

CFA/VBA PERFORMANCE ROUND TABLE

21 SEPTEMBER 2022



vba



AGENDA 2022 CFA/VBA DUTCH PERFORMANCE ROUND TABLE

- 2:00 Welcome by Casper Lötgerink, owner
- 2:10 Data Management by Erwin Jager, PGGM
- 2:50 New Dutch Pension Scheme by Bas Leerink, Ortec Finance & David Janssen, owner
- 3:20 coffee-break
- 3:50 GIPS for asset owners by Casper Lötgerink, owner
- 4:20 The future analyst by Eric de Rouw, APG
- 4:50 Closing & evaluation
- 5:00 Networking drinks

Datamanagement for Performance Analysis

Roundtable for investment performance measurement,
21-09-2022

Erwin Jager



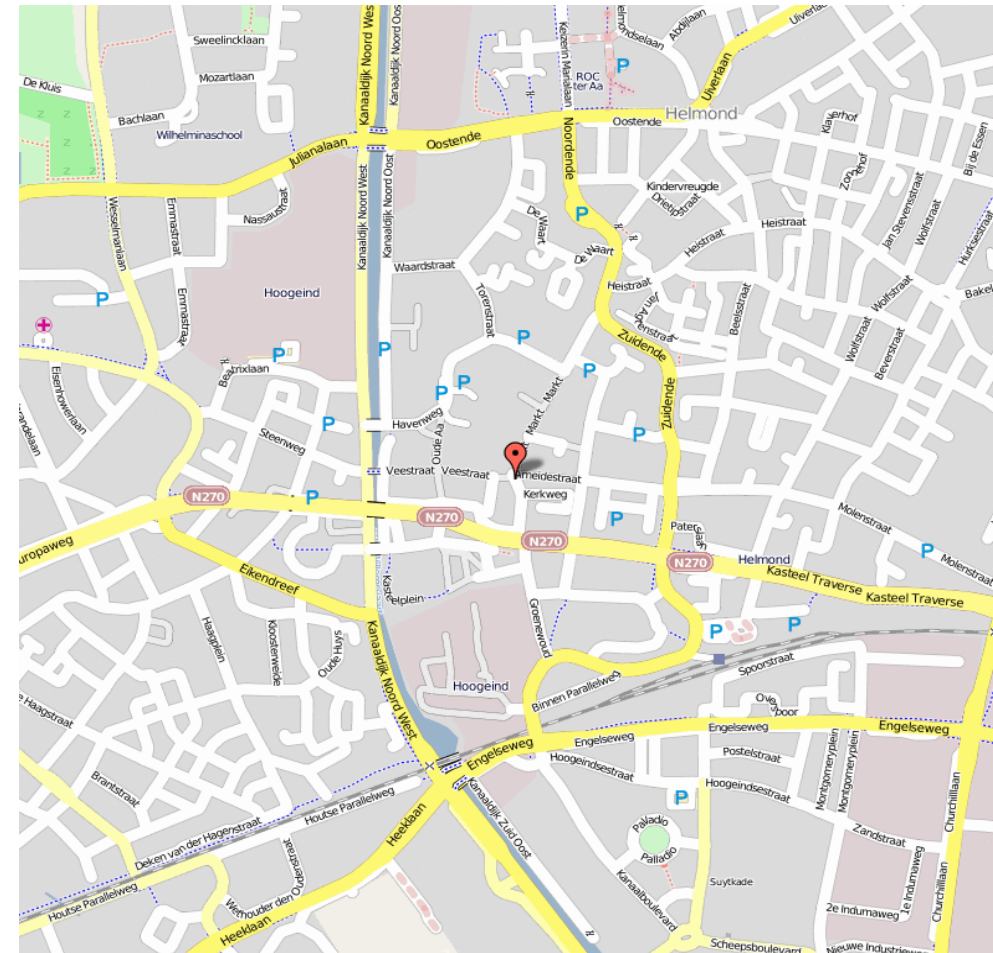
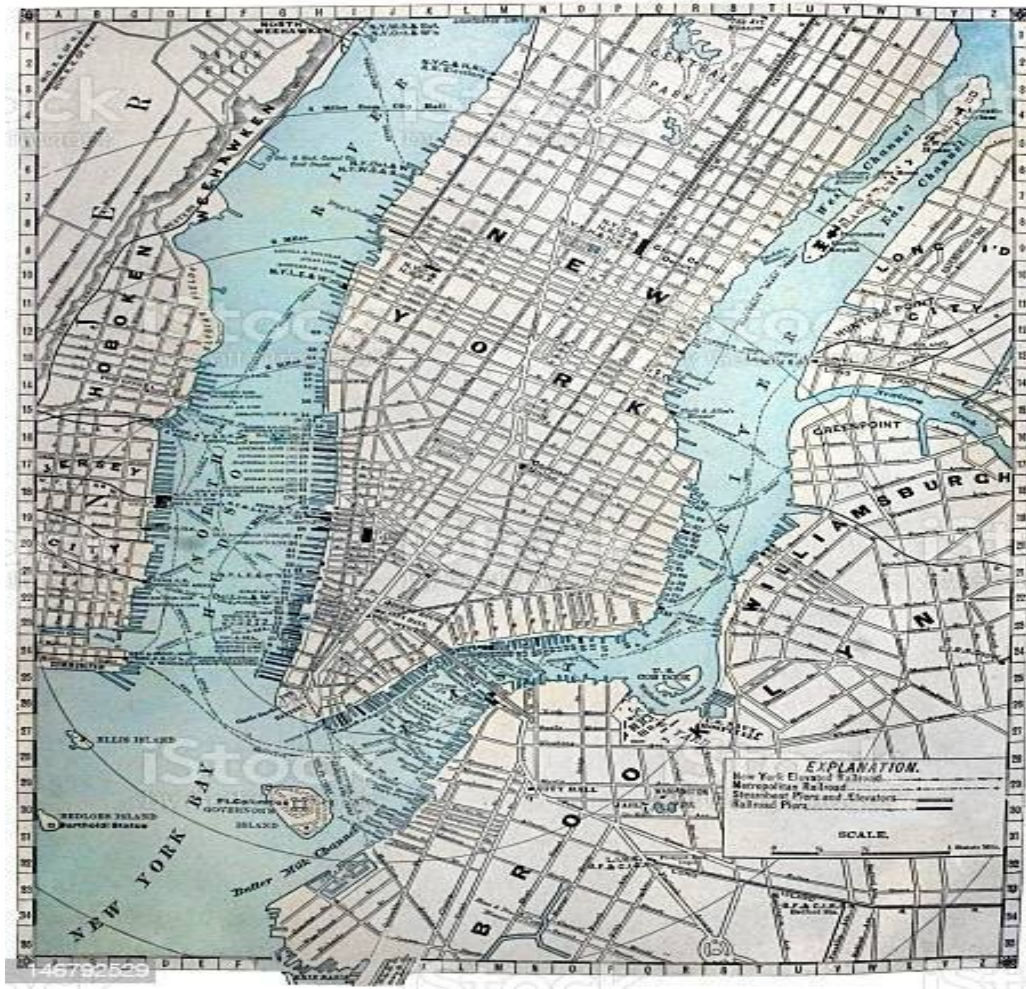
PGGM Investments

- Fiduciary and Assetmanager
- 260 billion euro
- Client focus: Healthcare sector
- Sustainability is key / 3D impact investing
- Private/Illiquide investment

Agenda

- Datamanagement perspective
- PGGM data framework
- Other data topics

Structure



And now you are in charge of DATA...

I just want data that is correct!!!

Why does it take so long???

Solve it!
How difficult can it be?

Make sure that we are ready for Machine Learning and AI!



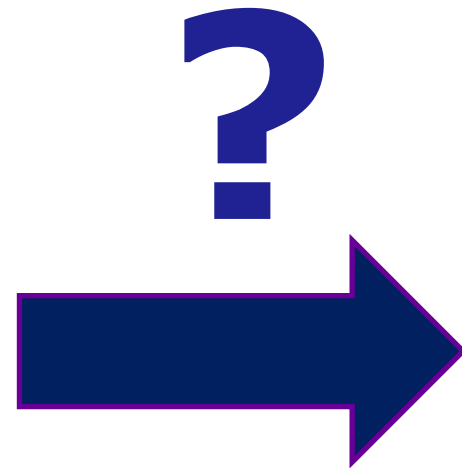
Data is always incorrect!!

Why is data so expensive?

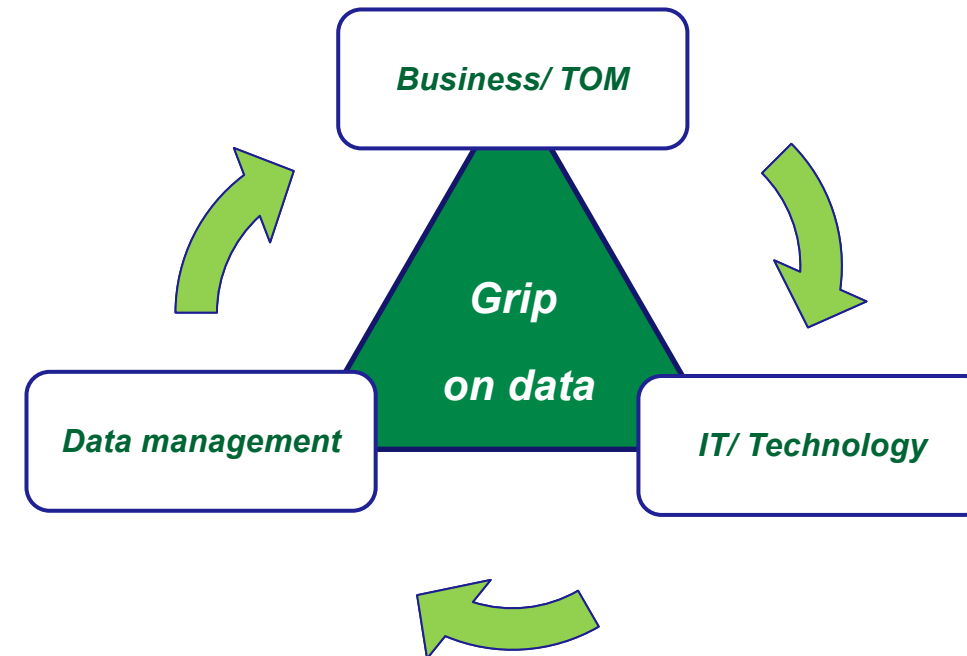
Why are you asking me? You are the data-man!

