risk management strategies for their clients and, in 2003, devised and implemented the first full LDI risk management transaction by a pension fund, Friends Provident Pension Scheme. Their experience allows them to harness effectively the technology of investment banks and asset managers to provide clients with a wide range of solutions.

First, Redington carries out a state-of-the-art analysis of the risks being run within the pension scheme. Then the firm advises on how best to control and reduce those risks cost-effectively.

Some of Redington's clients approach them having already embarked on the risk management process and re-allocation of assets, but requiring an independent assessment of their current position and the alternatives available to them. Others are just starting the process and require full strategic and analytical advice.

Redington has over £80 billion in assets under consulting.

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