European Pensions

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European Pensions

Italian pensions reform - European regulations - Emerging markets - Shareholder activism - Custodians - Swiss pensions system - Communication - LDI

February 2013

Setting the stage for pension reform

Following the changes to Italy's first pillar, is now the time to focus on improving workplace pension provision?

Shareholder activism

How pension schemes are responding to pressure to engage with companies

Switzerland

Swiss pensions are staying strong through regulation and investment change

LDI

Why pension funds should adopt an LDI approach despite a fall in popularity

Communication

How pension reforms have made it the right time to improve communication

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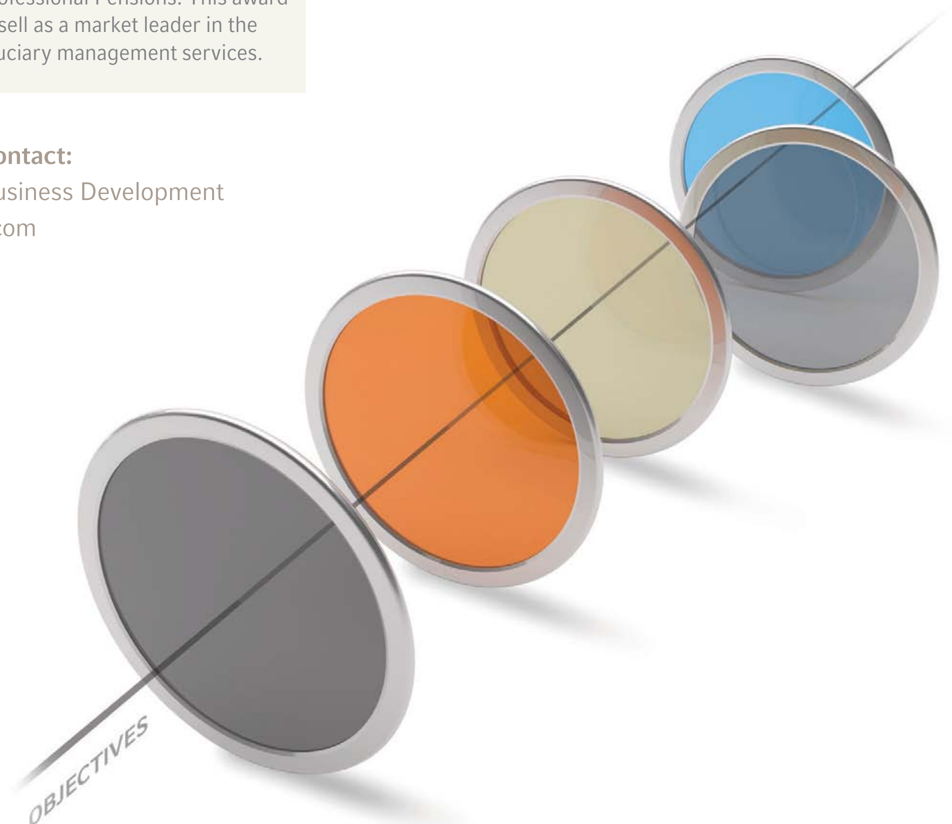

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Cover story

20 Setting the stage for pension reform
Following reforms to Italy's first pillar, now is the time for a greater focus on implementing more sophisticated investment solutions in the second pillar and increasing participation, finds Peter Davy

Features

16 2013 outlook: A post-crisis year?
Dan Morris finds positive signs across the investment sphere for the upcoming year

18 Regulation overload
Ilonka Oudenampsen examines what impact different legislative changes will have on the pensions industry

28 Fixed income transitions come of age
Chris Adolph explains how transition management brings transparency and accountability to an opaque market

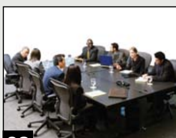
30 Changing times
Laura Blows speaks to Joanne Segars about her new role as chair of PensionsEurope (formerly EFRP)

33 Emerging markets focus
Gerhard Winzer examines the long-term economic outlook for emerging markets, while ERSTE's Peter Varga explains how its EM bond fund is geared towards the need for yield

38 Rules of engagement
Matt Ritchie looks at the rise of engaged investing, and how funds are using this approach to their advantage

40 Longer life and creating retirement security
John Fitzpatrick and Amy Kessler explain the changes needed to tackle the challenge of increasing longevity

42 Keeping afloat
Christine Senior explores how custodians are dealing with lower revenues and new regulations



44 Staying strong
David Adams finds out how the Swiss pension system stays strong through regulation and investment strategies

46 Reforming communications
Kin Ly explains how it is the right time to focus on improving pension communication, using a multi-faceted approach

48 Safe or sorry?
Interest in LDI has fallen lately, but Lynn Strongin Dodds finds that pension funds should nonetheless have an action plan ready

Regulars

04 News
13 Appointments
14 Industry column
24 Awards preview

European Pensions has agreements with several associations to reach their membership. For details contact john.woods@europeanpensions.net

Editor's comment

So, the figures are in. European pension funds can breathe a sigh of relief that 2012 saw coverage ratios improving, with many funds recording average returns of 10% (p4).

However pension schemes cannot just sit back and relax. For one thing, they need to keep an eye on changing regulations. Details as to how regulations, such as AIFMD and the IORP Directive, will affect pension funds are in our feature on page18.

Also, regulatory changes to state pensions in many countries mean that 2013 may see an increased focus on workplace pensions, as our cover story (p20) and interview with PensionsEurope chair Joanne Segars (p3) highlight.

This year may have changes ahead, but the economic uncertainty of the past few years means this is nothing new for pension funds. Therefore they should be more than capable of rising to the challenge of also making 2013 a positive year.

Laura Blows, editor

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Happy year end for European pension funds

SCHEMES ACROSS THE CONTINENT RECORD POSITIVE RETURNS OVER 2012

European pension funds have had a successful 2012, with many funds recording returns of around 10% over the year. Many countries also saw the average coverage ratio of their pension funds improve.

In the UK, returns for DB schemes stood at 8%, according to estimates from the WM Company, the performance measurement arm of State Street. Performance of UK pension schemes has improved compared to 2011, when average returns stood at 4%.

Dutch pension schemes also had a good 2012, although recovery has not been strong enough to ward off benefit cuts for 2013. The average coverage ratio of pension funds rose from 98.2% at year end 2011 to 102% at 31 December 2012, but still below the legally required 105%. The increase is not only due to good equity performance, but also a result of the new discount rate pension funds use to calculate their liabilities. Introduced in September, the so-called UFR has increased the average coverage ratio by 3%.

Pension funds in Portugal achieved average returns of 0.7% in December, contributing to an annual return of 10.4% over 2012, while Belgian pension schemes have on average returned 12.3 per cent over 2012, compared to an average return of -0.7 per cent in 2011.

Figures from Swisscanto revealed that in Switzerland the estimated proportion of private sector funds with a funding shortfall halved in 2012.

Funding shortfall levels were 12% compared to 25% the previous year. Fully-capitalised public sector funds' funding shortfalls were reduced by a fifth in 2012, falling from 73% the previous year to 58%.

The estimated asset-weighted funding ratio for private sector pension funds increased by 4% to 106.8% within a year. For fully-capitalised public sector pension funds, funding ratios increased by 3.2% to 98.5%.

In Ireland, average returns grew significantly in 2012 compared to 2011, resulting an average return of 14.4% at the end of 2012. This compares to an average fund return of -3.4% at the end of 2011.

Standard Life Investments tops the year-end league, returning 17.5%, followed by New Ireland and Merrion Investment Managers which returned 16.1% and 16.0% respectively. The lowest performing fund in 2012 was Zurich Life, returning 12.9%.

In Eastern Europe pension funds also experienced positive returns. Poland's open pension funds (OFE) are growing in success, according to the country's financial regulator, which found that net assets grew by 4.8% or PLN 11.5bn during the third quarter of 2012, to stand at PLN 252.5bn at the end of September.

The smallest fund, OFE Polsat, had net assets of PLN 2.2bn at the end of Q3 while the largest fund, ING OFE, had net assets worth PLN 60.2bn. The total profit of pension funds over that period amounted to PLN 9.5bn.

In addition, the number of OFE members grew by 216,900 to nearly 16 million at the end of September 2012.

Lithuania's voluntary second-pillar pension funds have increased their net assets by almost a fifth, after registering an average return of 11.21% last year.

At year-end the 30 active funds had combined net assets of 4.8bn litai (€1.4bn), an increase of 18% compared to 31 December 2011, the country's central bank said.

Introduced in 2004, second-pillar pension funds are funded by diverting social security contributions into the fund. Currently 1.07 million Lithuanians save for such a pension, of a population of three million.

Last year the funds received about 300m litai from the state social insurance fund, while the remaining asset increase of 426m litai was created through investment activity, the Bank of Lithuania said.

The country's nine third-pillar pension funds, which manage private individual pensions, had 28,600 participants at 31 December 2012 with combined net assets of 108m litai, an increase of 15m litai compared to the previous year.

Romanian pension funds also continued to see very positive investment returns in 2012, with net assets for both mandatory and voluntary pension funds collectively having returned RON 10.2bn (€2.3bn), according to figures released by the Romanian Pension Funds' Association.

Mandatory pension funds (second pillar) posted an average investment return of 10.5% for 2012, while net assets under managment by the nine funds reached RON 9.64bn (€2.18bn). This is 50% more than at the end of 2011.

Meanwhile third-pillar voluntary pension funds returned an average investment of 9.96% for 2012, with net assets under management of the 11 funds reaching RON 600mn (€135mn), an increase of 37% compared to the end of 2011.

Membership of mandatory pension funds has increased by 245.000 to 5.76 million over the year. The total number of members of voluntary schemes increased to 290,000, which is 30,000 more than at the end of 2011.

The figures represent a marked increase since their launch in 2008 and 2007 respectively. Since then mandatory pension funds returned an annualised average of 11.45% while voluntary pension funds returned an annualised average of 7.74%.

Written by Kin Ly, Adam Cadle and Ilonka Oudenampsen

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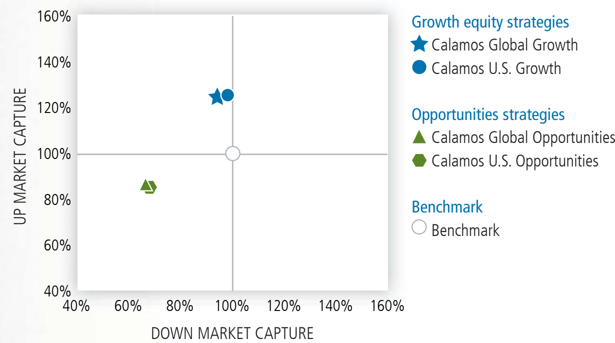

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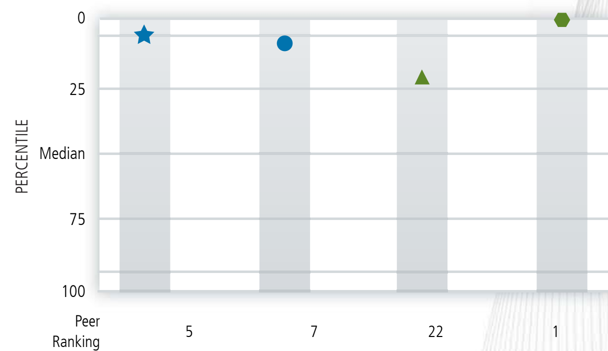

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eVestment Alliance software was used by Calamos to create the exhibits. A fee was paid by the firm for use of the software. Rankings based on gross of fees, annualized returns (calculated monthly). Returns include reinvestment of dividends and other earnings. Calamos strategy inception dates: Global Growth, 04/07; U.S. Growth, 01/91; Global Opportunities, 10/96; and U.S. Opportunities, 01/89. Number of managers in each of their respective eVestment Alliance categories: Global Growth strategy – All Global Equity Universe, 592 managers; U.S. Growth strategy – U.S. All Cap Growth Equity Universe, 15 managers; Global Opportunities strategy – All Global Equity Universe, 124 managers; and U.S. Opportunities strategy – U.S. Large Cap Equity Universe, 89 managers. The benchmarks for the strategies are: Global Growth strategy, MSCI World Index; U.S. Growth strategy, Russell 3000 Growth Index; Global Opportunities strategy, MSCI World Index; and U.S. Opportunities strategy, S&P 500 Index. Investors may not make direct investments into any index.

European Pensions news in brief

- Dutch pension funds are better in formulating a responsible investment policy and reporting on the policy and the instruments than actually implementing the policy, according to research by the **Dutch Association of Investors for Sustainable Development**. It found that 49 of the 50 funds questioned were able to show that they have a RI policy in place, with 39 funds basing this policy on the four themes of the UN Global Compact.

- Dutch pension funds have seen their euro area exposure rise by €12bn to €232bn in Q3 2012 according to regulator **DNB**. The increase in exposure to the eurozone was mainly attributable to France (+€13bn) and Germany (+€7bn). Dutch pension funds also increased investments in French bonds and further increased their exposure to the United States by €9bn.

- Dutch pension provider **A&O** will most likely cut benefits by 19 per cent in the next three years. Pension benefits and rights will be cut by 7 per cent in 2013, with another 7 per cent cut planned for 2014, while the rest will be cut in 2015. by end November the fund's coverage ratio stood at 87 per cent, far below the legally required minimum coverage ratio of 105 per cent. The trustee board said it has"made an ultimate attempt" to receive a one-off employer contribution, but the employer has responded negatively. In the last few years the company has put in an extra €2m into the €70m fund.

- The Danish teachers pension fund, **Laererernes Pension**, has appointed **Parametric** to manage a $200m emerging markets mandate. Parametric uses portfolios that are more diverse and less volatile relative to their benchmarks as it believes market capitalisation-weighted indices expose investors to unwanted concentration risks.

Global pension assets grow by 9%

ASSETS GROW TO $30TRN IN 2012, STUDY FINDS

Institutional pension fund assets in the 13 major markets, which account for over 85% of global pension assets, grew by 9% in 2012, reaching a new high of $30trn, thus strengthening pension fund balance sheets, Towers Watson's *Global Pension Assets Study* has found.

Pension assets have been growing since 2009, when global assets grew by 17%, following a 21% fall during 2008, taking assets back to 2006 levels. In the last decade, global pension assets have on average grown at over 7% a year, being under half their current level in 2002. Assets now amount to 78% of global GDP, compared to 72% in 2011 and 61% in 2008.

Towers Watson EMEA head of investment Chris Ford said: "Given the extreme economic and market volatility we have experienced during the past five years it was a relief for many pension funds to finish the year in better shape than when it started, for a change. While volatile markets are expected to continue for the foreseeable future, pension funds are now generally better equipped to deal with them.

"During the past five years we have seen many funds deal with their governance shortfalls and as a result a growing number of funds have either more qualified people working on their investments or they have outsourced the running of all or part of their portfolios to third parties. In addition, pension funds are implementing investment strategies that are more flexible and adaptable and which contain a broader view of risk so as to make greater allowance for extreme events."

The 10-year average growth rate of global pension assets, in local currency, is over 8%, with the largest markets being the US, Japan and the UK with respectively 57%, 13% and 9% of total pension assets.

All 13 markets have positive 10-year compound annual growth rate figures, with the highest growth in Hong Kong and Brazil at 14% and the lowest figures in Switzerland and France, at respectively 4% and 2%.

Ten-year figures also found that the UK and the Netherlands have grown their pension assets the most as a proportion of GDP, both by 42%, to reach 112% and 156% of GDP respectively. During this time, South Africa's ratio of pension assets to GDP has fallen with 2% to 64% of GDP.

Looking at the investment side, the seven biggest markets have decreased their bond allocations by 7 % in aggregate during the past 18 years, from 40% to 33%, while allocations to equities fell by 2% to 47% during the same period.

Equity allocations in the UK have fallen from 61% in 2002 to 45% in 2012. During the same period, allocations to equities in the Netherlands fell from 37% to 27%. The Netherlands also overtook Japan as having the highest allocation to bonds of 57%.

Since 1995, allocations to other asset classes, especially real estate and to a lesser extent hedge funds, private equity and commodities, have grown from 5% to 19% for the seven biggest markets. The UK increased their alternative asset allocation the most, from 3% to 17%, followed by Switzerland (18% to 30%), while allocations to alternatives fell in the Netherlands, from 19% to 16%.

The study included the 13 largest pension markets, which are Australia, Canada, Brazil, France, Germany, Hong Kong, Ireland, Japan, the Netherlands, South Africa, Switzerland, the UK and the US. The seven largest pension markets, accounting for over 95% of total assets in the study, are Australia, Canada, Japan, the Netherlands, Switzerland, the UK and the US.

Written by Ilonka Oudenampsen

Germany to increase taxable portion of pension income

GRADUAL INCREASE WILL RESULT IN MORE GERMAN PENSIONERS BEING SUBJECT TO TAXATION

Germany's taxable portion of pensions is gradually being increased until 2039, Parliamentary State Secretary Hartmut Koschyk has said, outlining details of the progressive transition to a system of so-called 'deferred taxation'.