...

Change

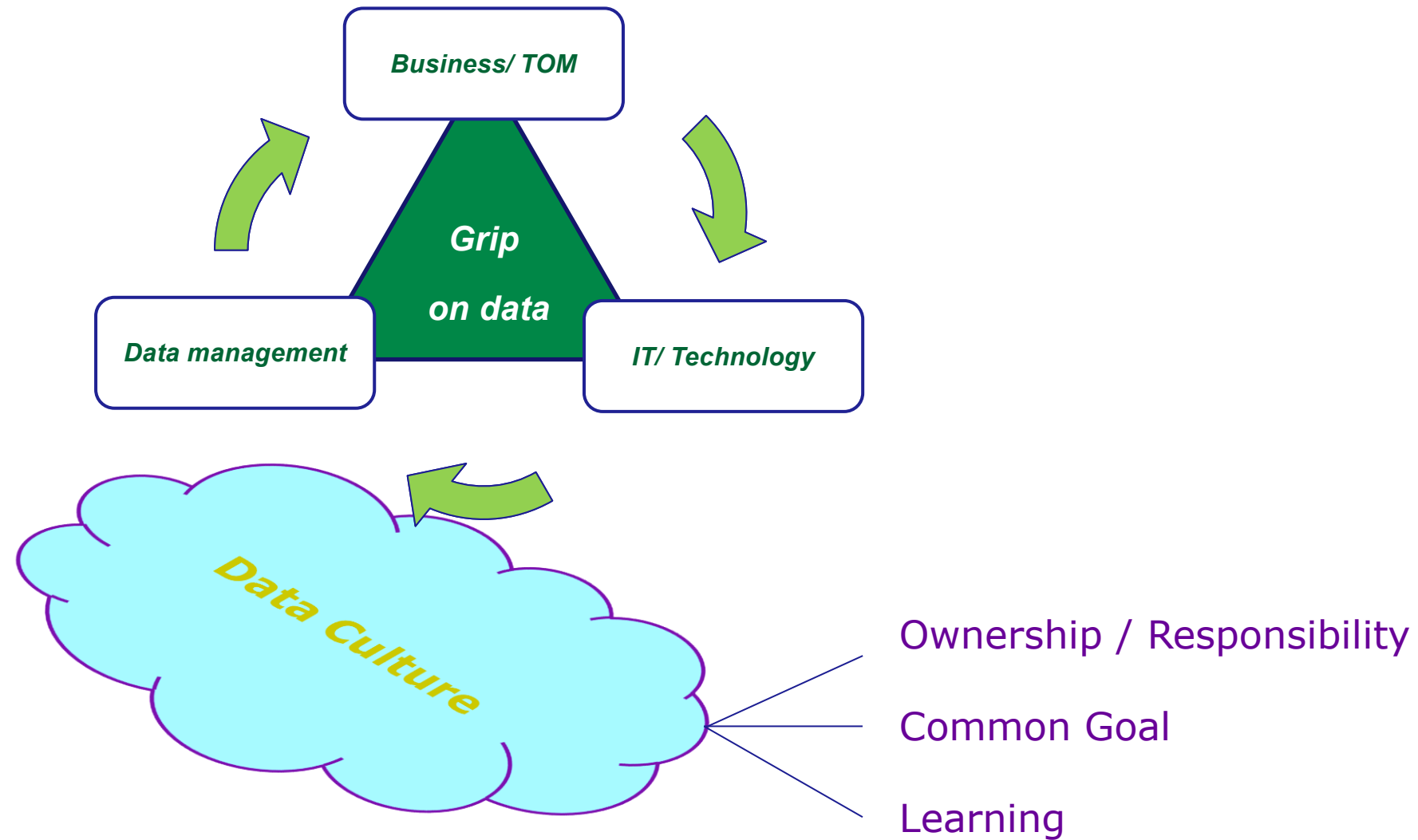


Perspectives for approaching data management challenges

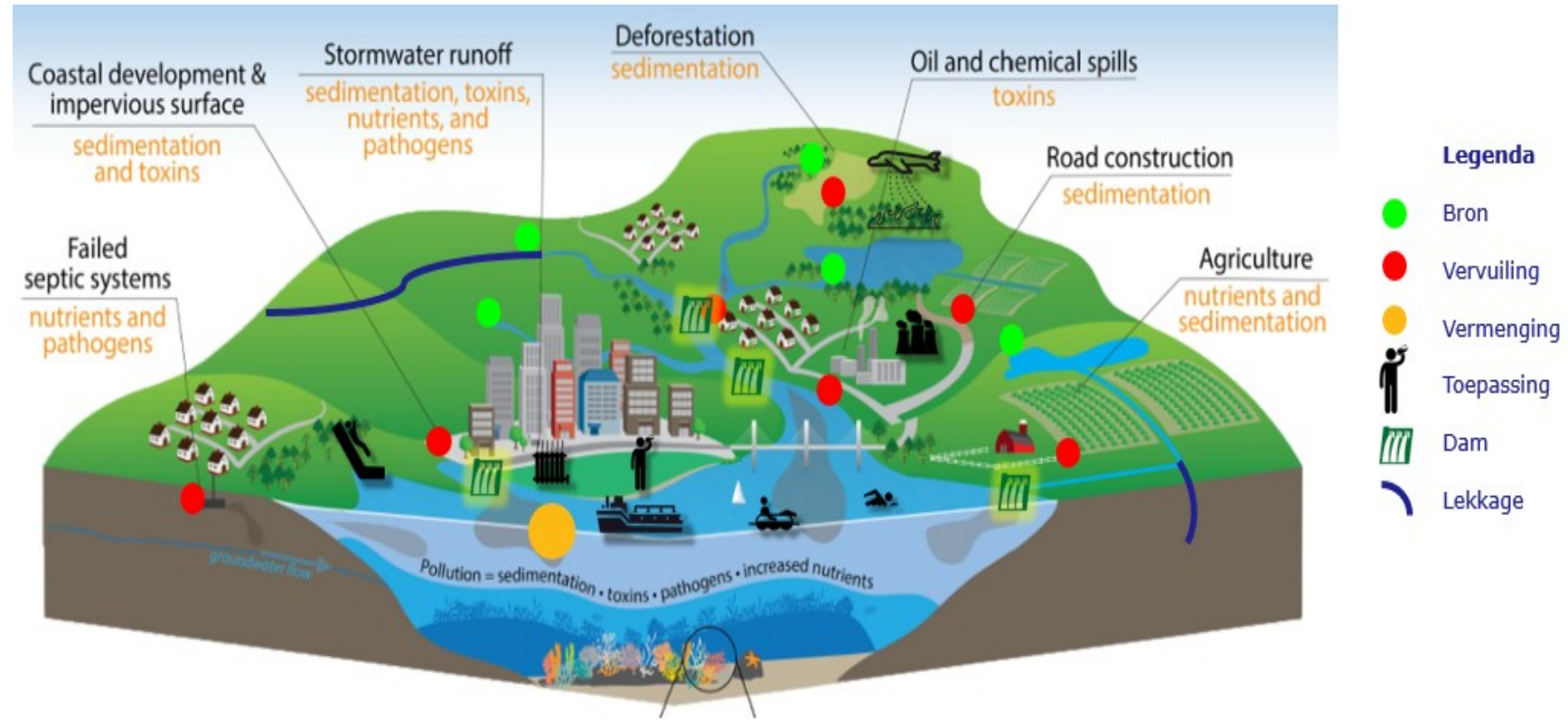


- Organizations may find that their approach focuses predominantly on one of the perspectives
- Our challenge might be: striking the right balance - iterating

