



Investments

Challenges Trends Opportunities

Institutional Insights



The changing role of the asset owner

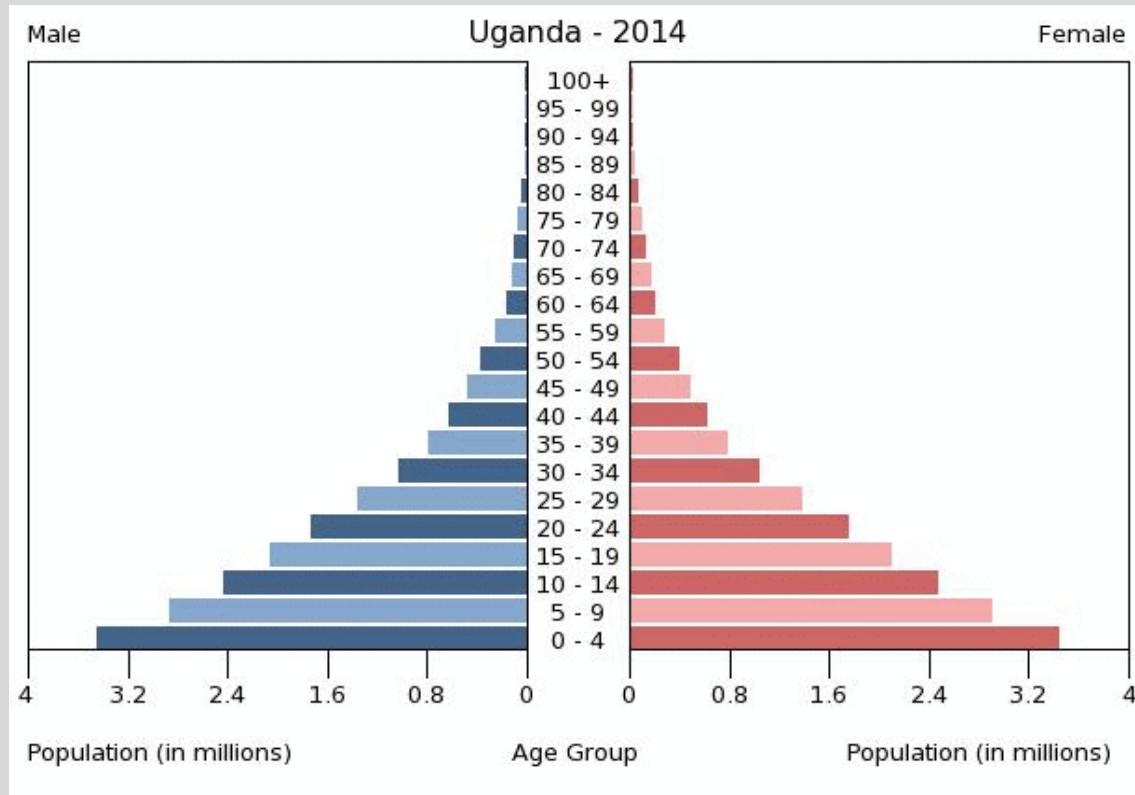
Better frameworks for better results
Bart Heenk, MD Avida International