The system of 'deferred taxation' no longer taxes benefits with respect to the interest portion, but with respect to the taxable portion. As a result of this transition, more German pensioners are now subject to taxation.

This system was introduced with the framework of the Retirement Income Act and has applied since 2005, following a decision from the country's Federal Constitutional Court, which ruled that the old system was unconstitutional as public sector pensions were treated differently to annuities from statutory pension insurance.

The Parliamentary State Secretary explained that the taxable portion of all pensions that began before 31 December 2005 stood at 50 per cent. Thereafter the taxable portion increases by 2 per cent annually to 80 per cent in 2020. From 2021 to 2040, the taxable share will rise by a further 1 per cent a year until finally pensioners entering retirement in 2040 will be taxed on their full pension. The 'deferred taxation' process will then be completed.

He added that certain types of pension are now tax exempt, such as pension income from statutory accident insurance, and from war pensions and severe disability pensions. He concluded that the decisive factor in determining whether or not pensions are taxed is the amount of income. If income exceeds the basic allowance, then this may be subject to taxation. Currently this allowance stands at €8,004 for a single pensioner and €16,008 for a couple.

Written by Ilonka Oudenampsen

'Solvability analysis should include pension liabilities'

PUBLIC PENSION LIABILITIES HAVE BIG IMPACT ON COUNTRIES' SOLVABILITY, INSTITUTE SAYS

Investors should take pension liabilities into account more when analysing the solvability of European countries, EDHEC-Risk Institute has said.

Because pension systems vary across the continent, obtaining a clear view of the liabilities is not straightforward, but the European Commission's *2012 Ageing Report* provides comparable figures and projections of public pension expenditures up to the year 2060.

The present value of pension liabilities is sensitive to the discount rate chosen, the institute said, but is not negligible in any event. With a high discount rate of 5%, accrued-to-date liabilities are around or above 100% of 2010 GDP in 18 out of 27 EU countries, above 200% in eight countries and up to 483% for Belgium.

With the central hypothesis of a 4% rate, 12 countries are above 200% and seven countries above 400%. For the lowest rate of 3%, 11 are above 400% and six above 800%, while it is impossible to calculate a discount rate for three countries whose pension expenditure growth rates are above 3%.

The public pension liabilities that the institute has calculated are very different from those that rating agencies and investors usually take into account when making their solvability analyses. When these public pension commitments are taken into account, countries such as Sweden, Luxembourg and Denmark look much less virtuous, while countries such as Spain, Italy and Portugal look relatively better.

Written by Ilonka Oudenampsen

France to use 1% GDP to finance public pension system

FUNDING NEEDS WILL GROW FROM €14BN IN 2011 TO €21.3BN IN 2017

The funding needs of the French public pension system are set to widen further over the coming years and France will have to pay up to 1 per cent of its GDP to finance this, according to a recent report by the Conseil d'Orientation des Retraites.

The report stated that the balance of the pension system remains negative in the short and medium term and the exact funding needs will grow from €14bn in 2011 to €21.3bn in 2017.

In addition, the document also highlighted that in 2020, the financing needs of the pension system would be between €20.8bn and €24.9bn.

Written by Adam Cadle

Czechs saving in second pillar to get lower state pension

MOREOVER, RESEARCH FINDS CZECHS' INTEREST IN SECOND PILLAR DECLINES

Czechs joining the newly-created second pillar, which will see part of their compulsory social contributions to the state pay-as-you-go system transferred to private pension funds, will receive a lower state pension, the country's head of the Labour and Social Affairs Ministry's social insurance section Tomas Machanec has said.

He explained that participants of the new pension reform will see their state pension lowered by up to 15 per cent compared to those who have not participated. The savings in their fund will compensate for this reduction.

"Those who will have saved for all their life will see their old-age pension about 15 per cent lower. Those who will have saved for 10 years are to see their state pension some 4 per cent lower," Machanec told Czech news agency CTK.

From 1 January 2013, people can transfer 3 per cent of their monthly social contributions to private pension funds on condition they contribute another 2 per cent themselves.

The government believes the reform is beneficial to half of its citizens and Deputy Finance Minister Radek Urban said hundreds of people have joined the pension system's second pillar in the first week of the year.

However, research by consulting company AWD showed that the population's interest in the new system had decreased from 11 per cent in the summer of 2012 to 4.8 per cent in December.

With 8 per cent, the biggest interest was expressed by people aged 35 to 44, while none of the respondents between age 18 and 24 said they wanted to enter a private pension fund.

"There is a simple reason behind the lower interest of the public in the second pillar," AWD analyst Tomas Rampula said. "Last year the majority of people did not know how the new system would work, while now they have the opportunity to get acquainted with the concrete parameters. The more information they have, the lower their interest in entering it."

However, this does not mean people are adverse to saving for retirement, as AWD is seeing an ever-increasing number of clients asking about suitable alternatives to the reform.

Written by Ilonka Oudenampsen

Finland decides against changes to pensions index

BUT ROBUSTNESS OF PENSION SYSTEM IS PRAISED, NONETHELESS IMPROVEMENTS ARE NEEDED

The current procedure connected to the Finnish earnings-related pension index has not been amended, as improving the weightings of the change in earnings would not benefit younger cohorts, according to the index working group chaired by Finnish Centre for Pensions managing director Jukka Rantala.

On calculating earnings-related pension indexes, the weighting of the change in earnings is 20 per cent and the change in prices is 80 per cent. Finnish pension organisations have stated that the weighting of a change in earnings should be 30 per cent and a change in prices should be 70 per cent.

However, Rantala and the index working group argued that a change in weightings would benefit those who have already retired or who will retire soon. Their pensions in relation to wage and paid contributions is higher compared to younger cohorts.

Any improvement of the index would have had to have been financed by raising pension contributions and the young generation would have to pay for this through their entire working career.

Earlier in January, international experts praised the robustness of the Finnish pension system, but at the same time highlighted the considerable scope for improvements concerning asset investments and retirement ages.

International evaluators questioned by the Finnish Centre for Pensions highlighted that strengths in the system include joint decision-making of employees and employer; pension arrangements giving workers only limited choice and therefore easing complexity issues; and the fact that the system does not prevent workforce mobility.

However, professor Nicholas Barr stated that Finland must raise the lower limit of the retirement age to reflect increasing lifespans. His proposal is to define an earliest eligibility age for old-age pensions, separately for each age group. In addition he stated that flexible retirement should involve pensions being paid out at rates of 25, 50 or 75 per cent.

Professor Keith Ambachtsheer pointed out that the administrative costs of Finnish pension providers could be reduced through stronger co-operation between providers. Issues surrounding the funding rates were also outlined. Ambachtsheer emphasised that currently 75 per cent of pension contribution income goes towards the immediate payment of pensions and 25 per cent is invested for future pensions and that the rate of prefunding should therefore be raised further.

The Finnish Centre for Pensions' Jukka Rantala said that these recommendations would be taken into consideration.

Written by Adam Cadle

Around 70 Dutch funds to cut benefits

WEIGHTED AVERAGE CUT EXPECTED TO BE 1.9%, 5.6 MILLION MEMBERS TO BE AFFECTED

Around 70 Dutch pension funds will have to cut pension rights and benefits from 1 April 2013, according to provisional numbers by the regulator DNB.

It is estimated that these cuts will impact two million active members, 1.1 million pensioners and 2.5 million deferreds. The weighted average cut is expected to be 1.9 per cent.

The number of funds and the average benefit reduction is therefore going to be lower than expected. In February 2012, DNB estimated that 103 funds had to announce cuts for 1 April 2013, with an average cut of 2.3 per cent.

This positive development can be attributed to the adoption of the ultimate forward rate (UFR) as a discount rate for liabilities and the favourable developments on the equity markets.

According to the same provisional numbers, around 40 schemes might have to announce conditional cuts that might take place from 1 April 2014. This would impact on around 1.3 million active members, 0.7 million pensioners and 1.1 million deferred members. The weighted average benefit cut for these funds is 1.6 per cent. However, these cuts are not definite as they depend on coverage ratios at 31 December 2013.

Written by Ilonka Oudenampsen

'Dutch youngsters should receive higher pension'

AFM BELIEVES YOUNGER GENERATION PAYS TOO MUCH AND OLDER GENERATION TOO LITTLE

Dutch youngsters should get a higher retirement income for the contributions they pay, Financial Markets Authority (AFM) director Harman Korte has said.

At the moment contributions are the same for all members, regardless of age, resulting in the same pension rights. However, the contributions of the young generation are invested for longer than those of older employees and the AFM says that youngsters should therefore accumulate a higher pension.

Its director explained that in the current system the young 'subsidise' the old, which does not have to be a problem, as long as the employee stays with the same pension fund their entire life. Until around age 40 the member would then pay too much, but afterwards they would benefit. But young people switch jobs and therefore pension funds more often and can therefore end up paying relatively a lot without benefiting from the relatively low contributions older employees make.

Written by Ilonka Oudenampsen

Robeco pension fund will not use UFR as discount rate

SCHEME BELIEVES UFR DOES NOT ACCURATELY VALUE LIABILITIES

The Dutch pension fund of asset manager Robeco will not switch to the Ultimate Forward Rate (UFR) as a discount rate to calculate its liabilities, the trustees have decided.

In September the former Dutch government allowed pension funds to use the UFR, which enables funds to use a higher discount rate, resulting in lower liabilities and a higher coverage ratio.

However, the trustees of the Robeco pension fund have decided not to use the UFR, but to keep calculating the coverage ratio based on the market interest rate. Currently the latter is lower than the UFR, with a difference of around 5 per cent at the end of October 2012. The scheme said that the UFR does not accurately value liabilities, enables indexation of benefits to take place too quickly, and results in too little contributions being received.

Advocates of the UFR believe that the current interest rate is unnaturally low and that using this as a discount rate therefore gives an incorrect reflection of the true liabilities of the fund. However, the Robeco scheme said that it is impossible to determine if the long-term interest rate is unrealistically low at the moment. It said that the current interest rate is indeed historically low, but that, at the same time, the interest rate in countries like Norway, Switzerland and Japan has been at a very low level for long periods.

In the short term, the fund's decision results in delayed indexation and a higher contribution for the employer. In case of financial difficulties, benefit and pension right cuts can also be taken earlier. However, the trustees said the market interest rate gives a more realistic representation of the financial position of the scheme and better fits its long-term indexation ambitions.

Written by Ilonka Oudenampsen

European Pensions news in brief

- Retirement saving is becoming more popular under Belgians in their twenties, as almost half of people who started saving into a private pension last year is under 30. **Belfius** noted that half of their new contracts were signed by customers under 30, while this age group made up 30 per cent of **ING** and **AG Insurance**'s new business.

- The **Irish National Pensions Reserve** Fund will invest €500m into struggling small and medium-sized enterprises (SME) to help return them to viability.

- **Malta** faces negative ratings actions if it fails to implement appropriate pension reform to address the severe impact it is likely to suffer from an ageing population, **Fitch Ratings** has said. It noted that Malta, along with Luxembourg, Belgium and Slovenia, will suffer from the most severe ageing pressures over the next 20 to 40 years.

- **Kazakhstan** is to merge its 11 pension funds into one single unit which will come under the management of the country's national bank. The funds turned in a combined saving of 3.177trn tenge ($20.7bn) as of 1 December 2012.

- **Aberdeen Asset Management** has been awarded a $200m emerging markets corporate bond mandate by Danish pension fund **PKA**. PKA is an administration company for five pension funds encompassing healthcare, office and social workers with 250,000 members and $34.5bn AuM.

- **Hermes Fund Managers** has won a $120m sub-advisory mandate by **IST Investment Foundation for Pension Funds,** a non-profit organisation and the largest independent trust for pension funds in Switzerland, managing CHF5.7bn on behalf of its 560 clients.

Custody to be more important in Italy

ITALIAN FUNDS PREDICT THIS BASED ON REGULATORY CHANGE

Over three-quarters of Italian pension funds expect depository banks to play a more important role for them as a result of upcoming regulation changes, RBC Investor Services found.

Having come into force by the start of 2013 for larger schemes, the new regulations from state pension regulator Commissione Di Vigilanza Sui Fondi Pensione (COVIP) require pension providers to give greater information on their stated investment principles and the instruments they wish to invest in. They will also be asked to provide added detail on expected returns, performance appraisals and the control systems, assessment measures and procedures in place designed to achieve financial targets and safeguard existing holdings.

Therefore this is expected to give custodians even greater responsibility, as the €94bn Italian pension market will require their support to produce more transparent financial reporting and control systems and to alleviate the additional administrative burden on their own internal processes.

All respondents to the RBC Investor Services poll agreed that the new regulations will have a positive impact on financial governance models of pension funds, with 43 per cent in strong agreement.

Most respondents (74 per cent) believed costs from the added administrative burden of the reforms were unlikely to rise above €100,000. Only 17 per cent thought the figure would be higher and almost 10 per cent saw no cost impact at all.

Written by Laura Blows

UK introduces state pension reform

NEW FLAT-RATE STATE PENSION WILL BE £144 A WEEK

A new flat-rate state pension of £144 a week will come into effect in 2017 at the earliest, ending the complexities inherent within the current system, the UK government has announced.

In a white paper, the government outlined that the state pension will rise in line with inflation but will only come into effect for new pensioners. The current full state pension is £107.45 a week. However this figure can be increased to £142.70 after pension credits and with second state pension benefits. In order to receive the full state pension, an individual will have to pay national insurance contributions for a minimum of 35 years.

The government has also stated that the state pension age will directly be linked to life expectancy. The state pension age is expected to rise to 66 in 2020 and 67 by 2028.

Pensions minister Steve Webb said that "the overall cost of the new system will be the same as the one it replaces", and confirmed that "there will be no further changes" to the state pension during the life of the current parliament.

Responding to the announcement, National Association of Pension Funds chief executive Joanne Segars said: "For the first time in a generation, people will know that it pays to save, and that whatever they put aside won't be eroded by means-testing when they retire. We welcome the government's strong commitment to radical change. This blueprint is a key step towards a system that will help people retire with confidence and dignity."

Written by Adam Cadle

New public sector staff in Ireland potentially worse off

PENSION REFORM WILL SEE MOVE FROM FINAL SALARY TO CAREER AVERAGE

New public sector staff in Ireland could get considerably less pension benefits compared to existing public servants under new pension reforms that came into effect on 1 January, the Irish Association of Pension Funds (IAPF) has highlighted.

The new provisions will see pensions calculated on career average earnings for new public servants as opposed to final salary at retirement. The reforms will not affect existing public sector members who will continue to have their pensions calculated on a final salary system.

IAPF CEO Jerry Moriarty said: “Newer public sector members are not going to have the same pension benefits as existing employees. You could have two people – one who joined before the changes and one who joined after – doing a job on the same level and having quite different benefits to go with that.”

Under the career average system, public servants will each year accrue a specific amount towards their pension and lump sum. For most this will be approximately 1/80th and 3/80th respectively and will be inclusive of social welfare integration. In addition, pension increases will be worked out based on CPI.

On announcing the new changes, minister for public expenditure and reform Brendan Howlin said the scheme will reduce cost to the exchequer and will be “fairer”. “The single scheme makes administration of pensions more efficient, it will reduce costs to the exchequer. At the same time, it will ensure that public servants and their dependants continue to have a reasonable pension in retirement.”

Written by Kin Ly

Pensions Board publishes DC investment guidelines

GUIDELINES ARE TO AID TRUSTEES IN OFFERING APPROPRIATE INVESTMENT CHOICES

The Irish Pensions Board has published a number of investment guidelines to aid trustees in offering appropriate investment choices for scheme members.

The guidelines outlined that, with regards to investment fund selection, a limited choice of between five to seven funds should suffice to protect members from the main categories of investment risk.

It warned that “offering similar types of funds but operated by different investment managers seldom serves a useful purpose”. The Pensions Board highlighted that any investment strategy should be reviewed at least every three years and particular attention should be paid to default options, as the majority of members are likely to opt for this.

Chief executive Brendan Kennedy said: “It is very important that the investment choices available through DC schemes are appropriate and well designed and that members have a clear sense of the risks they face. Deciding on investment choices to be made available to scheme members is one of the most important responsibilities that trustees exercise in overseeing pension schemes and these guidelines will assist in this regard.”

Written by Adam Cadle

Non-US securities class action settlements on the rise

REPORT CLAIMS NON-US CLASS ACTION SETTLEMENTS COULD HIT $8.3BN

Settlements in securities class actions outside the US could rise to $8.3bn per year by 2020, while $2.02bn of investors’ returns could be left unreclaimed as a result of non-participation of class actions, a US report has found.

The report, conducted by global class action services specialist GOAL Group, found that if non-participation rates seen in US class actions are mirrored in other markets such as Europe, $2.02bn of investors’ rightful returns could be left unreclaimed each year by the end of the decade.

The researchers also warned that because non-US legislatures require participants to register at the beginning of a case, investors need to participate now to receive their rightful returns. “Any level of non-participation presents fiduciaries, such as fund managers and custodians, with a potential legal risk. Experience in the US suggests that fiduciaries may be sued if they do not ensure investors participate in class actions to recoup a proportion of their investment losses,” the report stated. GOAL Group CEO Stephen Everard added: “Class action growth outside the US is predicted to mirror the growth of the US class action scene in the early part of the 21st century.”