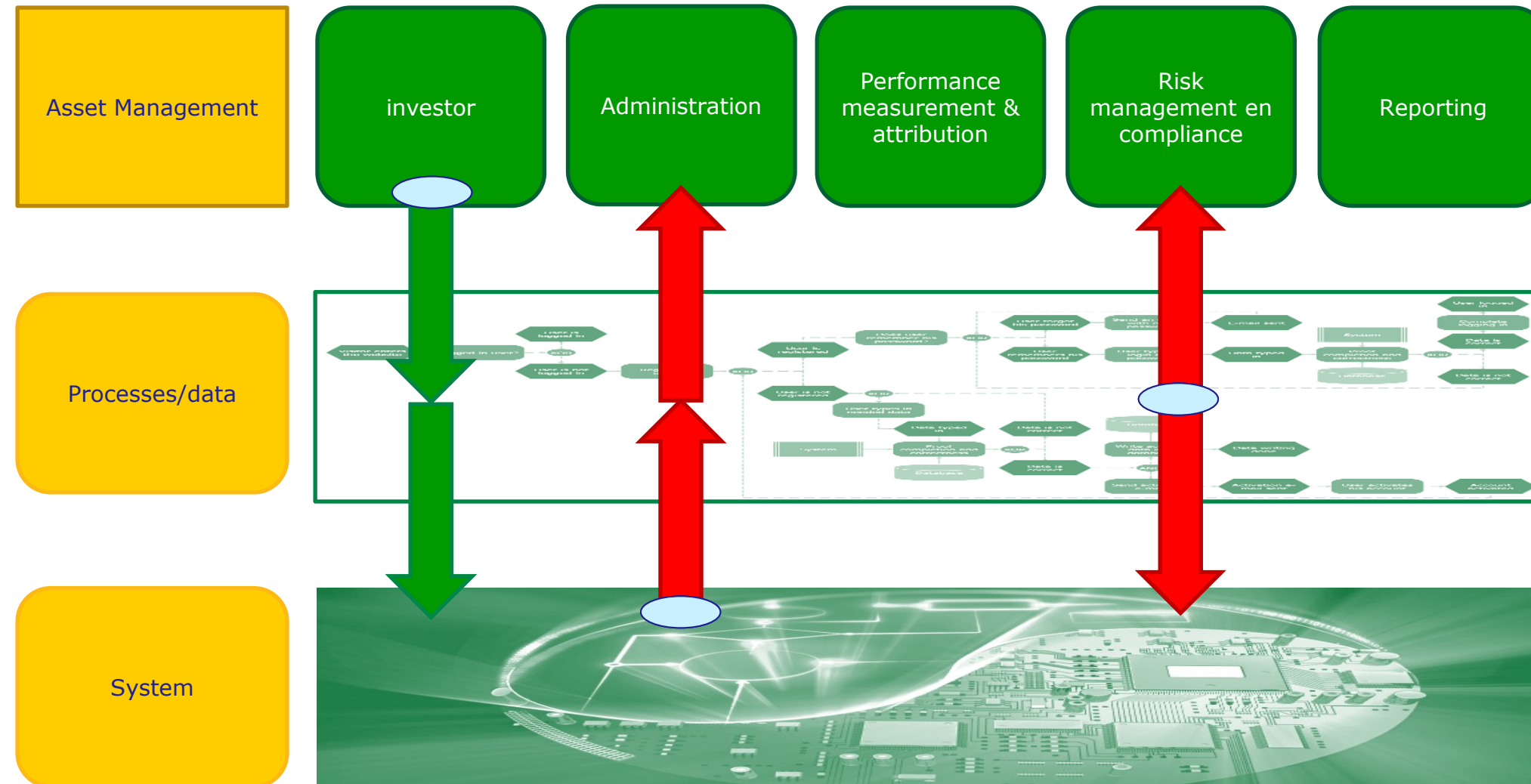
The Real Challenge – Underlying Data Culture



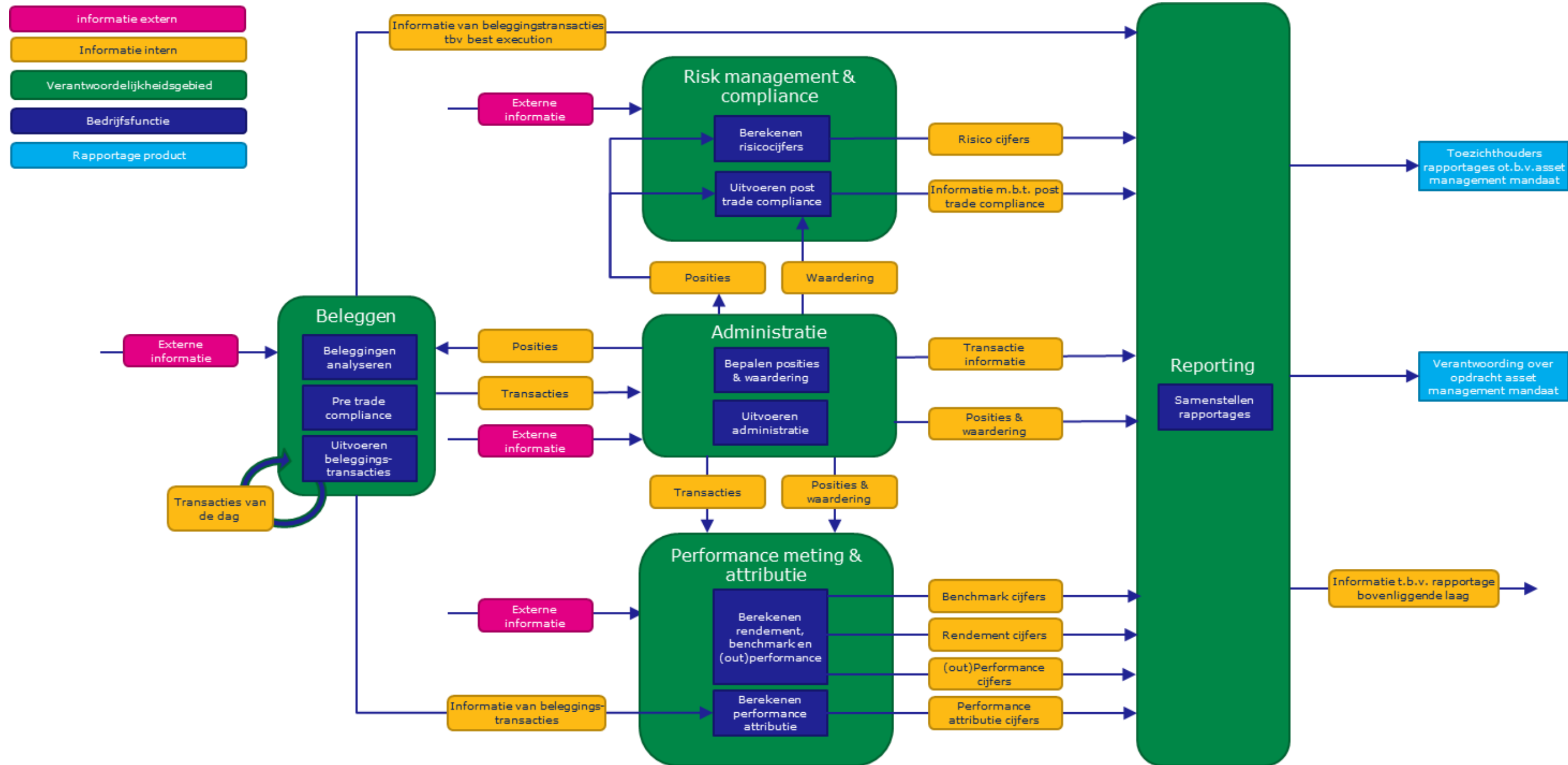
Create language



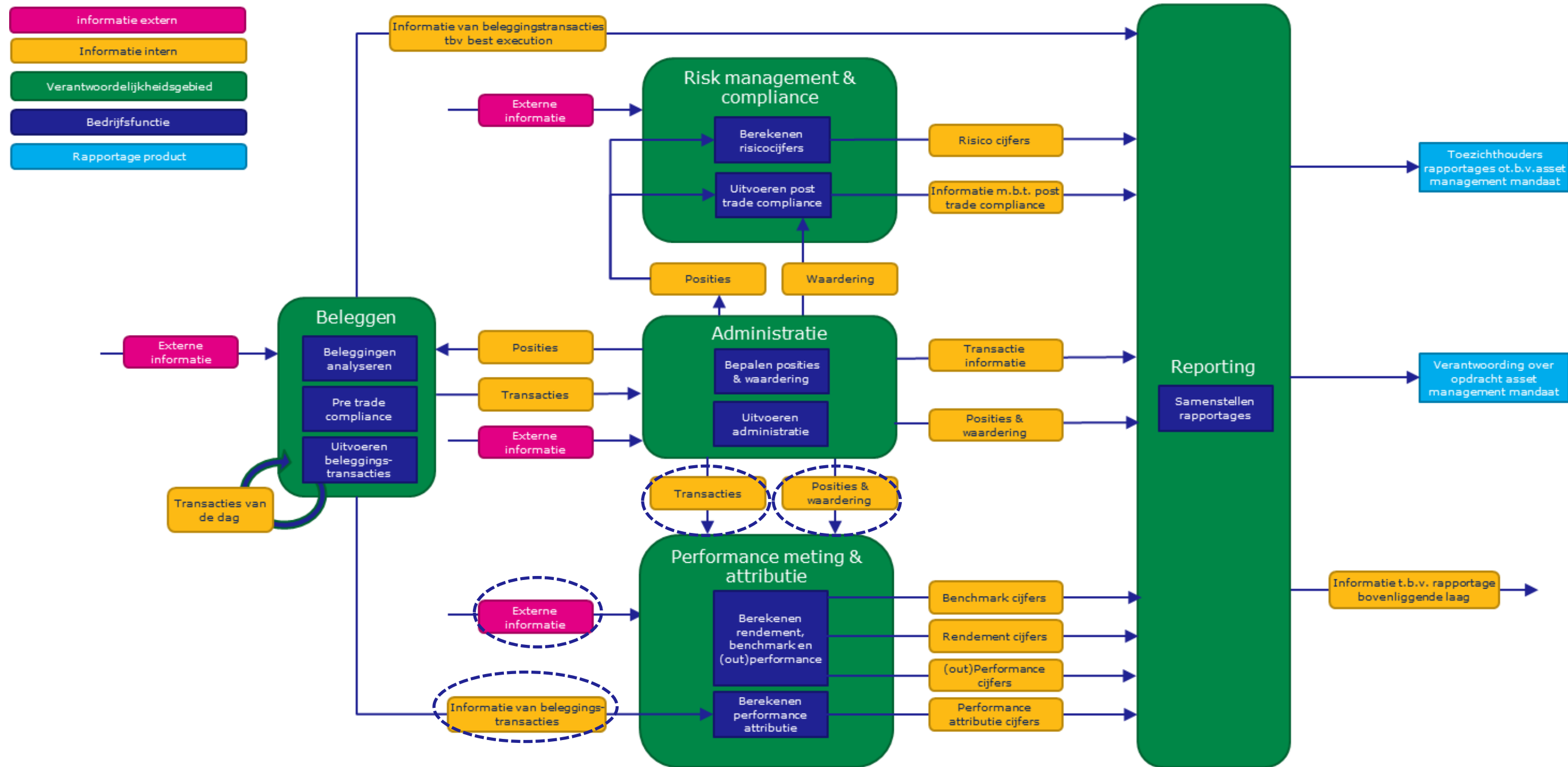
Business – processes/data - System



Dataflows - Mandatory



Example Performance attribution



- Data strategy -→ communication
- Master data structure: who is responsible for data used through the whole chain?
- Datamodelling: Conceptual data model -→ logical data model -→ technical data model
- Data governance: decision making
- Data purpose

