ASSET ALLOCATION IN EUROPE:
What challenges and opportunities lie ahead?

2nd TASK FORCE MEETING Brussels, 24 October 2017

Session 2. Pension funds

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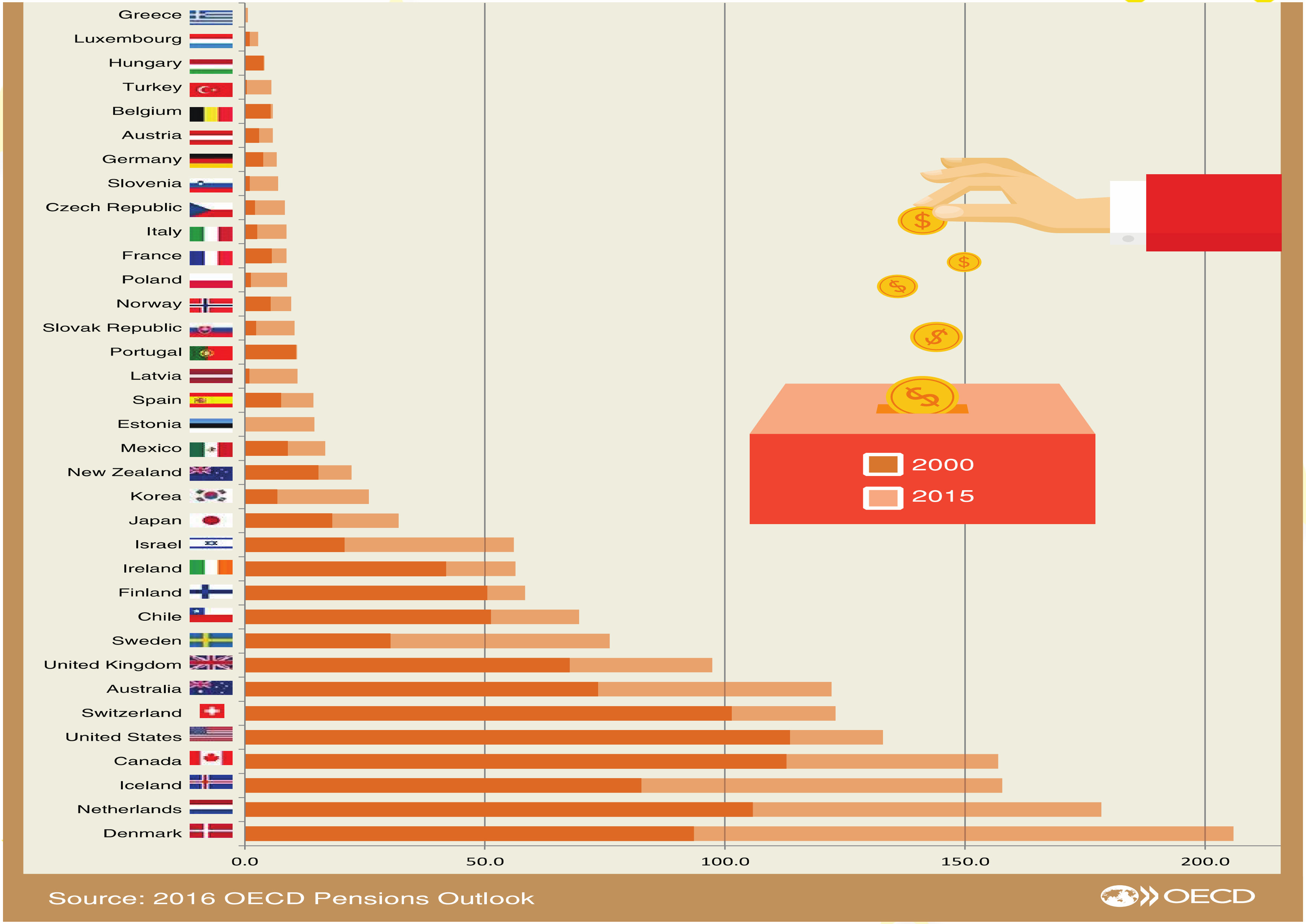
Total assets as of GDP 2000 -2015



