A system in flux

Changing regulation on fiscal and investment matters never ceases to be a challenge for pension funds, finds **Rachel Fixsen**

Regulation

Efforts by Italy's government to revitalise the domestic economy are feeding through into reforms — particularly fiscally — for the country's pension funds.

While a combination of hikes in tax on pension fund investment and promises of tax credits for real economy investments appears to have failed to encourage local investment, politicians are revealing their new ideas to achieve the same goal.

Stefano Gatti of Milan's SDA Bocconi School of Management, highlights a potential move to cut tax on investments in Italy's real economy as the key regulatory issue.

Tommaso Nannicini, undersecretary of state to the prime minister, Matteo Renzi, spoke in May about the possibility of reducing the fiscal cost for pension funds deploying their money in this way.

"It is one of the government's priorities, so it could well be part of the stability legislation package to be put before parliament by the autumn," Gatti says.

When and if they materialise, these new conditions are likely to create incentives by abolishing capital gains tax on returns from investments on certain projects seen to help the development of the real economy.

Claudio Pinna, managing director of Aon Hewitt in Rome, says last year's amended tax rates for pension fund investment, aimed at incentivising investment in the real economy, are just too complicated to be effective.

While the overall tax rate was increased, real economy investment is subject to rebates. However, the conditions that have to be fulfilled to receive this tax credit are labourious and unclear on certain points, Pinna says.

"So the final result of the proposal is that most pension funds won't be able to get this," he adds. Without this element in the new tax regime, taxes have increased for pension funds, which is contrary to the government's intentions of incentivising pension saving. Nevertheless, Pinna says this unintended consequence will be corrected in the next budget law.

Silvio Bencini, managing partner at European Investment Consulting, says that 2015's increases in capital gains tax on pension fund investments have not had much impact because, even after the tax increase, pension funds are still treated better than mutual funds and direct investments. "Few funds are already investing in the assets eligible for the tax rebate of 9%, mainly infrastructure and credit," he observes. The main problem has been the uncertainty, because it seems clear that the second pillar is also exposed to the political risk of changing rules, he adds.

The new law on investment freedoms, 166/14, has changed the landscape for Italian pension funds, according to Gatti. "This contains a principles-based rule, meaning that as long as you can demonstrate your fund has the skills to understand the complexity of a financial instrument, you are free to invest in it," he says.

Antonio Iaquinta, head of institutional business for Italy at State Street Global Advisors (SSGA), says the legislation is now at the stage where pension funds are getting the last pieces of paperwork finished. "The 18 months of grandfathering following the 166 decree of 2014 are now over, so complementary pension schemes are finalising the last formal aspects related to the new regulatory framework," he says.

But, on the other hand, the casse di previdenza – first-pillar funds for white-collar workers – are waiting for their own '166 decree' to appear, he says, which seems to be under discussion.

"These are some formal steps that need to be taken care of, for instance, conflict-of-interest policies, definition of regulated markets and updating the relevant documentation of the pension schemes. As far as casse di previdenza are concerned, there have been rumours that the appointment of delegated managers should follow the strict rules of public tenders," he says.

Iaquinta says SSGA has seen many schemes taking advantage of the flexibility allowed by 166/14, mainly through increasing their exposure to high yield or emerging markets – both equities and bonds.

"This has come at a time of revision of strategic asset allocation for many investors, also to take into account the current and future environment of slow growth and low yields," Iaquinta says. "Many were impacted by the restrictions on currency exposure, so had to revisit the hedging policy that was in place. On the other hand, we have seen very few examples of exposures to alternative asset classes, meaning private equity, private debt or infrastructure."

Pinna says because of the requirement within 166/14 that pension funds have to prove their competence to manage the risks of new investment classes, the funds are now considering ways of collaborating in this area in order to pool resources and save costs.

"There are several alternative asset classes that pension funds are considering taking on to get a higher return or regulate the volatility in the market. In order to do this, they are trying to analyse what specific processes they will have to introduce to manage the risk of these alternatives," Pinna says. "Since the issue is common to many of the funds, some are making moves to produce a common solution."