Written by Kin Ly

Diary dates: March 2013 onwards

VISIT WWW.EUROPEANPENSIONS.NET FOR MORE DIARY LISTINGS

NAPF Investment Conference

6-8 March 2013

EICC, Edinburgh, UK

Double dip recession, weak economic growth, gilt yields at historic lows, struggling equity markets, the eurozone on the brink. This is all having a profound effect on pension funds and their investment strategies. But where does it all go from here? The speakers at the NAPF investment conference will discuss these and other issues facing pension fund investment. Speakers confirmed include the Pension Protection Fund's Lady Barbara Judge and London Business School professor Paul Marsh.

MORE INFO: www.napf.co.uk

SPS risk-managed investment strategies for pension funds

12 March 2013

Wyndham Apollo Hotel, Amsterdam, the Netherlands

This conference will help pension funds review the risks associated with different investment strategies, understand these risks better and find out how they can best be managed and controlled whilst providing required returns. It expects to discuss the benefits of diversification within and away from more mainstream asset classes such as bonds, equities and real estate as well as considering risk reduction through alternative investments such as tail risk hedging and sustainable investing.

MORE INFO: www.spsconferences.com

IAPF Investment Conference

14 March 2013

Convention Centre, Spencer Dock, Dublin, Ireland

The IAPF annual investment conference, *Investing in challenging times*, will consider the investment issues currently facing pension schemes. While many assets have shown strong returns in recent times trustees are coming under pressure to take on less risk. How can this be balanced with the need to obtain returns in order to keep schemes sustainable and provide decent retirement income for members? Topics will include effects of new legislation including risk reserving; the danger of inflation and how this can be tackled; DC Investing; and where can schemes get the long-term returns they need.

MORE INFO: www.iapf.ie

FIAP International seminar: individual savings: better pensions plus economic development

11 and 12 April 2013

Hilton Hotel, Cartagena de Indias, Colombia

The purpose of this seminar, organised by the International Federation of Pension Fund Administrators (FIAP) and the Colombian Association of Severance Pay and Pension Fund Administrators (ASOFONDOS), is to analyse the participation and integration of the individually-funded programmes in pension systems, as well as their trends and challenges for obtaining adequate replacement rates. Within this context, the impact of the creation and development of these programmes on the economy of countries, growth, employment and capital market will be analysed.

MORE INFO: www.seminariosfiap.com/eng/

Pensions Age Spring Conference: Meeting member needs

19 April 2013

London Stock Exchange, UK

At a time when market volatility, increasing longevity, and above all a new regulatory regime have come together to make things all the more challenging for pension schemes, this one-day conference will provide those involved in the industry with valuable guidance as they seek to tackle these issues. Topics for the day include DC investment, data, de-risking, auto-enrolment, defined ambition, fiduciary management, at-retirement options and communication.

MORE INFO: www.pensionsage.com/springconference/

European Pensions Awards 2013

26 June 2013

Grosvenor House Hotel, London, UK

The European Pensions Awards recognise outstanding achievement in the varied fields of European pension provision, honouring the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds in these increasingly challenging times.

This year, we have put together a list of 24 categories spanning various fields of pension provision with a view to acknowledging and ultimately encouraging best practice in the European pensions space.

MORE INFO: www.europeanpensions.net/awards/

People on the move...

LATEST NEWS OF PEOPLE ON THE MOVE

Asghar Alam

Towers Watson has hired Asghar Alam as a senior consultant in its growing investment and retirement businesses. Alam has consulted for over 30 years on strategy development and financial management of retirement programmes and joins from Mercer where he was a senior partner. His most recent role at Mercer was global business leader.

Roz Amos

UBS Global Asset Management has strengthened its team with the appointment of Roz Amos as head of European Consultant Relations. Amos joins from Towers Watson where she worked for 15 years, most recently as senior investment consultant with responsibility for overseeing the indexation research and new ideas research teams.

David Walls

Vontobel Asset Management has appointed David Walls and Stefan Hüsler to the firm's high yield and credit investment team. Walls has joined as a credit analyst and deputy portfolio manager for the Vontobel Fund - High Yield Bond. Hüsler has joined as a credit analyst covering capital goods, basic industry and financial services.

Frank Richter

Frank Richter has joined Standard Life Investments as investment director for institutional sales in Germany and Austria. He will ensure clients have the right investment solutions for their needs.Richter previously worked at AXA Investment Managers as head of institutional business for Germany and Austria.

Dimme Lucassen

Dimme Lucassen has joined Aberdeen Investment as a fund manager within the company's property multi-manager team. He will focus on European investments, in particular the eurozone fund of funds. Dimme previously worked for 10 years at Scroders Property Investment Management where he was a fund manager for a European fund of funds.

Steven Bayly

BlueBay Asset Management has annoucned the appointment of Steven Bayly as head of sales for Germany and will focus on Germany's institutional investor base. He joins from BlackRock where he was head of insitutional business for Germany and Austria and a member of the German Executive Committee.

Stephen Moore

Impax Asset Management has strengthened its team with the appointment of Stephen Moore as head of wholsesale distribution (excluding North America). He will have responsibility for expanding the business with family offices, distributors and discretionary wealth managers. He previously worked for DWS Investments.

David Keel

Lyxor Asset Management has strengthened its presence in Switzerland with the appointment of David Keel as head of institutional asset management sales. His main responsibility will be to further develop and expand Lyxor's alternative and multi-asset investment businesses and joins from Barclays Capital Fund Solutions.

Shaping the future

EIOPA'S GABRIEL BERNARDINO EXPLAINS WHAT IS NEEDED TO ENSURE A SUFFICIENT EUROPEAN RETIREMENT SAVINGS SYSTEM

Reshaping the European pensions system is one of the most challenging projects on the EU agenda, which is very important for all EU citizens without exception, as complementary private retirement savings have to play a greater role in securing the future adequacy of pensions. We need to review European pensions' regulatory framework to improve the safety and affordability of private pensions and provide confidence to consumers. This should be done by developing a risk-based approach to the regulation of retirement savings, encompassing a number of fundamental elements.

All occupational schemes throughout Europe should have sufficient resources to meet their promises under a reasonable, but realistic and transparent, framework. For the IORP Directive review, we recommended the application of market consistent valuations of pension promises and the inclusion of the actuarial value of all enforceable obligations of the IORP in the valuation.

Taking due account of the diversity of IORPs, EIOPA proposes the concept of a 'holistic balance sheet' that will enable the consideration of the various adjustment and security mechanisms in an explicit way. This will allow a better understanding of the economic value of assets and liabilities and will give an indication of where the risk is and who bears it. The 'holistic balance sheet' should be seen as a prudential supervisory assessment tool rather than a 'usual' balance sheet based on generally agreed accounting standards.

"The revision of the IORP Directive is an important reform for all EU citizens. It is going to be challenging, but I am confident that we will succeed"

IORPs should have a robust solvency regulation, which should be based on the 'holistic balance sheet' and should incorporate appropriate periods for the achievement of the funding targets, taking into account the nature of the promise, the duration of the liabilities and other elements like the sponsor support. It should also be sufficiently flexible to deal with short-term volatility and avoid pro-cyclical behaviour, for example by using a corridor approach and allowing appropriate recovering periods.

Good governance is crucial for the members and beneficiaries of occupational pension schemes. It is essential that those who run IORPs are individuals of competence and integrity, with respective education and work experience. IORPs should also be subject to robust internal and external controls in areas such as risk management, internal control and audit, appointments of a custodian and a depository. The Solvency II principles should be applied, taken into account due proportionality.

It is crucial to keep members and beneficiaries of pension funds duly informed about their pension rights and prospective retirement saving. Furthermore, the move towards defined contribution (DC) schemes, where the risk is born by the members, poses new challenges in terms of transparency. That's why EIOPA's advice recommends the introduction in the IORP Directive of a Key Information Document (KID) to be distributed to potential members containing a set of basic elements like risks, costs, charges etc. This will surely improve transparency.

The revision of the IORP Directive is an important reform for all EU citizens. It is going to be challenging, but I am confident that we will succeed. We need to start building the future now, creating 'game-changing pension reforms' in the European Union.

Finally, we should not forget that there is also a need to look at the individual retirement savings in the EU. The current framework applicable to third pillar products is very much fragmented with a number of different vehicles being subject to different types of EU regulations.

I believe that there are merits in developing an EU-wide framework for the activities and supervision of individual retirement savings, containing both prudential and consumer protection measures. Improving consumer information and protection is necessary to enhance citizens' confidence in financial products for retirement savings.

In this context, we should explore the development of an 'EU retirement savings product'. This product could be developed to finance individual or collective DC plans and should clearly differentiate from other types of investment products by being focused on the long-term nature of their objective (retirement savings), avoiding the traps of the short-term horizon.

It should be based on a simple framework, allowing for reduced cost structures and be managed using robust and modern risk management tools. It should rely on clear and transparent governance structures and provide full transparency to its members and beneficiaries. It should have access to a European passport allowing for cross-border selling. An EU certification scheme could give EU citizens a certainty in the quality of all marketed 'EU retirement savings products'.

In my view these products could also play an important role in the EU economy by assuring a focus on long-term investments and, thus, fostering sustainable growth.

Gabriel Bernardino is chairman of EIOPA

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2013 outlook: A post-crisis year?

Dan Morris finds positive signs across the investment sphere for the upcoming year

Could 2013 be the first post-crisis year for markets? That is, a year when the risk of a eurozone breakup fades, even as the recovery and rebuilding of Europe and the US continue for much longer? Some signs are very encouraging. Yields on peripheral market debt have fallen sharply following September's announcement of the Outright Monetary Transactions (OMT) programme by ECB president Mario Draghi. After numerous extreme spikes over the last couple of years, the S&P 500 volatility index (VIX) is now below its long-term average. Credit default swaps on European banks have declined to the previous lows of April 2011. The latest (though not last) Greek aid tranche has finally been disbursed.

The risk of a chaotic breakup of the eurozone has clearly receded, and not only because of more forceful intervention by eurozone leaders (however tardy). The economic imbalances that precipitated the crisis are also correcting. Italy and Spain are running positive trade balances with the eurozone. Greece's primary budget (before making interest payments) is in surplus. A more benign environment in Europe will be supported by ongoing liquidity from the US Federal Reserve. The current round of quantitative easing (QE) will see the Fed purchase $85 billion of mortgage-backed and Treasury securities through 2013 and perhaps into 2014. This liquidity will provide support for risk assets generally, but in particular equities (both in the US and emerging markets) and higher yielding (and ever riskier) fixed income as investors look for alternatives to investment grade debt for income.

Fixed income

The (partial) resolution of the US fiscal cliff and waning eurozone anxiety should lead to higher yields on safe haven assets, though continued loose monetary policy and low economic growth prospects will limit the rises. The ever more desperate search for yield will continue as the income generated by 'yield havens' — riskier assets such as high yield and emerging market debt — plumb new depths. For example, US high yield debt is offering a yield-to-worst of under 6 per cent compared to an average of over 10 per cent since 1986. Purchases today of these assets will incur a price decline once yields inevitably reset (the question is when), though the comparatively high yields provide a cushion. One alternative may be leveraged loans, which offer commensurate returns even as they provide more security.

There is still scope for spreads to compress further for both high

yield and US dollar emerging market debt as US Treasury yields rise. Relative to prospective default rates, the extra compensation appears generous. Emerging market US dollar investment grade corporate debt still provides some premium to other investment grade asset classes, and local currency emerging market sovereign debt has not seen the same yield compression as have other fixed income emerging market assets. Fixed income investors may nonetheless simply have to content themselves with meagre returns for the time being.

Peripheral eurozone debt, which was once considered beyond the pale for an even modestly conservative investor, is now becoming respectable again. For the more adventurous, they provided high-yield like returns last year. The decline in yields has at times been so dramatic, however, that one questions whether they offer adequate compensation for what remain substantial risks. Yields on 10-year Spanish government debt are near 5 per cent and for Italy nearing 4 per cent, levels not seen in two years in Italy's case. While Italy is still likely to end up with a government broadly committed to further fiscal consolidation and market reform after the upcoming elections, there is still plenty of potential for political surprises. Spain has yet to determine whether it will ask for a bailout via the OMT programme, and there is the ever present risk of a dramatic increase in mortgage delinquencies and defaults if the country's high unemployment rate forces home-owners to despair of ever paying off their obligations. While peripheral country yields no longer reflect the risk of a eurozone collapse, they may well adequately reflect the risk of over-indebted borrowers.

Equities

We look for the US to outperform Europe even though it under-performed in 2012. Europe benefited from a relief rally as eurozone sentiment improved but now reality is setting in and the outlook is not terribly rosy. Corporate earnings are weak and valuations are not superior to those in the US. The US will be boosted by QE liquidity, which is lacking in Europe, and stronger domestic demand. Margins are already fairly high so earnings growth will be a challenge but US corporations are flexible enough to improve upon them.

There are still opportunities within the eurozone, of course. While relative regional valuations are near historical levels, there is a wider range within Europe today than there has been in the past. For example, today there is a gap of 46 percentage points between the cheapest and most expensive market based on forward PEs. Prior to the beginning of the crisis in April 2007, the gap was just 20 percentage points. Two markets we like in particular are Italy as equities are inexpensive, and Germany because earnings growth potential is relatively good and valuations are not stretched even though it performed extremely well last year.

By sector, we expect a continued outperformance of cyclical sectors versus defensives/high dividend yielding stocks, though we do prefer higher yield stocks in Europe. Growth is lowly valued today relative to its own history and relative to high dividend stocks. The overvaluation of high dividend stocks is not necessarily relevant for traditional bond investors who are now looking for income, however, but for equity investors high dividend/defensive stocks are likely to underperform on a total return basis. We like the technology sector (though business hardware and software as opposed to 'consumer' technology), consumer discretionary, and industrials. Financials have done very well over the last 12 months as they are the sector most sensitive to a fall in risk aversion, and what appears to be a lightening regulatory burden could help them yet more this year.

Conclusion

The world is obviously not without risks. German Bund yields are still at very low levels, reflecting lingering worries among some investors about the currency union. Upcoming elections in Italy raise doubts about the ability and commitment of a new government to implement budget cuts and economic reform. If Spain were to decide not to ask for a bailout, yields could shoot up again. The US fiscal deficit is still a threat, though it is highly unlikely that any spending cuts will have much immediate impact on the economy as they will be spread out over many years.

Despite these concerns, we believe investors should be moving their assets out of cash and other low yielding assets and into securities offering returns beyond inflation. Equity valuations remain attractive, company earnings continue to grow, and many types of fixed income offer generous yields relative to core sovereign debt.

WRITTEN BY DAN MORRIS,
GLOBAL MARKET STRATEGIST,
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After the financial crisis, governments have been wanting to ensure that the opaque financial world is better regulated so that crashes such as in 2008 will not happen again.

But although the increasing regulatory burden on the financial industry is ultimately for the benefit of the investor and the economy as a whole, all those additional requirements are also likely to have some negative impacts.

One regulatory change that will mainly affect pension funds is of course the revision of the IORP Directive. Most responses from the European pensions industry with regards to the review have been on 'Solvency II for pensions', the European Commission's proposal for revised solvability requirements.

Regulation overload

Ilonka Oudenampsen examines what impact different legislative changes over the coming year will have on the European pensions industry

Most is to do with the huge negative impact it will have on DB schemes, increasing their deficits even further, but some have also pointed out that these solvability requirements will discourage equity investments and encourage bond investment, despite some equities being less risky than certain government bonds.

Inrev director of public affairs Jeff Rupp adds that it will have a negative impact on real estate investments, which would incur a 25 per cent standard solvency capital charge.

In order to avoid the standard charge, every pension fund would be free to develop its own internal model, but the problem with that route is that it is a very time-consuming and expensive procedure.

Rupp explains: "We would expect most pension funds, certainly the large pension funds, to start developing internal models in order to get lower solvency capital charges, at least for their real estate portfolios."

However, he notes that, although theoretically every scheme could build their own internal model, this is not a viable option for all schemes. "There are a lot of small pension funds, particularly in Germany and Austria, that would find the process of developing an internal model to be extremely expensive and burdensome, and disproportionate perhaps to the relative advantage that they would gain from having a lower solvency charge applied to their real estate portfolios, especially knowing that real estate is typically somewhere around 10 per cent of a pension fund's portfolio."

So while bigger schemes can benefit from economies of scale, Rupp says, small schemes will need to make "an unpleasant choice" of spending a lot of money on developing an internal model, simply paying a higher solvency charge on their real estate portfolio, or quit investing in real estate altogether.

However, the UK's Investment Management Association (IMA) points out that the IORP Directive entails more than just the Solvency II-type proposals and encourages the European pensions industry to also look at the other two main points in the directive, namely DC governance and information provision.

The association is interested in these topics because it believes there is a great opportunity, both domestically and at European level, to lay out a framework for DC which can work to the benefit of consumers, no matter what member state their scheme happens to be in.