Pension fund asset allocation 2016

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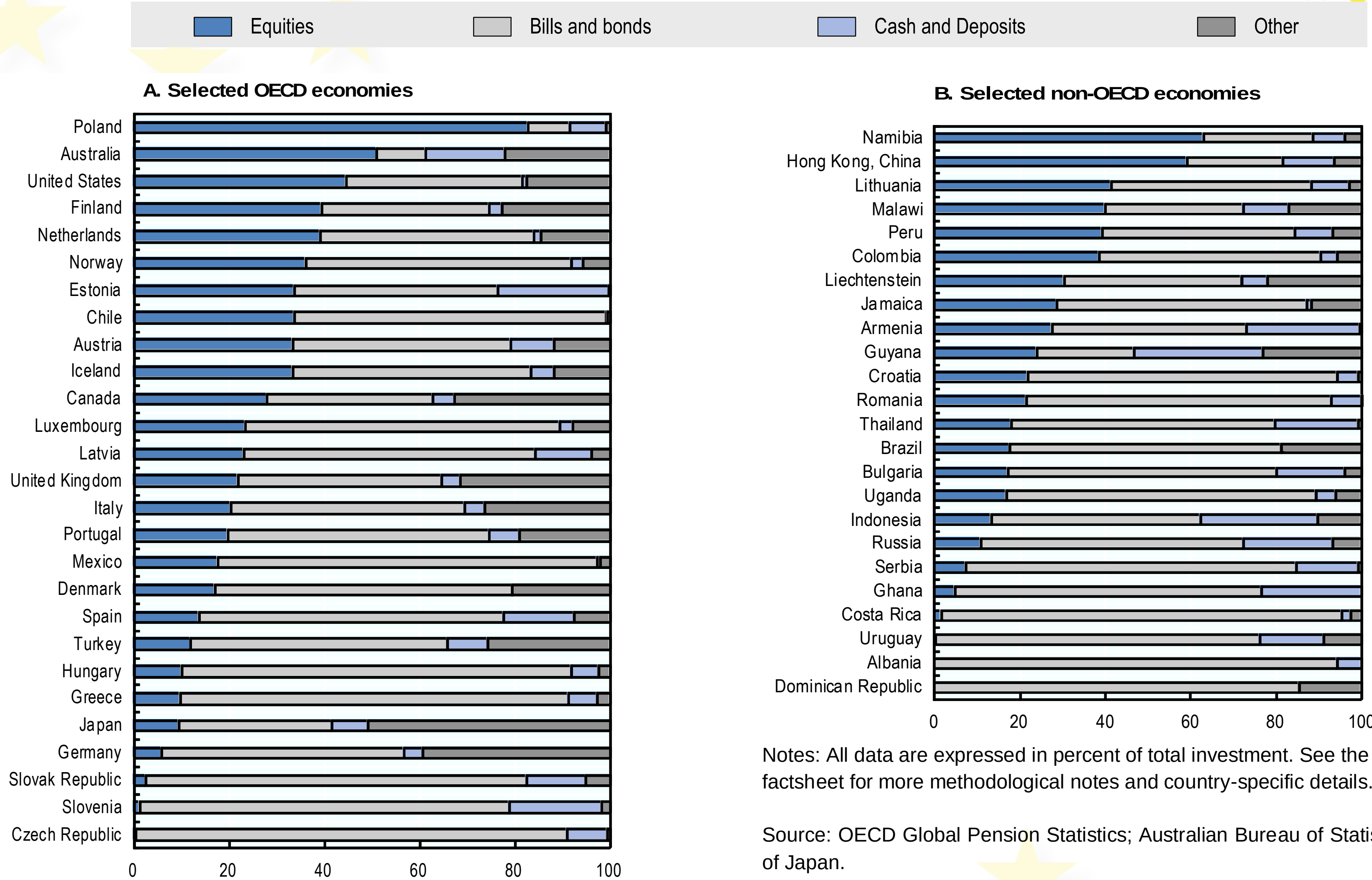
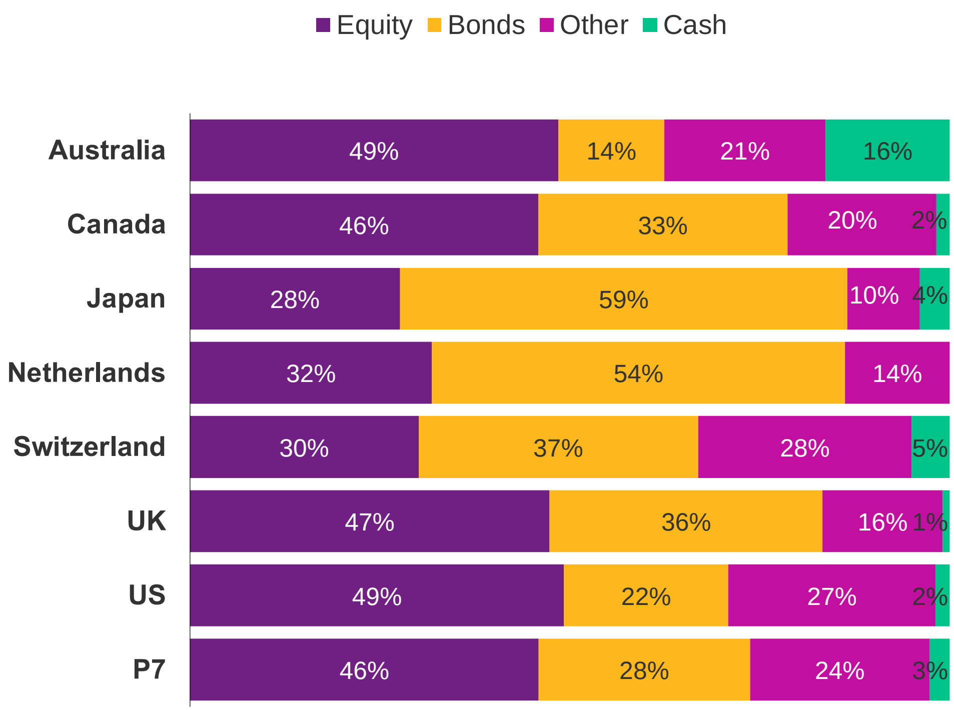


