INTERVIEW

Challenges ahead

Elizabeth Pfeuti speaks to Stichting Nedlloyd Pensioenfonds' head of finance, control and risk, Randy Caenen, about the issues facing the Dutch pensions sector and how they impact upon the Nedlloyd scheme

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What are the challenges facing the pension sector in the Netherlands?

The sector faces a huge challenge in getting the new nationwide pensions agreement between parliament and stakeholders.

It feels like older and younger people are less aligned. Both the younger and older generation seem to act more from an individualistic perspective rather than taking a solidarity view. Also, pension funds are having to deal with low interest rates at a time when pension funds are maturing – many of the baby boomer generation are retiring and beginning to draw their pensions, and there is less new money coming through, which means that less risk can be taken with investments.

What does that mean for the (relatively) poor solvency ratios?

We remember when most funds had a solvency ratio of 150 per cent or more, whereas now many – especially the sector-wide funds – are close to 100 per cent. Our solvency ratio is good at approximately 125 per cent, so that is not too much of a concern for us.

From outside the Netherlands, many might be wondering what the problem is, but the buffers are important to us. However, the Dutch do like to get the most out of their assets. We have an entrepreneurial spirit and even participants in the pension fund would like us to take more risk if there was a chance of getting higher returns and increasing their future payments, rather than take a lower but guaranteed payment.

So this doesn't mean Dutch pensions, which have been at the cutting edge of new investment ideas, are becoming more conservative now?

No, they are still cutting edge, but many larger funds – including ABP/APG – have made a shift into more controllable investments from a risk management and operational perspective. This has paved the way for smaller funds to follow. At Nedlloyd (€1.5 billion) we have 12.5 per cent in real estate – across all categories – and 5 per cent in private equity. We also have allocations to emerging market debt and equities – including small and mid-cap – all around the world.

Our asset allocation is split 50:50 between liability and cashflow-matching and risk-taking investments that seek to increase the payments we can make to members.

Does the regulator get heavily involved with what goes in your portfolio?

The regulator is fair and realistic enough to understand that with such a large amount of money in the pension system that it would be impossible and imprudent to invest domestically or even just in Europe. The regulator realises we need diversification and that all investment around the globe, although it needs the right structure and correct level of governance and oversight, cannot be approached in the same way.

To what extent is ESG a factor in your investment process?

It has been embedded in Nedlloyd's investment beliefs and process for a long time. We look at the asset/liability model and return requirements and if something fits that is green and/or of benefit to society, we will definitely choose that.

Additionally, from January, European regulations under Institutions for Occupational Retirement Provision II will demand that all trustees consider these factors when making investment decisions.

However, we shouldn't forget that the aim of the investment is to produce the return needed to pay pensions, and there are other factors to consider, including operational excellence and compliance.

What is on your agenda for 2019?

We are going to continue professionalising, both to keep up with the financial sector and address all the challenges we face. Since joining in May, all our investment decisions are accompanied by a risk overview – it is now explicit rather than implicit part of the process. We also need to do our part to help the sector regain some of the trust it has lost from society. Yes, solvency levels have fallen – was it all the pension funds' fault? Probably not. For us, we have the luxury of thinking about increasing our pension by up to 2 per cent. We have decisions to make, but we are in good shape and we want to share that and help the rest of the sector. ■