CASE STUDY

Ahead of the crowd

Austrian pension fund VBV Pensionskasse is undoubtedly dedicated to the provision of robust pension scheme architecture and providing members with greater autonomy to enhance their savings. Talya Misiri **speaks to VBV CIO** Günther Schiendl **on how the fund has maintained its position as a leader in innovation, design and continued strong returns in the Austrian market**

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Can you give a brief outline of how the fund operates and who VBV provides for?

VBV Group, based in Vienna, is Austria's biggest retirement services group. VBV Pensionskasse is an open multi-employer pension fund operating pension plans for more than 5,000 corporation and entities. We manage €7 billion plan assets, invested worldwide with a dedicated European bias. VBV provides corporate pensions (mostly DC, also DB, hybrid, and a few guaranteed pension schemes). We currently have more than 270,000 active, and more than 30,000 retired plan members.

The services for our plan members extend beyond the classical savings accumulation, pensions payments, regular information and administration functions, further into the administration of the joint taxation of state and corporate pension, and into various educational services.

Our information and service channels include personal contact at our offices or on-site with corporate clients or member groups, telephone contact (dedicated service line), and web services, including online administration and online educational videos that can be accessed via web page or on mobile devices.

Can you summarise VBV's investment strategy?

We manage the pension plan assets, which are grouped into 32 asset pools. Those asset pools range from ultra-low risk to high return-high risk profiles. Equity allocations range from zero to 60 per cent. Our fixed income strategy currently is tilted towards emerging-markets government and corporate bonds.

In response to an enduring low/negative return environment in Europe we have moved on to alternative strategies like market based financing and opportunistic real estate. We are active pension fund managers investing globally (with a European focus). In our equity strategy we have a strong small-cap bias. ESG principles are integrated into our investment processes.

What would you say has been the fund's biggest success(es) to date?

The first would be delivering an average annual return of 6 per cent over the past six years, having delivered almost 5 per cent per year over the past six years in our low-risk defensive asset pools, and having higher investment returns than all our competitors together throughout the past nine years.

Another success would be the roll-out our massively enhanced web-portal and internet at the beginning of 2017, *ww.vbv.at,* which has enabled us to communicate and interact with our 300,000-plus plan members directly, personallly and electronically.

Finally, we are proud of to have our massively-automated plan member administration system that stands out from the others.

How has the fund been innovative? What sets VBV apart from other Austrian pension funds?

What sets VBV is apart from others is a continued high emphasis on enhancing our web portal functionalities and interactivity for our plan members.

In addition, our continued commitment to modern IT systems and our high emphasis on having continuously innovative pension plan design: Lifecycle pension plans with up to five risk pools to choose from/switch in and out (when our peers have three pools). We have invented life cycle pension plans back in 2004, being the role model for others, and we now have almost every second plan member in a life cycle pension model.

We also have innovative investment strategies with strong focus on investment performance, such as market-based financing that has been running succesfully now for three years.

What are the main benefits for members and employers that are part of the VBV pension fund?

They are higher investment returns leading to higher initial pension payments, and much more choice through innovative and always developing pension plan designs and life cycle investments, specifically life cycle pension plans. We were convinced several years ago that it was time to enable our plan members to control their own retirement destiny: we introduced life cycle in 2004, a long time before the Austrian lawmaker in 2013 required all pension funds to provide their members with a choice of investment return/risk profiles, including a guaranteed plan. We extended our online calculators to provide simulations and comparisons between the return/risk profiles of their existing plan and the life cycle plans, and the guaranteed plan. Our aim was and is to give plan members enough detailed and relevant information to build realistic expectations and to enable well-thought decisions.

Also, our massively-automated and operationally secure administration and communication systems can save time and resources at the employer companies, as well as providing easy and flexible access to their own pension accounts via the web for all plan members.

VBV has been one of the most profitable pension funds in Austria in the past five years. How have you maintained this?

We have achieved and maintained our profitability through careful, thoroughly analysed and discussed, yet bold strategic investment decisions, like moving massively into European ‘peripheral’ government bonds after Mario Draghi’s ‘whatever it takes’ statement back in 2012; moving almost completely out of these bonds in the summer of 2016, and massively into local currency emerging market bonds.
Also, risk management: strategic and tactical equity risk hedging strategies and implementing high-return-potential investments like market-based financing and opportunistic real estate (instead of wasting time with lamenting about low/negative interest rates in Europe…)

Further to this, we ensure that we have an excellent, skilled, highly-motivated investment team and strong decision-making commitment.

Additionally, ESG has taken the spotlight in the investment space the past few years. What is VBV’s approach to ESG? Any specific examples?

We started to integrate ESG in our equity investments back in 2003 with dedicated segregated accounts. In 2010 we were one of a select handful of European investors seeding the first ‘green building’ real estate fund (which was terminated in 2017 with a 7 per cent plus IRR). In 2011 we were again a ‘lead and seed investor’ for a senior housing fund.

Moreover, in 2014 we decided to exit from food-related commodity investments. The latest push deeper into ESG was started in 2015 and crowned with a new low-carbon equity strategy implemented at year end 2016/beginning 2017, an active voting policy and a membership with the UNPRI, and becoming a signatory of the Montreal carbon pledge.

Among ESG we see most financial impact on the ‘G’, i.e. on improvements in corporate governance. We have set up two segregated accounts in the past two years with what we correspondingly call ‘ESG momentum equity strategies’, one for European small-mid cap equities, the other for emerging-market equities. There we invest in improvement in ESG factors, rather than excluding companies (except for extremes).

Currently we are working on implementing ESG principles into our bond portfolios, and we continue to enhance our ESG-reporting for our real estate investments.VBV stands for innovative, responsible investments with a clear focus and high emphasis on making good investment returns.

What changes will VBV be making to its investment strategy or the fund overall this year?

We wish to reduce the carbon footprint our equity portfolio by 10 per cent, we reduced US equities, we continue to invest in market-based financing, and we will work on putting together a select portfolio of suitable infrastructure investments.

Else, we have a lot of work to do on ESG reportings, and to advance our policy statements.

Then, we have to prepare new regulatory reporting requirements by EIOPA and ECB. And, we will work to further advance our web portal. ■

VBV Pensionskasse