Notes: All data are expressed in percent of total investment. See the end of this factsheet for more methodological notes and country-specific details.

Source: OECD Global Pension Statistics; Australian Bureau of Statistics; Bank of Japan.

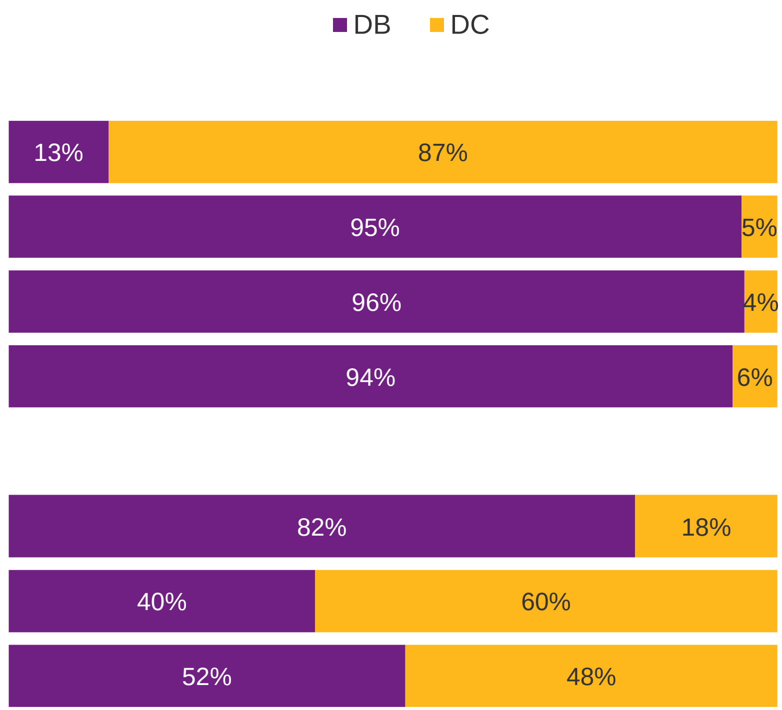
Pension fund asset allocation and DB/DC split in selected countries