THE NEW PENSION AGREEMENT AND ITS IMPACT ON PERFORMANCE MEASUREMENT

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THE NEW PENSION AGREEMENT (NPC)

- In the NPC, participants will build up assets instead of future benefits (DC instead of DB)
- The funding ratio is therefore no longer relevant; instead participants will be informed on the amount of pension savings they currently have and the expected pension they will receive.
- In the NPC, your investment mix will depend on your age following a lifecycle mix (leeftijdscohorten).
- Two different setups possible:
 - the solidarity contribution system (solidair premiestelsel), or
 - the flexible contribution system (flexibel premiestelsel).
- The pension board (employers and employees) decides which one to implement (from 2027 onwards)

THE NEW PENSION AGREEMENT (NPC)

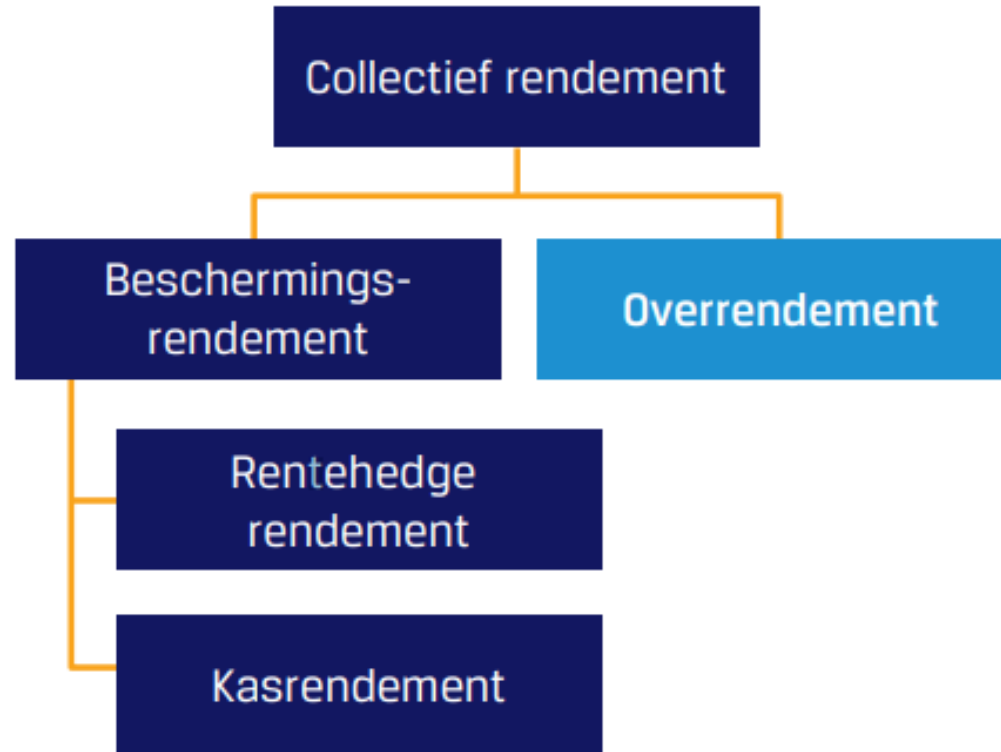
Solidarity contribution

1. Integrated accrual and benefit phase
2. Collective investment policy with average risk appetite
3. No choice for the individual
4. Distribution of returns (and risks) to different age groups predetermined following rules
5. Solidarity over different age groups
6. Possible risk sharing using the solidarityreserve
7. Possible to leverage young participants so that they are exposed to more than 100% marketrisk
8. Always a variable pension
9. No possibility to shop.

Flexible contribution

1. Seperate phases
2. Collective investment policy with average risk appetite
3. Choice in investment profiles based on personal risk appetite
4. Directly following from return on investments
5. No risk sharing during accrual, possible risk sharing in benefit phase
6. Optional risksharingreserve.
7. No possibility to leverage
8. choice between variable and fixed pension
9. Limited possibility to shop.

THE NEW RETURNS



$$\text{Cohort rendement} = W_h * R_h + W_o * R_o + W_{cash} * R_{cash}$$

$$W_h + W_o + W_{cash} = 100\%$$

The return will deviate between the different age groups (cohorts).

HOW TO DETERMINE THE PROTECTION RETURN

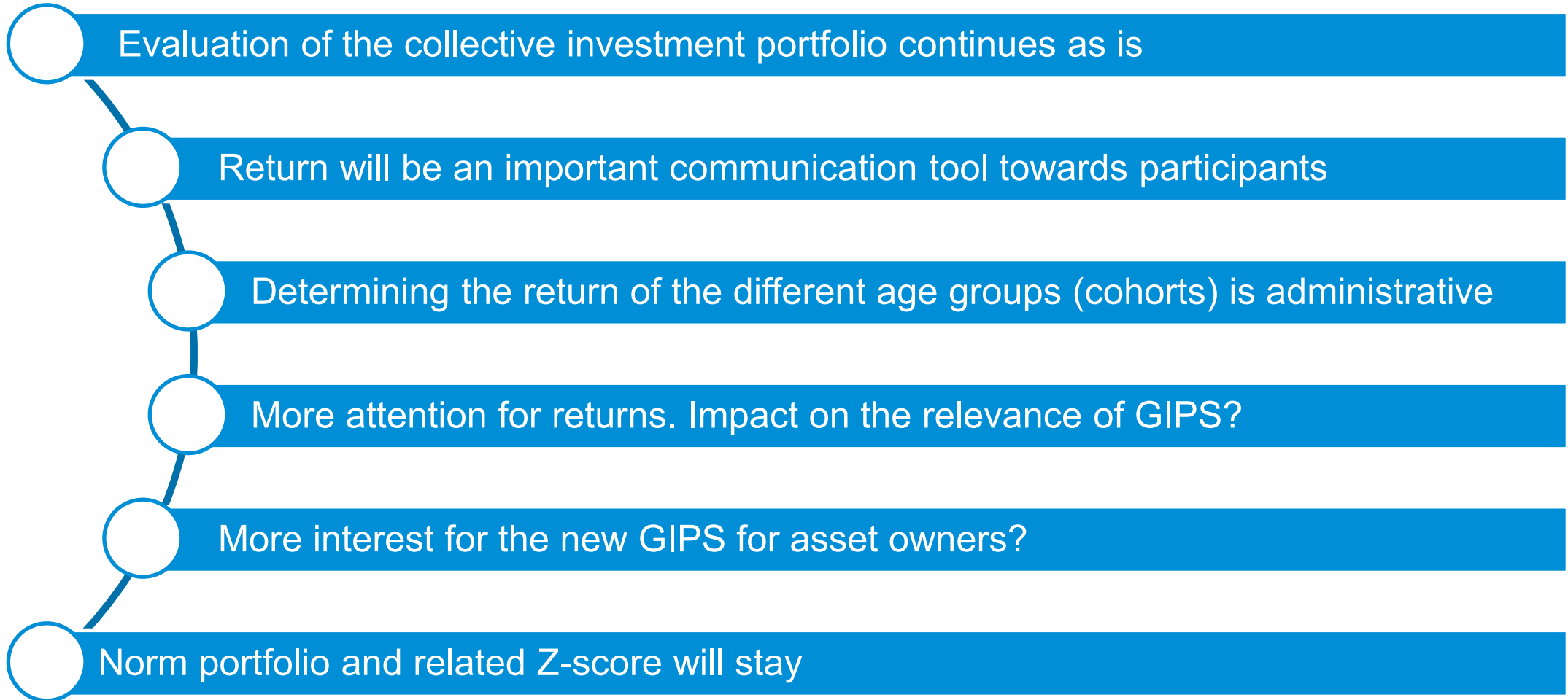
Theoretical return based on the
yield curve

actuarial return

Return of the matching portefeuille

actual return

IMPACT ON PERFORMANCE MEASUREMENT



COMPARABILITY BETWEEN PENSION FUNDS

- In the current contract, the funding ratio is the best way to compare different pension funds
- The return of the return portfolio is 'independent' of the participant demographics and provides a good insight in the performance of the pension fund.
- The Sharpe ratio of the return portfolio is a good measure to compare funds with different risk appetites.
- Most likely the collective return of the fund will be picked up by the media
 - Difficult to compare funds because of difference in risk appetite and age grouping
 - The collective return will differ from the return that most participants will get.

COMMUNICATION TO THE PARTICIPANTS

1. Build up assets for the individual
2. Changes in the assets (return + payments)
3. Expected benefit payments
4. Changes in expected benefit payments

How will we handle the communication regarding the difference between the return of the age groups and the collective return?

CONCLUSIONS

- The NPC will not change the work of the performance analyst
- NPC will put more focus on the investment return
- Comparability between the funds will become 'easier' due to the use of the return portfolio.
- The distribution of the total return to the different cohorts is not as easy as is presented in the different examples!
- Communication towards the participants will change and the expectation is that it will not become easier.

QUESTIONS?

THANK YOU FOR YOUR ATTENTION!