Agenda

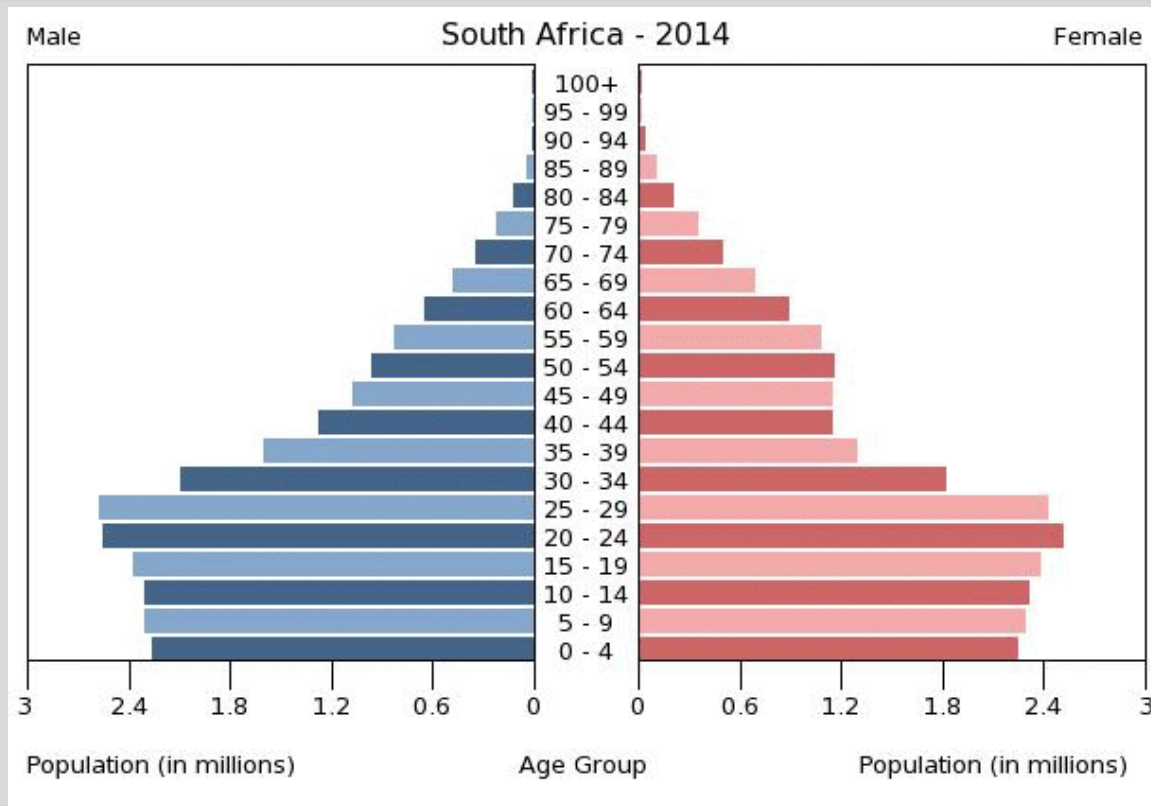


- Pension deficits
 - cause: increased longevity, rapidly reducing workforce
 - effect: reduced pension affordability
 - remedy: risk transfer, risk reduction
- Better governance
- Build or buy?
- Framework for good governance
- An example