In its home country, the IMA chaired the DC group within the investment governance group (IGG), which produced a series of best

practice principles with respect to DC investment governance.

"Starting with the outline of roles and responsibilities, moving through the need to set clear objectives, how to implement those objectives in investment terms, how you monitor your investment process, how you review, how you communicate, a whole collection of governance questions," its director of public policy Jonathan Lipkin explains.

"We see an opportunity potentially to develop that approach in the context of the wider European debate on the regulation of DC. You live in a world where there is no right answer, but what you can put in place is a framework so that you can demonstrate either 5, 10 or 15 years hence, why you took the decisions that you did and demonstrate that the governance processes are robust."

On information disclosure, Lipkin says that, despite the diverse European pensions landscape, it is possible to develop a reasonably consistent methodology that will help consumers. "We don't think that you can magically create a common document across a range of different pension and long-term investment products. We do think that you can set yourself the aspiration of working towards consistency in certain key areas, such as the way in which you describe and calculate charges."

Other regulation

While the IORP review will directly impact all European pension funds, pensions have been given an exemption under most other regulations. However, schemes might still notice the effects of other financial legislative changes.

One obvious consequence would be a cost increase, as the financial industry deals with complying with new regulation and passes on the costs to their investors, but Throgmorton managing director Roger Ganpatsingh believes that this is unlikely to happen.

"The market is currently experiencing significant downward pressure on management fees. In this environment, it is unlikely that the additional costs experienced by managers as a result of increased regulation will be passed on to investors. Fees are being pushed and pulled by various factors but I still think that the net effect will be downward pressure, because that's what markets are dictating."

With regards to specific regulations, the European Market Infrastructure Regulation (EMIR) and the Alternative Investment Fund Managers Directive (AIFMD) are likely to cause the most impact.

Under EMIR, pension schemes have been granted a three-year exemption, which can be extended once for two years and another time for one year.

However, they will still be subject to the risk management rules, which will have an effect on pension funds who are directly trading OTC derivatives. More indirectly, LDI funds will also be impacted by the regulation, as they do a lot of long-dated inflation-linked swaps and interest-rate swaps.

Dillon Eustace partner Donnacha O'Connor explains: "If a pension fund is investing in an LDI fund product, while the pension fund itself may benefit from the exemption, it is likely that the fund won't be exempt unless it is a dedicated investment vehicle for one pension fund and the purpose of the derivatives are exclusively to hedge the pension fund's risk of insolvency, and, importantly, the relevant EU regulator agrees to it. So, LDI funds may in this way cause pension funds' costs of implementing LDI strategies to increase, assuming the fund passes on those costs to the pension fund, which we expect would be the case."

There is a parallel with the consequences the AIFMD will have. O'Connor says: "Pension funds that invest in AIFMD-compliant investment funds will almost certainly bear higher costs associated with compliance with that directive. For some pension funds, it may be a question of: are the costs to invest in AIFMD-compliant funds going to be so prohibitively high that they switch to off-shore funds or managed accounts, or, on the other hand, as a matter of policy or of risk management, will they want to invest in AIFMD-compliant funds because of the additional protections and enhanced levels of investor disclosure that the directive will bring."

However, State Street Corporation director EMEA, regulatory, industry and government affairs Sven Kasper adds that in certain European countries, some pension vehicles are still unsure whether they are exempt. "In certain member states there are still questions about where certain managers of pension money might fall, within the scope of the AIFMD or not. There is a general pension fund exemption in the AIFMD, but there are questions about how does it exactly apply, which entities are included and which are outside the exemption. In particular in the Netherlands that is of course highly contested, given the industry there."

Apart from the IORP review, there is not one bit of legislation that will have a big impact on the European pensions landscape. The challenge for pension funds does not lie in the individual regulations but in the wider, enhanced regulatory environment and staying on top of all the legislative changes as and when they come in.

WRITTEN BY ILONKA OUDENAMPSEN

Setting the stage for pension reform

Following reforms to Italy's first pillar, now is the time for a greater focus on implementing more sophisticated investment solutions in the second pillar and increasing participation, finds Peter Davy

Few would dispute that much is at stake in February's Italian election. Still deep in recession, with youth unemployment at 37 per cent, and public debt second only to Greece, the country faces daunting challenges. And the candidates proposing to tackle them are certainly diverse: EU technocrat Mario Monti, media magnate Silvio Berlusconi (currently up on sex and corruption charges in Italian courts), and – the front runner – former communist Pier Luigi Bersani.

Whatever problems the winner faces, however, they can have a reasonable hope that pensions will not be one of them. There should be no repeat this year of Labour minister Elsa Fornero's famous tears in 2011 as she defended the government's reforms that year.

In large part that's down to the

reforms to the first pillar she introduced. These extended the defined contribution regime, raised the retirement age, linked it to longevity, linked future benefits with gross national product, and clamped down on early retirement rights (the so-called 'seniority pensions'), among other changes. Fornero herself said the government had "taken the hatchet" to the system.

Actually, it's possible to argue how much should be attributed to Monti's government. In effect, it simply followed the course mapped out by earlier reforms, particularly those of 1995, which introduced the defined contribution regime. That was the key reform, according to Milan-based Adelaide Consulting managing partner Piero Marchettini.

"The latest reforms were the last of several adjustments, but the basic change was made at that time," he says.

Few dispute the result, however. In October, the IMF's director of fiscal affairs rated Italy as best prepared among developed nations to face the challenges posed by rising pension and healthcare costs. Others put the system's sustainability second only to Sweden's.

"Lots of people assume Italy is a semi-disaster, but the reforms started a long time ago and are now taking the pensions system to a position where it is almost self-sustaining – assuming the economy doesn't collapse in the next 10 to 15 years," says Franklin Templeton Investments senior director of Southern Europe & Benelux Sergio Albarelli.

Occupational changes

Attention therefore shifts to the second pillar. Indeed, with the majority of workers facing a significantly smaller pension in retirement, it's natural to look at the alternatives. Mefop (the Association for the Development of Pension Funds) is cautiously optimistic that social security reforms could have a wider impact.

"Hopefully the severe reforms of the first pillar will boost the private sector pensions market," says Antonello Motroni at Mefop.

How this will happen, however, is unclear.

Second pillar reform was what was missing from the Monti government's reforms. Indeed, it's what's been missing from every government, complains the president of Fochim, the industry-wide complementary scheme for the chemical and pharmaceutical industries, Fabio Ortolani.

"As 20 years have now gone by since supplementary pensions were introduced, it is time for a revision to help boost adhesion," he says. "In recent years, no government, including the current one, has wanted to do anything about this situation."

Whether that will change with the new government is uncertain.

Certainly, there are changes coming to the second pillar. Perhaps most importantly, the pensions regulator Covip introduced new regulations last year requiring schemes to organise themselves with internal financial expertise to oversee investment policies and to deliver a statement of investment principles (Documento sulla Politica di Investimento), which was due by the end of 2012 for larger funds with more than 1,000 members. The statement will identify fund objectives, principles for implementation, rules and responsibilities within the process, and a system of monitoring and evaluation of results. Smaller funds must implement the statement by the end of this year.

It could have a significant impact on how pensions and their investments are run in Italy, says Italy's RBC Investor Services managing director Mauro Dognini.

"In the Anglo-Saxon world it might be quite normal, but in Italy's pensions industry, which is quite young, it is a bit of a revolution."

RBC's survey published in December found 83 per cent of funds said the changes would require a partial restructure, with 17 per cent needing significant overhaul.

That is a "great opportunity" for pension funds, according to Towers Watson investment leader in Italy Alessandra Pasquoni.

"They have a chance to review their investment policies and clearly set out their objectives," she says. That means defining targets in terms of risk and return and linking those to liabilities: in effect reviewing their whole approach. It also, she adds, should bolster the role of consultants in asset liability management and the risk management space.

Added to this, a reform of Law 703 – which limits the types and amounts of assets pension funds can hold – is still expected; a draft law stalled as a result of the elections, but should be picked up by the new government.

That should replace the current quantitative limits on investments with a more qualitative approach to ensure investments are aligned with the scheme's strategy – effectively giving them greater freedom.

Again, it's not an insignificant change, particularly in a country where nearly 80 per cent in the industry-wide schemes was still invested in bonds in September 2012, according to Covip – and where bonds account for 90 per cent or more in the portfolios of some (although the open schemes' managed by financial institutions have a much bigger allocation to equities – see boxout).

"The big problem with investment in the second pillar is that most of

their investment has been in long-term Italian Treasury bonds," remarks Marchettini. It's particularly troubling, he adds, now that the first pillar is now linked to GNP.

"Pensioners are already taking a risk linked to long-term performance of the country in the first pillar. They're adding risk to risk."

Whether the reform of Law 703 alone will change this is questionable.

At FTSE Group, managing director of Southern Europe Luca Filippa agrees that Italian pension funds tend to be very conservative. However, he notes that how much this changes in the coming year will depend largely on the economy.

"The macroeconomic outlook is likely to dominate asset allocation decisions," he says. For now, he expects asset allocations in 2013 to be more aggressive as international equity markets recover from the lows of the crisis.

"In any case," he adds, "with pension funds it's always a slow process."

Added to that, many of the pension funds are member-directed, offering a number of different lines. Pensplan Plurifonds, a regional pension fund with about €300 million in assets is typical, offering an equity investments line, a balanced line and a bonds line, as well as ethical investment options. More than half of the members opt for the bonds line, according to Michel Thomas of Pensplan Invest, which manages it.

Nevertheless, it is probably just a question of time before there is greater range in Italian funds' investments. Andrea Canavesio at Mangusta Risk consultancy in Rome says that increased maturity, if nothing else, means that many are now looking at more sophisticated investment strategies.

"These pensions have now been established for 15 years and they feel much readier to start investing in something which is a bit more complicated," he explains. Mangusta, for example, recently helped Cometa, Italy's largest private pension scheme, introduce real estate and private equity into its portfolio for the first time.

Hearts and minds

More seriously, however, the real challenge facing the second pillar is participation. As of last September, membership of occupational schemes was just 3.5 million, with another 2.2 million in personal pensions: about a quarter of the workforce. And there are a number of reasons to doubt that will change, at least in the short term.

One, says Albarelli, is the failure of successive governments to adequately communicate the changes happening in the first pillar – in part because of a reluctance to highlight the low pensions many face.

"The reforms have never been explained properly to Italians. All the debate has been ideological," he argues. "There's never been real attention drawn to how the reform has been built and the benefits going forward."

Canavesio agrees: "Look at the numbers who actually do have a second pillar pension and it is obvious that Italians have no idea about the changes that have been happening."

Another reason for pessimism is the performance of the average pension fund. Many have recovered lost ground in the last year, with an average return of 8 per cent. However, the last decade has frequently seen returns fail to rise above the TFR, the severance pay fund accrued from salary contributions and guaranteed to rise at a rate equal to 75 per cent of inflation plus 1.5 per cent.

"Greater participation will take place only when the performance of the pension funds improves," says Marchettini.

The reforms around investment might help here. However, other problems may be more intractable.

The first is the lack of money. Figures for the end of 2011 already showed 20 per cent of workers had stopped contributing to their occupational scheme, and an increase in those calling on TFR funds – both reflecting the economic strains on the population. Moreover, workers already contribute 33 per cent of gross income in social security contributions – much higher than in Germany or France – and that's before the 7 per cent contribution to the TFR.

"We effectively have a contribution rate of about 40 per cent," points out Aon Hewitt Italy head of consulting Claudio Pinna. That leaves little left to put into private sector pensions.

The one thing that might persuade people to do so is perhaps greater financial incentives to save. That, however, also seems unlikely to change. Last November, Fornero ruled out greater incentives in the short term, citing the cost. She did, however, note that the pension reforms provide for a future study on lowering payroll taxes in order to divert contributions to the second pillar.

This, says Pinna, is perhaps the best prospect of a longer-term boost to occupational pensions in the country. However, given the Italian first pillar is pay as you go, with current contributions funding pensions in payment, any changes will have to be introduced slowly.

As he puts it: "It's not going to happen tomorrow."

In any case, for whoever wins the election, it will just be another item in a fairly heavy in-tray.

WRITTEN BY PETER DAVY,
A FREELANCE JOURNALIST

Q&A with Cometa general director, Maurizio Agazzi

What impact have the pension reforms to date had on Cometa members? Do you expect any further reform? What has been the impact on awareness among Cometa members of pension issues and their benefits as a result of the discussions that have taken place over the course of the reforms?

Italians have not yet acquired an adequate pension culture. After the present legislation was introduced, which was in force since 1996, a famous communication campaign about where to allocate severance indemnity, company or pension funds was introduced, but since then the government made no more investments in this sector. It was left to the industry to inform its members. However, supplementary pensions still have a long way to go in Italy, as awareness regarding first pillar provision is low, especially with what will happen in the future when the effects of the new contributive system are felt in full. So the first pillar reforms have not had much of an effect on supplementary pension choices made by the Italians.

Does the outcome of the current elections hold any significance as far as the second pillar is concerned? If so, what?

Logically, recent government reforms designed for the first pillar accelerating towards the contributive system should have led to a reform of the second pension pillar. However, this has not yet happened. We are still far from any concrete reform proposal. Our faith lies in the next government.

Specifically, what has been the change in the asset allocation since the crisis began?

First of all, we must not forget that the Cometa mission is to pay supplementary pensions to its members when they retire. That is why investment plans are long term, with no speculative choices made. Our asset management is based on this. It must comply with this vision and be suitably diversified. It must also identify benchmarks and control parameters. These decisions have been the foundations of recent agreements stipulated. Within these, managers can make tactical choices, with full investment autonomy. These considerations are what a close partnership with managers must be based on, to choose the strategies best suited to achieving pension objectives and to make any adjustments to strategies adopted.

How significant is the reform of Law 703 for you, and do the changes go far enough in giving pension schemes the flexibility they need?

On the whole, I agree with the philosophy of the regulation, which confirms the governance structure of pension funds whilst stimulating a further qualification in both precise responsibility and competence terms. The document being analysed appears to be based on greater investment freedom and closely linked to greater pension fund accountability, coherent with directive no. 2003/41/EC.

This is set up through a process which defines objectives and asset management policies and creates control structures that can trigger off effective feedback mechanisms. However, I do feel it is important for laws to preserve that distinction between investments for pension purposes innate in the second pillar system, and merely speculative investment. For that purpose, the legislator must make a further effort to specify concepts such as effective management and take on the responsibility to establish certain investment limits. This is to guarantee that the management of pensions stays focused on what is trying to be achieved by having a pension, which should never be left to market operators.

"Supplementary pensions still have a long way to go in Italy, as awareness regarding first pillar provision is low, especially with what will happen in the future when the effects of the new contributive system are felt in full"

To what extent have the reforms introduced last year by COVIP required pension schemes to reorganise and restructure their schemes? What changes have been made at Cometa, if any?

I do feel that, though faced with a time lag with the new Law 703, and with some areas for improvement, especially in aspects of the resolution on financial risks and relationship between the various parties, that Covip did a good job with its circular on 30th October, stressing the importance of financial investment, its control and competences needed.

The work done by funds on preparing the investment policy document has enabled analysis of resources available, control of any shortcomings and the start of a growth process, which I hope will not be frustrated by generalised use of external consultancy. I feel that it is fundamental and the circular confirms the Law 703 provision that finances be internalised by pension funds.

For this, Cometa has confirmed a choice made some 10 years ago now. At present, Cometa fund assets exceed €7 billion, split mainly into two areas, income with almost €4 billion and Monetary with over €2 billion.

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European Pensions Awards 2013 – now open for entries

The European Pensions Awards have been designed to recognise outstanding achievement in the varied fields of European pension provision, honouring the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds in these increasingly challenging times.

This year, we have put together a list of 24 categories spanning various fields of pension provision with a view to acknowledging and ultimately encouraging best practice in the European pensions space.

The winners will be announced at a black tie Awards Gala at London's prestigious Grosvenor House Hotel, on Wednesday 26 June 2013.

Entering is easy. Just visit **www.europeanpensions.net/awards** and choose from one or more of the following categories:

1) European Pensions Consultancy of the Year

Awarded to the pensions/investment/actuarial consultancy firm that the judges believe has delivered outstanding service to its pension fund clients in the last year, has shown a dedication to the delivery of pension scheme consultancy in its respective market, has demonstrated a superior understanding of the market's needs and has shown a commitment to helping clients through the pensions maze.

2012 winner: LCP

2) Investment Manager of the Year

This award will recognise excellence in investment management at one of the most challenging times in European pensions history. When rising longevity rates coupled with investment market turmoil has put the pressure on investment managers to perform, innovation, dedication, sophistication and foresight have become the essential tools of any investment manager hoping to succeed.

2012 winner: BlackRock Investment Management

3) Equities Manager of the Year

This award will celebrate those managers who have led the way in managing equities in the past 12 months. The winner who is finally chosen will be the firm that has proved itself to be the most exceptional player of all entrants in the industry with its excellence in managing equities, and has proved itself truly invaluable to European pension funds today.