GIPS 2020 FOR ASSET OWNERS: IMPLEMENTATION IN THE NETHERLANDS

21 SEPTEMBER 2022



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INTRODUCTION

- Background information GIPS 2020 for asset owners
- Relevancy of GIPS 2020 for asset owners to pension funds in NL
- Market analysis at pension funds NL

BACKGROUND INFORMATION GIPS 2020 FOR ASSET OWNERS

DEFINING ASSET OWNERS

- **Manages assets**
 - Either directly or through subadvisors
 - On behalf of participants, beneficiaries or the organization itself
- **Typically accountable to an oversight board**
 - This oversight board is the one responsible for establishing investment policies and monitoring performance
- **Do not have prospective clients or compete for new business**
 - Primary factor that requires the Guidance Statement!
- **Includes (amongst others):**
 - Pension funds, foundations, family offices, sovereign wealth funds, fiduciaries

DEFINING AN ASSET OWNER FIRM

- Has discretion over the total assets managed by the organization or entity
- To have discretion, the firm must manage the assets internally and/or have the ability to hire and fire outside managers

GIPS ASSET GROUPING DEFINITIONS

- Total Fund – a pool of assets managed by an Asset Owner to specific mandate
 - Typically multi-asset classes
 - Asset Owners could have more than one Total Fund
- Portfolio – individually managed group of investments
 - Typically an account representing one of the individual strategies or a component of the total fund
- Composite – an aggregation of one or more portfolios managed to the same investment mandate, objective or strategy

CALCULATION REQUIREMENTS

- Though Asset Owners typically have multi-asset classes, the requirement is to show the Total Fund (therefore composites as well) using a Time-Weighted return methodology for asset classes
 - This is based on who has control of the timing of cash flows into the Total Fund, not between investments within the Total Fund.
 - Money-Weighted Returns can be shown as supplemental information
- If Net of Fees will be used, all external and internal management fee costs
 - If internal fees are not calculated on assets, overhead expenses of the asset owner should be applied prorata to the different accounts
 - Other methods can be used, but proper disclosure must be provided

COMPOSITE CREATION

- The only required composite(s) for Asset Owners are the investment mandates of the total fund(s)
 - The Investment Mandate must be identified in advance
- Can create additional composites for specific strategies or asset classes
- Must create a compliant presentation for each composite
- If the Asset Owner has more than one total fund managed to the same investment mandate, separate composite reports can be used, or just a single report using both

“PROSPECTIVE CLIENTS” PRESENTATION

- Asset Owners’ lack of Prospective Clients had been one of the biggest hurdles for implementing GIPS.
- Asset Owners should replace Prospective Clients with those who have direct oversight of responsibility for total funds
 - This would be the individual or group that establishes the investment policies of mandates for the total fund(s).
 - Examples include board of directors, trustees, family board, CEO/President of the office
- Must create a compliant presentation for each composite

RELEVANCY OF GIPS 2020 FOR ASSET OWNERS TO PENSION FUNDS IN NL

REASONS WHY PERFORMANCE FIGURES WILL BE MORE RELEVANT TO PENSION FUND PARTICIPANTS

- Moving from defined benefit to defined contribution (either towards the individual or the social variant) loses the coverage ratio as measurement of success
- Fund participants will be more focused on performance figures if transparency of pension funds increases
- Especially with individual DC schemes, performance will be one of the major measurements to use
- Trust in pension funds is still low; accurate calculations (and possible verifications thereof) might become more relevant

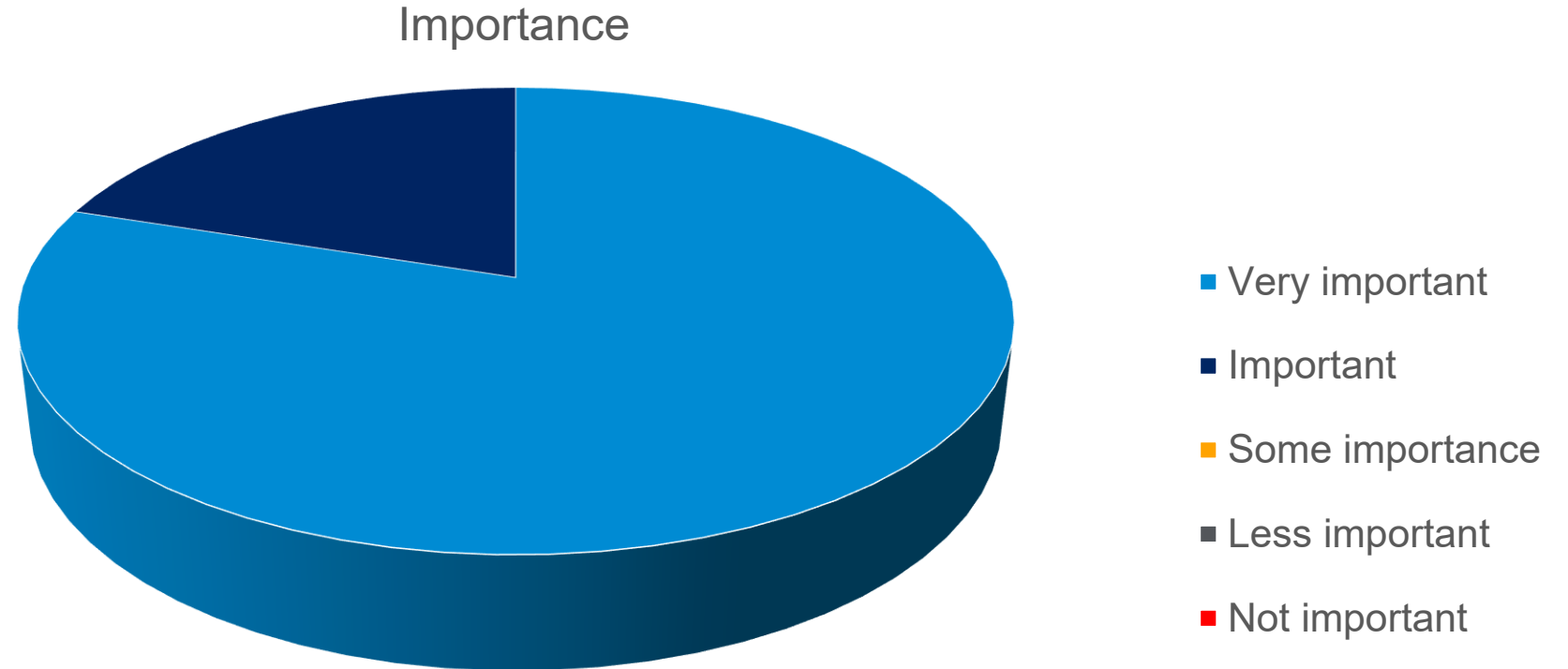
MARKET ANALYSIS AT PENSION FUNDS NL

RESEARCH AT PENSION FUNDS

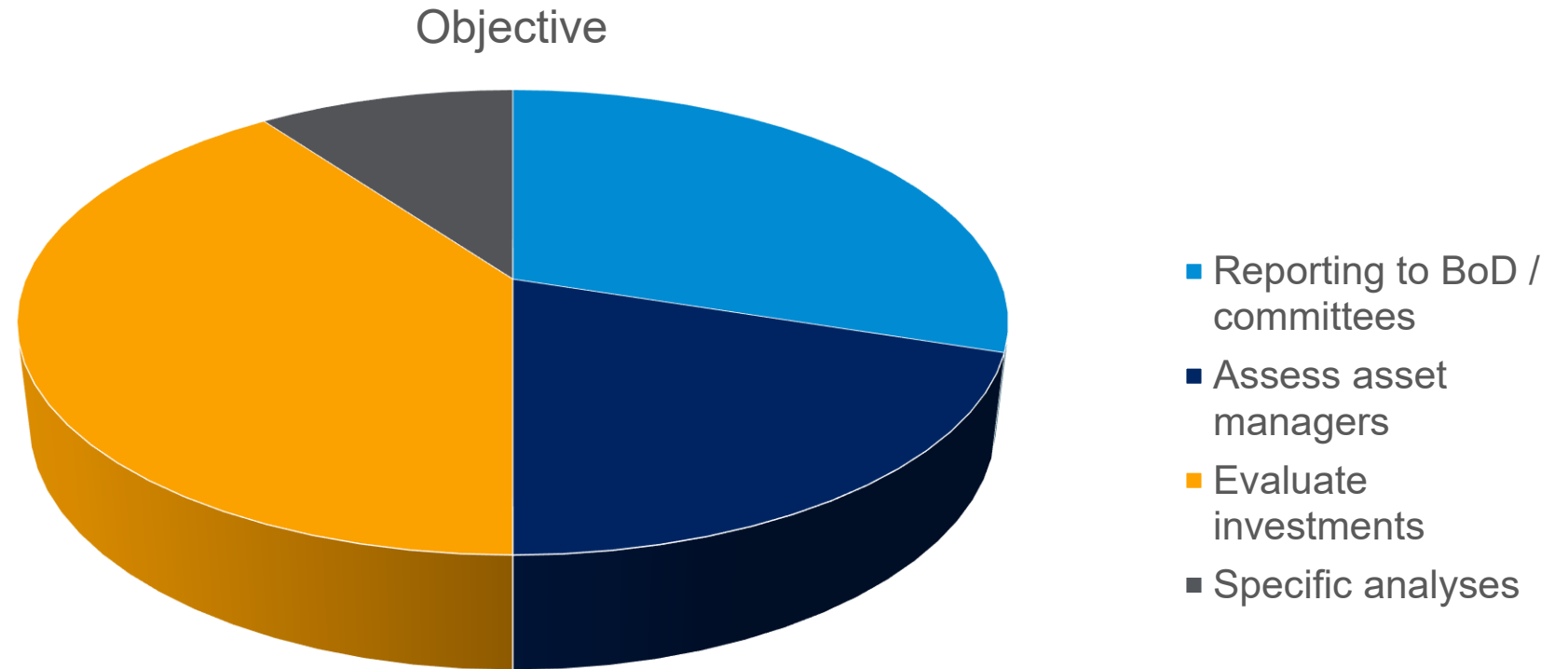
Analysed current views at 10 large pension funds in the Netherlands on:

- The need for accurate investment performance figures;
- How these figures relate to the pension fund transition.