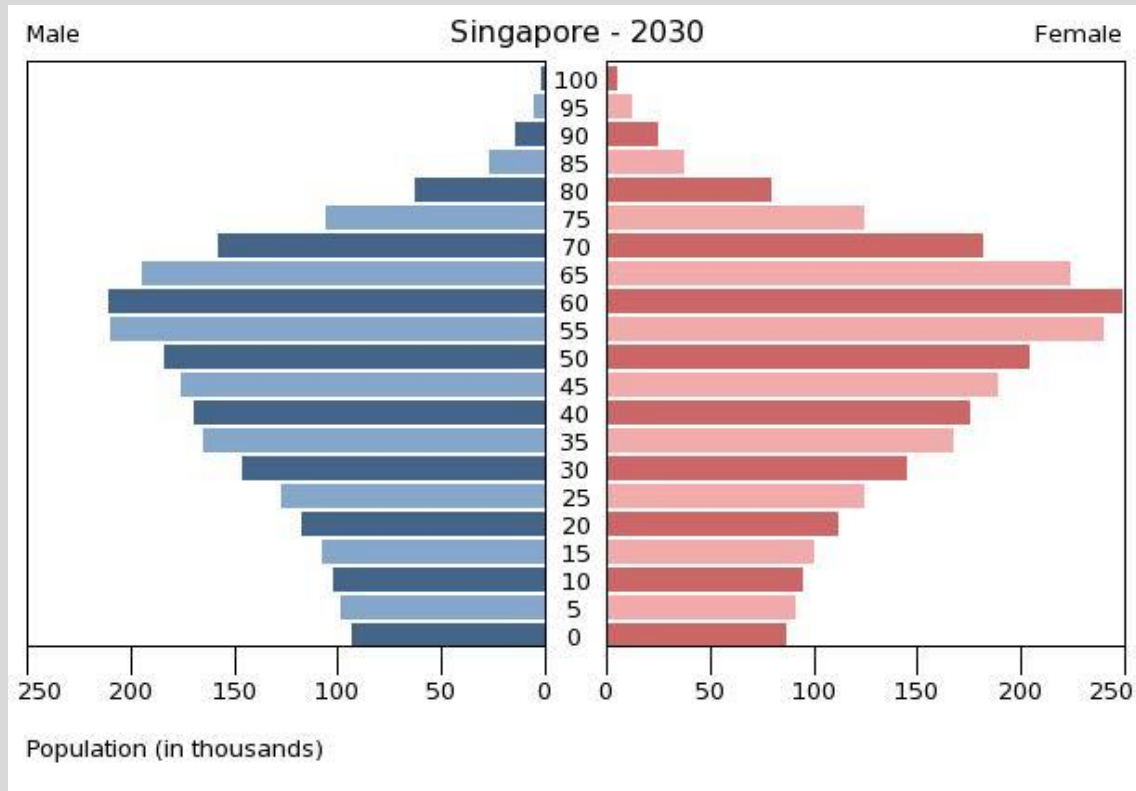
Rapidly reducing workforce



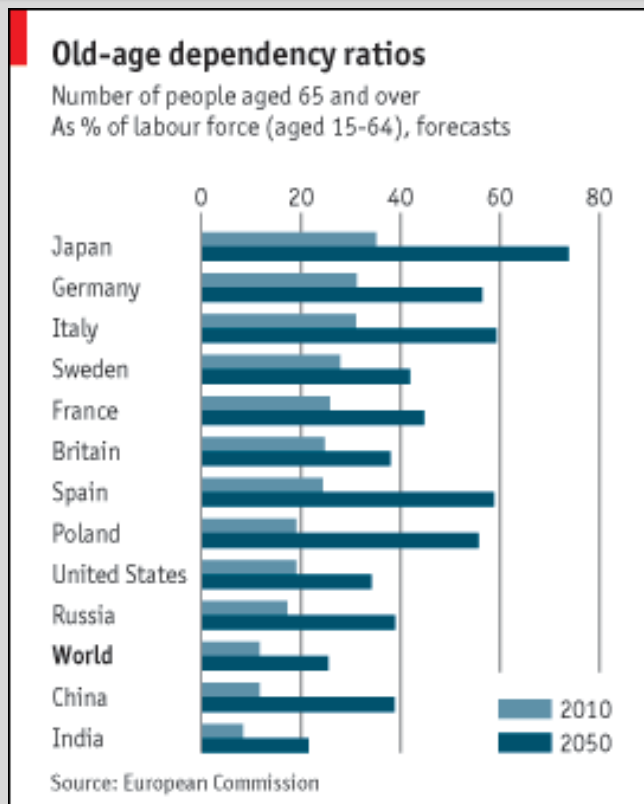
Rapidly reducing workforce



Rapidly reducing workforce



Rapidly reducing workforce

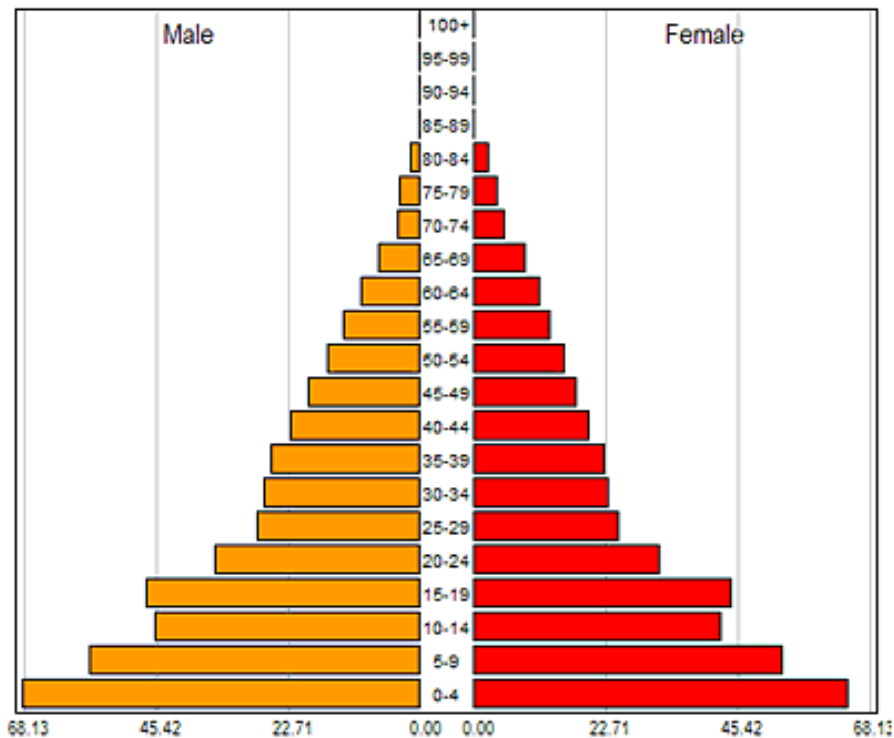


Source: European Commission

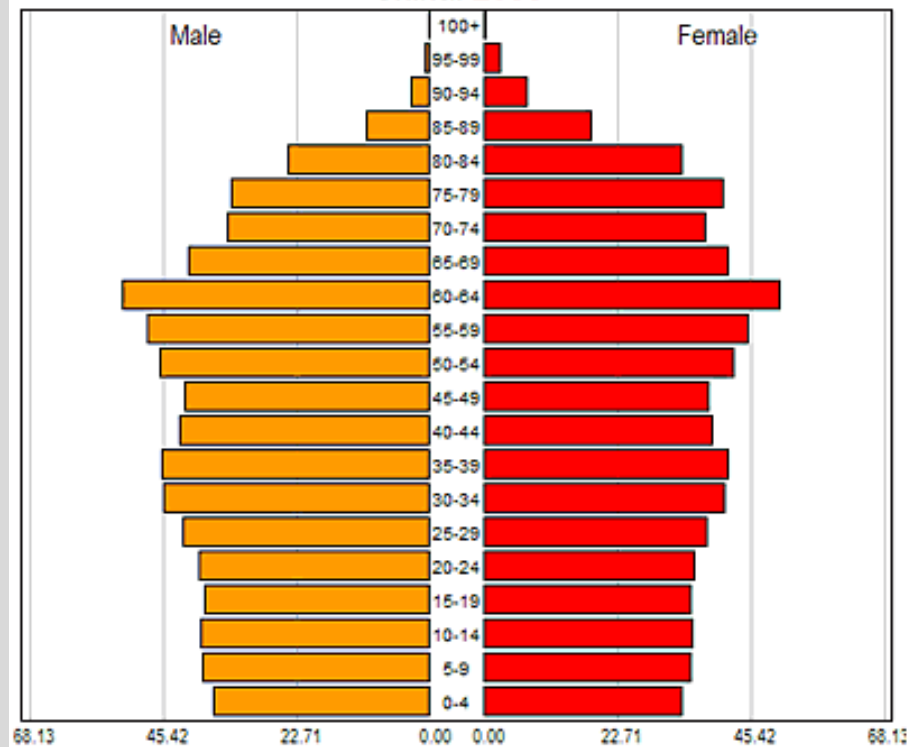
Rapidly increasing longevity



China: 1970



China: 2050