Asset allocation 2016

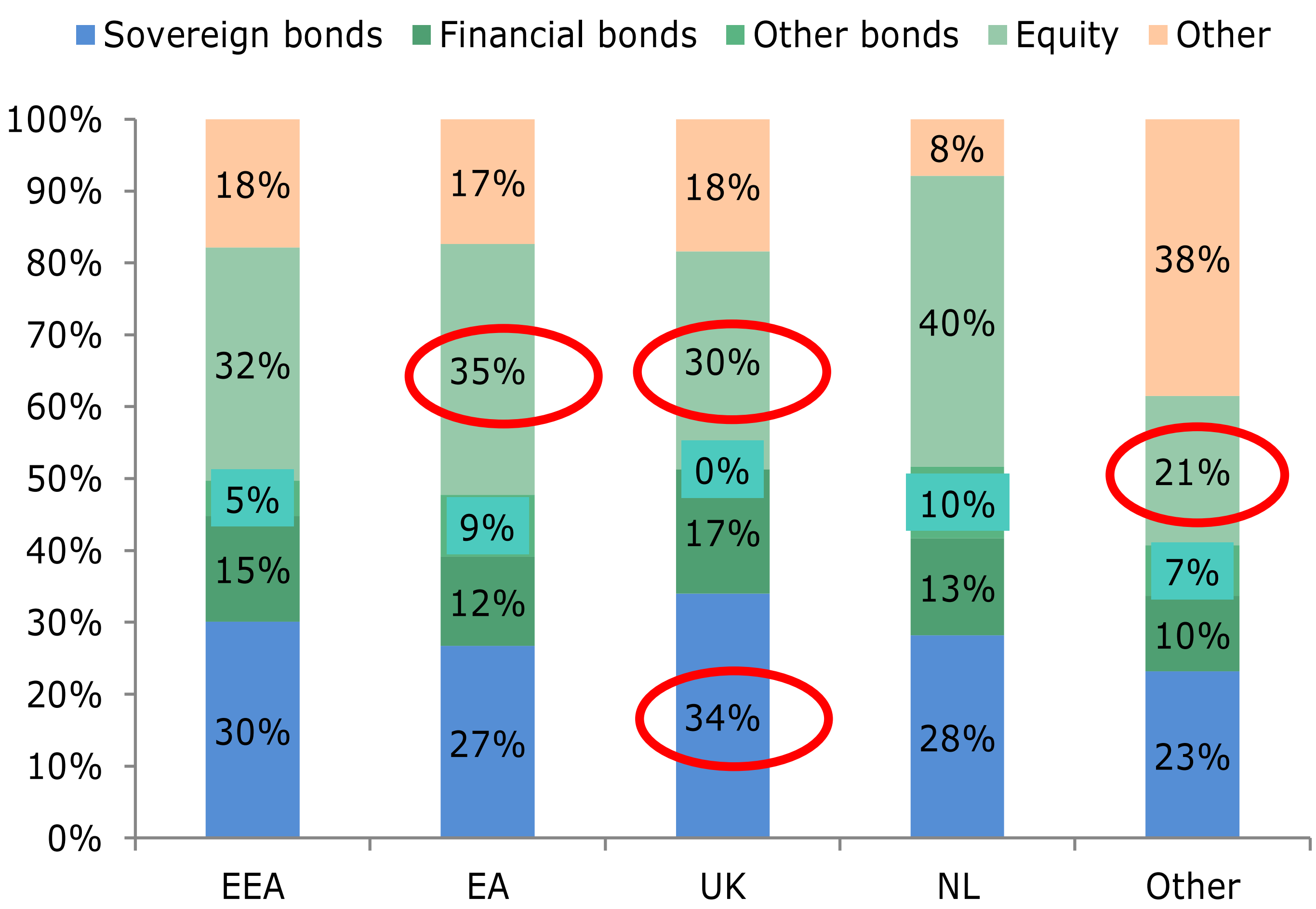


Source: Willis Towers Watson and secondary sources

DB/DC Split 2016[1,2]