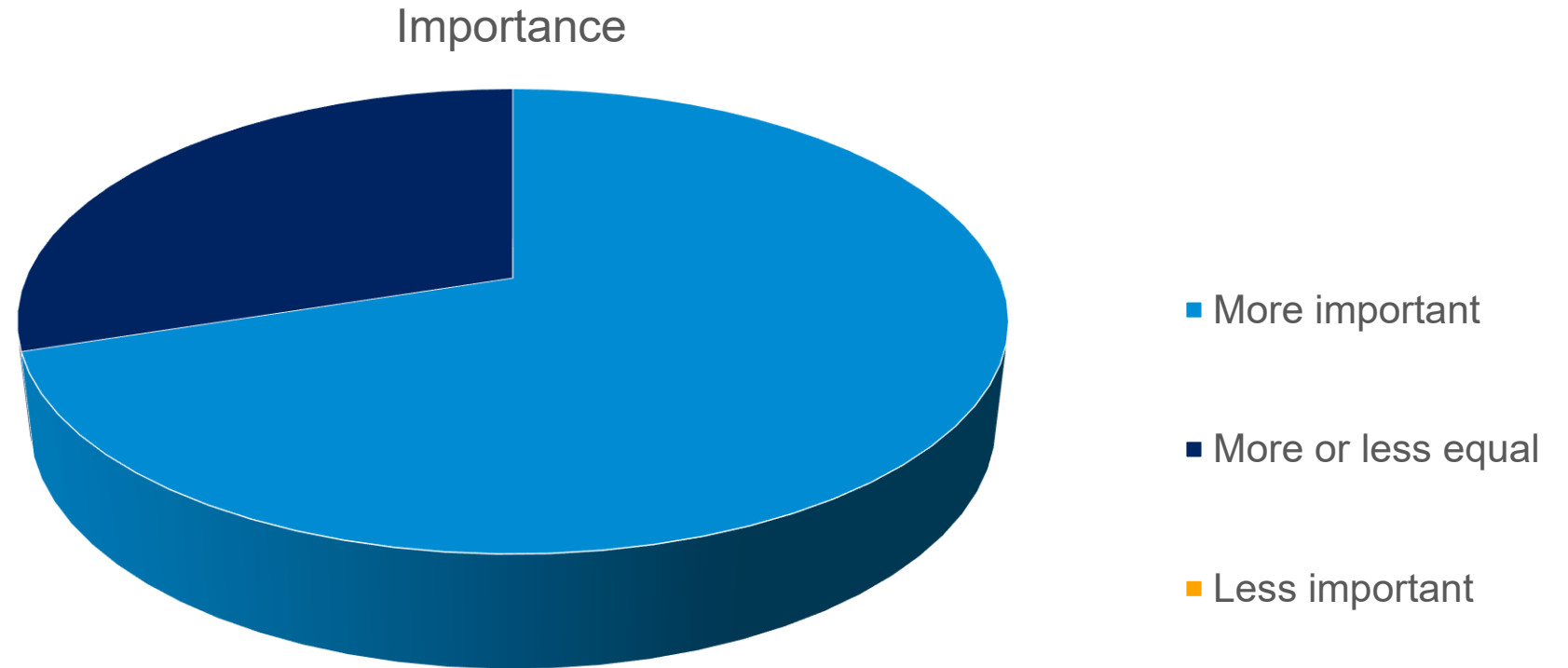
1. HOW IMPORTANT ARE ACCURATE INVESTMENT PERFORMANCE FIGURES FOR YOUR PENSION FUND?



2. TO WHAT EXTENT DOES THE PENSION FUND USES PERFORMANCE FIGURES FOR STEERING AND/OR REPORTING PURPOSES?

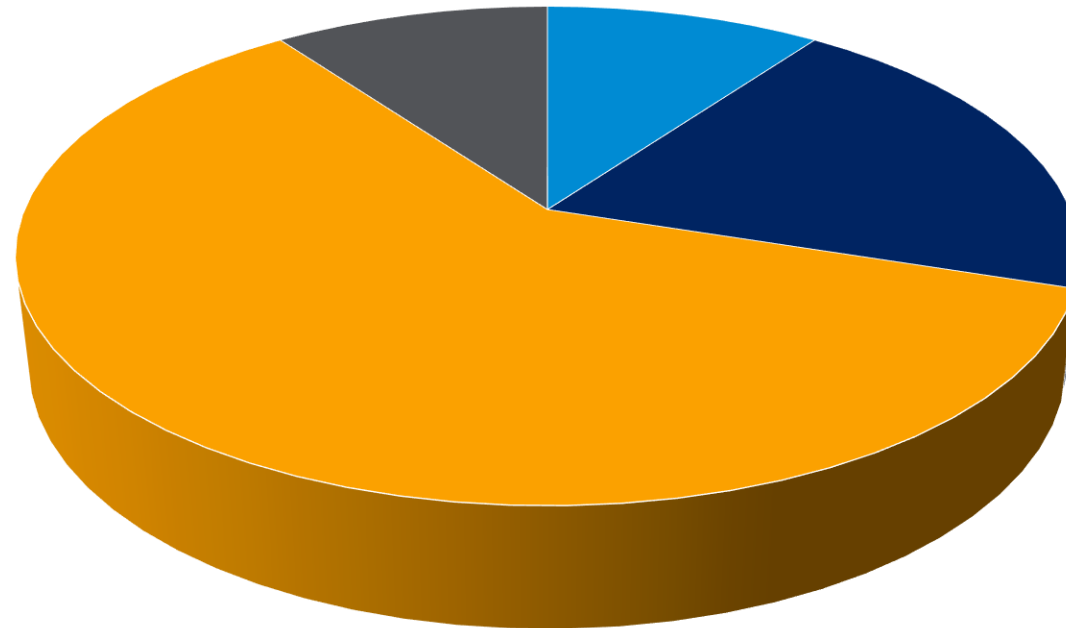


3. DO YOU EXPECT THAT BECAUSE OF THE PENSION FUND TRANSITION IMPORTANCE OF PERFORMANCE FIGURES WILL INCREASE?



3A. DOES THE PERCEIVED IMPORTANCE OF PERFORMANCE FIGURES DIFFER FOR THE 'FLEXIBLE CONTRACT' VS. THE 'SOLIDARY CONTRACT'?

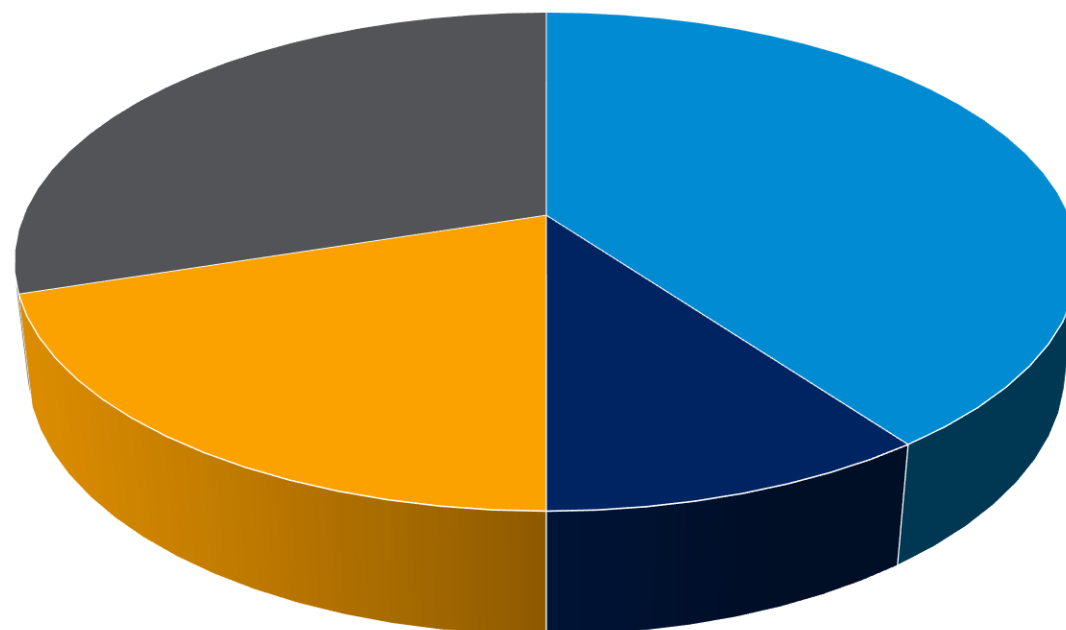
Importance



- Solidary contract more important
- More or less equal
- Flexible contract more important
- Unknown

4. DO YOU EXPECT THAT ADDITIONAL REGULATIONS / STANDARDS FOR INVESTMENT PERFORMANCE MEASUREMENT / TRANSPARENCY WILL BE SET UP?

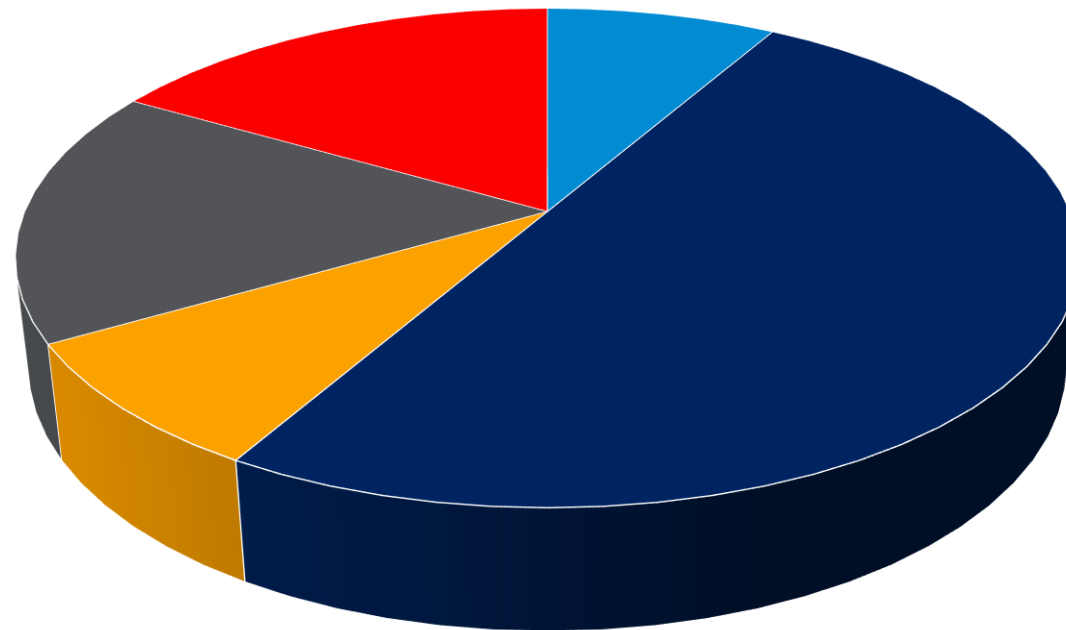
Standardisation



- Not more than currently
- Already through GIPS
- Additional standards needed
- Unknown

