A few words for pension funds

Newsletter dated:

8th October 2009

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What kind of future?

Without entering into the specifics of DB, DC or mix plans, the bottom-line for Pension Funds is quite straightforward: with no decent investment returns, no pension plan has a future.

It would seem that Pension Funds no longer manage risk but uncertainty; risk can be managed with probabilities of expected returns on different asset classes, while uncertainty relies on pure guesswork. To cut a long story short, until recently Alpha was everywhere, except in the performance numbers.

Over the last decade, despite their long-term horizon Pension Funds have been more and more relying on short-term investments, pressuring their investment management companies to deliver on a quarterly basis, and covenant risk has emerged as a real threat to their activities. This recent opportunism sits uncomfortably alongside their fiduciary role as long-term investors.

I think that in their asset allocation strategies Pension Funds should notably try to focus on long-term commitment rather than quarterly targets, relying on simple and within-grasp investment vehicles a long way from elaborate financial products that have been on offer to the industry recently. Globally, actions taken provided insufficient returns and as a result current generations of pre- and post-retirement products are seen as inadequate in delivering decent retirement incomes.

Consequently, expectations have been raised regarding the quality of advice Pension Funds need from their professional advisers. On the human side, technical skills need to be blended with special insights. On the product side, it is easy to identify some elements in need of drastic changes: transparency, risk-return features, liquidity, volatility, complexity, correlation and fees. Product innovation is still welcome, but with the aim of delivering capital protection and targeted growth and not as an end in itself.

So, as a consequence what should take the lead in Pension Funds' choice of asset managers? According to me, the answer leaves scarce room for doubt: good returns backed by quality people with ethical values, and alignment of interest to ensure their sustainability into the future. Pension funds would need to orient their professionalism towards fresh ideas and insights that create an edge at a time when new opportunities are strongly needed.

Welcome to Poune Asset Management.

Olivier Ribert
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"The bigger the problem, the bigger the opportunity."

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