"Although, it is not clear what form this co-operation might take, it could conceivably involve the creation of joint committees between the pension funds," he suggests. While there was talk last year of new legislation to create a degree of competitive freedom between pension funds, as part of the DDL Concorrenza bill, in the end the bill was introduced without any reference to the pension fund sector.

"The DDL Concorrenza should have enhanced the freedom of competition between pension funds by granting the so-called employer contribution not only to fondi pensione negoziale [labour contract-based pension funds] but also to members of open pension funds and insurance plans," Benchini says. The proposal was shelved, he explains, because of strong opposition from employers and trade unions.

Are more changes in regulation on the horizon? Iaquinta points to discussions taking place around the overall pension system, which are focusing on allowing greater flexibility for people to retire. "The cost of this flexibility could be partially sustained with the support of the complementary pension schemes," he says.

Other discussions, including potential auto enrolment for occupational pension schemes, are also happening.

One of the key trends in the pension sector which Gatti sees as likely to become more pronounced, is a push by pension funds for a revision of the tax treatment of members. While pension fund saving is not heavily taxed for individuals at present, the rules do not do much to encourage greater saving either, he says.

At a glance

- The Italian government is cutting tax on investments in the real economy to promote domestic growth.
- Current rules promising tax credits on growth-supporting investments are seen as complex.
- The 166/14 law on investment freedom has changed the landscape for pension funds.
- Pension funds are forging links to pool skills in alternatives.

"They are trying to analyse what specific processes they will have to introduce to manage the risk of these alternatives"

Claudio Pinna

IPE Survey Managers of Italian Institutional Assets

In summary

Survey overview

Total number of managers in survey	41
Total assets managed for Italian institutional clients (€m)	532,470
Total managed for Italian pension fund clients (€m)*	69,831
Total managed for Italian insurance company clients (€m)*	363,923
Total managed for all other Italian institutional clients (€m)*	51,416
Total managed through segregated accounts (€m)*	404,417
Total managed through pooled funds (€m)*	63,770
Total actively managed (€m)*	382,711
Total passively managed (€m)*	19,959
Total in balanced mandates (€m)*	193,108
Total in specialist mandates (€m)*	85,684

*Where disclosed

Top 10 – Italian institutional assets

	Company	€m	As at
1	Generali Investments	139,832	31/12/15
2	Eurizon Capital	101,027	31/12/15
3	Pioneer Investments	54,287	31/12/15
4	Allianz Global Investors	31,896	31/12/15
5	BNP Paribas Investment Partners	30,908	31/03/16
6	AXA Investment Managers	26,171	31/12/15
7	BlackRock	21,768	31/03/16
8	Anima	20,921	31/12/15
9	Amundi	16,700	31/03/16
10	State Street Global Advisors	9,862	31/03/16

Top 10 – Italian pension assets

	Company	€m	As at
1	Eurizon Capital	11,579	31/12/15
2	State Street Global Advisors	7,610	31/03/16
3	Pioneer Investments	6,923	31/12/15
4	BlackRock	5,582	31/03/16
5	Generali Investments	4,384	31/12/15
6	Banca Esperia	3,561	31/05/16
7	AXA Investment Managers	3,482	31/12/15
8	ARCA SGR	3,423	30/04/16
9	Credit Suisse	3,374	30/04/16
10	Allianz Global Investors	2,262	31/12/15

Top 10 – Italian inst. assets in segregated accounts

	Company	€m	As at
1	Generali Investments	125,918	31/12/15
2	Eurizon Capital	92,283	31/12/15
3	Pioneer Investments	53,296	31/12/15
4	Allianz Global Investors	31,595	31/12/15
5	AXA Investment Managers	25,113	31/12/15
6	BlackRock	19,550	31/03/16
7	BNP Paribas Investment Partners	10,239	31/03/16
8	Credit Suisse	9,727	30/04/16
9	State Street Global Advisors	8,269	31/03/16
10	Groupama Asset Management	6,485	31/03/16

