Global roundup from IPE.com: China, UK, Netherlands

By Editor Test *Mon, Jul 23, 2012*

China now outsources management of about $57 billion of its $136 billion Social Security fund to foreign money managers, UBS is warning UK pension funds about longevity risk, and the Dutch have just raised their official retirement age to 67, effective in 2023.

A dozen global managers contract to manage Chinese national pension money

China's National Council for Social Security Fund (NSSF) has announced a new round of mandates, which included 12 foreign investment managers, and is testing a performance-linked fee structure that industry participants argue will encourage pensions fund managers to search for alpha.

By end-2011, the NSSF managed assets RMB868bn ($136bn), 58% of which are self-invested and 42% of which are managed by external managers. However, NSSF has struggled with returns, last month announcing its 2011 performance was the worst since 2008. Despite this, management fees ballooned 25% to RMB1.02bn.

Under the plan, managers who return more than 8% can negotiate a performance fee, while those who return less than 8% will get a flat 3% management fee.

NSSF awarded 21 mandates. Among the foreign names who got multi-asset mandates (*) or single-asset mandates (**) were:

- JPMorgan Chase & Co.*
- Lombard Odier*
- Neuberger Berman*
- Schroders*
- Standish Investment Management** (emerging market)
- Stone Harbor Investment Partners** (debt products)
- AGF Management Ltd.** (natural resources)
- Investec Ltd.** (natural resources)
- JP Morgan** (natural resources)
- RBC Global Asset Management** (natural resources)
- AEW Capital Management LP** (real estate)
- AMP Capital and European Investors Inc.** (real estate)

UK. pension funds should consider 'mortality buffer': UBS

A new report from UBS Global Asset Management calls on UK pension trustees to focus on liability risk management instead of asset risk and advises them to introduce a mortality buffer able to offset "unknown adverse future events."

"This margin, or buffer, would then be used to cover adverse changes in longevity," said the UBS 40th annual Pension Fund Indicator report, adding that "prudent assumptions" should be employed by trustees when setting out their deficit funding objectives to secure higher deficit payments from sponsors.

In its 40th annual Pension Fund Indicator report, UBS also called for the debate surrounding the suitability of equity investments by pension funds to focus more on the appropriate pricing levels for equities.

The report added that trustees could also "aim for an additional investment return target, above the existing benchmark, with the funds earmarked specifically for any increase in longevity risk."

The "middle ground" approach – between mortality buffer and full risk transfer to an insurance company through buyout – would be to ask an insurer to guarantee their pricing for a number of years, with the plan's investment strategy adapted to return the premium needed, the report said.

"The advantage of this approach is that it eliminates the risk of future changes in the pricing basis by the insurer and gives the scheme assets time to generate additional return ('the buffer') that can be used to pay for the higher buyout price." UBS argued that such an approach would also reduce the changes of further contributions from the scheme sponsors.

On the topic of equities in pension funds, UBS suggested that the debate into the fair valuation of equities should become important once more, saying that "strangely little" of the recent discussion surrounding the use of equities had focused on the subject.

"Looking forward, the determination of the appropriate amount of equities for a scheme should now be influenced by a number of factors including relative valuations scheme design, asset-liability comparisons, the employer's own balance sheet and willingness to fund shortfalls, academic research on equity characteristics and diversification, and appetites for risk and reporting issues," the report said.

Dutch retirement age increase to reduce pensioners by half million

By deciding to raise the official retirement age from 65 to 67 in 2023, the Dutch government is projected to reduce the number of pension recipients by half a million by 2025 and reduce the anticipated increase in their numbers by half, according to Statistics Netherlands (CBS).

Meanwhile, the Dutch senate has embraced a bill providing for the gradual increase of the age of the state pension (AOW), starting next year, to 67 in 2023, and linking further increases to the life expectancy of 65-year-olds.

The increase of the “pensionable” age would occur quicker under the government’s new measure than under the now-abandoned Pensions Agreement that was negotiated in 2011, the CBS said.

That agreement provided for a single-step rise of the pension age to 66 in 2020 and a second single-step increase to 67 in 2025. About 100,000 fewer pensioners are projected to receive benefits in 2025 under the new plan.