2012 winner: Vontobel Asset Management

4) Fixed Income Manager of the Year

European pension funds rely on fixed income for a reliable revenue stream, and as a result the fixed income market is now as diverse and sophisticated as any other. This award will recognise managers that offer a real specialisation in this key area and can offer their European pension clients a variety of solutions to meet the ever changing market conditions.

2012 winner: Insight Investment

5) Alternatives Investment Manager of the Year

As alternatives play an ever greater role in the majority of European pension fund portfolios, this category aims to reward the leaders in the provision of hedge funds, hedge funds of funds, private equity funds, commodities and other alternative investment classes. The winner will be the nominee that has proved itself the best of the best in their field and has shown a commitment to the European pensions market with its product offerings. Please note we also have separate categories for hedge funds and property.

2012 winner: BlackRock Investment Management

6) Hedge Fund Provider of the Year

As pension funds look to diversify their portfolios in order to spread their risk and reap higher rewards, this category aims to recognise those firms that have proved their excellence in the field of hedge funds / fund of funds at one of the most challenging times in investment history.

2012 winner: BlackRock Investment Management

7) Property Manager of the Year

Property has gained true recognition as an essential asset class for pension funds across Europe seeking to diversify their portfolios, with managers seeking out returns from both the traditional and less accessible property markets across the world. This award will

recognise those managers that have proved themselves in the field of property investment, have shown innovation in their product offerings, and have displayed excellence and consistency in their management of this diverse and exciting asset class.
2012 winner: LaSalle Investment Management

8) Emerging Markets Manager of the Year

Seeking out potential in the less developed markets is a challenging role at which only the best can succeed; yet for those that do, the rewards for European pension funds can be great. This award recognises those managers that have shown a dedication to the emerging markets space with a view to achieving performance often in areas where information flow is in short supply.
2012 winner: Investec Asset Management

9) Risk Management Firm of the Year

Effective risk management is now high up on the agenda for European pension funds bearing the burdens of increased risk, more stringent regulation, and a brighter spotlight on governance. We reward those firms that have assisted European pension funds in their quest for better risk management in this ever unpredictable economic landscape.
2012 winner: Redington

10) Currency Manager of the Year

Currency plays an increasingly important and diverse role in pension fund portfolios today. This category will highlight those currency managers who have displayed a capability and an expertise in this sector.
2012 winner: Macro Currency Group, Principal Global Investors

11) LDI Manager of the Year

As longevity increases and markets continue to be unpredictable, Liability Driven Investment (LDI) has become one of the most popular buzzwords in pension scheme investment in today's market. We reward those players who have excelled in their LDI offerings in an effort to assist European pension funds better match their assets with their liabilities going forward.
2012 winner: F&C

12) Index Provider of the Year

Indices are undoubtedly an essential tool for pension funds in the European space. This award will recognise those index providers offering the highest quality of relevant products and excellent service to European pension funds today.
2012 winner: FTSE Group

13) SRI Provider of the Year

European pension funds are becoming increasingly aware of the impact Socially Responsible Investment (SRI) can have on their portfolio returns. This award will recognise the leaders in this significant and increasingly sophisticated market.
2012 winner: AGICAM

14) Fiduciary Management

The concept of Fiduciary Management has taken the Dutch pensions market by storm, and is now penetrating other parts of Europe. This award will commend those firms that have led the way in the fiduciary management/delegated/implemented consultancy space, tailoring their offerings to today's pension funds' needs.
2012 winner: Towers Watson

15) European Pensions Law Firm of the Year

Many legal firms across Europe offer services for pension funds, but not all show a dedication to understanding the complexities facing pension funds in these challenging times. This award will reward the firm that stands out in its dedication to understanding the complexities of pensions legislation, and works with its clients to see them through the legal maze.
2012 winner: Linklaters

16) Custodian of the Year

The role of the Pension Fund Custodian is an ever changing one, as products and services evolve to match changing pension fund needs. This award will recognise those custodians that have proved themselves as leaders in this market with their excellence, innovation and dedication to meeting their European pension funds' demands in today's market.
2012 winner: KAS BANK

17) Transition Management Firm of the Year

The role of the transition manager has become more acute as pension funds seek help in negotiating the minefield of moving to more complex investment strategies in order to meet increasing

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Deadline for entries: 15 March 2013

market demands. This award will reward those firms that have proved themselves experts in the transition management space and are a cut above the rest.

2012 winner: Northern Trust

18) Pension Provider of the Year

This award aims to recognise those providers (including life companies, investment companies etc) providing pensions and operating in the European pensions space. Judges will be looking for those firms that offer quality, relevant and (where necessary) innovative products in today's European pensions market.

2012 winner: AEGON Global Pensions

19) Buyout Firm of the Year

This award aims to recognise those providers offering buy-out and buy-in solutions to pension schemes today.

2012 winner: Legal & General

20) Pension Scheme Administrator of the Year

The key role of the administrator is often overlooked but without an excellent administration service the pension fund member could not receive the level of service they deserve. This award recognises those administration firms that have gone beyond the minimum standards required to offer a truly value added service to their clients.

2012 winner: Premier

21) Pensions Technology Provider of the Year

Effective and reliable pensions technology is essential for the successful running of any pension fund. This award will recognise those firms that are leaders in the field of pensions technology, and ultimately reward who is the best of the best.

2012 winner: aquilaheywood

Special categories:

22) European Pensions Innovation Award

This award will recognise those firms that have brought innovation to the pensions market-place, be it through a particular product, service offering or overall business approach. This category is designed in response to market volatility and to recognise those firms that have responded to market pressures with originality and creativity.

2012 winner: AEGON Global Pensions

23) European Pensions Communication Award

Awarded to the firm that has proved itself in the field of communication at a time when getting the right messages across is key to enhancing member uptake and improving the overall member experience.

2012 winner: Standard Life

24) European Pensions Personality of the Year

This award (voted for by our readers) aims to recognise those individuals that have truly made their mark in the European pensions space in recent years. Nominees can include anyone who has had an influential role in the European pension sphere - be they a government representative, someone from a pensions association, someone working for a service provider (such as an asset manager or a consultant), or someone working for a pension fund. Closing date for this award only: 05 June 2013

2012 winner: Nick Burns, CEO, Capita Employee Benefits

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Fixed income transitions come of age

Chris Adolph explains how transition management is bringing transparency and accountability to an otherwise opaque market

Hiring a transition manager is now an industry best practice for equity portfolios. Yet an astonishing number of fixed income transitions are left unmanaged. Despite the opaque nature of fixed income markets, many of the trade and risk management practices found in equities transitions have proven effective for fixed transitions as well. Regardless of asset class, an investment fiduciary should always seek to manage the transition in a way that is consistent with the principles of prudence and diligence.

Why hire a fixed income transition manager?

Transition managers have saved institutional investors tens of billions of dollars in portfolio value since the early 1990s.[1] It would belabor a largely understood point in the industry to say that transition management can add value to the investment process, and transition management is routinely used for the equities portion of a portfolio.

Historically though, scheme sponsors have put less emphasis on management of fixed income transitions. The risks and costs associated with an unmanaged equity transition are considered unacceptable by a majority of the plan sponsor community. However when making shifts that involve fixed income portfolios, sponsors often revert to practices that were abandoned years ago within equities, even though the costs are often more significant. In fact, when we compare the alpha expectations of various asset classes to the average transition costs, fixed income transitions erode a higher percentage of alpha than equity transitions (see table opposite).

If a fixed income transition is managed incorrectly or not managed at all, the erosion of alpha can be significantly worse than the result shown in the table. Thus transition management is critically important in the fixed income marketplace.

Are fixed income transitions unique?

So why is it scheme sponsors still often default to using their existing asset managers when restructuring fixed income portfolios? Are fixed income transitions less complex to manage or is the process simpler than for equities and the same principles that apply to transition management do not apply to this unique and opaque asset class? Do scheme sponsors feel transition managers lack the necessary skills required? We would contend that often fixed income transitions are more complex and the main principles of transition management apply even more so to fixed income transitions. However, from a scheme sponsor's perspective the answers often lie in the fact that it can be more difficult to measure costs for fixed income trading and are sometimes in the dark about the need for transition management. Transition managers can play a key role here in providing transparency where often little exists.

There are both similarities and differences between a fixed income and equity transition. Scheme sponsors can better steward investor assets through an understanding of how transition management applies to both. The basic principle of accountability for performance is the same for both fixed income and equity transitions, but a scheme sponsor must be on their guard against performance holidays and be wary of the rationale that target managers are best suited for trading legacy and target assets.

Specialist approach

Although the mechanics of trading in equity and fixed income markets might differ, the goals are consistent. The transition manager must access the best sources of liquidity, injecting

Mandate	Benchmark	Tracking Error	Target annual alpha[2]	3 year average IS[3]	Transition costs as a % of potential alpha
Global Equities	Russell Gloval Developed Equity Index	350 bps	200 bps	43 bps	22%
Gloval Fixed Income	Barclays Gloval Aggregate Bond Index	175 bps	100 bps	35 bps	35%

competition to ensure best price. The need to source liquidity must be balanced with the need to maintain discretion and anonymity, while managing the overall risk of the portfolio. And, for both bonds and equities, delay means opportunity costs and exposure to market risk. For either asset class, the costs of unmanaged portfolio risk and market exposure are typically the greatest driver of overall trading costs.

Managers like Russell have developed specialist fixed income transition services and asset managers are increasingly seeing the benefits that using a transition manager can bring to them. Execution capabilities have significantly improved with transition managers having specialist traders who can add real value in sourcing liquidity. In a study conducted by Market Axess in the US[4] relating to corporate bond executions reported to Trace, transition managers were shown to add on average 22 basis points in price improvements relative to average market participants, with Russell adding an additional six basis points on top of this.

Some other key differences in implementation exist for a fixed income transition. Equity markets have exchange-centric trading, tailor-made options for managing risk, and an ocean of trade data and analytics. Compared to data availability for equities, the fixed income markets are the dark side of the moon. Whereas equity risk is driven by the particulars of company risk and the firm's market segment, the majority of market risk in bonds is in the generalised form of interest rate risk. Pricing and operational challenges abound as well for fixed income transitions, putting transition experience at a premium.

Crossing

With the potential high costs of trading some fixed income securities, it not surprising that crossing would be an attractive proposition. This can, however, be something of a cautionary tale in fixed income markets, where centralised pricing/exchanges and crossing networks do not exist. The impact of this is that there is no single observable price or consolidated quote. Transparency into liquidity and price is therefore not readily available, so the challenge is determining what price you cross at. A transition manager who can independently source potential crossing counterparties at arm's length and who can add transparency and competitiveness to the price setting process by, for example, creating an 'inside market' [5], can have a material impact in reducing overall costs during a restructuring.

A prudent approach

Hiring a transition manager provides the underlying investor with a level of care and diligence consistent with fiduciary requirements when changing the portfolio structure. A transition manager has a clear mandate; minimise the performance impact during the transition. To assure transparency and performance, the transition manager will estimate the expected performance impact of a transition prior to the event, measure the actual implementation shortfall of the assets after the event, and be accountable for the performance of the assets during the transition period. Given the fundamental principles of fiduciary management, it follows that scheme sponsors would want to transition assets with a clear mandate and understanding of the costs involved. Indeed many scheme sponsors view the requirement of performance measurement and accountability for performance throughout the transition as the fulfillment of their prudent expert responsibilities. In the end you need to have transparency to the performance impact of any restructuring in order to assign accountability and as the age-old saying goes, 'what gets measured, get managed' [6].

As the transition management industry matures and scheme sponsors become more aware of the value added both from a performance and transparency perspective, we believe fixed income transition management will become standard protocol like equities today.

Similarities

- Performance focus
- Risk management process
- Multi-source execution model
- Project Management
- T Standard reporting

Differences

- In-kind process
- Key factor - Interest rate risk
- Principal vs agency market
- Pricing service value vs market value
- Operational burden
- Crossing

WRITTEN BY CHRIS ADOLPH, HEAD OF TRANSITION MANAGEMENT EMEA, RUSSELL INVESTMENTS

Sponsored by

1 *Karceski, Livingston, and O'Neal (2001) estimate that an average equity fund incurs annually an average explicit brokerage commission of 38 basispoints and as much as 58 basis points in implicit trading costs.*

2 *Estimated based on alpha expectations of Russell Funds.*

3 *Avg. TM costs from Russell Implementation Services Inc. performance database 3 years to December 31, 2011*

4 *Source - MarketAxess study representing 3,500 corporate bond transactions reported to TRACE from Jan 2009 to Aug 2011, including 942 trades Russell trades.*

5 *For further information about different crossing alternative please see, "The challenges of crossing fixed income", Russell February 2013.*

6 *Source - Peter Drucker*

Changing times

Laura Blows speaks to Joanne Segars about her new role as chair of PensionsEurope (formerly EFRP)

You have been chair of PensionsEurope for a few months now. How have you been finding the new role?
I've been finding it very enjoyable and I have great support from my fellow board members and the team at PensionsEurope, led by Matti Leppälä, so I don't think there have been any surprises so far and I hope it stays that way. At least no nasty surprises. There are lots of challenges, lots for us to do, but it's been good so far.

Will you be carrying on the work of Patrick (Burke, the previous head of PensionsEurope) or will you be looking for a change of direction?
I think Patrick has done a great job with making sure the organisation is seen to represent all forms of workplace pensions across Europe. There are particular challenges there, especially in the current economic environment, but we need to make sure that we can really represent, and be seen to represent, all forms of workplace pensions across Europe.

You mention the challenges in this current economic environment. What is of particular concern?
We have issues across Europe to do with the way governments have reacted to the financial crisis and the way in which pensions are being brought into that. So in the UK for example there is quantitative easing, which isn't directly aimed at pension funds but nonetheless have an impact. Also, the tax changes in the last autumn statement, they have been one way in which the UK government has reacted. It has been the same across Europe. So, in Ireland there is a tax on assets, there have been some tax changes to the amount that can be taken tax free from a pension. There have been changes in the Netherlands as well, and in Hungary there has been effective nationalisation of funded pension provision. So there really has been some quite significant ways in which pensions have been affected through the financial crisis.

You mentioned that the aim of PensionsEurope is to represent all types of workplace pension provision. Are there any difficulties in this aim?
Well EFRP, PensionsEurope as it is now, has always spoken for workplace pensions. The CEEC countries in particular have got DC pensions and across Europe DC provision is increasing. There is still a very large and significant lump of DB provision and significant assets there but we need to make sure that we can take account of everybody's views and needs.

What topics and issues will PensionsEurope be focusing on during your time?
We do have to be very clear and very focused as there is a vast number of issues and only limited resources. The IORP Directive is clearly one of the biggest issues in pensions across Europe and therefore affecting PensionsEurope. That will be a very significant issue,

Joanne Segars

In 2007 Joanne Segars was elected as a director of the European Federation for Retirement Provision (EFRP) and in November 2012 was elected chair of PensionsEurope (formerly EFRP).

Joanne became CEO of the UK's National Association of Pension Funds (NAPF) in 2006 having joined the organisation in 2005 as director of policy. She was head of pensions and savings at the UK's Association of British Insurers (ABI) from 2001 to 2005. Joanne held the pensions brief at the UK's Trades Union Congress (TUC) for 13 years (from 1988 to 2001) and started her career in pensions as a researcher and journalist for Incomes Data Services (1987-1988).

She has a degree in economics from John Moores University, Liverpool, and a Master of Arts degree in industrial relations from the University of Warwick.

Joanne is a founding governor and council member of the UK's Pensions Policy Institute. She is also a director of TUC Stakeholder Trustees Ltd. From 1996 to 2003 she was a board member of the former UK government body the Occupational Pensions Regulatory Authority (Opra).

She was awarded an OBE for services to the pensions industry in the 2003 Queen Birthday Honours.

particularly looking at the solvency aspects of that review, and we've made it very clear that we don't think that the holistic balance sheet is the right way forward. I'm convinced of the need for a review of the solvency aspect of the directive. There are other aspects of the directive review where we think the commissioner could do some very useful work, for instance regarding governance and communications. Elsewhere, you have the financial transaction tax, big issues around OTC derivatives and the ongoing financial crisis affecting workplace pensions and pensioners across Europe.

How does PensionsEurope help with these issues?

PensionsEurope has a very good reputation within the European Commission, within the European stakeholder group. I think we are able to speak on behalf of millions of pensioners, billions of euros worth of assets across Europe and that means that our voice carries weight. PensionsEurope is a respected voice and a voice that people listen to. So we are bringing together those different experiences, the weight of our lobbying power is how we expect to do that.

Longer term, what do you think will be your biggest challenges in this role?

The biggest policy challenge will be tackling the IORP review. I think we will have a challenge to make sure that we are seen as a vibrant organisation and one that is inclusive of all pension provision across Europe. That's a good challenge to have as it means we need to keep refreshing. That's part of the reason for the change of name, it's not just about semantics, it's about saying that we are about workplace pensions across Europe, and that we are an inclusive and outwardly focused organisation.

What was the driver for the name change? Why now?