Company	Aberdeen Asset Mngt.	AGF Management	Allianz Global Investors	Amundi	Anima	ARCA SGR	AXA Inv. Managers	Azimut Capital Management	Baillie Gifford & Co.
Assets under management (€m)									
As at	31/12/15	31/03/16	31/12/15	31/03/16	31/12/15	30/04/16	31/12/15	31/12/15	31/03/16
Institutional clients: Italy	3,012	101.41	31,896	16,700	20,921	4,760	26,171	2,195	111.06
Pension fund clients	326	101.41	2,262			3,423	3,482	2,195	24.84
Insurance company clients		0	29,345			1,337	21,794		0
All other institutional clients		0	289			0	895		86.22
Worldwide	394,213	22,098.7	441,860	987,200	66,887.76	28,880	669,436	36,000	154,728.78
For clients in Europe	295,007	949.92	338,458	842,000		28,880	568,225	31,700	62,268.88
Institutional clients: Europe	295,007	949.92	162,181	674,500		5,730	487,554	2,195	49,390.76
Institutional clients: non-Europe	99,206	6,969.83	44,922	55,900		0	100,075	0	92,459.9
For third party mandated assets	0	101.41	2,585			4,760	4,794	2,195	111.06
Amount managed through segregated accounts	1,041	101.41	31,595			1,785	25,113	890	86.22
Amount managed through pooled funds	1,971	0	301			2,975	1,058	1,305	24.84
Of total in segregated accounts (€m)									
Actively managed	1,041	101.41	31,595			1,785	25,113	890	86.22
Passively managed	0	0	0			0	0	0	0
Balanced mandates	202	0				1,785	24,336	623	0
Specialist mandates	839	101.41				0	777	267	86.22
Institutional assets for clients based in Italy invested in (€m)									
Equities									
Pan-Europe	37	0					48 (2)		0
US	3	0					1		0
Japan	466	0					0		0
Emerging markets	919	0					0		0
Other	74	101.41 (1)							86.22
Fixed Income									
Public debt									
Pan-Europe	271	0					71		0
US	18	0					49		0
Rest of World	692	0					18		0
Corporate debt									
Pan-Europe	1	0					141		0
US		0					388		0
Rest of World	154	0					45		24.84
Real estate									
Italy		0					0		0
Rest of World		0					0		0
Cash									
Italy		0					10		0
Rest of World		0					18		0
Other asset classes	377						4,006 (3)		
Value of new mandates won from institutional clients in Italy 12 month period to 31st December 2015 (€m)									
New clients	202	107.18					547	50	25
Existing clients	10						0	210	0

Key:
NA= Not available; ND= Not disclosed

Footnotes:
(1) Global
(2) The subsequent asset class breakdown excludes all main funds
(3) Balanced mandate and other
(4) Total for asset class
(5) Includes the BlueBay Global Convertible Bond Fund and Direct Lending Fund II SLP
(6) Absolute return, €45m; structured, €2m; global balanced, €20,095m; currency overlay, €503m; convertible bonds, €51m; commodities, €7m
(7) Includes both public and corporate debt
(8) Does not include assets under advisory of €19,157m that is included in Italian institutional AUM figure
(9) Fixed income - other, €588m; absolute return, €362m; multi-asset (balanced), €1,640m
(10) As at 31/12/15
(11) Does not include an additional €2.2bn (segregated mandates, pooled and labelled funds) of Italian institutional assets managed by Credit Suisse AG in Zurich
(12) International
(13) Infrastructure/multi-asset
(14) Equity, €3,444m; fixed income government bonds, €5,392m; fixed income corporate bonds, €1,630m; cash, €859m; flexible and total return, €72,545m; balanced, €16,674m; protected/guaranteed, €483m
(15) Includes global/international fixed income, US fixed income and balanced assets
(16) Systematic macro
(17) Alternatives and private equity
(18) Relates to third party mandated assets
(19) Currency, €14m; multi-asset class solutions, €641m
(20) Flexible fixed income, €511m; emerging markets fixed income, €329m; commodities, €16m; multi-asset class investing, 2,611m
(21) Alternatives