Allocation 2016



Source EIOPA

Rate of return

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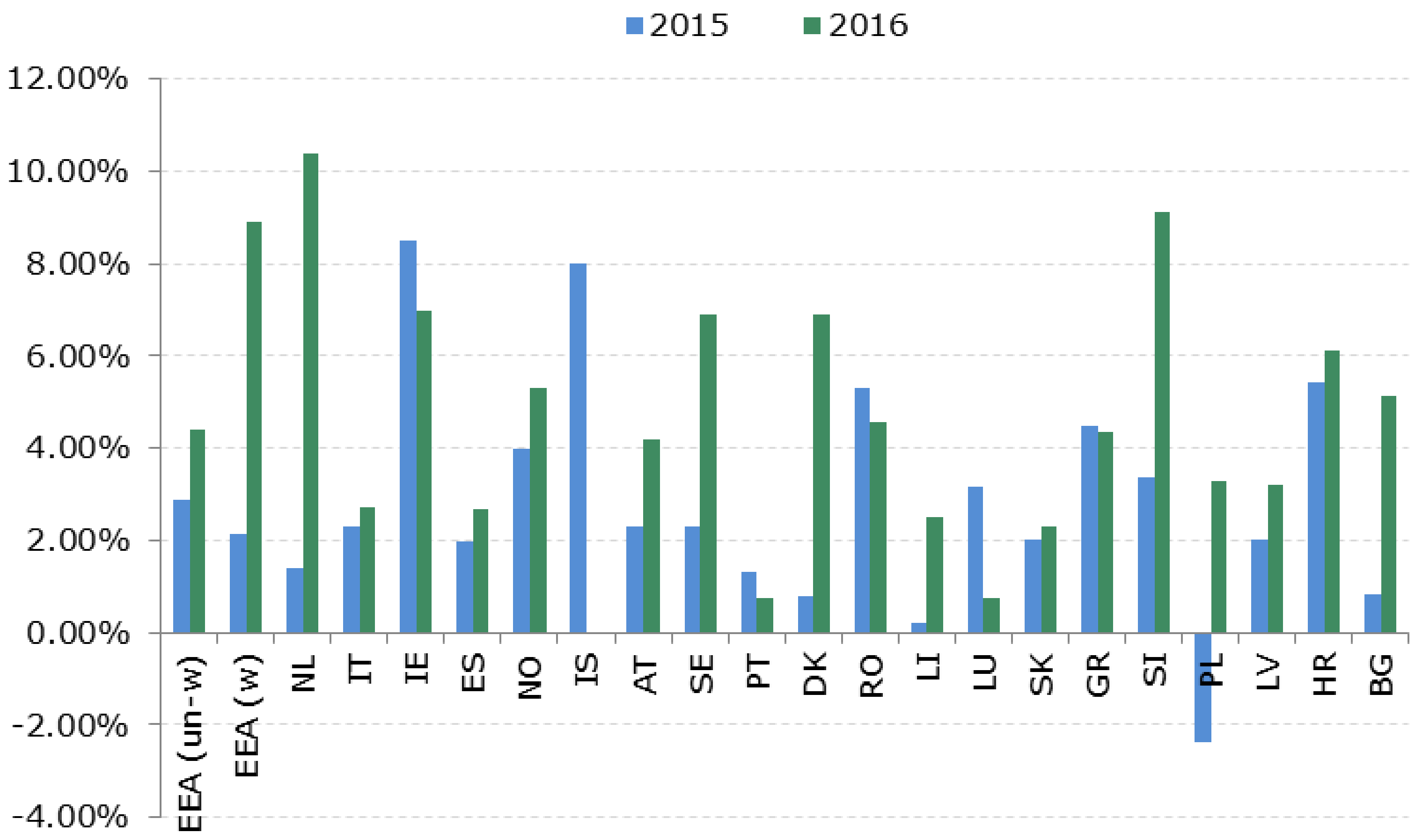

Source EIOPA

Pension funds provide financial stability

- Due to their **long-term investment** perspective, pension funds pose only a low risk to financial stability:
  - Pension funds have limited short-term liquidity needs, which make them more inclined to buy and hold assets across the entire economic cycle.
  - They also have an ability to behave counter-cyclical:

Pension funds 'may also be less subject to pressure to respond to short-term market movements, or they may be more willing and able to take advantage of market movements by buying assets at the bottom of the cycle and selling at the top. ***As such, they might have the potential to play a stabilising, or even countercyclical role in the financial system****.' This has been proved during the last financial crisis.*

(Source: Bank of England report)

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Low interest rates pose big challenges for pension funds

- **Both the asset and liability sides are influenced.**
- Low interest rates influence the liabilities of pension funds and annuity providers if market rates are used as discount rates
- Low interest rates also influence the future value of savings because fixed securities are often a big part of the investment portfolio.
- DB pension funds with long-dated, interest rate sensitive liabilities will, unless they are hedged, have a **negative duration gap.**