We wanted a name that was perhaps more relevant, more modern than the European Federation of Retirement Provision. And one that was more inclusive, it's more easily understood, PensionsEurope, I guess. And it trips off the tongue more easily too.

Along with the name change, how else would you like to see PensionsEurope develop?

I think there are lots of opportunities for PensionsEurope to constructively help direct the way in which pensions across Europe are provided. There are approximately 60 million Europeans that do not have any pension provision that comes with their job. So it is significant to see how they can be provided for in the future. I think there are some really useful ways in which PensionsEurope can share best practice across pension provision in Europe.

You say there are 60 million people without any access to a workplace pension at all. How do you see that being tackled? Auto-enrolment beginning in the UK for example?

I think governments across Europe are looking to see what the experience of auto-enrolment will be but many may think that it is not something for them at this time in the economic cycle. There is recognition that workplace pensions will need to play a bigger role. I think there is a need for shared best practice and auto-enrolment is one route. In the Netherlands coverage levels are at 80-90 per cent through collective bargaining arrangements. So there are lots of different routes through and the route through will depend on different social labour laws of that country. One thing PensionsEurope can do is point to best practice.

What do you wish to achieve during your time as chair of PensionsEurope?

One thing that I would like to look back on is to say that we got a good result on the IORP Directive and that actually workplace pensions are stronger as a result of our lobbying. To say that workplace pensions have survived and weathered the economic storm. I think that PensionsEurope would be in a very strong place, that we will have attracted more members, have an even stronger base of support than we do, giving us an ever stronger voice.

PensionsEurope, formerly the European Federation for Retirement Provision (EFRP)

PensionsEurope represents national associations of pension funds and similar institutions for workplace pensions.

Established in 1981 as EFRP, PensionsEurope has 22 member associations in EU member states and other European countries with significant workplace pension systems. It has established a Central & Eastern European Countries Forum (CEEC Forum) to discuss issues common to their pension systems.

PensionsEurope member organisations cover the workplace pensions of about 80 million European citizens. Through its member associations PensionsEurope represents approximately €3.5 trillion of assets managed for future pension payments.

Its members are large institutional investors representing the buy-side on the financial markets.

WRITTEN BY LAURA BLOWS

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page 34

Growing strong
Gerhard Winzer examines the long-term economic outlook for emerging markets

page 36

Investing in emerging markets bonds
ERSTE senior fund manager Peter Varga explains how its ESPA BOND EMERGING MARKETS CORPORATE IG is geared towards the need for yield that is seen among institutional investors

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Growing strong

Gerhard Winzer examines the long-term economic outlook for emerging markets

The emerging economies (EE) will continue to post higher economic growth rates than the developed economies (DE). The OECD forecasts average real GDP growth rates of 3.7% between 2011 and 2030 for the world economy. This growth figure breaks down into 2.2% for the DE and 5.9% for the EE. *(Box 1)*

Catch-up process as driver

This projection crucially hinges on the expectation that the EE will catch up with the DE. The specific structural conditions of the EE will continue to improve, and thus facilitate a higher standard of living as measured by GDP per capita. In fact, the OECD expects average GDP per capita to grow by 3.1% in the world economy, with the EE (+5.2%) clearly outdoing the DE (+1.7%).

Eurozone share in global GDP expected to decline to 12%

There is room for improvement in the EE, in particular with respect to human capital (the quality of labour fostered by better education) and technological progress (higher productivity induced by the absence of trade barriers and by an increase in domestic competition). On the other hand – and similar to the DE – the ratio of capital to trend output will lose its significance as growth driver. The same is true for the labour force due to the ageing of the population in many countries. As a result of this scenario, the share of the EE in global GDP will continue to increase. For example, China's share will soar from 17% in 2011 to 28% in 2030, whereas the eurozone

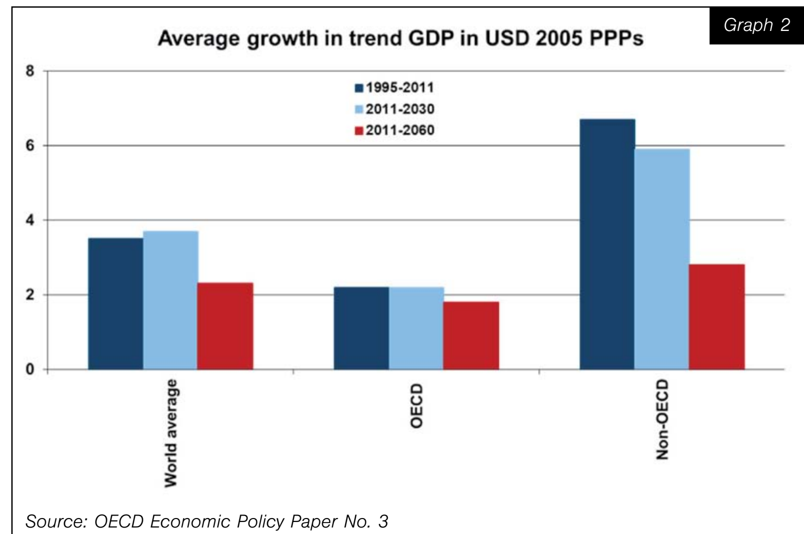
Box 1

Top real GDP growth rates until 2030 by country:

Country	Growth
India	6.7%
China	6.6%
Indonesia	5.3%
Turkey	4.5%
Saudi Arabia	4.2%
Brazil	4.1%
Chile	4.0%
South Africa	3.9%
Argentina	3.6%
Mexico	3.4%
Russia	3.0%

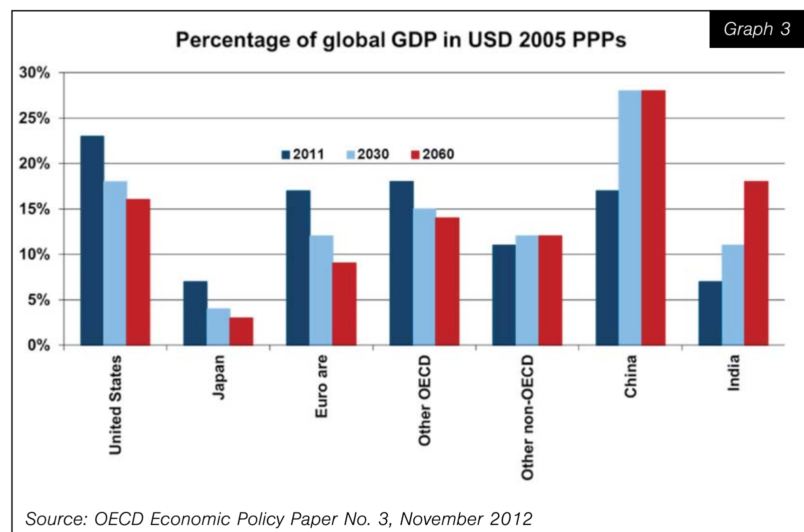
Source: OECD estimates; all figures based on USD 2005 purchasing power parities

Graph 2



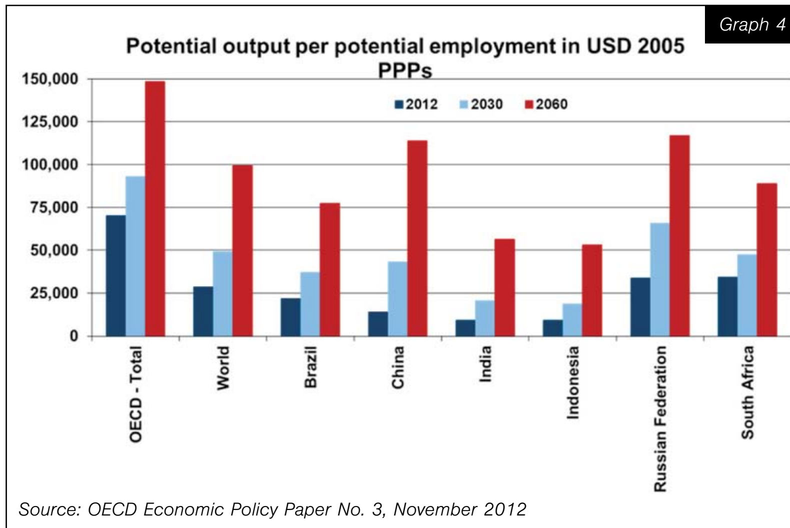
Source: OECD Economic Policy Paper No. 3

Graph 3



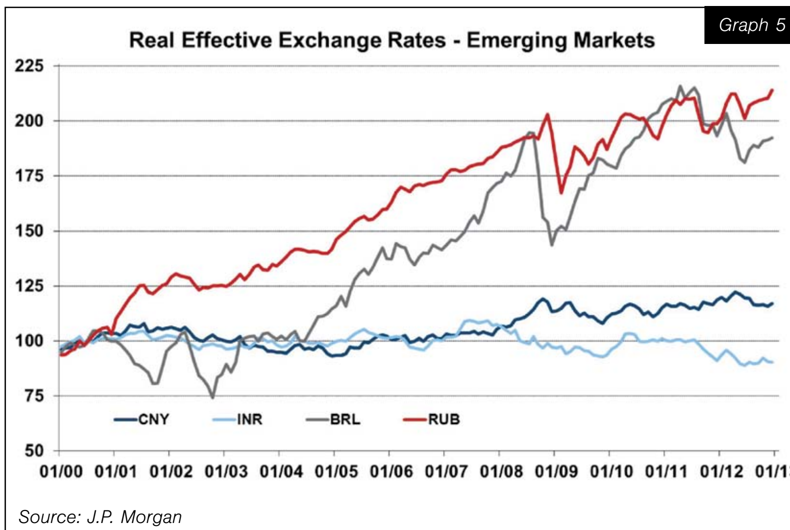
Source: OECD Economic Policy Paper No. 3, November 2012

Graph 4



Source: OECD Economic Policy Paper No. 3, November 2012

Graph 5



Source: J.P. Morgan

and the United States – currently accounting for 17% and 23%, respectively – will see their shares decline to 12% and 18%, respectively. *(Graph 2)*

Striking differences of fiscal indicators

The better ranking of EE vs DE with respect to structural fiscal indicators and fiscal adjustments is striking. Both gross general government debt in terms of nominal GDP (89.7% vs. 37.5%) and the cyclically adjusted balance plus gross interest expenditure in terms of nominal GDP (-3.4% vs. 0.4%) are substantially higher in the DE than in the EE. The IMF has calculated the fiscal adjustment needed in order for governments in DE and EE to achieve their 2013 debt target (DE: 60%, EE: 40%). According to these calculations, the required cyclically adjusted primary balance will have to reach 6.1% in DE but only 0.5% in EE. In addition, age-related spending between 2011 and 2030 is forecast to increase by 3.9% of nominal GDP in the DE and by 2.8% in the EE. *(Graph 3)*

Higher yields and earnings, and stronger currencies

The significantly higher potential GDP growth in the EE comes with important implications for the different asset classes: due to higher nominal GDP growth, the average interest level will be higher for fixed income securities in the EE than for those in the DM. At the same time, the risk premiums for inflation, country default, and currency depreciation will stay low and decline even further, with economic policies focused on structural reforms. Furthermore, higher wage growth in the EE and depreciation pressure on numerous DM currencies are expected to lead to an appreciation of EE real effective exchange rates. Also, faster EM growth implies higher earnings growth of multinationals as well as of domestic companies in the EM. *(Graph 4)*

RMB assets the next safe haven

As far as the supply side is concerned, the (gradual) liberalisation of financial markets especially in China, and the widening of the capital account will lead to a substantial rise in RMB assets over time. On the premise of a sound monetary policy in China, RMB government bonds could move up the ranks in terms of credit safety and liquidity and over time play in the same league as Bunds and US Treasuries. *(Graph 5)*

WRITTEN BY GERHARD WINZER; CHIEF ECONOMIST, ERSTE ASSET MANAGEMENT

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Investment grade emerging markets corporates

ERSTE senior fund manager Peter Varga explains how its ESPA BOND EMERGING MARKETS CORPORATE IG is geared towards the need for yield that is seen among institutional investors

ESPA BOND EMERGING MARKETS CORPORATE IG is a fund that invests exclusively in investment grade corporate bonds from emerging countries. What kind of institutional investors do you hope to attract?

Basically this product is targeted at all groups of institutional investors such as pension funds, insurances, companies, umbrella fund managers, and also banks. The new regulatory criteria such as Solvency II give clearly preferential treatment to bonds in the investment grade segment. This fund combines this specification with the chance to benefit from the performance of emerging markets corporate bonds.

Who manages ESPA BOND EMERGING MARKETS CORPORATE IG?

The fund is managed by a team of four investment specialists. The same team also manages about €2 billion worth of assets in fixed income emerging markets, both in hard and local currency.

As senior fund manager I have been primarily responsible for the management of emerging markets corporate bonds since the launch of the fund.

What kind of expertise does the fund management team have when it comes to emerging markets corporate bonds?

Erste Asset Management has been among the pioneers in the Central and Eastern European (CEE) fund business since 1990. We have gradually expanded our 'home field advantage' from the CEE countries to the global emerging markets on the back of our local presence. With ESPA BOND EMERGING MARKETS CORPORATE IG, we leverage our experience gained from the ESPA BOND EMERGING MARKETS CORPORATE fund, which has invested successfully in global emerging markets corporate bonds since July 2007.

Due to rising bond prices the fund yield currently amounts to about 3.5 per cent. Why is the fund still attractive to investors?

It's a question of alternatives. If you compare it to the yield of the so-called risk-free government bonds of Germany and the USA, the yield is indeed still attractive. Many investors have been waiting for a correction, which from our point of view should definitely be used to buy. Investors have a 'need for yield' – this applies in particular to institutional investors from developed economies with good ratings.

Many experts have become suspicious of the boom in emerging markets debt; the market is rife with talk of a bubble. What is your opinion on this situation?

The long-term positive trend is intact, and it is supported in particular by the demographic development. The average age of the population in the emerging markets is below that in the industrialised nations. Income per capita will multiply and thus spawn a middle class with a strong propensity to consume. As a result, economic growth in the emerging countries outperforms growth in the industrialised nations, and the ratings of the former improve – much like in Korea, where Moody's has upgraded the rating to Aa3 only recently.

BBB bonds account for about 70 per cent of the portfolio's net asset value. Why the strong focus on this segment?

First of all: we manage the portfolios on the basis of our own fundamental assessment, not according to the ratings given by agencies.

But you are right – the overwhelming majority of companies hail from this rating class. Companies from emerging markets usually receive a rating that is lower than their peers in the developed markets universe. Hence, even though they offer similar fundamentals, BBB-rated bonds in emerging markets would be rated with a single A or even higher only if they belong to the developed markets investment universe. This is also true for higher rated bonds.

Could you give us an example?
Baidu, the Chinese internet search giant. The bond offers a yield of 3.8 per cent for a 10 year maturity in USD, which is above the average yield of the fund. The fundamentals of the company are very sound: market capitalisation of $38 billion, total debt amounting to $1.5 billion, net profit of about $1.5 billion p.a., and a positive net cash position. Furthermore, Baidu's strong search engine and their focus on the mobile internet business is receiving more and more recognition.

If we now take a closer look at the rating, we find out that despite having an official rating of A-, Baidu trades only 15 to 30 bp below some of the industrial companies in the BBB- or BB+ rating category. Furthermore, the company is rated like Gerdau from Brazil, which operates in a very cyclical environment. In our view, Baidu offers much more stable returns over the coming months than most of their BBB rated peers.

Summing up, fundamentals are more important than the ratings from the agencies.
Exactly. In addition, the investor can benefit from the migration into a higher rating class.

What is the optimum volume of the new fund?
Our current flagship product, ESPA BOND EMERGING MARKETS CORPORATE passed the $500 million threshold last year. In the medium term we are heading for a similar figure for the ESPA BOND EMERGING MARKETS CORPORATE IG fund.

If the new ESPA BOND EMERGING MARKETS CORPORATE IG is successful: would you consider launching a fund for emerging markets high-yield bonds at a later stage?
A pure-play emerging markets corporate high yield fund could be an option. This strategy would target a client group with a clearly defined risk profile.

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Rules of engagement

Public pressure and the aftermath of the global financial crisis have pushed pension funds to take a closer interest in the activities of the companies in which they invest. Matt Ritchie looks at the rise of engaged investing, and how funds are using this approach to their advantage

The investment decisions of pension funds move markets. But increasingly, funds are using their influence to change the behaviour of the companies they invest in. Whether it be through encouraging companies to improve their environmental performance, improve their standing as corporate citizens, or concentrate on ensuring their businesses remain strong into the future, funds are finding and using their voice.

The search for answers in the wake of the financial collapse that rocked global markets from 2008 identified many culprits. But the financial services industry and what was popularly identified as a culture of short-term profit taking over long-term value creation attracted particular scorn.

Relaxed, light-handed regulatory regimes were derided for allowing the culture to flourish, but lately the behaviour and incentives of shareholders themselves has been identified as an important check to undesirable business practices. This extends beyond corporate governance, and shareholders are increasingly being expected to take a greater interest in the overall impact of their investments.