IPE Survey Managers of Italian Institutional Assets

Company	Banca Esperia	BlackRock	BlueBay Asset Management	BNP Paribas Inv. Partners	BNY Mellon	Candriam Inv. Group	Comgest
Assets under management (€m)							
As at	31/05/16	31/03/16	31/03/16	31/03/16	31/03/16	31/03/16	31/03/16
Institutional clients: Italy	5,864	21,768	1,048	30,908	2,320	3,687	403
Pension fund clients	3,561	5,582	698	1,608	1,160	1,989	0
Insurance company clients		10,712	133	27,241	990	269	115
All other institutional clients	2,303	5,474	217	2,059	170	1,429	288
Worldwide	8,560	4,187,084	50,808	521,003	1,492,895 (10)	94,451	19,860
For clients in Europe	8,560	1,135,401	32,456	418,329		92,222	14,696
Institutional clients: Europe	5,864	798,072	21,436	218,496		65,844	14,696
Institutional clients: non-Europe	0	1,889,005	12,699	58,302		2,229	5,164
For third party mandated assets	2,691	21,768	0	11,174		3,687	403
Amount managed through segregated accounts	2,946	19,550	143	10,239 (8)		2,071	0
Amount managed through pooled funds	2,918	2,218	905	1,512 (8)		1,615	403
Of total in segregated accounts (€m)							
Actively managed	98	12,471	143	10,239		2,071	0
Passively managed	2,848	7,079	0	0		0	0
Balanced mandates	2,227	13,245	0	932		1,639	0
Specialist mandates	719	6,305	143	9,307		432	0
Institutional assets for clients based in Italy invested in (€m)							
Equities							
Pan-Europe	1,364	4,636 (4)	0	170		39	202
US	616		0	62		39	
Japan	67		0	0		11	
Emerging markets	12		0	17		19	201
Other	46					109	
Fixed Income							
Public debt							
Pan-Europe	1,401	3,299 (4)	0	8,415 (7)		40	
US	100		0	0		19	
Rest of World	138		190	282 (7)		179	
Corporate debt							
Pan-Europe	1,163		570			210	
US	214		0				
Rest of World	24		106			263	
Real estate							
Italy	0		0	0			
Rest of World	69		0	0			
Cash							
Italy	227	144 (4)	0	0			
Rest of World	0		0	1,259		166	
Other asset classes	423	13,689	182 (5)	20,703 (6)		2,590 (9)	
Value of new mandates won from institutional clients in Italy							
12 month period to 31st December 2015 (€m)							
New clients	0	4,124	373	0		267	ND
Existing clients	9	66	41	0		57	ND