Reduced affordability



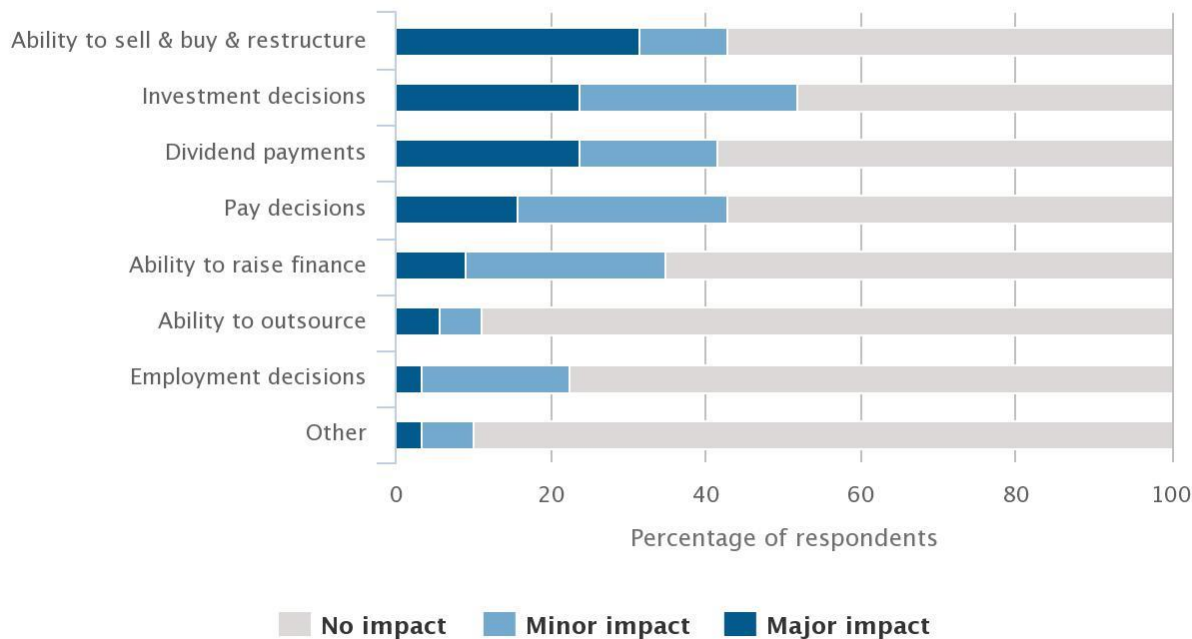
- State pensions will become increasingly unaffordable
- Tax incentives are being reduced
 - Lower relief in accumulation phase (UK: LTA, AA)
 - Increased taxation in pay-out phase (NL)
- Workplace pensions are putting strain on companies' finances
 - Regular contributions
 - Deficit reductions