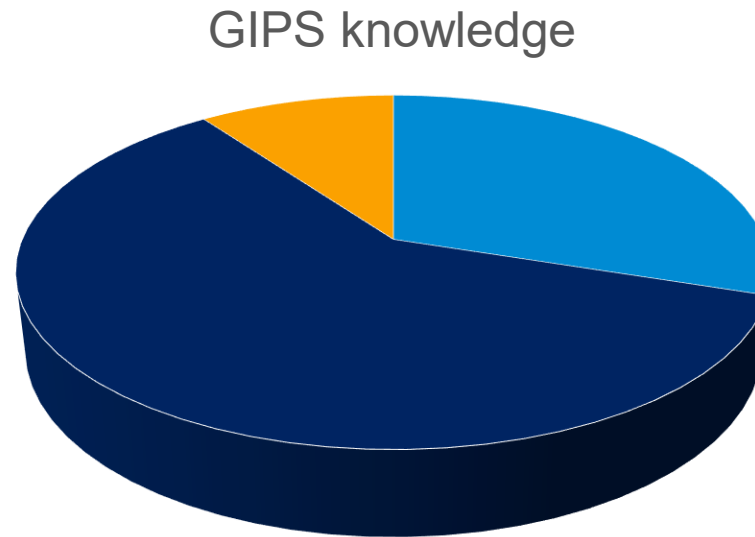
5. DO YOU EXPECT ADDITIONAL REQUIREMENTS WILL BE SET UP FOR VERIFICATION OF PERFORMANCE FIGURES AND/OR COSTS BY AN INDEPENDENT PARTY?

Verification



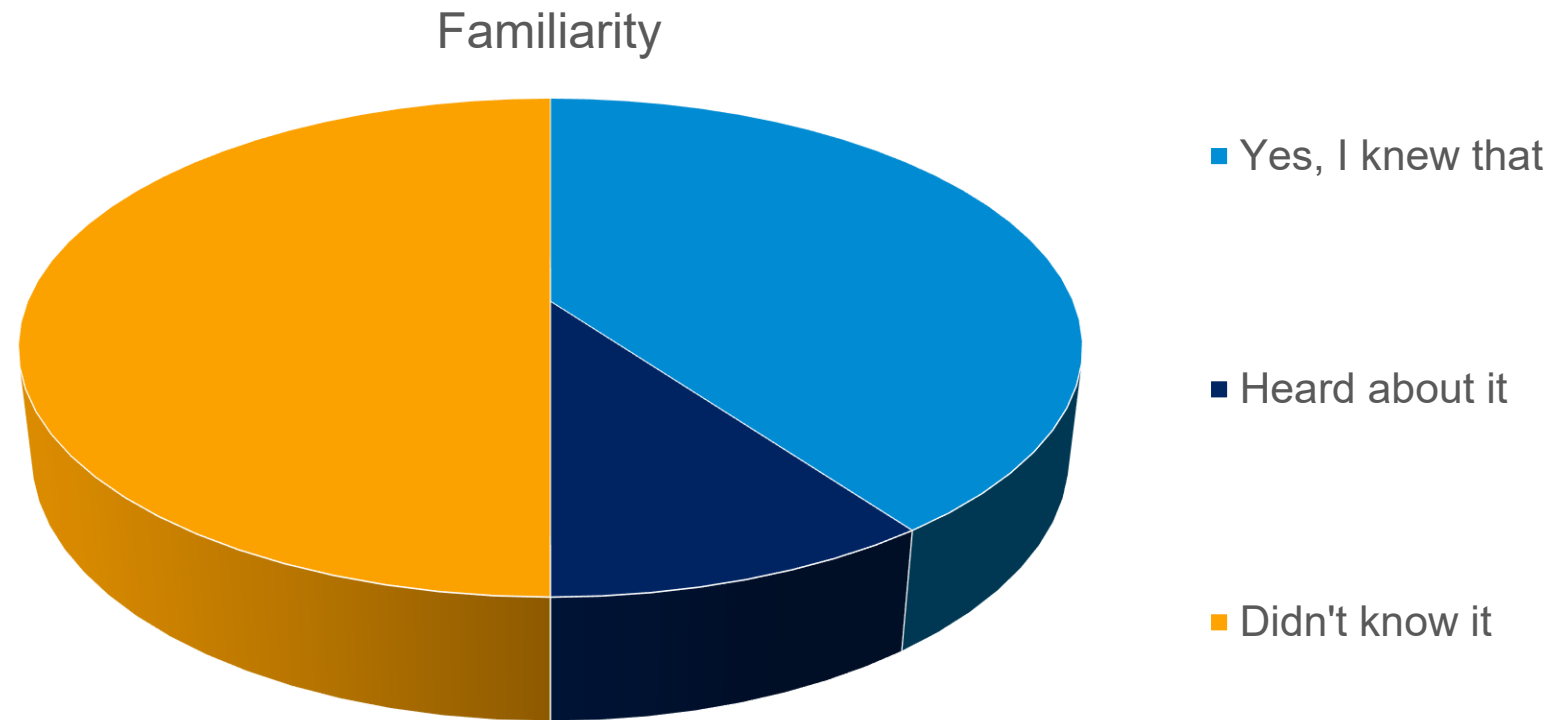
- Actuary will verify
- Standard YE audit
- No audits
- GIPS audit
- ISAE audit

6. DO YOU KNOW GIPS AS THE STANDARD FOR MEASURING AND REPORTING OF INVESTMENT PERFORMANCE?



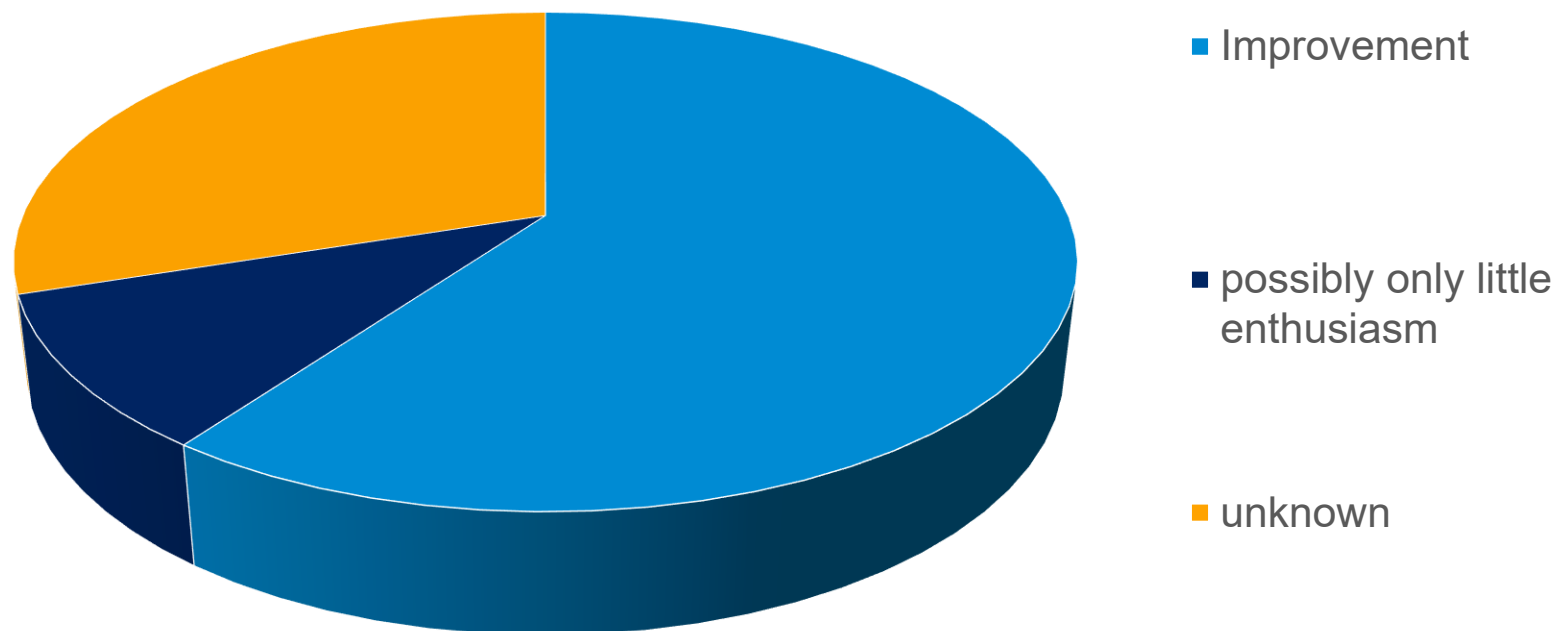
- Yes, I'm familiar with GIPS
- I know GIPS, but am not aware of the most recent changes
- I know that GIPS exists
- Unknown to GIPS

7. DID YOU KNOW THAT THE GIPS STANDARD WAS REVIEWED AND THAT THIS STANDARD NOW PROVIDES POSSIBILITIES FOR ASSET OWNERS TO BECOME GIPS COMPLIANT?