Company	Credit Suisse	Degroof Petercam Asset Management	Deutsche Asset Management	Eurizon Capital	First Eagle Inv. Management	Fisher Inv. Europe	Fondaco SGR	Franklin Templeton Inv.	Generali Investments
Assets under management (€m)									
As at	30/04/16	31/12/15	31/12/15	31/12/15	31/03/16	31/03/16	29/04/16	31/03/16	31/12/15
Institutional clients: Italy	9,727.38 (11)	117	2,082	101,027	70.4	18.92	5,117	4,272	139,832
Pension fund clients	3,373.99	0	1,343	11,579	0		120	879	4,384
Insurance company clients	4,185.49	24	241	80,121	0		0		135,061
All other institutional clients	2,167.9	93	498	9,327	70.4	18.92	4,997		387
Worldwide	297,191.95 (10)	50,018	739,277	263,323	80,896.29	27,329.68	5,167	652,384	431,451
For clients in Europe	205,062.45 (10)	50,018	502,080	262,848	7,341.13	6,340.23	5,167	66,017	431,451
Institutional clients: Europe	151,746.21 (10)	26,029	268,225	100,552	1,541.17	6,340.23	5,167	12,869	423,061
Institutional clients: non-Europe	53,316.24 (10)	0	159,093	475	14,997.6	20,989.44	0	176,079	0
For third party mandated assets	9,727.38	117	2,082	9,072	0	18.92	5,167		7,094
Amount managed through segregated accounts	9,727.38	0	1,543	92,283	70.4	0	744	1,682	125,918
Amount managed through pooled funds	0	117	539	8,744	0	18.92	4,373		13,914
Of total in segregated accounts (€m)									
Actively managed	7,539.61	0	940	90,178	70.4	0	744	1,682	125,918
Passively managed	2,187.77	0	603	2,105	0	0	0	0	0
Balanced mandates	3,138.19	0	573		0	0	60	0	108,290
Specialist mandates	6,589.19	0	970		70.4	0	684	1,682	17,628
Institutional assets for clients based in Italy invested in (€m)									
Equities									
Pan-Europe	1,559.24	0	118		0	0	656		14,857
US	938.32	0			70.4	0	472	239	448
Japan	61.81	0			0	0	144		
Emerging markets	371.15	0			0	18.92	318		601
Other	223.62	24 (12)					28	1,147	8
Fixed Income									
Public debt									
Pan-Europe	5,104.53	1	576		0	0	1,626		75,359
US	322.95	0			0	0	338		729
Rest of World	32.24	2			0	0	803		386
Corporate debt									
Pan-Europe	477.3	83	205		0	0	222		38,910
US	162.38	0			0	0	320		3,322
Rest of World	29.42	0			0	0	84		511
Real estate									
Italy	0	0		0	0	0	0		
Rest of World	0	6	192		0	0	0		
Cash									
Italy	408.19	0			0	0	11		3,779
Rest of World	36.23	0	14		0	0	95	1	
Other asset classes		1	977 (13)	101,027 (14)				2,885 (15)	922
Value of new mandates won from institutional clients in Italy									
12 month period to 31st December 2015 (€m)									
New clients	202.88	24	176	824	0		29	0	1,197
Existing clients	0	29		105	0		611	0	508

Company	Goldman Sachs Asset Management	Groupama Asset Mngt.	Intermediate Capital Group	IPM Informed Portfolio Mngt.	Kairos Partners	Muzinich & Co.	Natixis Global Asset Mngt.
Assets under management (€m)							
As at	31/03/16	31/03/16	31/12/15	31/03/16	30/04/16	31/12/15	31/12/15
Institutional clients: Italy	5,294	6,805	67	10	1,611	3,600	1,497
Pension fund clients	364	1,900	0	0	205		416
Insurance company clients	766	4,688	4	10	62		35
All other institutional clients	4,164	217	63	0	1,344		1,046
Worldwide	974,224	95,190	21,230	4,753	8,178	22,410	801,128
For clients in Europe	172,998	95,190	10,875	3,882	8,178		407,290
Institutional clients: Europe	160,012	89,485	10,875	3,882	538		345,112
Institutional clients: non-Europe	623,053	0	8,066	871	0		160,900
For third party mandated assets	4,759	2,194	0	10	851		1,497
Amount managed through segregated accounts	804	6,485	0	0	444	1,747	1,295
Amount managed through pooled funds	4,490	320	67	10		1,853	202
Of total in segregated accounts (€m)							
Actively managed	804	6,485	0		444		883
Passively managed	0	0	0		0		412
Balanced mandates	0	1,280	0		444		218
Specialist mandates	804	5,205	0		0		1,077
Institutional assets for clients based in Italy invested in (€m)							
Equities							
Pan-Europe	199	246	0		668		545 (4)
US	118	160	0				
Japan	0	12	0				
Emerging markets	258	39	0				
Other	210	61					
Fixed Income							
Public debt							
Pan-Europe	0	5,528	0				622 (4)
US	0	56	0				
Rest of World	0	28	0		277		
Corporate debt							
Pan-Europe	127	358	12				
US	15		55				
Rest of World	4,245		0				
Real estate							
Italy	0		0				
Rest of World	0		0				
Cash							
Italy	34	63	0				
Rest of World		254	0				
Other asset classes	88 (21)			10 (16)	666		330
Value of new mandates won from institutional clients in Italy							
12 month period to 31st December 2015 (€m)							
New clients	0			10	93		
Existing clients	0			0	291		