Pension deficits are real



Pension scheme burdens can affect firm behaviour

(Source: Bank of England 2013)



Source: Bank of England

Highcharts.com

Risk transfer and reduction



- Risk transfer:
 - DB to DC
 - Insurance buy-ins and buy-outs
 - Full to conditional indexation
- Risk reduction:
 - Final salary to career average
 - RPI to CPI
 - Reduced equity markets exposure
 - Better risk management
 - Better governance



Pension management more complex



- Better risk management and search for yield
- Increased complexity
- Requires expertise and time
- Boards of Trustees have neither
- So, how to deal with these challenges?





- Trustee Boards spend lots of time on markets, products, managers
- This makes no business sense
- Most Boards delegate decision making to experts:
 - Investment Committees
 - Investment consultants
 - Fiduciary managers
- However, be aware of potential problems with all these

Why is governance so important?



- Little confidence in financial institutions
- Role of the asset owner has changed
- Requires hard evidence and better communication
 - Conflicts of interest, vested interests
 - Transparency to expose these
 - Independence to push transparency
 - Expertise to understand complexity
- Asset owners need to undergo same scrutiny as asset managers, fiduciary managers



Good governance is crucial



- Investment Committees with one or more external experts
 - Ensure quality of decision making remains high



Good governance is crucial



- Investment consultants
 - Few are market practitioners
 - Ensure they come off the fence



Good governance is crucial



- Fiduciary managers
 - Ensure they work in your interest
 - Performance fees help, but are no panacea



Build or buy?



- Complexity requires expertise at fiduciary, managerial and operational levels
- In-house or external?
 - It depends...
 - Considerations include: cost, resources, oversight

Build or buy – diverging views



- Canada & Scandinavia (large institutions): more in-house decision taking
- NL (small and large): outsourcing via Fiduciary Management, with external expertise for oversight
- UK: combination of in-house (large) and outsourcing (small)
- More and more cooperation
 - Co-investments
 - Joint negotiations (tenders, RFPs, preferential suppliers)
 - Joint investment management
 - Joint Boards
- Cooperation can work, but needs to be evaluated
- Hard financial numbers, PLUS softer considerations: communication, alignment of interest, governance, thought leadership, innovation
- AIGS©

Framework for good governance



The AIGS[©] is a practical management tool, enabling pension funds to:

- maintain permanent oversight to the investment team and providers,
- get the best out of their investment teams and providers,
- pro-actively identify (potentially expensive) problems,
- identify gaps against industry standards and stakeholder requirements,
- set objectives and actions for the coming year which are needed to fill the gaps and realise further improvement,
- maintain a solid framework enabling tracking actions and measuring success, and
- provide a solid basis for communication to all relevant stakeholders such as the Board of Trustees, employers, beneficiaries and the regulator.



- Governance review UK pension fund - several serious problems:
 - Performance measurement by asset manager
 - Performance benchmarks set by asset manager
 - Key procurement contracts last negotiated 4 to 8 years ago
 - Investment management costs under-reported by factor 2
 - Board spent more time on operational issues than on strategy
 - Board training of complex investment products provided by manager
 - Key man risk at pension manager
 - Insufficient expertise at Board level

thank you 