Pressure

This is especially true of pension funds, which as large investors with the ability to exert significant influence can be expected to use that power for purposes higher than simply growing their asset base.

"One of the biggest trends we're seeing is there's been much more media and NGO attention on pension fund investment in unsavoury companies," says F&C director governance and sustainable investment Alexis Cheang.

"Particularly on the continent we've seen a number of media programmes similar to the Zembla programme in the Netherlands or Panorama in the UK that will highlight a very concerning issue, and then go on to say: 'The following European pension funds are invested in these companies'."

Governance for Owners chief executive Stephen Cohen agrees an increase in public scrutiny is influencing the engagement behaviour of pension funds.

"Pension funds have become more aware through the media, and because in turn some scheme members have been contacting the trustees on these issues and asking what their policies are," he says.

However, media attention and the ensuing client pressure are not the only factors driving what Cohen says is an increasing level of activism

among pension funds.

According to Cheang, it is now accepted as good practice globally for pension funds to have an ESG strategy, and some level of engagement with the companies a fund invests in has become a de facto standard. Large funds can take on the engagement role themselves, but commonly funds will require their asset manager to do this for them.

Taking a closer interest in extra-financial factors is not about altruism either. "A good management team that's running the business in the interests of all stakeholders should be a more resilient and successful business over the long term," Cheang says.

"Overall strong management is a key ingredient for successful companies, and that includes strong management over corporate governance and sustainability issues as well."

Cohen says closer links between environmental, social, and governance teams and investment teams have also contributed to a greater interest in shareholder engagement on the part of pension funds.

Engagement

This link between investment decisions and ESG analysis and engagement is key, says Ownership Capital partner and chief investment officer Alex van der Velden.

"If the investment team isn't interested in extra-financial issues, if they're not changing the way they invest as a result of those factors then you often have situations where the investment team wants to do one thing and the engagement team wants to do another.

"What you really want is for the investment teams to be taking these issues on board and to be doing the engagement themselves so they can get the feedback loop of understanding the relevance of these factors," van der Velden says.

Engagement needs to be done right to meet the goal of contributing to more sustainable, valuable businesses. There has been a recent trend of investors staging public campaigns to pressure companies to take steps that the investors feel will move the share price.

Changes of this nature are often not motivated by the long-term best interests of the company, van der Velden says, and this form of activism is a different concept altogether from taking an ownership approach to engaging with businesses.

"The negative consequences of activism have become clearer over the last few years," van der Velden says. "There has been a shift against that sort of negative sabre rattling, especially in Europe. Even in situations where it has delivered a good return for that specific investor it has had wider societal consequences when it has failed."

Reception

But what if investors approach target companies only to find the door is closed when they try to engage?

Fortunately it seems increasing levels of engagement have meant pension funds are receiving a warmer welcome around the management table.

"Companies are increasingly receptive. 2012 in the UK saw a large percentage of votes against resolutions," Cohen says. "AGM voting outcomes can in effect then force them proactively to engage in discussions with investors on specific topics."

Cheang agrees that the barriers between investors and those that run listed companies have broken down. She says 10 years ago companies simply did not understand why a shareholder would approach them with concerns around their ESG practices.

Some companies will always be 'unengageable', but in 2013 businesses are much more willing to open a dialogue with their investors.

The way an investor chooses to engage can have just as big of an influence over whether a company is willing to listen as the number of shares they hold. A company is unwilling to listen if shareholders ask the wrong questions, Cheang says, regardless of the size of their holding.

"On the flip-side if you ask sensible questions of the company around governance or sustainability issues and you frame it in a way that indicates 'this is good for the company, this is good for us as investors' then the company will frequently listen even if you're a relatively small investor."

And companies need to feel there is value in engagement for them too.

Ownership Capital's van der Velden cites an example of a company chief executive who listened to and acted on a European pension fund's concerns only to find their holding in his business decreased, illustrating how companies can become disillusioned with taking the time to engage. In van der Velden's real-life example, the fund in question was an index investor.

"The credibility of investors who do not put money behind their engagement becomes diluted, because you're not giving the companies a reason to act. If they don't see that their actions translate into their share price improving over time, then they will focus on the things that do make their share price move. And those tend to be short-term strategic moves and acquisitions and the like. That relegates long term thinking to second place."

WRITTEN BY MATT RITCHIE,
A FREELANCE JOURNALIST

Longer life and creating retirement security

John Fitzpatrick and Amy Kessler explain the changes needed to tackle the challenge of increasing longevity

An important gathering of retirement and ageing experts from across the world took place in Geneva, Switzerland in December. Hosted by The Geneva Association, the Life and Pensions 'Four Pillars' conference focused on the future of retirement and explored the primary means by which retirement security can be achieved: social security, pensions, personal savings and employment in retirement.

The key messages from the conference were that pension systems in many countries are on an unsustainable path. People are living longer, spending more years in retirement, depending more on social security than occupational pensions or personal savings and increasingly anticipating the need to work in retirement. The risk is made more acute by the fact that many pension systems are underfunded and require contributions from current workers to support the growing retired population. Demographic shifts show rapid growth in the retired population compared to working-age people. The result is an inter-generational risk that depends on continued population growth, economic growth and real economic opportunity for younger generations. Despite these facts, in country after country, retirement age continues to rise more slowly than healthy life expectancy.

To date, these developments have primarily been viewed as risks, driving many countries toward a looming retirement crisis. In Geneva, however, the conference focused on increasing longevity as an opportunity that could drive economic growth and stability in many countries worldwide, if only retirement systems adapt to avert the crisis and seek a more sustain-able path. Presented below are insights from the conference.

The first pillar – social security

Keynote speaker Professor Elsa Fornero, Italian Minister of Labor, Social Policies and Equal Opportunities, focused on the adequacy and sustainability of pension systems and highlighted the achievements of the Italian government in enacting urgently needed reforms in the face of unsustainable public debt and a rapidly ageing population. Italy's experience demonstrates that retirement systems require a healthy balance to maintain the link between economic opportunity for the working-age population, income growth for workers contributing to social security programs and saving for their own retirement; and the retirement security of the growing elderly population.

With longer life expectancy and dramatic increases in the retired population, these challenges are common to many countries with 'pay-as-you-go' social security pro-grammes. Moving toward systems that link retirement age and healthy life expectancy would help many countries avert a looming crisis, in which the working population may not be able to support the growing number of retired persons at their expected benefit levels.

The second pillar – occupational pensions

Swiss Life CEO Bruno Pfister pinpointed the challenges faced by corporate pension schemes facing longer life expectancy combined with low returns, which together result in an accelerating funding gap. The need for pension reforms is hence rising, but politically challenging in that, "a combination of three unpopular measures – increased contributions, lower benefits and a raise in the number of contribution years – must be phased in with support provided to those hardest hit". These same concerns are common across many countries and are particularly acute for state and local public pension funds in the United States, where Krzysztof Ostaszewski (Research Director, Life and Pensions, The Geneva Association) pointed out that many US municipal insolvencies are linked to pension debt and to the unaffordable promise of holding the retirement age constant while people continue to live longer and healthier lives.

Prudential described the many

ways in which the insurance community can help DB schemes seeking a more sustainable risk position. The insurance community offers low risk, low volatility asset management solutions and longevity insurance, which combine to create a more sustainable risk position than most pension schemes have today. Insurers can also offer pension risk transfer solutions, such as buyout and buy-in that transfer pension risk away from the scheme.

Today, DB schemes are increasingly being replaced by DC schemes. Anthony Webb of Boston College's Center for Retirement Research focused on the many ways to help DC scheme participants achieve better outcomes as they save for their retirement, including auto-enrolment to ensure participants save, auto-escalation to ensure contributions increase over time, target date funds to improve investment outcomes and the use of participant data by employers to assess risk tolerance to achieve still better outcomes. Also pinpointed was the need for lifetime income solutions within DC, which address the key risk of outliving one's savings and support individuals in enjoying a secure retirement.

The third pillar – personal savings

The best way to ensure that individuals save enough to maintain a reasonable standard of living in retirement is to encourage the growth of personal pensions with tax advantages and other incentives. Lorenzo Savorelli, Head of Research at Generali Group shared a study demonstrating that a common challenge for personal pensions is the low participation rate, where savers have been deterred by the perceived expense of the programs, procrastination and a lack of financial awareness for how much savings is needed to create retirement security.

Employees must be supported in understanding much more than the savings programmes available to them – individuals should have access to clear information regarding their combined retirement resources (including state provision) and the annual spending that they will be able to support in retirement. This education is the surest path to motivating individuals to ensure their own quality of life in retirement.

The fourth pillar – work in retirement

Despite the challenges, real opportunity comes with today's risk. Harnessing the productive capabilities of silver workers would end 'cliff edge retirement', enhance retirement security and fuel real economic growth. Chris Ball, Chief Executive of The Age & Employment Network shared his insight into silver worker success stories. Leading companies today are developing flexible work arrangements and other ageing strategies that support succession planning, intergenerational knowledge transfer, age diversity and retention of skills and know-how of older workers. These programmes align good business with good outcomes for individuals. Yet in many countries, employment and tax policies need to be modified to encourage this and keep silver workers contributing to economic growth.

The four pillars together – longer life and secure retirement

The biggest questions raised at the conference were summed up by Andrew Rear (Chief Executive, Africa, Asia-Pacific, UK and Ireland for Munich Re) who said: "If current expectations about retirement are too optimistic and many overshoot by retiring too early or drawing too much income, how do we change expectations and behaviour today to aim at a softer landing than the one we are anticipating?"

The answers suggested at the conference included linking the retirement age of social security systems with changes in healthy life expectancy while providing a robust safety net for disabled workers, ensuring that employer sponsored DB schemes achieve a sustainable risk profile and, in the shift to DC, support employees in retirement planning, saving, investing and obtaining a lifetime income benefit. Also providing personal pension savings options with tax advantages and other incentives, with saving encouraged through education and projections showing how much annual spending an individual's resources will support in retirement, and creating tax and employment policies that encourage flexible arrangements for silver workers.

Longer life need not be viewed primarily as a risk. By allowing most individuals to work longer, longer life can be the answer to creating sustainable retirement systems in many countries and secure retirements for individuals.

WRITTEN BY JOHN H. FITZPATRICK, SECRETARY GENERAL AND MANAGING DIRECTOR OF THE GENEVA ASSOCIATION AND AMY KESSLER, SENIOR VICE PRESIDENT AND THE HEAD OF LONGEVITY REINSURANCE AT PRUDENTIAL RETIREMENT IN THE UNITED STATES.

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Keeping afloat

Times have been tough for custodians and uncertainty is set to remain for a while yet. Christine Senior explores how they are dealing with lower revenues and new regulations

Custodians are being assailed on all sides by a battery of contrary forces. New developments and more difficult trading conditions that threaten their profitability are forcing changes on their business. There has been litigation over claims of overcharging for foreign exchange services in the US, while closer to home custodians are feeling the impact both of lower revenue from some of their services and a raft of new regulation they need to comply with.

High profile legal cases in the US have raised awareness of the potential for overcharging on standing instructions for custodians to handle forex. Both State Street and BNY Mellon have faced accusations of fraud in their dealings with some of their US pension fund clients. Happily pension funds in the UK and Europe seem to have escaped these kinds of scandals, perhaps because of a greater awareness of currency issues this side of the Atlantic.

James McGeehan, co-founder and CEO of FX Transparency in the US and UK, which specialises in transaction cost analysis, says: "In European-style management there has historically been more focus on currency concerns. Europe's long history of strong intra-European trade in legacy currencies, coupled with a greater propensity to utilise currency hedging mandates, has left currency execution quality on people's radar screens more than in the States."

It seems likely pension funds in Europe have had more of a handle on costs of currency transactions and a willingness to track costs. Mercer Sentinel Group senior associate Stuart Catt recalls that as far back as 2000-2 pension funds were specifying in their contracts with custodians agreed spreads for forex transactions and were using independent parties to monitor costs. Several firms including Mercer itself have long been offering cost tracking products for currency deals.

In the US, by contrast, it seems there may have been an element of custodians misleading clients into believing that forex execution was a free service.

McGeehan comments: "In discussions on FX custody services, our global pension clients have highlighted that custodians point out 'we don't charge anything for these trades, there's a higher risk of settlement issues if you execute through a third party dealer and there is an explicit charge if you trade away from us'."

But custodians are also under the cosh from reduced revenue sources. It's evident that some of the services they have traditionally offered are no longer the profit centres they once were. Revenues from securities lending and forex transactions have been squeezed through reduced activity, and low interest rates have driven down cash management income.

In the case of forex revenue, FX Transparency did some research on trades on behalf of its clients over a period of 10 years, looking at both forex trades based on standing instructions to custodians and negotiated transactions between investment managers and third party banks.

McGeehan says: "If you demark a point in time when the California v State Street litigation came out in the news, over the next 12 months, without a commensurate change in the volatility, the key determinant of bid ask spreads, there was a 63 per cent decrease in transaction costs on standing instruction/custodian transactions. That can't be good for the overall earnings and profitability of custodians."

For many it has been the norm to cross subsidise core custody fees with revenue from the historically more profitable non-core services. All has changed now. Core custody charges have become a more central source of income, but options to increase those are limited.

Some relationships with clients may actually be a drain on custodians' profitability.

Catt says: "We are seeing more frank discussions in the market with custodians going to smaller clients and saying 'we are not making any money having you as a client, we actually lost money, therefore we need to put up your fees', and they're having a fairly adult conversation."

Custodian benchmarking consultancy Amaces director Tom Robertson says custodians are looking carefully at costs and fees, with some implementing minimum fee scales to ensure they don't service clients' portfolios at a loss.

The impact this may have on clients can vary enormously, with smaller clients likely to be under more pressure. In some cases clients have even been told they are no longer wanted because they aren't profitable.

At BNP Paribas Securities Services it has never been the practice to cross subsidise core custody fees with revenue from add-on services, says head of the asset owner client segment Dietmar Roessler.

"Our rules of engagement are such that we believe a custodian relationship needs to be profitable on a standalone basis based on its core services. That prevented us from relying on treasury services. But we have been keen to add treasury services to the relationship. That creates margin on top of the very hard fought custodian relationship component."

Another source of increased costs comes from the plethora of new regulations and directives that will impact on custodians' business. That ranges from Foreign Account Tax Compliance Act (FATCA) and Dodd Frank in the US to European directives such as EMIR, the Alternative Investment Fund Managers Directive (AIFMD), and UCITS V. These will require new procedures and processes, perhaps the appointment of new specialist staff and probably technological upgrades.

Compliance rules will become more burdensome. Take for example the forthcoming changes to the AIFMD, which will take effect on 1 July this year. Currently when custodians delegate responsibilities to sub-custodians, if they can demonstrate they have a proper standard of care and supervision of delegates, their liability is discharged. Under the new rules custodians will remain liable for responsibilities delegated to sub-custodians.

As for increased costs, it's inevitable that custodians will be forced to pass them on to their clients. It's not yet totally clear what that will mean in actual figures. But Roessler is aware of some figures being talked about in relation to AIFMD and UCITS V, and if these turn out to be correct they will add considerably to the cost of doing business.

Roessler says figures of 5-10 bps on assets, depending on the market and vehicles used, is being discussed, though BNP Paribas itself has not done any simulations to confirm these figures. "If at the moment you are paying a basis point for your global custody fee, and the market discussion is ongoing this might increase three-, four- or fivefold, or more."

These are only estimates, but whatever level fees may take, they are likely to have a major impact on providers and their clients.

Roessler says: "These are early days. I don't know any provider who has come out with a clear pricing strategy in response to AIFMD and UCITS V. But it's going to have a heavy impact on the asset owners who invest in AIFM and UCITS structures and will completely change the competitive landscape among custodians."

Custodians may be forced to adapt their business model to the new landscape. BNY Mellon has recently announced the launch of a new venture – its Central Securities Depositary in Brussels, a response to a number of regulatory developments. BNY Mellon CSD CEO Chris Prior-Willeard says: "The current raft of new legislation – notably EMIR, AIFMD and T2S – requires us both to expand our service in the post-trade space and to more closely integrate key processes within the securities value chain to provide our clients with greater efficiencies and decreased risk."

Whether other custodian banks will follow this route remains to be seen, but it's an option only open to the very biggest players.

WRITTEN BY CHRISTINE SENIOR, A FREELANCE JOURNALIST

Staying strong

David Adams explores how the Swiss pension system tries to keep its strengths by regulatory changes and changing investment strategies

You can argue about how you define such things, but by some measures, the Swiss are the richest people on earth. Does this mean that the country is immune to the sorts of problems associated with pension schemes elsewhere? Well, no. But things could be worse: 2012 was a pretty good year for many Swiss pension schemes, thanks to a good year in equities, supplemented by healthy returns from Swiss real estate investments, with many funds earning returns of 6 -7 per cent.

Switzerland has a three pillar system: first the state pension; then occupational schemes, incorporating a mandatory element for which a minimum rate of interest is guaranteed each year by government (currently 1.5 per cent), with a guaranteed conversion rate payable on retirement as funds are converted into pensions (currently 6.8 per cent). Most workplace schemes are Pensionskassen, using a structure similar to that seen in other countries, but some small and medium-sized employers use collective foundations (Sammelstiftungen), which may carry all risks, or share them with/outsource to insurers. Private arrangements are the third pillar.