Company	Neuberger Berman	Pioneer Investments	Quoniam Asset Management	Sorgente Group	State Street Global Advisors	Symphonia SGR	UBS Asset Management	Union Investment	Vontobel Asset Management
Assets under management (€m)									
As at	31/03/16	31/12/15	31/03/16	31/12/15	31/03/16	31/12/15	30/03/16	31/03/16	31/12/15
Institutional clients: Italy	1,451	54,287	133	4,917	9,862	937.7	1,050	939	5,880
Pension fund clients	236	6,923	133	1,938	7,610	716.7	751		547
Insurance company clients	10	46,109		11	0	47.7	0		612
All other institutional clients	1,205	1,255		2,968	2,252	173.3	299	939	4,721
Worldwide	212,859	223,614	25,089	5,183	2,014,813	5,072	573,800	268,440	88,058
For clients in Europe	30,646	169,399	22,472	5,183	184,756	4,725	281,575	261,807	56,446
Institutional clients: Europe	24,281	76,200	22,472	5,183	184,756	937.7	168,193	145,972	47,514
Institutional clients: non-Europe	111,739	16,700	2,617	0	1,830,057	0	206,813	6,634	30,004
For third party mandated assets		53,910	133	0	0	937.7		939	5,880
Amount managed through segregated accounts	1,403	53,296 (18)	103	0	8,269	877.1		667	1,498
Amount managed through pooled funds	48	614 (18)	30	4,917	1,593	60.6		272	4,382
Of total in segregated accounts (€m)									
Actively managed	1,403	53,174	103	0	3,667	877.1		667	1,498
Passively managed	0	122	0	0	4,602	0		0	0
Balanced mandates	0	32,578	0	0	820	133.6		584	0
Specialist mandates	1,403	20,718	103	0	7,449	743.5		83	1,498
Institutional assets for clients based in Italy invested in (€m)									
Equities									
Pan-Europe			0	0	1,784				389
US	230		0	0	111				512
Japan			0	0	0				8
Emerging markets			30	0	4				1,181
Other			103 (1)		2,378				1,426
Fixed Income									
Public debt									
Pan-Europe				0	523				43
US				0	339				
Rest of World				0	1,137				223
Corporate debt									
Pan-Europe	249			0	2,583				575
US	815			0	0				
Rest of World	110			0	348				56
Real estate									
Italy				4,408	0				
Rest of World				509	0				
Cash									
Italy				0	0				
Rest of World				0	0				
Other asset classes	47 (17)				655 (19)				1,467 (20)
Value of new mandates won from institutional clients in Italy									
12 month period to 31st December 2015 (€m)									
New clients		74	133	106	388	NA		17	NA
Existing clients		248	0	128	NA	NA		67	NA

Key:

NA= Not available; ND= Not disclosed

Footnotes:

(1) Global
(2) The subsequent asset class breakdown excludes all main funds
(3) Balanced mandate and other
(4) Total for asset class
(5) Includes the BlueBay Global Convertible Bond Fund and Direct Lending Fund II SLP
(6) Absolute return, €45m; structured, €2m; global balanced, €20,095m; currency overlay, €503m; convertible bonds, €51m; commodities, €7m
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(9) Fixed income - other, €588m; absolute return, €362m; multi-asset (balanced), €1,640m
(10) As at 31/12/15
(11) Does not include an additional €2.2bn (segregated mandates, pooled and labelled funds) of Italian institutional assets managed by Credit Suisse AG in Zurich
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(15) Includes global/international fixed income, US fixed income and balanced assets
(16) Systematic macro
(17) Alternatives and private equity
(18) Relates to third party mandated assets
(19) Currency, €14m; multi-asset class solutions, €641m
(20) Flexible fixed income, €511m; emerging markets fixed income, €329m; commodities, €16m; multi-asset class investing, 2,611m
(21) Alternatives