

## Results of Segal Advisors' 2005 Survey of Multiemployer Pension Funds' Investment Performance

Compared to 2003 and 2004, 2005 was a challenging year for investors as evidenced by the single-digit returns produced by the broad-based equity and fixed-income benchmarks. Despite this environment, the relative investment performance of multiemployer pension funds was favorable. According to the latest release of Segal Advisors' annual *Survey of the Universe of Multiemployer Pension Funds' Investment Performance* (also known as the *Multiemployer Universe*), the median returns<sup>1</sup> exceeded the comparative market indices in 2005, as described below:

- The median return on equity investments for the funds in the survey was 7.4 percent in 2005, a significantly higher rate of return than the broad-based equity benchmark, the Standard & Poor's 500 Index (S&P 500 Index), which earned 4.9 percent.
- The median return for *Universe* funds' fixed-income investments was 2.7 percent, which is above the 2.4 percent return for the Lehman Aggregate Bond Index.
- The median overall investment performance of the *Universe* funds was 5.7 percent, a higher rate of return than the 3.9 percent rate of the comparative benchmark, comprised of 55 percent S&P 500 Index and 45 percent Lehman Aggregate Bond Index.

<sup>1</sup> The median is the exact midpoint at which 50 percent of returns were higher and 50 percent of returns were lower.

The funds in Segal Advisors' *Multiemployer Universe* represented total assets of over \$22 billion as of December 31, 2005.

### EQUITY RETURNS

Funds with the "best-performing" equity investments experienced a 12.2 percent rate of return, as shown by the top of the first bar of the graph on the next page of this report. More than 80 percent of the *Multiemployer Universe* funds exceeded the S&P 500 Index, which means that index ranked in the bottom quartile.

The eight percentage-point spread between the highest and lowest performing funds' equity investments reflects the differences in investment style, portfolio structure and manager skill. It is a narrower spread than in 2003 and 2004.

The 2005 median results represent a change from 2003 and 2004, when *Universe* funds experienced double-digit median returns on equity investments.

### BOND RETURNS

As was the case in 2004, there was an exceptionally narrow spread of just over two percentage points between the highest and lowest performing funds' fixed-income investments in 2005: 4.3 percent and 2.0 percent, respectively.<sup>2</sup> See the second bar of the graph on the next page of this report.

The 2.7 percent median return on fixed-income investments in 2005 was lower than the median return of 4.5 percent in 2004 and 5.1 percent in 2003.

### COMBINED RETURNS

As noted, the 5.7 percent median combined return on total investments for funds in the *Multiemployer Universe* in 2005 was higher than the composite index. The favorable combined returns were due to the strong performance of both the equity and the fixed-income asset classes relative to the underlying benchmarks.

Although in 2005 the median combined return fell short of the strong combined returns of 2003 and 2004, it was comfortably positive. The table below shows median investment performance for funds in the *Multiemployer Universe* from 2000 to 2005.

### CONCLUSION

The third consecutive year of positive investment performance on a market-value basis is good news in general. Measuring investment performance against comparative benchmark indices is appropriate for evaluating investment

