



Investment Solutions

Funding Level Index

Quarter 3, 2011

Funding Level Changes: July to September 2011

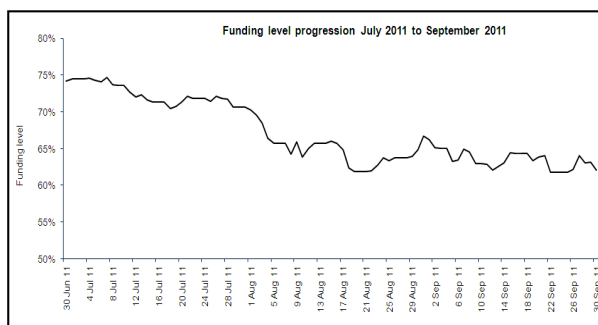
Starting position (30/06/2010)	74.1%
Increase due to asset returns	(5.4)%
Increase due to change in liability value	(6.6)
Ending position (30/09/2011)	62.1%

Commentary

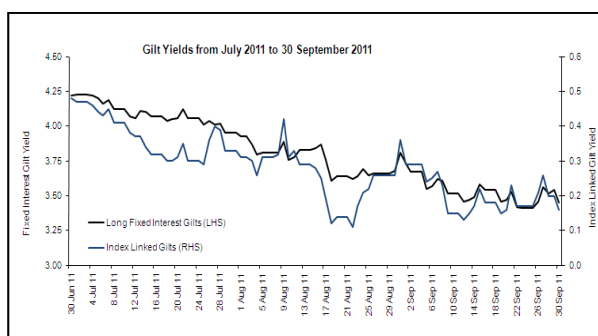
Pension schemes suffered a difficult quarter as the average funding level fell 12%, impacted both by falling asset values and a sharp rise in liabilities. Investors returned to a risk off mode as the European leadership appeared to be absent.

Gilt yields fell to their lowest yield in recorded history as investors fled to the perceived safety of Gilts, bunds and US treasuries. Over the quarter, UK equity markets (FTSE All Share) fell 13%, global developed markets (MSCI World) fell by 14% in GBP terms and emerging markets were particularly hard hit as the falls in equity markets were compounded by the sell-off in their currencies. The MSCI Emerging Markets index ended the quarter 20% down in GBP terms.

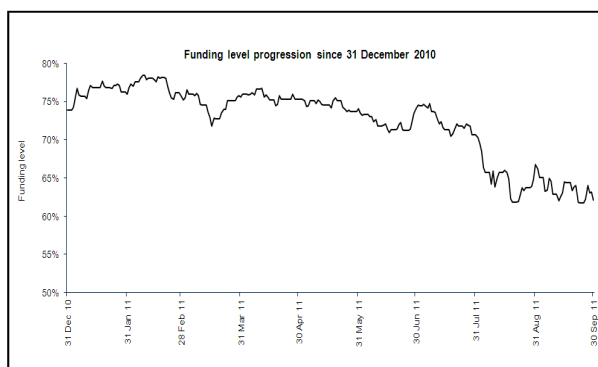
UK Government bonds, both Index-linked and Fixed Interest, rallied strongly over the quarter as the worsening of the peripheral solvency concerns and the lack of action on the part of European leaders to attempt to solve it, led investors to flee risk assets and park their money in gilts. Since the beginning of the year the average funding level has fallen 12%.



The chart below shows the movement of both longer-dated fixed interest and over five-year index-linked gilt yields over the quarter, with both falling slightly.



The chart below shows how the Funding Level Index has changed since 31 December 2010.



About the Funding Level Index

The Investment Solutions SME Pension Funding Level Index reports the health of the UK's small and medium sized pension schemes, which make up the majority of employer-sponsored defined benefit pension schemes in the UK.

Investment Solutions has been using the Index as an in-house tool since 2006 to illustrate the historical patterns of funding levels for a 'typical' small to medium sized pension scheme. The last time the Index showed 100% funding level was in July 2007.

Based on a typical scheme allocation of 70% in equities and 30% in bonds the index dramatically highlights the inflection point (circled) in July 2007.

Notes

The characteristics of the standard scheme modelled in the Index are set out opposite. The Index reflects the difference in movement of assets and liabilities, solely allowing for market movements. Deficit contributions, benefit payments and demographic changes are not included in the Index.

Standard Scheme behind the Funding Level Index

Nature of liabilities

Proportion related to index linked gilts = 70%
Proportion related to fixed interest gilts = 30%
Duration of liabilities = 20
Valuation return = 1.3% p.a. above gilts

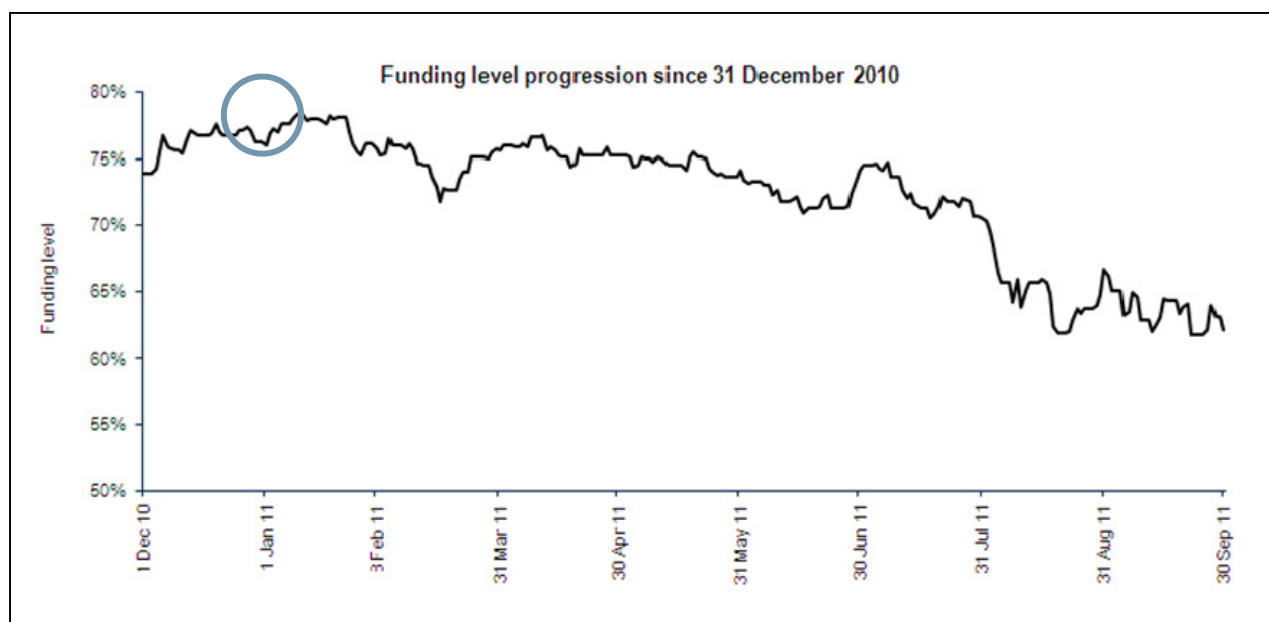
Nature of assets

Equity allocation = 70% (64% passive UK and 36% passive regional overseas)
Bond allocation = 30% (33.3% ILGs, 33.3% FIGs, and 33.3% UK corporate bonds)

Contact Us

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Source: Investment Solutions

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