

INVESTMENT

# Investment trends

**W**e were delighted to participate in Baker McKenzie's Annual Global Pensions Conference. One of the most interesting sessions was on trends and issues arising in relation to pension scheme investments and we want to share some of the output:

- In both the UK and the Netherlands, pension funds are required to be legally separate from the employer. We have noticed an increased interest on the part of the employer in having greater involvement in the pension fund's investment strategy (due, of course, to the impact that the strategy can have on overall profitability). Possible ways of achieving this include the use of Global Benefits Committees and/or in-house investment expertise to monitor or help shape the strategy, as well as the provision of additional support such as parent company guarantees in exchange for more influence.

- An issue that has received a significant amount of attention in the UK recently is the FCA's investigation into the asset management industry. The final report published in June 2017 found that there was weak price competition in a number of areas and no clear relationship between the charges for and the gross performance of retail active funds. There is concern about how asset managers communicate their objectives and also about the investment consulting market which is dominated by the three largest providers. The demand side (i.e. the trustees) is perceived as weak with relatively low switching levels. The Competition and Markets Authority is currently investigating the investment consulting market, but the other "weaknesses" are likely to



**Chantal Thompson and  
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**consider the current issues  
relating to the investment  
of pension scheme assets**

be addressed through consultation and working groups rather than direct legislation.

- The conference discussed approaches in various jurisdictions to up-skilling trustees in relation to investment. In the UK, there is already a statutory requirement for trustees to understand investment matters and it is noticeable that the Pensions Regulator seems to be supporting the appointment of professional trustees.
- In the Netherlands most pension funds have granted discretionary mandates to their asset managers. These give the asset managers the sole authority to execute transactions on behalf of the funds. Between 2012 – 2014, the Dutch Authority for the Financial Markets (AFM) studied the Dutch asset management market and concluded that the costs could be made more transparent, that they were too high compared to the expected yield and that asset managers were often not acting in the best interests of the funds. The AFM has published several reports with the aim of improving the 'choice architecture' and increasing the knowledge of the pension fund board.
- In the Netherlands asset

management and transaction costs incurred by Dutch pension funds are also closely monitored by the Dutch Central Bank (DCB). Since 2015 Dutch pension funds have been under a statutory obligation to state the total costs in the annual report as well as on the pension fund's website. The DCB has looked at all annual reports for 2015 and has requested several pension funds to improve their cost reporting.

- The Dutch Pension Federation has issued detailed recommendations and best practice guidance on cost reporting, which the DCB encourages pension funds to follow. Key indicators that must be reported include administration costs (in euros per participant) and asset management and transaction costs (as a percentage of the average invested assets). If costs are not in line with market practice, the fund must either explain why or take appropriate actions to bring its costs into line. The DCB also encourages the strengthening of the board's knowledge of asset management, to be able to stand up to the asset managers when agreeing the mandates.

- Driving down costs is not the overall objective, but they want funds to look actively and critically at their investment costs and to take measures where appropriate. This is also in line with the new Dutch government's message that it wants the sector to focus on transparency and control of cost, where possible, so that pensioners get the highest possible return on their pension accruals. ■

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