

Press Release



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UK pension funds not immune to year of extraordinary market volatility

Early estimates from BNY Mellon reveal performance remains positive over longer term

LONDON, January 5, 2009 – Estimates released by BNY Mellon Asset Servicing today show that the average UK pension fund achieved an estimated weighted average return of -9.8% for the year ending December 31, 2008. This is the first time that BNY Mellon has recorded negative yearly returns for pension funds since the three-year downturn at the beginning of the decade.

Results were more favourable over the medium term, with the average pension fund achieving an estimated return of 1.7% p.a. over three years to December 31, 2008. Results were even more promising over longer term periods, with funds achieving an estimated weighted average return of 6.6% p.a. over a five-year period. Funds made real returns over this period of 3.2% p.a. against the Retail Prices Index, and 2.5% p.a. against the National Average Earnings Index. Over 10 years to December 31, 2008 the average fund achieved a return of 4.2% p.a., which represents a real return of 1.4% p.a. against the Retail Prices Index.

Over the year, equity market returns were in negative territory for each of the key sectors. The poorest equity performances came from Emerging Market and Pacific Basin ex Japan Equities with returns of -35.4% and -31.3% respectively. UK Equities fared only slightly better and returned -29.9% over the same period. Japanese (-1.3%) and US (-12.5%) Equities provided the strongest returns comparatively. This can partly be attributed to sterling weakness against the yen and the dollar, boosting returns in these markets to the UK investor.

Bonds fared better during 2008, with UK Bonds returning 12.8%. Over this period Overseas Bonds provided the strongest overall result with 44.9%, although this was primarily driven by sterling weakness. Index-Linked Gilts also provided positive results and returned 3.7% over the same period.

2008 saw Property struggle for the second consecutive year, with this sector achieving an estimated return of -14.9%. This is the lowest yearly return we have seen for the CAPS Property Index since our records began in 1980.

Commenting on the results, Alan Wilcock, BNY Mellon Asset Servicing' Performance and Risk Analytics Manager said: "While UK pension funds have continued to reduce their exposure to equities, falling below a 50% exposure for the first time as of September 2008, the significant equity market falls have still had a major impact on pension fund returns in 2008".

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Notes to editors

Total Fund weighted average return estimate for the year:

- This is calculated by linking the three quarterly weighted averages to 30 September 2008 with an estimated weighted average for Q4 2008.
- The Q4 2008 estimate is calculated by applying the weighted average asset distribution for funds at the start of Q4 2008 to the sector index returns for Q4 2008.
- The weighted average return represents the total performance of the pension fund assets within our sample. The weighted average is used in preference to the simple unweighted average, which takes no account of fund asset size.

The performance analysis and other information in this press release are based on historical data and are intended for informational purposes only. Past performance is not a guarantee of future performance. This press release does not constitute investment advice, nor is it an offer or recommendation of any security, investment product, service or firm.

This press release is issued by The Bank of New York Mellon to members of the financial press and media.
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