Press Release **Nice, London, Singapore, May 3, 2012**

EDHEC-Risk study highlights the need to reform retirement systems and corporate pension funds

A new EDHEC-Risk Institute study entitled "*Shifting Towards Hybrid Pension Systems: A European Perspective*," made possible with the support of AXA Investment Managers, highlights the need to reform retirement systems and pension funds, as well as the need to adopt professional management structures and to considerably improve the product offering of defined-contribution (DC) funds.

Among the key prescriptions of the study:

- In DC plans, primarily in the US and the UK, employees bear all the financial risk and no guarantees are offered by the sponsor or by prudential regulation. However, the lack of guarantees and transparency could lead to a problem of trust – **it is thus important that some guarantees are offered in DC funds and that their costs are clearly explained in order to avoid creating a biased risk/return illusion**. These changes would help to avoid future disappointment amongst employees, who would reduce their participation in such retirement systems and potentially question their perception of their overall remuneration.

- Participants are first and foremost exposed to inflation risk and longevity risk, and DC funds need to adopt an asset-liability management strategy in the manner that defined-benefit (DB) funds do. Today, **DC funds are under-diversified and they need to stop solely investing in equities and government bonds, thus observing the first principle of modern portfolio theory**. Such a diversification of asset classes should allow them to invest in illiquid assets in order to benefit from their risk premium over the long term. The long-term choice also means that it is necessary to adopt professional risk management practices, because when the investment horizon, liabilities and eventual guarantees are taken into account, such (dynamic) risk management strategies need to be put in place.

- **Regulators can also contribute to the adoption of professional management practices for pension funds**. In their review of DC systems, regulators understood the dangers associated with transferring uncontrolled risks to fund participants and today, the first generations of Target Date Funds are rightly being called into question. The EU directive on pensions (the IORP directive) facilitates the adoption of professional financial management practices and economies of scale. In the UK, the new Pensions Act requires auto-enrolment of employees in pension plans, and introduces the government's National Employment Savings Trust (NEST) – a professionally managed structure with controlled costs which will serve as a default option. This should raise awareness in the industry on pension fund management.

- The most significant developments to institutional pension systems in the short-term will likely be seen in DC funds. **It is important to create DC funds that address the need for retirement savings and can then serve as default investment options in existing plans**. In the UK, companies are now required to provide their employees with a retirement savings plan and many will need to have ready-made pension plans to hand. We should expect to see some consolidation of DB and hybrid funds in the market as economies of scale are possible, particularly where the industry is highly fragmented.

Commenting on the study, Noël Amenc, Director of EDHEC-Risk Institute, said, “It is clear that complete reliance on sponsor guarantees for traditional DB funds makes little sense in view of the prevailing economic context and demographic trends in Europe. With more hybrid pension schemes in Europe, and a shift towards DC funds in the United Kingdom and the United States, there is a requirement for improved governance, investment options and communication to employees.”

Erwan Boscher, Head of Pension Solution Management at AXA Investment Managers said, “At a time when governments, regulators and plan sponsors are preoccupied with finding the right balance between risks and uncertainties for employers and employees, the findings of the EDHEC survey are extremely timely. Although the recent years have seen an increased level of sophistication achieved by the pensions industry in asset-liability and risk management, this survey highlights the specific challenges that face hybrid and collective DC schemes as they evolve to meet the needs of employers and employees alike. We are confident that the EDHEC research will contribute to this important debate on pension provision and pave the way for more flexible solutions with an optimal level of risk sharing.”

A copy of the EDHEC-Risk Institute study can be found here:

EDHEC-Risk Publication Shifting Towards Hybrid Pension Systems: A European Perspective

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About EDHEC-Risk Institute

Since 2001, EDHEC has been pursuing an ambitious policy in terms of international research. This policy, known as “Research for Business”, aims to make EDHEC an academic institution of reference for the industry in a small number of areas in which the school has reached critical mass in terms of expertise and research results. Among these areas, asset and risk management have occupied privileged positions, leading to the creation in 2001 of a major research facility: EDHEC-Risk Institute. This institute now boasts a team of 80 permanent professors, engineers and support staff, as well as 18 research associates from the financial industry and 6 affiliate professors.

EDHEC-Risk Institute is located at campuses in Singapore, which was established at the invitation of the Monetary Authority of Singapore (MAS), the City of London in the United Kingdom, and Nice, France. In addition, it has a research team located in the United States. The philosophy of the institute is to validate its work by publication in prestigious academic journals, but also to make it available to professionals and to participate in industry debate through its Position Papers, published studies and conferences. Each year, EDHEC-Risk organises two conferences for professionals in order to present the results of its research, one in London (EDHEC-Risk Days – Europe) and one in Singapore (EDHEC-Risk Days – Asia), attracting more than 2,000 professional delegates.

To ensure the distribution of its research to the industry, EDHEC-Risk also provides professionals with access to its website, www.edhec-risk.com, which is entirely devoted to international risk and asset management research. The website, which has more than 50,000 regular visitors, is aimed at professionals who wish to benefit from EDHEC-Risk's analysis and expertise in the area of applied portfolio management research. Its monthly newsletter is distributed to more than 1,000,000 readers.

EDHEC-Risk Institute also has highly significant executive education activities for professionals. In partnership with CFA Institute, it has developed advanced seminars based on its research which are available to CFA charterholders and have been taking place since 2008 in New York, Singapore and London. EDHEC-Risk Institute has an original PhD in Finance programme which, in addition to its highly selective residential track for young talents worldwide, has an executive track for high level professionals who already have masters degrees from prestigious universities and significant industry experience. Complementing the core faculty, this unique PhD in Finance programme has highly prestigious affiliate faculty from universities such as Princeton, Wharton, Oxford, Chicago and CalTech.

www.edhec-risk.com

About AXA Investment Managers

AXA Investment Managers (AXA IM) is a multi-expert asset management company within the AXA Group, a global leader in financial protection and wealth management. With approximately €512 billion in assets under management, AXA IM is one of the largest European-based asset managers, employing 2,367 people around the world and operating out of 22 countries*.

It is acknowledged as a thought leader and key player in the asset management industry, owing to its innovative and entrepreneurial mindset, the recognised excellence of its research, and the quality of its investment solutions and services. AXA IM services the specific, evolving needs and expectations of a wide variety of clients, ranging from the AXA Group and its insurance companies, to distributors and institutional investors.

AXA IM's multi-expert business model is composed of 7 separate asset class-focused areas of expertise, each of which is amongst the leaders in its respective field. It also has an Investment Solutions team composed of financial engineers, structured product developers, fiduciary management and asset allocation specialists who develop the most relevant, best-fit solutions for clients.

- AXA Fixed Income
- AXA Framlington
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- AXA Funds of Hedge Funds
- AXA Private Equity
- AXA Real Estate
- AXA Structured Finance

These teams of experts are backed by the strength and scalability of shared support functions such as Research & Investment Strategy, Responsible Investment, Risk Management and Trading. And their product offerings are the building blocks with which the Investment Solutions team builds fit-for-purpose solutions that meet the highest industry standards.

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*As of Dec. 2011