



# Top global pension funds reach 10 trillion dollar mark



Total assets at the world's largest 300 pension funds grew by around 12 per cent to US\$10.4 trillion during 2006, US\$1 trillion more than the previous year's figure, according to Pensions & Investments (P&I) and Watson Wyatt research. The annual P&I/Watson Wyatt global 300 ranking shows that increases in assets occurred in most major countries and that the size of this pool of assets has almost doubled in a five-year period.

Pension funds remain high on the government and corporate agenda right across the world. Their wider societal influence is increasing their profile too. It is clear that over the past five years, more time and attention has been allocated to these large funds. Contributions to these funds have continued to increase, as have benefit payments in line with their greater maturity. We have also seen risk being scrutinised more closely.

Extreme investment conditions will have reminded these long-term investors of the need to understand risks better as a first

step to employing effective asset-liability management.

According to the survey, the US remains the country with the largest market share of pension funds assets, accounting for 43 per cent, although its share has been eroded (53 per cent in 2003) mainly because of a weak dollar and various significant developments around sovereign pension funds elsewhere. Japan has the second largest market share at 15 per cent, largely because of the Government Pension Investment Fund of Japan, which is still at the top of the ranking, a position it has held for the past five years. The UK has the third largest market share of 7 per cent followed by the Netherlands at 6 per cent. In addition, pension funds in the 'Other – developing world'<sup>1</sup> category are growing in importance and now have a combined market share of 10 per cent of the top 300, compared with 7 per cent three years ago. Korea, South Africa and Taiwan have the majority of the assets in this category.

In 2006, the top 20 funds grew by 9 per cent. According to the survey, assets in these funds have more than doubled, a higher rate of growth than the top 300 funds. These top 20 funds amount to US\$3.8 trillion, constituting over 15 per cent of global pension assets, with each fund except one being more than US\$100 billion. Major changes to the composition

of the top 20 funds over the last three years include the inclusion of the Government Employees Pension Fund of South Africa, a fund which rose 28 places to position seven at the end of 2006 and Canada Pension. Other new entrants over the past three years include the Pension Fund Association of Japan and the New York City Retirement Fund.

It can be expected that large pension funds will continue to extend their influence on the global economy. For these funds, building best practice governance and risk management capabilities are likely to be the top agenda items.

A notable sub-group of the top 300 is the sovereign pension funds, which are under the influence of various nation states. Using the widest definition to identify these funds, they now amount to US\$2.4 trillion, up 35 per cent per annum over the past three years.

These sovereign funds, which have been set up generally with very long time horizons to mitigate the demographic crunch ahead, have a fascinating range of issues to wrestle with. On top of tackling the ever more stretching risk, return and time horizon equation, they have to look increasingly carefully at non-financial factors. In particular, these funds have to take very seriously questions of sustainability in their investments related to environmental and social factors and corporate governance.



Investors should be interested in their actions and leadership, as these funds are of critical macro-economic and societal significance. We may be about to embark on a period in which the world's biggest funds, and the sovereign funds in particular, are rarely out of the news.

**Figure 1 | Market Share**

Rank	Country	2006 (per cent)	2003 (per cent)
1	US	42.9	52.6
2	Japan	14.8	13.5
3	UK	7.1	8.1
4	Netherlands	6.1	6.4
5	Canada	5.5	5.0
	Other (developed world)	13.8	7.8
	Other (developing world)	9.7	6.8

**Figure 2 | Top 20 pension funds**

Rank	Fund	Country	Total assets US\$ million
1	Government Pension Investment	Japan	\$935,569
2	Government Pension	Norway	\$285,625
3	ABP	Netherlands	\$273,904
4	California Public Employees	US	\$218,214
5	National Pension	Korea	\$203,232
6	Federal Retirement Thrift	US	\$188,086
7	Government Employees	South Africa	\$177,559
8	California State Teachers	US	\$149,008
9	New York State Common	US	\$144,289
10	Local Government Officials	Japan	\$136,845
11	Postal Savings	Taiwan	\$128,194
12	Florida State Board	US	\$124,450
13	Ontario Teachers	Canada	\$120,981
14	General Motors	US	\$118,992
15	New York City Retirement	US	\$114,598
16	Pension Fund Association	Japan	\$106,767
17	PGGM	Netherlands	\$106,526
18	Canada Pension	Canada	\$100,738
19	Texas Teachers	US	\$100,717
20	New York State Teachers	US	\$94,347

<sup>1</sup> 'Developing world' category includes the following 12 countries: Korea, South Africa, Taiwan, Malaysia, Chile, Brazil, Mexico, Kuwait, China, India, Thailand and Botswana.

'Developed world' category includes the following 15 countries: Australia, Norway, Sweden, Denmark, Switzerland, Germany, Finland, Singapore, Spain, France, Ireland, Belgium, Italy, New Zealand and Portugal.

Ranked by US dollars, in billions. US fund data are from the P&I 1,000; Japan fund data as of March 31 2006; Australia fund data as of June 30 2006; Taiwan fund data as of April 30 2006; all other fund data as of December 31 2006, unless otherwise noted.

Source: *Pensions & Investments/ Watson Wyatt Global 300 survey*