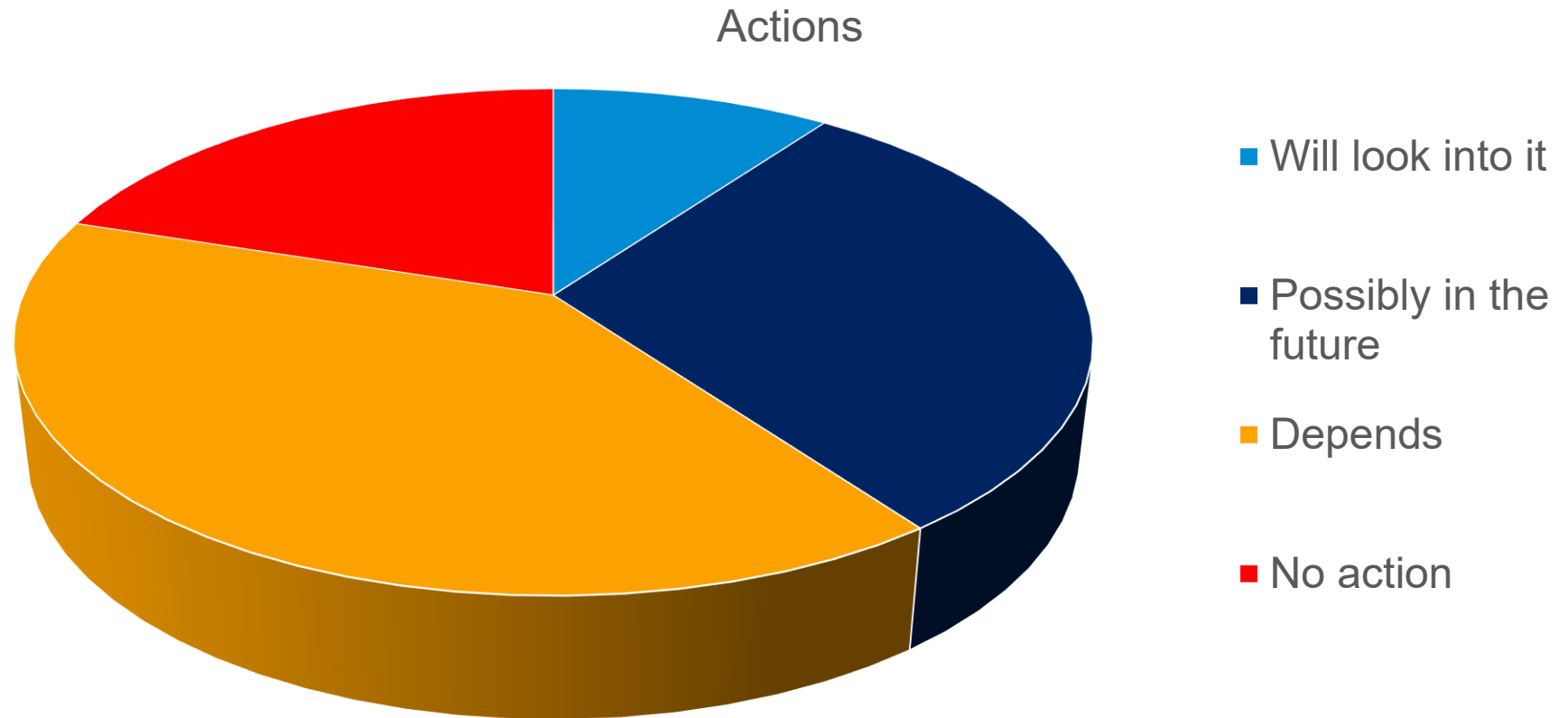


8. TO WHAT EXTENT DO YOU THINK GIPS 2020 FOR ASSET OWNERS WILL ASSIST YOU AND YOUR CLIENTS?

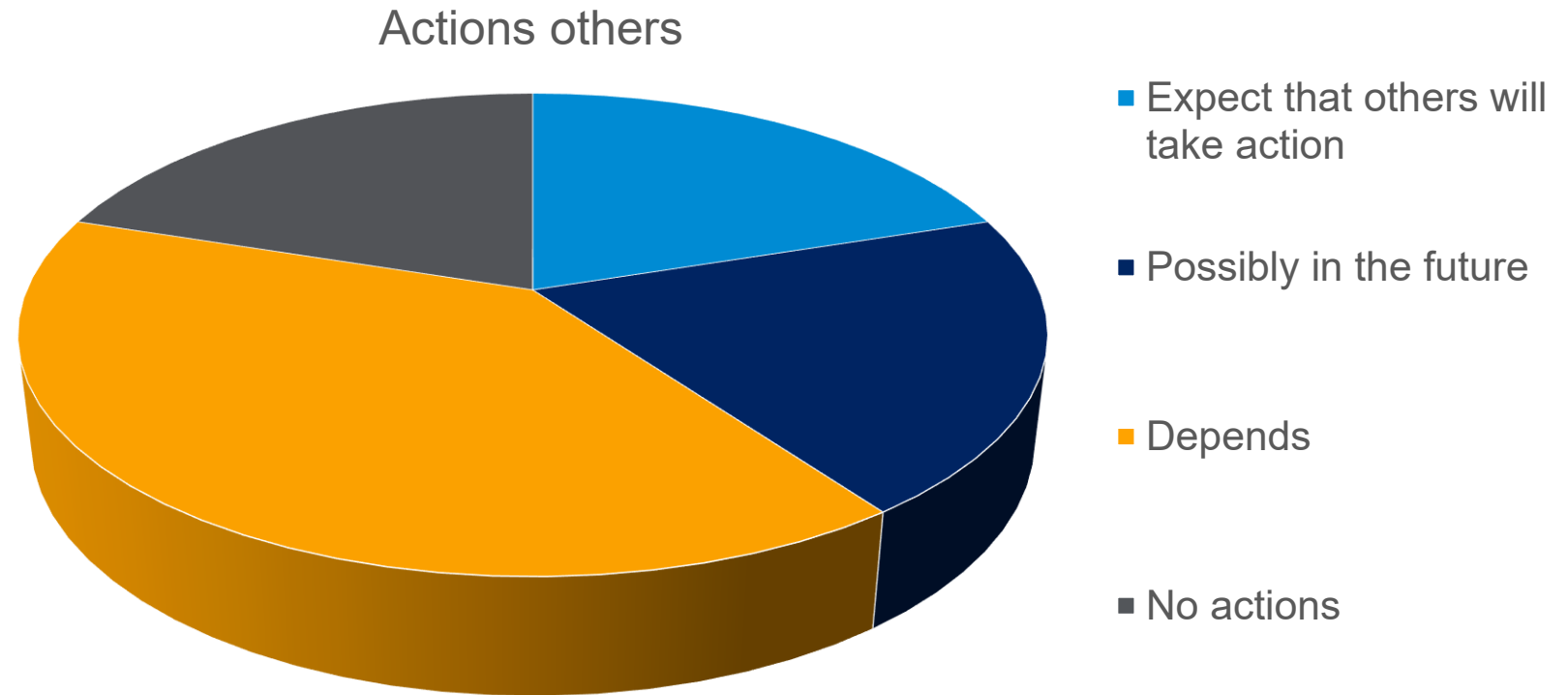
View



9. DO YOU EXPECT TO TAKE ACTIONS WRT GIPS 2020 FOR ASSET OWNERS?



10. DO YOU EXPECT THAT OTHER PENSION FUNDS WILL LAUNCH PROJECTS TO START WITH GIPS2020 FOR ASSET OWNERS?



CONCLUSIONS

- Due to the transition, investment performance figures appear to become more important than before; this is especially valid for the flexible contract type.
- GIPS2020 for asset owners seem to be a relevant standard to increase transparency
- Due to the fact that familiarity with the standard is low and other priorities are more pressing, the willingness to start with projects is limited.

VRAGEN?

BEDANKT VOOR UW AANDACHT!

ROUND TABLE 2022 DISCUSSION

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INTRODUCTION

- We will close the round table interactively with a number of statements we want you to react on
- The next slides contain a number of statements with for each statement 2 or three 3 options to choose from.
- Each option has a color, you can choose your option to select the color from the papers in front of you (Red, Green or Blue) and share your choice with rest of the group.
- Please choose the option closest to your opinion, even if it is not an exact match. Providing no answer at all is not an option.

STATEMENT 1

Most performance analysts are working structurally from home nowadays
On the long term this has:

- No impact on the overall quality of het work
- A positive impact on the quality of het work : more focus and a better life / work balance,
The interaction with investment teams can be done digital when necessary
- A negative impact because of less interaction with direct colleagues, with investment teams and senior management

STATEMENT 2

The performance analyst spends a lot of time on data analyses and issues
The coming year I expect this will develop towards:

- More data analyses, More demand for performance results leads to more time required for data-analyses
- Less data analyses, various initiatives for data quality will improve overall data quality
- About the same, there will be new issues to replace the issues that will be resolved

STATEMENT 3

Performance systems have developed nowadays to very advanced levels and human interaction is hardly necessary

- Agree, when the initial set up is correct the measurement process can even be outsourced
- Disagree : The number of error is still material and each systems has limitations: a good analyst remains necessary for the whole process
- Partly agree : the bulk of the work is running smoothly via systems and only the final part requires finetuning and know-how

STATEMENT 4

The new pension contract will have structural impact on the function of the performance analyst in the Dutch Market

- Agree Return will become more important
- Partially agree The basis remains but we will get more questions
- Disagree Performance remains performance for over 90%

STATEMENT 5

GIPS exists in 2022 for over 20 years.

The coming years I expect for the Dutch Market

- GIPS will become more important, for the New pension contract return in line with (international) standards are becoming more important. GIPS for Asset owners can play an important role here
- GIPS becomes less important in The Netherlands; GIPS is still rather Anglo-Saxon and has a limited fit with the Dutch Market and the fiduciary model.
- The role of GIPS remains stable. It is important that the standards exists, and a limited number of asset managers remain compliant, but it is not a requirement for the Dutch market

STATEMENT 6

Risk and Return is often separated in Asset Management organizations at the moment.
For the relation between (ex ante) risk and return I expect in the coming years :

- This will be further integrated
Risk and return are two different sides of the same portfolio and same data
- This will not be integrated further, the current differences between risk and return for data and systems will cause major challenges for this integration

THANKS OF YOUR COOPERATION

**PLEASE FILL OUT THE
EVALUATION FORM**

**TIME FOR DRINKS WHERE WE
CAN CONTINUE OUR DISCUSSION**