

GLOBAL MONEY MANAGEMENT

SPRING 2014 Volume 5 Number 1



2 LETTER FROM THE EDITOR

3 NORTH AMERICA

- 4 Closed Pension Funds Warm Up To Real Assets
- 6 Guest Column: Asset Owners Maintain Policy Asset Allocations In 2013
- 7 Public Pension Plans On The Hunt For Lower Fees
- 8 CIO Q&As: Vince Smith, New Mexico SIC; Michael Walden-Newman, Wyoming SLIB
- 12 Defined Contribution Focus
- 16 Nonprofit Corner
- 20 Asset Review Forecast
- 22 RFP Management Survey
- 25 **U.K.**
- 26 Another Record Year for Liability Hedging
- 27 U.K. Multi-Asset Use On The Rise

- 28 Mid-Market Managers Face Growth Challenges Amid Consolidation

- 31 CIO Q&A: David Adkins, The Pensions Trust

33 EUROPE EX-U.K.

- 34 European Institutions Expect To Up Real Assets Allocations
- 35 bfinance: Institutions Grow EM, Alts Allocation
- 36 Ireland PRF's O'Callaghan Talks Fund's Changing Mandate
- 38 Reforming The Swiss Pension System
- 39 German Investors Dig Deep To Find Yield
- 41 Regulator Q&A: Arnoud Vossen, Dutch Central Bank
- 42 Consultant Q&A: Christian Bodmer, Mercer

44 ASIA/AUSTRALASIA

- 45 Japan: Asia's Rising Sun Returns
- 46 Asian Institutions Up Alts

Reforming The Swiss Pension System

Swiss pensions are undergoing significant changes. New regulations are now in place and pension proposals by the Swiss government regarding lowering the minimum conversion rate and increasing the retirement age of women are being discussed. Among other new requirements, pensions now have to be transparent regarding their costs, which, according to financial experts, could impact their investment behaviour. Swiss pension funds total more than CHF700 billion (approx USD797 billion) in aggregate assets under management.

COST TRANSPARENCY

The new pension regulator Oberaufsichtskommission Berufliche Vorsorge (OBV), which was created in 2012, stipulates that all pension funds must publish their investment costs in their annual financial statements. Pension funds must now break down their asset management costs, including transparent



Stephan Skaanes

and non-transparent costs. "Until now, the majority of pension schemes could levy these costs without any problems," said **Stephan Skaanes**, consultant at **PPCmetrics**. "This way an investor knows how many costs are accrued in total. The target of this exercise is a more cost-efficient pension fund system. However, before costs can be cut, they have to be made transparent. As a result, investors'

expenditures are made comparable," said **Christian Bodmer**, head of investment consulting at **Mercer**.

In its upcoming annual report, **Kantonale Pensionskasse Graubünden**, which has CHF2.4 billion in assets under management, will try to be fully transparent regarding its costs, said **Willi Berger**, director. Currently, the scheme does not have any non-transparent costs and is complying with the regulation.

IMPACT ON INVESTMENTS

Skaanes believes the publication of costs could lead investors to review investments made into more costly asset classes and strategies. This would inevitably lead to questions regarding the generation of yield and whether it can be generated at a lower cost, he suggested. Bodmer agrees and expects investors to withdraw from expensive asset classes. This would ultimately influence the scheme's investment behaviour. According to Skaanes, asset classes with higher management fees usually provided a higher yield. As a logical consequence, the performance of a scheme would fall if it avoided higher-priced asset classes.

Berger does not believe that expensive investment vehicles are necessarily successful, however. "If the yield is right, I would personally still invest in [expensive] asset classes, because at the end the net return is what counts," he said, adding that he would

refrain from investing in asset classes with very high costs, such as hedge funds.

RECLAIMING COSTS

Elsewhere, pension funds can reimburse retrocession and other commission fees due to a decision by the Swiss Federal Supreme Court. The major concern of the supreme court was that asset managers, including banks, could take advantage of their position as financial distributors. According to the supreme court, investment managers were tempted to select more expensive products rather than products more suited to the client's need when buying in-house products. Skaanes noted that there was uncertainty around whether these payments could be recovered over a five- or 10-year period. Second, the supreme court had not defined if payments made to custodians or depot banks could be reclaimed also. Currently, there are no indications that the supreme court will define the aforementioned points anytime soon.

INITIATIVE AGAINST 'RIP-OFF' SALARIES

For Skaanes, the biggest regulatory challenge for pension schemes was the implementation of the Minder-Initiative, which regulates the excessive compensation of companies listed on the Swiss stock market and which increases the say of shareholders in corporate governance. As part of the regulation, pension schemes invested in these companies have to vote in the interest of the beneficiaries and reveal how they voted.

"The cost of this legally required exercise of voting rights [with regard to compensation issues] represents a significant burden for smaller pension funds. Furthermore, it is still uncertain how collective investments that enable the casting of voting preferences will be dealt with," Skaanes said.

ALTERVORSORGE 2020: A PENSION PROPOSAL

A pension reform proposal, which has led to heated discussions is known as *Altersvorsorge 2020*. The goal of this reform is to secure pension levels in Switzerland by ensuring long-term sustainability of the Alters- und Hinterlassenenversicherung (AHV), the first-pillar state pension, and the second pillar, the occupational schemes. "The reason behind the proposal is that increasing life expectancy leads to an imbalance of active members, retirees and interest rates," Skaanes explained. The content of the proposal includes increasing the retirement age of women from 64 to 65 to match the retirement age of men. By working longer, women would be able to make more pension contributions, which would compensate for their lower income compared to men. Another objective of the pension proposal is the gradual reduction of the minimum conversion rate in occupational schemes from 6.8% to 6% over a four-