As elsewhere, one key trend is the move of occupational schemes from defined benefit (DB) to defined contribution (DC). But the mandatory rates payable by second pillar schemes creates additional pressure. With interest rates and yields from Swiss government bonds (of which many schemes have allocations of 30 per cent or more) very low, passive, low risk investment strategies are unsustainable.

Funding levels are improving. The proportion of private sector funds with a funding shortfall was 12 per cent in 2012, compared to 25 per cent in 2011, according to Swisscanto, with the estimated funding ratio up 4 per cent to 106.8 per cent. Funding ratios increased for public sector funds aiming for full funding too, to 98.5 per cent. Some public sector funds use state subsidy so only need to be 80 per cent funded; the funding ratio for this group was 74.7 per cent. Yet even for those funds with a positive score there is clearly a need to try to build greater reserves, to take on more risk and counter the effects of increasing longevity.

But many trustees seem to be preoccupied by regulatory demands. One important change has been the creation of the Oberaufsichtskommission Berufliche Vorsorge (OAK BV), the new pensions regulator, which assumed responsibility for oversight of the supervisory authorities operating in each of Switzerland's 26 cantons at the start of 2012.

In addition, major structural reforms are coming into force in stages, to improve governance and transparency. Some have criticised these changes for imposing extra administrative demands. "Swiss pension funds still have a high degree of freedom," insists Joseph Steiger, deputy sector leader for occupational pension benefits and financial affairs at Switzerland's Federal Office of Social Insurance (FOSI). "The regulatory pressures are not in my opinion so hard that it has to be a high priority."

One longer-term goal for the

industry will be to lower mandatory conversion rates for second pillar schemes. The question was put to a popular vote in 2010 and easily defeated, but in October 2012 the government tried a different tack, announcing plans for further reform of both the first and second pillars. "It's going to be a long road: they've announced 2020 as a possible date for the changes," says Towers Watson pensions lawyer and consultant Simon Heim. "They say they want to offer more flexibility on retirement ages and to make early retirement look less attractive. There will be another attempt to lower the conversion rate." More details will be published this summer, with a first draft for reform expected to be published by the end of the year.

In March the Swiss will vote on another reform, proposed by the politician Thomas Minder, designed to give shareholders more control over executive pay. The idea is to attack the bonus culture which encouraged excessive risk-taking in the financial sector, but the measure would also force pension funds to vote at shareholder meetings in their members' 'best interests' and disclose voting records.

"The industry doesn't like forcing pension funds to exercise voting rights," says Heim. "And of course it is difficult to say what is in the members' best interests. Can they simply assume long-term profitability of these companies is in the members' interests? What else should they take into account: CSR, for example?" The government has developed a more moderate set of proposals which will come into force if the vote goes against the Minder plan, but this will still impose new voting requirements.

Other proposed changes include a suggestion that schemes could offer members who earn CHF126.360 or more individual investment rights for their pensions, if they waive statutory guarantees. "Under current law a plan member could choose a high risk strategy and if the markets go down he would still be entitled to his own contribution and the minimum guaranteed interest," Heim explains. "With this initiative investment risk will be transferred to the individual member. We're only talking about a small number of people, but multinational companies are interested, in part because these plans wouldn't then need to be evaluated as DB plans on their books, but as DC plans." Under the current legislative timetable, it is very unlikely such a change would be adopted any sooner than 2014 at the earliest.

A need to reduce costs has driven a move towards passive investment strategies in recent years. But might that phase be ending? Swisscanto Asset Management chief economist Dr Thomas Liebi believes calmer conditions in the eurozone will have a thawing effect on Swiss interest rates, bond yields and investment strategies. More schemes are already investigating return generating assets.

"Many pension funds are increasing investment into high yield bonds, emerging market bonds and alternative investments," says Reto Hintermann, head of institutional mandates, Switzerland, for Swiss & Global, but also responsible for Swiss & Global's own pension fund. "They're looking for absolute return strategies within the fixed income parts of portfolios." His own pension scheme has increased exposure to equities, emerging market bonds and high yield bonds.

"We have seen something of a return to risk," says Schroders, country head for Switzerland Stephen Mills. "We have been winning Swiss equities, Swiss small cap mandates – but I wouldn't say it's a dramatic shift yet."

Figures from the Credit Suisse Pension Fund Index show that within the Swiss pension funds, for which CS acts as a custodian, exposures to Swiss and foreign equities rose slightly at the expense of bonds during the final quarter of 2012 – but allocations have not shifted dramatically over the past two years.

The figures also show a gentle fluctuation in real estate allocations over the same period, from around 19 to 21 per cent and back down to 20. Swiss pension funds have used local property investments for many years, but low interest rates and the relatively small size of the market have inflated a small bubble.

"We are not afraid that the bubble may burst," says Hintermann. "We have price increases at the moment of 3-4 per cent for a year. This is not comparable to markets like the UK and the US during the crisis." There is also growing interest in real estate outside Switzerland.

Yet, for all the debates about regulation and investment strategies, overall the Swiss pensions industry is still undoubtedly healthier than its equivalents elsewhere in Europe. "Clearly Switzerland is in a relatively comfortable position with the second pillar schemes," says Mills. "Having said that, there's still too much looking backwards, too much 'we did this in the past so we'll continue'."

"I think the main question is still how we can make sure the system keeps its financial stability," says Steiger. "Swiss funds are quite stable: they have kept a long-term view over the periods of financial crisis. We still can do better, but if you compare it to other countries we're in good shape."

WRITTEN BY DAVID ADAMS, A FREELANCE JOURNALIST

Reforming communications

Kin Ly explains how the widespread pension reforms across Europe make it the right time to focus on improving pension communication, using a multi-faceted approach

The pensions industry has received increased attention over recent years with European regulatory changes taking the public by storm: the shake-up to the state pensions for instance; or the enforcement of the EU gender directive affecting annuity rates. Indeed, the hefty reforms have brought to light the importance of clear communication to ensure that the changes and their impact are accurately understood; and there's no doubt that some of that burden lies with employers and pension providers.

However, some European countries appear more ahead of the game than others when it comes to pensions communication. The UK's Jargon Free Pensions resource brand founder Steve Bee says: "I don't think we've got a good track record in this country of communicating pensions in the workplace. So if you're looking at the new pensions market, assessing what has been done in the past is not a particularly good guide of what to do in the future.

"Surveys in the last few years of large employers in the current corporate market found that very few people know about their pensions. They do not know how much their employer pays, they are not sure what they are likely to get. I think in terms of communication we have done a poor job up until now. But we are now spreading that corporate pensions market from the large firms right down to the tiniest. So if we're ever going to get the communication right, it's got to be now."

What needs to be done?

Reforms and new initiatives may well present an opportunity to 'get the communication right', and if this is the case, then employers may need to look at a two to three-tiered approach to communication, say some of the UK's leading pensions consultants.

Spence & Partners head of employer advisory services Alan Collins is currently working with small and medium-sized (SME) employers who are participating in the country's automatic enrolment initiative. Some of his clients are reviewing their existing pension arrangements and are preparing for consultation with staff.

He says a two-tiered communications strategy would be the most effective way of engaging employees. The first phase would involve an open consultation in the form of an online or paper-based questionnaire, followed by a second phase where employees are offered face-to-face consultations.

"What employers are trying to do in the first phase is gather information so that they can best inform the

decision for what to consult on next.

"The message has to be clear that it's a genuine consultation and not just a tick-box exercise. It should demonstrate that [employers] want to find out what their employees want."

While this may be a beneficial two-way process in identifying the needs of staff, there are still logistical barriers for some employers to overcome. According to Collins, most of his SME clients may not have the confidence to roll out an online survey despite the benefits to increasing engagement and gathering information.

He says an online tool is a resource that Spence & Partners anticipate looking at over the next 12 months, but that the feedback from its clients is that they are very much 'still on paper'. However, Collins adds: "I will certainly be discussing with some clients whether an [online survey] is something that they want to do. I would anticipate that response rates would increase the easier you make it for employees to respond. If you can generate that through online tools then I would encourage people to look at that."

The second phase – the face-to-face consultation – is an additional opportunity to present the results of tier one's questionnaire and outline the company's next steps. However, it is important to demonstrate that the feedback from the questionnaire has helped shape the company's proposals, says Collins. "This is an ideal opportunity to start the final part of the consultation on a positive footing. It should demonstrate that the initial phase has contributed to the formation of the employer's plan and it should show how they are able to meet the needs of their staff. This could really help cement the success of the second phase."

While a two-tiered approach provides double the opportunity to engage and communicate with staff, Bee suggests that there is room for a third tier in the use of online social media.

Similar to Collins, Bee describes a strategy that encompasses a face-to-face open forum but suggests that this should be followed by the use of middleware programmes that will ensure ongoing communication between employer and employee. The third tier – such as Twitter, LinkedIn or Facebook – are additional platforms to further engage members of staff, and together constitutes an action plan for ongoing communication.

However, the uptake of social media among the pensions industry appears limited, says Bee. "I think our industry is frightened to use Twitter and LinkedIn. You'll hear a lot of people say, 'I'd like to do that but we're not allowed to do that at work.' I think that's limiting.

"Let's wind back to the 1930s when the telephone became available – not allowing your employees to use the telephone would not be far-sighted. The limitation on the use of social media is not any different to that. I think it would put your business offside."

The industry may need further convincing where social media is concerned, but what seems to work well for some is the use of explanatory online videos. B&CE director of customer solutions Jamie Fiveash says the use of videos is an effective alternative to face-to-face consultation.

The organisation has devised a five-minute online video aimed at employers to explain the benefits of its pension solutions. While there are no concrete figures to indicate whether engagement levels have increased, Fiveash says the feedback so far has been positive. "The most effective means of communication is face-to-face, but that's not always feasible in terms of cost, especially for transient workers placed across the country on different building sites. What we use is a more effective mobile means of communication in the form of DVDs and videos that could be streamed. Simple messages tend to be the most effective – people don't tend to read very lengthy letters in a post."

Central pensions database

In some European countries, a central database is being used that provides savers access to details of all pension pots, including a breakdown of contributions and charges. For instance, in the Netherlands, users are able to log in to a database using their national insurance (NI) number to access this information.

Fiveash says a system like this would increase engagement among pension savers. "It makes your pensions and pensions schemes self auditing and more transparent. I admit, I don't engage with my pensions, but if I knew that I could type in my NI number and can see my last three pensions in one place, I'll do that.

"The beauty of a central register is that you don't loose touch of your pension scheme when you move from employer to employer. It would help to have a central log-in system rather than having to sign into different accounts for every single pension provider."

There is no doubt that many will be affected by a raft of pension reforms and while there are examples of good practice to draw from some European countries, it is clear that from business to business, communication is patchy. But as Bee advocates, the pensions industry has the opportunity right now "to get the communication right".

WRITTEN BY KIN LY

Safe or sorry?

Interest in LDI has fallen lately, but Lynn Strongin Dodds finds that pension funds should nonetheless have an action plan ready

Although enthusiasm for liability driven investment (LDI) strategies has waned due to current market conditions, the strategy remains a firm fixture in the institutional armoury. Pension funds that took the plunge before the financial crisis can sit back but those on the sidelines are advised to develop an action plan so as not to miss out on the next turning point.

In other words it is better to be safe than sorry because fixing a date when that next window will open is not that easy. The bountiful quantitative programmes coupled with greater demand for safe haven assets across the UK and Europe has pushed real yields to new lows. Despite an improvement from the darkest days in 2011, UK 10-year gilts, for example, are currently trading at 2.09 per cent while the yield on 15-year UK index-linked gilts, which would have been the security of choice in the pre-crisis days to match the expectations of liabilities, is now 2.63 per cent.

There was a hope that the Bank of England would not have to dip back into the coffers this year but fears of a triple dip recession may force its hand. Europe's outlook also remains dim with the European Central Bank having cut its forecast for the eurozone's growth rate this year to between -0.9 per cent and +0.4 per cent. The result is that long-duration bonds and related derivative instruments used in LDI remain stuck at historically high prices while liabilities have increased.

The latest figures from Lane, Clark & Peacock's annual analysis of 83 FTSE 100 companies show that their total pension deficit more than doubled over the past year, from £19 billion at the end of June 2011 to £41 billion at the end of May 2012, while their total value of liabilities stood at £447 billion with total assets at £406 billion. Over the past decade the typical FTSE pension fund whittled down its equity exposure from 70 per cent in an effort to de-risk, moving towards bonds. Although the stock prices have recently been on an upward trajectory, the trend is not expected to reverse due to the volatility of equities.

"I do not think there was less interest in schemes de-risking last year but a combination of factors such as the continuation of low rates, the CPAC (Consumer Prices Advisory Committee) consultation on the retail price index and the resurgence of the equity market made trustees and advisers adopt a wait and see approach," says State Street Global Advisors head of European Strategy and Research Raymond Haines. "It is difficult to predict when rates will rise and the big question for pension funds is how long can they bear the pain or should they do something now."

Redington managing director, investment consulting Mark Herne also notes that UK schemes were

holding their breath in the fourth quarter waiting to see whether the Office for National Statistics would bring the formulation of RPI into line with the consumer prices index (CPI). "The market had expected a change and pension funds were waiting because inflation-linked instruments would have become cheaper if the formulation of RPI was moved more in line with CPI. However, the change didn't happen and now these instruments are more expensive and trading at the higher end of their historical range. Does that mean pension funds should not hedge? Not necessarily, as it will depend on whether they have embraced risk management as well as their own specific level of funding."

According to the latest SEI poll, which canvassed 25 schemes in the US, Canada, the Netherlands and the UK with assets ranging from $25 million to $1 billion, usage dipped to 57 per cent last year but "it is important to look at the bigger picture," says SEI director of European institutional advice Charles Marandu. "If you take the years since we started doing the poll, LDI has more than tripled from 20 per cent to 63 per cent in 2011. What we have seen change is that people are taking a much more holistic approach and looking to build asset strategies that match their liabilities. As a plan's funding level increases it may make greater sense to invest in portfolios that clearly match liabilities. At the moment, many plans cannot afford to heavily de-risk straight away but can implement a journey plan to reduce interest rate and inflation risk as certain trigger points are hit."

Erwan Boscher, head of solution management at AXA Investment Managers in Paris, also believes that LDI is resilient. "Firstly, managing balance sheet volatility and restoring funding ratios are still very important objectives, to which LDI contributes. The fact that private companies feel some pressure on their accounts at a time when the international accounting standards are becoming more stringent (revised IAS 19, moving towards more pension mark to market) explains why some corporate schemes still pay attention. Secondly, more generally, we are seeing a new wave of more dynamic LDI strategies that take on board the potential rise in nominal rates, as well as the growing importance of inflation."

F&C Investment head of global consultants and UK institutional business Julian Lyne agrees, adding: "Pension schemes are looking for flexibility and are investigating a variety of implementation approaches that they can use. We are also seeing more bespoke LDI strategies but the action they take all depends on their funding levels and governance structures."

Not surprisingly, the larger pension schemes typically opt for more tailored solutions while smaller to medium-sized players are taking advantage of the broader array of tools that are now on offer via pooled funds. "We are definitely seeing a wider set of instruments that include total return swaps, repos and swaptions," says BlackRock Solutions managing director John Dewey. "This is because pension funds are looking not only to mitigate the risks but also to squeeze out the returns. For example, late last year, we combined conventional gilt repo and inflation swaps rather than index-linked gilts for a client in order to generate the best returns."

Total return swaps (TRS) have gained a following because they exchange cash flows linked to the return of a gilt or basket of gilts for a set of cash flows tied to a floating rate of interest. Like other swaps, there is no initial outlay to enter the position but they offer institutions additional interest rate and inflation exposure. Repos are also finding a place as they allow pension funds to sell gilts temporarily and invest in something with a promise of better return only to buy the gilts back at a later date. Views are more mixed on swaptions which enable trustees to hedge interest rate exposure at a certain level, but do not oblige them to lock into current interest rates. The downside is that strong governance frameworks are required which is why they are mainly used by the bigger institutions.

They may become more popular in the Netherlands though, due to new regulation. According to Boscher, a smoothing rule as well as a new discounting curve has relieved, to a point, the pressure from live market rates, although LDI is still important. "The potentially higher rates could lead to swaption strategies, the use of triggers or other rule-based strategies to adjust the hedge ratio according to the level of rates and funding ratio. This could result in lower hedge ratios in the short term, but with pension funds keeping their LDI mandate, albeit in a different format," he adds.

Boscher also believes the new Financial Assessment Framework (FTK 2) for pensions could lead to a switch from nominal to index-linked liability, creating the potential for a 'second wave' of LDI, should the macro environment become more inflation prone in future. The more dynamic strategies could also take hold of wider leeway for nominal and inflation hedge ratios, allowing the pension boards to adjust according to medium-term market views.

WRITTEN BY LYNN STRONGIN DODDS, A FREELANCE JOURNALIST

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