**MEDIAN INVESTMENT PERFORMANCE FOR FUNDS IN SEGAL ADVISORS' MULTIEMPLOYER UNIVERSE: 2000-2005**

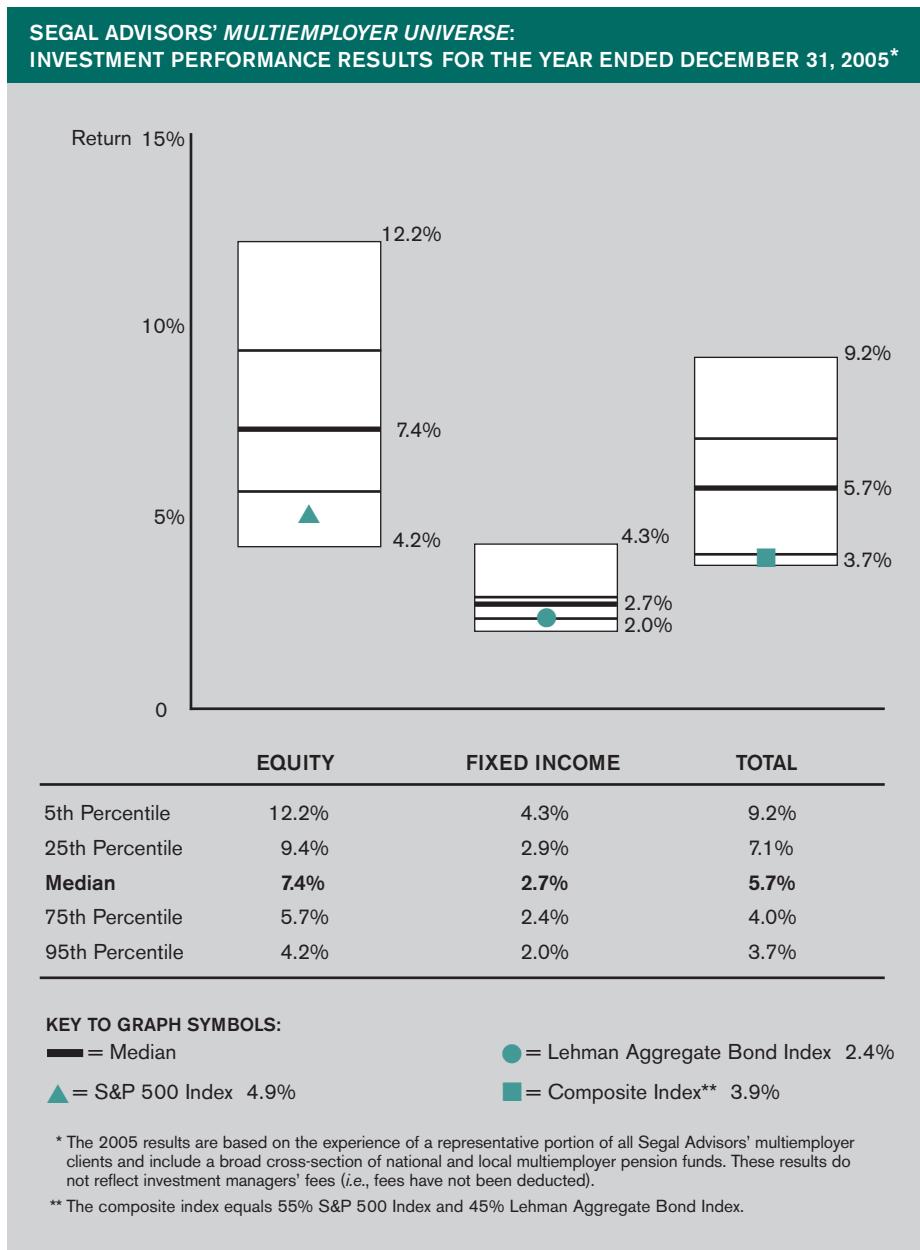
	Equity	Fixed Income	Total
<b>2000</b>	-3.0%	11.6%	3.5%
<b>2001</b>	-11.3%	8.5%	-2.4%
<b>2002</b>	-22.8%	10.1%	-8.2%
<b>2003</b>	31.4%	5.1%	17.2%
<b>2004</b>	12.8%	4.5%	9.1%
<b>2005</b>	7.4%	2.7%	5.7%

<sup>2</sup> A narrow spread between the highest and lowest performing fixed-income investments is not unusual because the largest portion of fixed-income returns derives from investment income — in contrast to equity investments where appreciation/depreciation represents the largest portion of returns.

**Multiemployer Universe**

manager performance. However, investment performance must be compared to the long-term actuarial investment return assumption to evaluate the funding progress of the plan. Complicating the issue is the fact

"Trustees should continuously monitor funds' investment returns, evaluate manager performance against relevant benchmarks and periodically review asset allocation scenarios, possibly through asset-liability modeling."



that many multiemployer plans have not yet fully recognized the actuarial losses as a result of the much-discussed "Perfect Storm" of 2000-2002. Continuing recognition of these losses will serve to dampen the positive effect of returns over the next few years.

Consequently, trustees should continuously monitor funds' investment returns, evaluate manager performance against relevant benchmarks and periodically review asset allocation scenarios, possibly through asset-liability modeling,<sup>3</sup> to determine whether the investment program, in combination with future contribution income, is capable of satisfying the emerging liabilities of the pension plan. They should discuss the implications of various scenarios with their actuaries, investment consultants and other professional advisors.

<sup>3</sup> Asset-liability modeling (ALM) is a technique that provides a wide range of results, and the associated probability of the events, based on projections of possible future investment performance. For more information about ALM, see The Segal Company's *NewsLetter*, "Asset-Liability Modeling: A Powerful 'Financial Engineering' Tool for Pension Plan Sponsors," which is available on the following Web page: <http://www.segalco.com/publications/newsletters/nov2004.pdf> (The Segal Company is the benefits, compensation and human resources consulting affiliate of Segal Advisors.)

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